PACT FOR THE FUTURE OF HUMANITY

UCLG
United Cities and Local Governments

POLICY COUNCILS TOWNHALLS

FUTURE ENVISIONING EXERCISES

VISION DOCUMENT

Redefining Finance and the Economy

Common Agenda

#LISTEN2CITIES LOCALIZING THE SDG SUMMIT 2023

FUTURE ENVISIONING EXERCISES

The Future Envisioning Exercise on the Transforming Finance and Economy brought attention to the fact that a new social contract as envisaged by the Pact for the Future and Our Common Agenda will require us to rethink our relationship with what we produce, promote, exchange and fund as a society. Walking towards equal, resilient and sustainable places where to live, learn and create implies rethinking some of the assumptions that led us to the current global conundrum, whereby overlapping crises and emergencies interact in an increasingly urbanized world.

Looking at the Future from the lens of Finance and the Economy is a point of arrival and a point of departure. We got here by striving to unlock pathways towards equality. We depart from here by acknowledging that these can only be achieved if our shared means of production and reproduction are rethought by, with and for our communities. We are convinced that growth and finance are not enough on their own. As put by the UN Secretary General, "it is time to correct a glaring blind spot in how we measure economic prosperity and progress", for which new indicators and monitoring processes focused on well-being should be put forth and used at local and national levels. The advancement of environmental degradation, together with global trends that oppress, segregate and hurt our communities, call for us to come up with new, accountable, pragmatic and resilient solutions that are based on care, respect human rights, and protect the commons.

The present Vision Document compiles the aspirations and contributions shared by participants who attended the Future Envisioning Exercise; an analysis of how to shape local actions to achieve such aspirations so they effectively contribute to urban and territorial equality; as well as a set of policy orientations for doing so and a pool of useful resources.

1. Shared understandings and aspirations for Redefining Finance and the Economy as an entry point for unfolding the Pact for the Future

- Our constituency and its allies in the multilateral system agreed that there is an urgent need to transform the economic system, which requires shifting from the current system, based on never-ending economic growth and extractivism, and that is not leading to just, inclusive and free societies. This calls for a shift in seeing the planet merely as resources for continued growth and a profound change in the values that must underpin development.

- In order to do that, it was agreed that we need to rethink growth, development and progress through the lenses of redistribution, decentralization, reappropriation of the commons and redefinition of care. Unbalanced power relations need to be reviewed and repaired and communities need to be empowered.

- It was also agreed that the current economic interdependence weakens subsistence economies by threatening food sovereignty, among others, but also impedes local resilience during crises and therefore calls for a re-territorialisation of our economies and a more resilient and sustainable production of basic and vital needs.

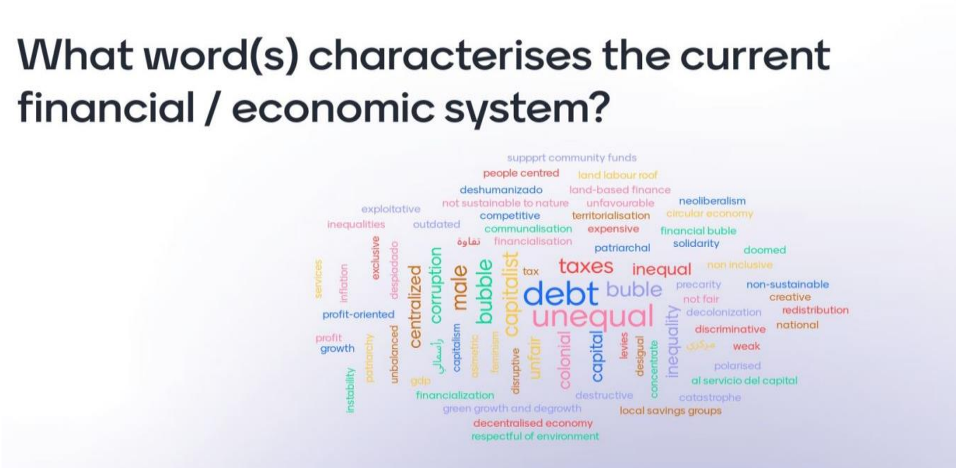
- Our ambition is to put feminism and care as the backbones of this shift. Our constituency and its allies share the conviction that adopting a feminist approach to economic development can ensure the inclusion of all populations, contributing to redefining a just economic model that is indeed capable of financing sustainable development, and which centers care and solidarity – for which Gross Domestic Product (GDP) can no longer be the standard measure for development.

