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Task Force 03
REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

Intergenerational Equity at the Center of International Finance Architecture Reforms: A Youth-Led Policy Guide

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Abstract

This policy brief will investigate the integral system transformations required to achieve the Sustainable Development Goals (SDGs) financing requirements, specifically, the enabling and requisite role of reforming the International Financial Architecture (IFA) to achieve SDG and broader sustainability financing goals. Financing to fulfil the SDGs must go beyond resource allocation. It requires understanding and addressing the systemic forces that have brought about the unfolding global *polycrisis,* and the mechanisms required to enhance financial inclusion, sustainability and resilience, and long-term value creation for all. Importantly, in the interests of vulnerable groups like children and youth, for the IFA reform to engender any real and meaningful impact, it must be grounded in principles of intergenerational equity. Practically, intergenerational equity should be reflected in financial institutions' targets, operations, and financing decisions so that they can have tangible outcomes in sustainable development. This policy brief and its underlying research are entirely written by youth, as our participation in knowledge creation and policymaking is fundamental to the realisation of the SDGs. The research will involve data collection, insights-gathering, and stakeholder consultations to analyse how the concept of intergenerational equity and low-carbon, climate-resilient development is perceived and operationalised in current IFA reform proposals. It recommends a set of principles-based guidelines that financial institutions should align with to meaningfully implement intergenerational equity concerns in their environmental and social target setting, investing/lending, business operations, disclosures, and governance. By placing primacy on the intergenerational implications of IFA reform, this brief can act as an additional resource guiding policymakers, financial institutions, and civil society alike in advancing justice for all.

Keywords: International Financial Architecture, Intergenerational Equity, Sustainable Finance

Diagnosis

The concept of intergenerational equity can be defined as a legal principle that states that *"future generations may have a legitimate expectation of equitable access to planetary resources"* (Venn 2019). In 2023, human rights lawyers and experts formalised the Maastricht Principles, a groundbreaking set of principles clarifying international human rights law as it applies to future generations, paving the way for future considerations of intergenerational equity into international human rights law (Maastricht University 2021). Intergenerational equity has also been a cornerstone of international frameworks such as the UN's 2030 Agenda for Sustainable Development and the United Nations Framework Convention on Climate Change (UNFCCC 1992; United Nations 2015). Consequently, the rights of future generations are a necessary consideration for economic actors subject to environmental and human rights law, as well as their country's commitments to achieve the aims of international agreements, some of which have been ratified into law.

Intergenerational equity links to some of the core functions of finance, including its aim to create and preserve wealth. This idea is already a core aim of some types of institutions, including pension funds, sovereign wealth funds, and endowments. The concept of intergenerational equity was exemplified by economist James Tobin in 1974 when he stated, *"The trustees of endowed institutions are the guardians of the future against the claims of the present. Their task in managing the endowment is to preserve equity among generations"* (Tobin 1974; Suttles 2020*).*

However, for strategic planning purposes, this type of intergenerational approach is not the norm across the financial world. When institutions are preparing for the "long-term", this typically does not reach beyond *a) **the business cycle** (5-10 years); b)*

political cycles *(4-6 years), and c)* ***credit cycles*** *(3-5, sometimes up to 10 years)* (Carney 2015). Additionally, financial authorities like central banks do not typically have mandates to protect financial stability beyond these time horizons, though the case is being established. In contrast, one "generation" is considered to be around 15-20 years (Pew Research Center 2015).

Our current system produces incentives aimed at short-term profits over long-term economic, social and environmental benefits. Given the costs and regulations around doing business are relatively short-term, there is a gap between the true costs of doing business versus actual costs to society in the long term, ultimately neglecting intergenerational considerations. Climate change is a prime example, considering that there is no binding price of carbon that economic actors factor into their decision-making.

Evidence suggests that this cost could be upwards of $185 per ton of carbon dioxide (CO_2) (Rennert et al. 2022).

If economic actors do not begin to adequately account for these costs now, future generations will bear the costs at an exponentially higher rate. Given this, these actors cannot wait to shift their approach. Ignoring these considerations will not only slow progress to achieve climate goals and the UN Sustainable Development Goals (SDGs), but already breach duties by law in some circumstances. Protection of intergenerational equity and rights for future generations is not an abstract concept, as youth are already taking governments to court over their constitutional right to a clean environment, and winning (Gelles and Baker 2023).

Some financial institutions are beginning to sow seeds of change, but they are not systemic. As the concept of intergenerational equity is novel for financial institutions, they lack the appropriate checklists, guidelines, and policies to drive systemic change within their organisation, with their clients, and in society. Change is happening, for example, at development banks in the creation of youth-led project design teams in their existing projects in Asia (Unčanin and Chapman 2019), with investment strategies enabling youth-led SMEs to access finance, know-how and advice for youth in Europe (EBRD, n.d.), as well as an accelerator programme to support one million youth entrepreneurs to fight climate change impacts in Africa (Global Center on Adaptation 2024).

