CHILDREN AND YOUTH MAJOR GROUP TO UNEP

Sustainable Finance Youth Coalition

White Paper 01

Constructing an Intergenerationally Just Financial System:

Harnessing and transforming finance to deliver justice for current and future generations

Abstract:

This paper discusses the importance of sustainable financial systems as an enabling framework for the just transition. It makes the case for a global financial system reform that duly accounts for the concept of intergenerational justice. This paper is an invitation to stakeholders and financial institutions alike to engage, collaborate, and expand the frontiers of a transformation justice agenda in sustainable financial systems.

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Sustainable finance: landscape, evolution, and the missing justice agenda

The triple planetary crisis of climate change, biodiversity loss, and pollution necessitates a fundamental shift in how financial institutions, regulators, public institutions, and private firms alike integrate sustainability into their operations. Such a need has been increasingly acknowledged by the global community, as evidenced by the recommendations from the UN High Level Expert Group on the credibility of net zero targets and plans.

To address these risks, the protection of financial systems against climate transition and physical risks has become a starting point, but it is not the end goal. Finance must evolve beyond siloed resilience, actively making financial decisions that lead to environmental sustainability now and for future generations. This paradigm shift is not only a response to the risk imperative but it is also a reflection of a growing moral dimension within the financial community.

However, the path forward is obstructed by disjointed standards and regulatory approaches in the sustainable finance landscape. A wide array of factors contribute to this fragmentation, not least given the weakening political will in jurisdictions, the presence of strong lobbies by actors with vested interests in the fossil-fuel based economy. Regulatory heterogeneity and uncertainties undermine collective global efforts to channel finance towards sustainable outcomes, and aligning these efforts is essential.

In addition, the sustainability conversation is presently weighted towards addressing the immediate challenges of global inequity. These are critical issues that demand urgent attention, but an exclusive focus on the short term overshadows systemic issues and the principle of intergenerational equity, which is equity *across* generations. Consequently, well-meaning projects may lack lasting benefits or be inadvertently detrimental to future economic activities.

In this regard, sustainable finance discussions cannot be separated from intergenerational equity: today's financial choices cast long shadows over the future. Infrastructure development, technological innovation, and economic investments made now will dictate the quality of life for generations to come.

However, the existing frameworks and methodologies that inform sustainable finance are often myopic, failing to adequately measure the enduring repercussions of today's decisions. Practices such as discounting the value of future costs and benefits tend to prioritize immediate returns over long-term viability, potentially leading to choices that fulfil short-term profitability at the expense of sustainable progress, thereby perpetuating the cycle of resource depletion, climate change acceleration, and the deepening of social disparities.

What does “intergenerational equity” mean? How can financial institutions be encouraged to consider intergenerational equity in decision-making?

If we want to transform the financial system towards one that duly takes into account intergenerational equity, it is firstly critical to clarify what we mean by the term.

Put simply by the United Nations (UN), it is grounded in the idea that “the pursuit of welfare by the current generation should not diminish opportunities for a good and decent life for succeeding generations.” Many existing initiatives, principles, and legal frameworks point to the notion of intergenerational equity, giving practical expression to the concept.

Scale; Governance Entity	Intergenerational equity in practical representation	What does it say about intergenerational equity?
Global - United Nations (UN)	2030 Agenda for Sustainable Development (Link)	*“We are determined to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can* ***support the needs of the present and future generations****.”*
Global	Maastricht Principles on the Human Rights of Future Generations (Link)	*“Future generations* ***must be free from intergenerational discrimination****...includes but is not limited to: i. The waste, destruction or unsustainable use of resources essential to human life…”* *“To meet their* ***obligations to future generations****, States must necessarily impose reasonable* ***restrictions on activities that undermine the rights of future generations****, including the unsustainable use of natural resources and the destruction of Nature.”*
Global - UNESCO member states	Declaration on the Responsibilities of the Present Generations towards Future Generations (1997) (Link)	*“Determined to contribute towards the solution of current world problems through increased international co-operation, to create such conditions as will ensure that* ***the needs and interests of future generations are not jeopardized by the burden of the past****, and to hand on a better world to future generations…”*
Global - UN Agencies	United Nations System Common Principles on Future Generations (Link)	A core set of eight common principles for the United Nations system to serve as a basis for a shared understanding of future generations and intergenerational equity.
Global - Independent, UN-mandated	High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities	*“Non-state actors must publicly disclose comprehensive and actionable net zero plans…these transition plans must consider and address the* ***broader social consequences and impacts*** *of mitigation actions, including on race, gender and* ***intergenerational equity.****”*
Regional/Supranational - African Union	Agenda 2063 (Link)	*“...Agenda 2063…seeks to* ***fulfil our obligation to our children as an inter-generational compact****, to* ***develop Africa’s human capita****l; build social assets, infrastructure and public goods;* ***empower women and youth****; promoting lasting peace and security; build effective developmental states and participatory and accountable institutions of governance.”*