- It is also necessary to change the fact that markets manage the commons that are necessary to the survival of our communities and the fulfillment of their aspirations, such as water or housing, and new essentials. Instead, it is essential to demystify municipal finance and budgets. We owe to our communities, particularly to women and particularly to those who live and work in informal conditions, to mainstream gender-sensitivity into local budgets and investments and demystify local finance to enable communities' engagement.

- This transformation requires shifting what we finance and how we finance it: it calls for changing financial systems, which alienate less economically developed countries, create austerity and debt traps, and do not acknowledge LRGs as determinant actors in local development, hampering their capacity to have a significant positive impact. By bringing innovation, creativity and a distinctive understanding of, and capacity to mobilize local resources, LRGs can influence financial institutions.

- A well-functioning multi-level governance system assigning tasks to different tiers of government, providing space and tools for efficient intra-governmental dialogue and coordination, together with sufficient autonomy for local and regional governments (LRGs) to develop and implement their own public policies were identified as key factors necessary to achieve this transformation. It is also key that financial institutions and investors prioritize policies centered on people, proximity and social transformation.

Fig. 1. Results of the interactive consultation conducted using Mentimeter



2. Contributions shared for achieving these aspirations

Throughout the Future Envisioning Exercise, participants contributed their experiences, key questions, tools, and guiding principles to the collective reflection on how to achieve the aspirations mentioned above. This has allowed to identify certain key topics that need to be addressed to achieve the shared aspirations.

Strong emphasis was put on how LRGs and their allies can contribute to advancing the **transformation of the economic system** towards a system that advances local and territorial equality. This question is particularly critical given the current global context and how it affects local realities. As noted by participants, the International Monetary Fund has predicted a drop in global GDP due to the war in Ukraine, and the food and the energy crises, while the shift towards technology-intensive production modes has increased unemployment. Moreover, today, most governments in the world are implementing austerity programs, which are sometimes political choices, not the result of financial necessity, which financially strain LRGs – in addition to the private sector financing that increases their debt obligations. These, in turn, limit local social expenditure and exacerbate inequalities suffered by marginalized populations. The proper **management of crises and complex emergencies** is thus becoming one of the top priorities of local governments and, correspondingly, it should be acknowledged as a critical component for the renewal of governance.

To this end, the **redefining the role of communities** is determinant, as shown by some of the initiatives shared, which are emerging from local communities and that have contributed to a change in the management and use of energy. Another important aspect raised regarding crisis and complex emergencies is **collective organization and cooperation**. During the COVID-19 pandemic, this allowed Global North national governments to raise trillions of dollars to save their economies. Today, the UN Secretary General has called for 500 billion dollars to be focused on developmental assistance. Organized LRGs have the potential to raise the funds needed to localize the SDGs, but, as noted by participants, this will only be possible if LRGs, as well as networks and partner organizations, are really committed to change.

Within the shifts that are needed to transform economic models overall, it was stressed how the **financial ecosystem must be changed** to be more inclusive in its governance arrangements, but also in the services and solutions that it offers to channel financing to developing local economies and sustaining communities. Several key questions were posed: How to compensate for the lack of own-source revenue and unfunded mandates of LRGs? How can we improve local actors' access to financing for development projects? In order to build a new financial system, new financial agreements and tailor-made solutions such as low interest-rate loans are required when it comes to increasing financial flows to LRGs and other actors of the territories. Taxation was identified as a powerful tool and component of the financial system that can be leveraged by developing countries and others to improve public finances while reducing inequalities. While creativity and proximity were identified as the key principles that should underpin LRG's engagement with the renewal of the financial system. This would, in turn, allow for new pathways that focus on the medium and long-term local development, as opposed to a focus on short-term solutions, build up LRG's human capital, and promote more people-centered policies.

