

ESDN Youth Network Policy Note

April 2025

Reforming Global Financial Architecture for a Sustainable Future

Introduction

The global financial system plays a critical role in shaping sustainability outcomes worldwide. However, its current structure often perpetuates inequalities, obstructing efforts to address climate change and promote equitable development. Addressing systemic issues—such as disparities between the Global North and South, tax avoidance, accessibility of subsidies, and unsustainable budget allocations—is crucial. Comprehensive reforms, including debt cancellation, democratization of climate finance, tax system harmonization, and restructuring budgets, can align financial mechanisms with the Sustainable Development Goals (SDGs) and foster a more equitable and resilient future.

Key Challenges

- 1) **Disparities in Environmental and Climate Impacts**
- 2) **Tax Avoidance and Evasion**
- 3) **Limited Accessibility to Subsidies Benefiting Sustainability**
- 4) **Misaligned National Budgets**

1) Disparities in Environmental and Climate Impacts

The Global South bears a disproportionate share of environmental and climate impacts while struggling under the burden of debt. At the same time, the Global South contributes the least in terms of impacts on climate change, further highlighting issues of justice; namely those who impact climate change the least, oftentimes suffer the most.

In order to combat these disparities, the following actions could be undertaken:

- **Cancel debt:** Relieve the Global South of crippling debt to enable investment in climate resilience and development,

rather than significant portions of the Global South's budgets going to paying back debt and crippling interest rates.

- **Democratize climate finance:** Reform the Bretton Woods institutions during the 2025 Financing for Development Conference to prioritize inclusivity and responsiveness to individual countries' needs.
- **Decentralize large institutions** like the World Bank and support local governments and indigenous communities in managing resources and conservation efforts.
- **Make climate finance accessible:** Create smaller, localized budgets within the UN to reduce bureaucratic barriers and make funds more accessible to small, local, and indigenous communities. Local and indigenous communities know their needs better than outsiders.

2) Tax Avoidance and Evasion

Loopholes in the global tax system allow multinational corporations and the ultra-wealthy to evade fair taxation, depriving nations of critical resources and revenues that could be used for sustainable development.

However, there are actions that can be undertaken by the global and national communities to mitigate this issue:

- **Harmonize global tax systems:** Implement a globally unified tax system to close loopholes and reduce tax avoidance. This would also minimize countries that could offer lower taxation rates and be used as tax havens.
- **Progressive Taxation:** Tax businesses and wealthy members of society appropriately. Caps on income tax, for

example, should be removed, so that wealthier individuals pay progressively more, the more they earn.

- **Impose higher taxes on harmful activities:** Such tax increases could be on pollution, tobacco, and alcohol production, where the additional revenue generated is redirected to sustainable initiatives (e.g., green transportation systems, better and more inclusive healthcare).
- **Strengthened inheritance and acquisition taxes:** This helps to ensure that generational wealth is not accumulated as easily, and increased taxes and enforcement of inheritance taxes can aid in wealth redistribution and increased funding for sustainability efforts for the rest of society.

3) Limited Accessibility to Subsidies Benefiting Sustainability

Current subsidy systems for energy efficiency, housing, and innovation are often inaccessible to marginalized groups. Some proposed solutions to help in the uptake of sustainable solutions by all parts of society are as follows:

- **Simplify the application process:** Streamline the application processes for subsidies, making them easier to navigate for low-income groups, youth, and marginalized communities.
- **Establish proactive outreach mechanisms:** Engage community workers to reach underserved populations and provide free advisory services to guide individuals through subsidy applications (i.e. for installing heat pumps, renovations for more energy-efficient homes, solar panel installation, etc.)

4) Misaligned National Budgets

National budgets often allocate insufficient resources to sustainable development and may inadvertently counter sustainability goals by apportioning parts of the budget towards unsustainable practices. To ensure the public sector has adequate budgetary resources to

enact sustainability policy, the following aspects should be considered:

- **Budget restructuring:** Mandate a higher percentage of departmental budgets to align with SDGs and allow the SDGs to serve as policy guides.
- **Prioritize funding for youth-led and innovative sustainability projects:** Empower the next generation in addressing climate and development challenges.

Policy Recommendations

1) Reform Global Financial Institutions

- **Leverage the 2025 Financing for Development Conference** to modernize Bretton Woods institutions, ensuring they serve the needs of diverse nations.
- **Establish frameworks** that empower local governments and communities.

2) Promote Global Tax Equity

- **Advance a globally harmonized tax system** to ensure fair resource distribution.
- **Introduce progressive taxes** on environmentally and socially harmful activities.

3) Enhance Accessibility to Climate Finance

- **Simplify subsidy systems** and proactively support marginalized communities.
- **Reduce bureaucratic hurdles** and allocate smaller, accessible budgets to local authorities.

4) Align National Budgets with Sustainability Goals

- **Restructure national budgets** to increase allocations for sustainability and innovative projects.
- **Embed SDGs** as a guiding principle across all governmental departments.

Conclusion

Through these comprehensive reforms, the global financial architecture can shift from perpetuating inequalities to enabling sustainability. By addressing disparities, harmonizing tax systems, improving accessibility to subsidies, and realigning budgets, we can create a financial ecosystem that supports equitable development and climate resilience. Policymakers and international stakeholders must seize opportunities, such as the 2025 Financing for Development Conference, to drive these transformative changes and secure a sustainable future for all.