National - Zimbabwe	Zimbabwe Constitution - Article 73 (Link)	*"Every person has the right…b.* ***To have the environment protected for the benefit of present and future generations,*** *through reasonable legislative and other measures that… i. Prevent pollution and ecological degradation; ii. Promote conservation; and iii. Secure ecologically sustainable development and use of natural resources while promoting economic and social development"*
National - Ecuador	Ecuador National Development Plan 2017-2021 Toda una Vida Plan Nacional De Desarrollo 2017-2021 (Link)	*"El objetivo es formar una economía basada en la prestación de servicios y en la generación de biens con valor* ***agregado, cimentada en una producción limpia y sustentable, bajo parámetros de justicia social e intergeneracional y que aporte*** *al desarrollo de Ecuador en condiciones de equidad y solidaridad."*
National - Fiji	Fiji Climate Change Act 2021 (Link)	*"This Act must be implemented in accordance with the following principles…(c)* ***the principle of intergenerational equity****, in which the wellbeing of current and future generations is supported by a socially and gender inclusive, equitable, environmentally sustainable, net zero emissions economy and the health, diversity and productivity of* ***the environment is protected and enhanced for the benefit of current and future generations****."*
National - Wales	Well-being of Future Generations (Wales) Act 2015 (Link)	*"The Commission's report must include, in particular, an assessment of public bodies should..(a)* ***better safeguard the ability of future generations to meet their needs****, and (b) take greater account of the long-term impact of the things that they do."*
State/Sub-national	Constitution of Montana, United States (Link)	*(1) The state and each person shall maintain and improve a clean and healthful environment in Montana* ***for present and future generations.*** *(2) The legislature shall provide for the administration and enforcement of this duty.* *(3) The legislature shall provide adequate remedies for the protection of the environmental life support system from degradation and provide adequate remedies to prevent unreasonable depletion and degradation of natural resources.*
Municipal	Multispecies city: Justice perspectives for the planetary planning of a carbon-negative city (Link)	*"Future generations in particular depend on decisions made by the current generation, but* ***cannot defend their rights or question the decisions made****, as they have not even been born yet."* *"From the perspective of intergenerational justice, it is also important to* ***distinguish between needs and wants****, so that it is possible to outline the distribution of resources between different generations."*

Intergenerational equity matters when younger and future generations are forced to bear excess burdens which they would not be responsible for, arising from decisions made by the preceding generations. The financial system can perpetuate intergenerational (in)equity on multiple fronts, whereby finance can be both a destructor or enabler of such justice.

An unjust financial system is afflicted by many interconnected challenges that have practical implications for people and communities. Transforming the financial system towards greater intergenerational equity thus requires “multiple entry points” to undercut the vicious cycle that stands to displace further those most marginalised in society. Two interlinked examples illustrate this; they are by no means exhaustive.

A vicious cycle of debt, underinvestment, and intergenerational climate injustice

Today, 93% of the countries that are most vulnerable to the climate crisis are already in, or at significant risk of, debt distress. Countries’ vulnerability to climate change directly relates to their borrowing rates: inadequate adaptation measures mean greater exposure to climate impacts, which leads to more finance to address risks and redress damages from extreme weather events. For the Vulnerable 20 (V20) countries, the cost of debt has grown by $62 billion over the last decade, and it is expected to double in the next 10 years.

To acknowledge the smaller fiscal space many vulnerable countries currently have to finance adaptation and cover climate losses, many measures have been proposed. These include options from debt suspension clauses and sustainability-linked debt instruments to international tax reform and regional funds for adaptation and disaster risk reduction. Nevertheless, from a climate justice lens, without contending structural inequities that exist within the financial system, the current incorporation of environmental risks in financial decision-making can risk trapping those most vulnerable to unsustainable debt cycles, leading to “green extractivism”.

Debt is not all inherently bad and public indebtment is not always unfair to future generations. The present generation has a *prima facie* duty to provide future generations with financial flexibility, but must do so while minimising environmental debt to future generations even if such spending requires public debt. *But this is only true when governments have the autonomy to determine their own fiscal policy.* In the currently broken global financial architecture debt accumulation creates an unsustainable snowballing when money that is supposed to help countries respond to the climate crisis exacerbates their vulnerability and does not reflect the interests of future generations.