Establishing strategic partnerships is key for LRGs as part of **reshaping governance architecture,** as they allow for the joint delivery of services with other stakeholders. Partnerships can be made with all types of actors including peers, civil society, higher levels of governments and banks. They can be done at the local level but, as participants recalled, they should also aim to influence large-scale international financial institutions. What can LRGs expect from each stakeholder to support them technically and financially in the delivery of basic public services? Participants recalled that, as was done during the pandemic in many countries, LRGs are requesting, often through their local government associations, to be given the corresponding resources by their national governments for the competences and responsibilities assigned. Alliances created with organized civil society and grassroots movements are powerful because they build on local knowledge while ensuring equal participation. In specific cases, public-private partnerships are a modality of association that can be useful to reduce the financial burden for public authorities, on the condition that such associations are negotiated in fair terms and well-balanced. The privileged position of LRGs with their knowledge on the ground are the key to success but should never leave out the co-responsibility of public and private actors and the importance of cooperating with national governments and processes to effectively implement and localize the global agendas.

Important contributions were also shared around how **adopting a feminist and care-based approach to economic and financial systems** includes mainstreaming gender-sensitivity into local investments, but also looking at local budgets with a feminist perspective, questioning what concrete impacts local investment decisions can have in the lives of women, and in particular, of those who live and work in informal conditions. Participants shared examples of women-led groups which take part in the deliberations of local budgeting processes (which also include other local stakeholders like local firms) alongside LRGs to improve services. Another **people-centered policy- making** tool that was shared during the FEE included local and social currencies that emerged as initiatives to bridge economic development and care, particularly towards the most marginalized communities. **Adopting a rights-based approach** also implies understanding that budget cuts for infrastructure investment result in backlashes in, for example, access to health or education. Moreover, it also implies that accessibility must be taken into account by local governments when carrying out public procurement. In sum, it was agreed that it is necessary to rethink public spending to include social responsibility clauses as it is important to educate the public in new consumer habits.

3. How to ensure that the actions put in place to achieve our shared aspirations effectively advance urban and territorial equality?

The previous section compiles the contributions of participants to the collective conversation, which have allowed to identify several dimensions that are critical for redefining Finance and the Economy as an entry point for a sustainable future. The following analysis contributes to the conversation about how local actions designed to address some of these critical topics could be shaped, for these actions to effectively advance urban and territorial equality, avoiding unwillingly reproducing inequalities.[1]

[1] This analysis is based on the findings of the 2022 GOLD VI report, the flagship publication of the organized constituency of LRGs, produced in partnership with Knowledge in Action for Urban Equality. The key notion is that for local actions of any kind to advance urban and territorial equality, they must be based on a set of principles, related to the notions of rights, space, governance, finance and time. The five principles in their entirety can be found here.