Still, policies and strategies are oriented towards reducing short-term inequities within our current system, rather than systematically embedding intergenerational equity considerations in their own and their clients' policies, strategies, and operations. Additionally, youth programs and policies are lacking in sufficient measurement methodologies of their impacts, as well as credible targets and metrics to track progress that are sufficiently quantitative and time-bound. Youth strategies are also not embedded within existing organisational frameworks, such as in transition planning and just-transition strategies where intergenerational equity considerations could be captured.

Recommendations

The G20's IFA Working Group should integrate intergenerational considerations within the context of alignment of financial flows with climate-resilient development and the SDGs. This may take multiple forms depending on the financing activity and sector. To avoid duplication of efforts, this work could fit into existing partnerships in this area initiated by the G20, like the Just Energy Transition Partnerships (JETPs) structure already in place. Governments can make use of the following recommendations in this policy brief as a framework for regulation to mandate financial institutions, which may include relevant checklists and KPIs.

To spur systemic change, institutions need concrete principles and guidelines to sufficiently consider the long-term consideration of intergenerational equity. By measuring appropriate impacts, defining inclusive policies and commitments, allocating capital, and developing measurable metrics & targets, institutions will be on the path to achieving intergenerational equity in alignment with the SDGs, to meet human rights standards set by international law, and ultimately to allow "equitable access to planetary resources" over the course of multiple generations.

In reflection of the challenges described above, this policy brief offers a blueprint framework of questions to guide financial institutions to develop a set of key priorities to begin integrating intergenerational thinking in their operations and lending/investing decisions. It can also be used to measure progress on this journey through relevant KPIs. The proposed framework can also be used as an advocacy tool by stakeholder groups, such as youth and civil society organisations, to advocate for more robust just-centred approaches in financing the transition. Central to this framework is the need to move beyond a "yes or no" approach, and better understand the "how" of justice integration in realising the SDGs, to ensure transparency and accountability.

The proposed framework is a work in progress. It is an iterative document that is meant to be strengthened over time, as intergenerational equity concerns become more mainstream across the financial system. Lastly, it can be used in conjunction with documents cited within the framework, so it supports policymakers, financial regulators and supervisors to design disclosure frameworks and real economy policies that encourage intergenerational justice integration.

Pillar I - Foundational Elements
Adherence to established principles and norms ● Has the organisation acknowledged or identified its adherence to relevant principles/norms such as the UN Guiding Principles on Business and Human Rights, Sustainable Development Goals, UN Declaration on Rights of Indigenous Peoples, core international human rights instruments, or others?
Pillar II - Governance
Intergenerational equity acknowledgment ● Has the organisation explicitly acknowledged the premise of intergenerational equity, or relevant principles or norms related to intergenerational equity, such as the Maastricht Principles? ● Does the organisation explicitly recognise the right to a clean and healthy environment, or other national/regional legislative documents in reference to the concept, or others? *See the appendix for a relevant list of key frameworks at multilateral, regional, national, or local levels.*

Internal policies ● Has the organisation specified what commitments or policies it has implemented and how these support efforts to advance justice and equity concerns within and amongst generations? These could include relevant considerations around patient/long-term capital holding or investment in infrastructures that can have lasting benefits, or screening environmental risks that have long-term impacts on future generations. ● Is the organisations' recognition in principles, norms, or intergenerational equity concepts (specifically UNGP, SDGs, or Maastricht Principles) reflected in investee entity due diligence procedures linked to investments and other activities (for example, activities reflected in the entity's climate or adaptation transition plans)?
Institutional arrangements ● Does the organisation have a just transition strategy? Does it feature the issue of intergenerational equity or justice? ● Does the organisation's strategy identify relevant governance bodies (such as a committee, Board, task force, and/or committee) responsible for the oversight, implementation, and implementation of its policies related to justice, particularly intergenerational justice? ● Do the relevant governance bodies possess adequate skills, experience, competencies, and understanding of intergenerational justice to exercise their responsibilities? In the absence of the relevant skills, what are the mechanisms to seek external advice while boosting ongoing training for the relevant governance bodies? ● How are the responsibilities to monitor and assess the organisations' just transition efforts enacted?