The ethics of economic discounting and justice

Discount rates help us understand and compare future costs and benefits to those of now. A high discount rate means we are counting future costs and benefits for less. Considering the inevitable and likely irreversible consequences of inaction, investing in climate mitigation and adaptation today should be an insurance whereby the highest payoff is the strongest climate protection against the most vulnerable communities.[1]

Calculations of high discount rates today would not bring us near the goal of limiting warming to 1.5 °C degrees. In fact, under a positive discount rate of 10%, a life today is worth a million lives in 145 years, and such an analysis comes under a series of assumptions about future economic growth and uncertainties of the damage wrought by climate change. Ultimately, it begs the question, what value (and on what ethical basis can/should we) do we place on our children's children and their rights to a clean and healthy environment? What is our moral obligation today to safeguard their rights?

Economists have devised countless obscure calculations to value future generations over the past two decades. In understanding our debt to future generations, questions arise over what, how, and how much discount rates we should have to address the urgent need to reduce climate-warming emissions and minimise our environmental debt to future generations. Even seemingly small changes in discount rates can hold implications for climate policy-making and have significant influences on the way money is dispensed and allocated. For current policies and fiscal commitments to better serve the interests of future generations, we need a mechanism of understanding costs and benefits that are geared towards long-term value over short-term gains.[2]

Constructing an intergenerationally-just financial system: SFYC's theory of change

Constructing an intergenerationally-just financial system necessitates a paradigm shift in how we perceive, manage, and engage with financial flows. The Sustainable Finance Youth Coalition (SFYC) posits a theory of change that hinges on the integration of youth perspectives and the principles of long-term sustainability into the financial sector. This theory of change involves three key components: thought leadership, capacity building, and collaboration.

Enhancing technical competency through research

The SFYC advocates for cultivating a generation of leaders who are not only informed about the complexities of finance but are also adept in sustainable practices that consider long-term environmental and social impacts.

Justice and finance have long been seen to be in dialectic spaces. Yet, against the triple planetary crisis and the inevitability of an equitable transition, it would only be prudent for financial institutions to consider the social risks and opportunities they can affect for current and future generations. For pension funds, sovereign wealth funds, and development finance

[1] Where destructive climate impacts have already affected communities, particularly climate-vulnerable communities that have contributed the least to the climate crisis, loss and damage funds become critical to cover the occurred economic losses and damages.
[2] Discussions around cost-benefit analysis is also relevant to the carbon budget, for an example of such analysis, see here: https://www.tandfonline.com/doi/full/10.1080/14693062.2018.1464893

institutions, the case is beginning to be made. But much more can be said about the current financial system *itself*, the various actors therein, and the levers at their disposal to realise intergenerational justice in a systemic, holistic manner.

By investing in research that pushes the frontiers of the justice agenda within finance, SFYC aims to enhance the technical competency of young leaders – financial institutions alike – in better connecting the seemingly dialectical spaces towards collective justice.

Capacity building for, and by, young people

The SFYC believes that empowering the next generation requires demystifying the complex world of sustainable finance. By broadening educational initiatives and capacity-building efforts, the coalition seeks to make sustainable finance a core component of financial literacy for young people. We will work in partnership, building synergy across various youth constituencies and organisations to maximise our reach and impact.

When young people are empowered with knowledge about how financial systems operate and how they can be leveraged for long-term environmental and social benefits, they become active proponents of change. Capacity building also extends to creating platforms for youth to express their ideas and concerns, ensuring that their voices are heard and valued in the decision-making process

Engaging with younger generations and integrating future generations in decision-making

For an intergenerationally-just financial system to take root, institutions must meaningfully engage with the future generation. The SFYC calls for international and public financial institutions to open up channels that allow for genuine dialogue and partnership with youth. This could manifest as youth advisory panels, internships, and collaborative projects that bring together experienced financial professionals with young innovators.

Moreover, it's not just about engaging the youth of today but also about integrating the interests of future generations into mainstream financial decision-making. Achieving this requires fundamental reconsiderations of financial institutions' legal duties and discretions in investing for impact, and their role in collaboration towards tackling sustainability challenges. It necessitates embedding intergenerational considerations in all facets of financial institutions' transition planning, including target setting, business operations, micro and macro-engagement, disclosures and reporting, and governance.

The strategic rationale for financial institutions to advance intergenerational justice is clear. It is not only the *right* thing to do in alignment with their commitments to human rights, labour protection, and achieving the Sustainable Development Goals. It is the *smart* thing to do in minimising transition risks and maximising the human and social capital needed for long-term investment and economic development. Lastly, it is the *necessary* thing to do to garner long-term public support and patient capital that can underpin the transition to a resilient and livable planet for all.