Key topic addressed during the FEE	How to ensure that local actions advanced to address this topic effectively lead to increased urban and territorial equality?
Transformation of the economic system	• Adopting a rights-based approach means shifting who and what is value: empowering diverse communities to challenge the dominant power structures of the current economic system, which privatizes gains and socializes losses. • Addressing the spatial dimension of inequalities permits acknowledging that people living in different areas do not have the same voice in decision-making processes, and addressing this. In turn, contributing to ensuring a just, balanced redistribution of commons (including land), services and access to resources. • Promoting a new culture of subnational governance empowers LRGs, associations and institutions, devolving power and decentralizing decision-making, thus enabling the promotion of local participatory budgeting and other tools to make local decision-making processes more inclusive. • Adopting an adequate financing and investment architecture redirects and redistributes financial flows, allowing to prioritize the well-being of people and planet over profit and production and promoting the notion of 'sufficiency' that supports social and ecological justice. • Engaging with time allows to reflect on historical inequalities, learn from them, and plan for a just and sustainable economic system that benefits current and future generations, and redresses structural injustices.
Adopting a feminist and care-based approach to economic and financial systems	• Adopting a rights-based approach allows to ensure that our economies serve all people equitably, by centering marginalized voices, and paying attention to addressing intersecting and systemic forms of discrimination: by being anti-racist, anti-sexist, anti-ableist etc. • Addressing the spatial dimension of inequalities allows to build in the principles of proximity and solidarity in local actions, thus contributing to ensuring that all populations benefit of, and care for, the commons by redressing spatial segregation. • Promoting a new culture of subnational governance opens up spaces for feminist leaderships to advocate for new forms of politics centered on equity, justice, peace, horizontality and wellbeing of people and planet, with an emphasis centering on historically-peripheral voices. • An adequate financial architecture, as stated by feminist economists, can contribute to challenging the profit-driven, extractive nature of global and local economic logics and instead prioritize the reallocation of resources towards social wellbeing, public service provision. Redirecting financial flows to support care-based economies and equitable distribution of resources. • Engaging with time allows to acknowledge historical contexts, rejecting the 'linear progression' narrative of capitalism, and advocating for intergenerational and ecological justice.

4. Policy orientations: Key takeaways

Based on the common aspirations and contributions shared, as well as on the reflection on how to ensure that local actions to achieve these aspirations effectively advance urban equality, the following policy orientations articulate the shared vision for redefining Finance and the Economy.

i. Adopting the care approach for investment screening

A fundamental pillar to transform the financial system is to adopt the approach of the economy of care. In other words, to adopt a new set of caring values and a lens of solidarity through which financial decisions should be taken. Human rights and accessibility for all must be put at the center so that financial decisions, in particular public procurement and capital investment, are based on universal principles and on social responsibility. Promoting a feminist approach to financing and budgeting, where everyone is taken into consideration all while acknowledging inequality of opportunities, will be the way to make a sustainable future possible. These guiding principles must not be negotiated with nor left aside and considered as criteria of secondary importance.

ii. Protecting commons, services and the new essentials through the social and solidarity economy

Markets moved by profit should not be left as the sole managers of the commons, public goods and services, as this worsens inequalities. Instead, the inclusivity approach should dominate in the sectors of the economy and in relation to the goods and services that are considered essential. These crucial sectors require collective management, ownership and knowledge above private gain. In some cases, the protection of the public interest and imperative to ensure a universal access to these common goods must be ensured through regulations, engaging the social and solidarity economy or even decommodifying privatized commons, goods and services.

iii. Grounding financial decisions on people's needs

Public spending decisions by governments, but also private sector development and investors should set their priorities as much as possible based on the needs of communities. We seek to finance equality and for this we must renew the portfolio of services, investments and goods that are being financed. It is crucial to finance services and goods that respond directly to the climate emergency, the housing crisis, to the suffering of those that do not have enough to provide for themselves. Hence, sustaining the basic livelihoods of people by providing the minimum services and new essentials including education, health, housing, nutrition, culture or access to the internet.

iv. Prioritizing the sustainability of commons goods above all

As much as the outputs of all economic policies and investment decisions should be respectful of human-rights and aim to reduce inequalities and support inhabitants, the capital, labour and inputs needed to dynamize and make the economy run should also be fully considerate of the limited and finite planet and resources that we depend on. The commons must be treated as the vital elements for humanity's survival that they are and not as exploitable resources and merchandise subject to market fluctuations that do not correspond to communities' needs.

v. *Measuring finance and economy based on sustainability and human development and wellbeing criteria*