Pillar III - Investment/Lending Practices
● Are justice-related concerns, priorities, or objectives integrated on an organisation-wide basis in their capital allocation practices? Are there any geographical differences? ● Has the organisation included social criteria in its pre-investment screening and due diligence (private equity, private debt, real assets), in issuer and bond selection (listed debt), or in manager selection (indirect investments)? ● Does the organisation have a targeted approach to investments in communities/regions affected by the transition (especially with a strong demographic of people under 30)?
Pillar III - Stewardship
Macro-stewardship - policy engagement ● Does the organisation have a plan (and relevant guidelines around) engaging with policymakers on relevant justice issues? ● Is the organisation - or its investee entity - engaged in industry associations on relevant justice issues? Is - and if so how is - the investee entity transparent about its position? ● Is - and if so, how is - the entity participating in public-private partnerships?
Micro-stewardship - corporate and stakeholder engagement ● Does the organisation's stewardship strategy include dialogues and engagements with communities affected by its activities? ● Are children and youth (or their legal organisational representatives/constituencies) explicitly identified as a category of affected

stakeholders for the organisation? ● Does the organisation disclose or report on progress related to ongoing social dialogue and engagements with communities, especially children and youth (or their legal representatives/constituencies)? ● Does the organisation have a grievance redress mechanism?
Pilar IV - Metrics and Targets
● Does the organisation include measurable social KPIs in sustainability-linked instruments? ● Are the chosen KPIs aligned with existing best practices, such as the UNGP guidelines? ● Does the organisation's policies and/or strategy explain the rationale for selecting such metrics and targets and the periods over which they apply?
Pillar V - Disclosure and Reporting
● Does the organisation include social considerations in its sustainability reporting?

Scenario of outcomes

The G20 is a powerful conduit to produce transformational change, given it comprises most of the world's GDP and population. If the G20 integrates government-level policies to integrate intergenerational equity into existing partnerships like JETPs, they have the power to disseminate soft and hard laws around the world. It is also critical that these considerations are co-developed between developed and developing countries, to ensure that laws are consistent across jurisdictions and there are fewer barriers to enable SDG-aligned financial flows.

The investments made today can cast long shadows over the future. Financial decisions, be it in regenerative agriculture, safe and clean water access, digital infrastructure, or fossil fuels, will implicate people's livelihood over future generations.

Beyond the whole-of-society moral duty to guarantee future generations' right to a clean and healthy environment, including intergenerational perspectives, is transformational on a system level. The current system awards and prioritises short-term gains, rather than longer-term contributions to a liveable and more sustainable world (UNDP 2023). Intergenerational equity principles underpin the requisite measures to fulfil the SDGs without deepening global inequalities and creating more debt for Global South and frontline communities. Such a debt – financial and ecological - will grow exponentially with the lack of policies that equilibrate access to planetary resources among communities and generations. It is important to acknowledge that while the proposed framework centres on the role of financial institutions, it can create a ripple effect across the entire financial and socio-economic system, given the deepened interactions between finance and the real economy. In this context, if financial institutions include those principles, we can expect changes and reforms in various pillars:

- **Foundational** - Adhering to relevant principles and norms, such as the UN Guiding Principles on Business and Human Rights and the Sustainable Development Goals (SDGs) will guide their operations and decisions towards long-term sustainability and equity.
- **Governance** - Moving beyond *ad hoc* engagement with youth and acknowledging intergenerational principles within their governance structures will institutionalise boards and committees to align policies with intergenerational equity.
- **Investment and Lending Practices** - Integrating equity- and justice-related concerns into their capital allocation practices will ensure that investments towards sustainable development, apart from aligning with intergenerational equity principles, do not exacerbate the debt crisis facing many Global South and frontline communities.
- **Stewardship and Policy Engagement** - Engaging with policymakers and industry associations will break the existing silos encircling financial institutions and ensure that their long-term impact is geared towards real-economy outcomes. It will also encourage stronger collaboration and dialogue between financial institutions and affected stakeholders.
- **Metrics and Reporting** – Reporting with robust quantitative or qualitative metrics aligned with intergenerational equity principles will enhance accountability, transparency, and trust with stakeholders. Institutions disclosing such metrics in their annual reports can offer case studies and best practices that will help mainstream intergenerational equity integration, and bring the concept to life.
- **Global and Collective Action** – Creating such a principles-based framework can help form a global baseline for institutions to advance their social impact. Examples of existing practices provided in this brief show that considering intergenerational equity is the right and necessary thing to do for all financial institutions around the world.

- **Long-term Resilience** - Prioritizing intergenerational equity and breaking the vicious cycle of short-term profit can enable long-term advancement towards social and ecological resilience. Intergenerational equity not only means mitigating the effects of the climate crisis but also actively allocating capital towards adaptation efforts that strengthen the resilience of people and communities, thus minimising existing adaptation and capability gaps, and ensuring an equitable future that will leave no one behind.

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