Prioritizing investments through a new set of values must also lead to reconsidering the measuring tools that judge whether an economy is on the right track. GDP cannot be the main measure of development as it only takes into account (certain) economic factors. Moreover, it is a measure that is tied to the pursuit of permanent economic growth and does not incorporate concerns about sustainability and the finite nature of planetary resources. It is necessary to widely adopt other development measures that consider the well-being, health, cohesion, cultural diversity and openness of societies as part of their design.

vi. *Developing innovative and sustainable financing mechanisms and alliances*

Traditional financing instruments should be complemented and remodelled with more creative approaches and financing modalities in order to widen and explore additional financing opportunities. Contracting debt is a useful manner to bridge the accumulated service and infrastructure investment gap, especially considering the higher up-front costs of resilient compared to grey infrastructure. Debt financing but also public-private partnerships, bond emissions or the creation of special purpose vehicles in which public and private resources are associated, are various complementary funding options be to be considered carefully and fine-tuned to fill budget shortfalls. It is essential to remain aware of the link between private sector financing and increased debt and therefore avoid over-dependence on certain financing modalities when possible, to maintain a public interest oversight over service provision.

vii. *Joining efforts through a multistakeholder alliance for financing development*

Sound and sustainable economies that provide for the people can be attained through partnerships and the collaboration of LRGs with wider processes and groups of actors, as no actor nor level of government has the capacity to deliver what communities need to thrive on its own. Key to making these partnerships meaningful and sustainable are mutual recognition and acknowledgement. On the one hand, LRGs must be able to build up their capacities: learn to interact and deliver services jointly with other stakeholders, including communities, based on mutual trust; and negotiate and speak with financial institutions, including financial intermediaries and subnational development banks. On the other hand, the international financial ecosystem and actors must understand that financing LRGs is equivalent, and essential, to financing local and national development. When participating financially in local projects or accompanying local initiatives, investors must acknowledge the privileged role of LRGs in contributing to the realization of SDGs, and therefore work within fair collaborations that avoid the creation of unsustainable debt, for example. Organised LRGs have the legitimacy and leverage to request and obtain the necessary financial resources needed to localize the SDGs, so long as it is done in a planned manner and through collective demands.

viii. *Ensuring wide and inclusive participation in the global economic governance*

The multistakeholder model for carrying out local infrastructure development, maintenance or service provision should be followed at the national, regional and international level when it comes to making decisions about the fiscal and economic systems. An open model of governance architecture must be reflected in the international decision-making arena for financial and economic reforms where inclusion and equal participation is to be reinforced. It is essential to combine local knowledge from all types of stakeholders with wide participation to ensure that all voices are heard and considered when world-wide implications are at stake.

ix. *Encouraging the role of communities for a reterritorialization of financing*

The emergence of new modalities of engagement of communities have come as alternative models to the dominant economic system or as emergency responses to crises. Common and multiple benefits result from these experiences where local knowledge is put forth and a proximity-based approach ensures that decisions are made while knowing what communities want. The difficulty to have a say in the operations and planning of the economic and financial systems have led citizens to feel disconnected from their political leaders and disempowered in the face of powerful corporations. Encouraging participation and ensuring equal representation in decision-making and implementation of public policies, including by making use of participatory budgeting, are means for the public institutions to regain legitimacy, but also to ensure that their policies concentrate and leave their positive effects on the territory and for the inhabitants.

x. *Promoting transparency and public disclosure of data for increased trust*

Trust in the governing bodies and institutions is largely dependent on whether political representatives and people who uphold high-rank positions in said institutions carry out their public intentions and show reason and argument for decisions taken. To uphold the commitment with transparency, LRGs must be accountable for their decisions, but also bridge the gap between citizens and public finances by presenting publications, open databases and public awareness campaigns on the importance and use of public finances. Moreover, transparency is also a powerful lever to challenge austerity measures when economic accounts show they are not necessary. Thus, allowing to halt cuts on social and public spending and redirect financial flows towards people-centered policies, creating a virtuous cycle that reinforces community's trust in public institutions.

5. Pool of resources

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