

Investing in the Future: Financing for Development Process



Financing Process

Briefing Sheet

Financing for Development - What's it all about?

At the Rio Earth Summit in 1992 it was agreed that implementing Agenda 21 would require new and additional sources of funds. While high and middle income countries could draw on their own resources, many developing and low income countries would need substantial additional funding in the form of development aid or other foreign capital flows to assist them in this process.

The amount of development finance varies widely throughout the regions of the world. Developing countries feel they are constantly being asked why they haven't implemented agreements when they are still not being given the financial or technical resources to enable them to do so. At the Earth Summit, high income countries reaffirmed their commitment to reaching the UN target of providing 0.7% of their Gross National Product (GNP) for Official Development Assistance.

In early 2000, the UN General Assembly agreed to hold a high-level intergovernmental session on **Financing for Development**, in order to address ways to improve development financing. The Mexico conference will consider national, international and whole system issues relating to financing for development in a holistic manner, set within the context of globalization. The event will address development through the perspective of finance, as well as the mobilisation of financial resources to allow the full implementation of the outcomes of all the major UN conferences of the 1990's. These include the 1992 Earth Summit, the 1994 conference on Population, the 1995 Social Summit, 1995 Conference on Women and 1996 Habitat II.

Extract from the UN Millennium Declaration, September 2000: Development and Poverty Eradication

"We resolve, therefore, to create an environment – at the national and global levels alike – which is conducive to development and to the elimination of poverty.

Success in meeting these objectives depends, inter alia, on good governance within each country. It also depends on good governance at the international level, and on transparency in the financial, monetary and trading systems...

We are concerned about the obstacles developing countries face in mobilising the resources needed to finance their sustained development....

We resolve ... to ensure greater policy coherence and to improve better co-operation between the UN, its agencies, the Bretton Woods institutions and the World Trade Organisation (WTO), as well as other multi-lateral bodies, with a view to achieving a fully co-ordinated approach to the problems of peace and development."

The importance of finance for sustainable development

Overseas Development Assistance (ODA) was for many years the main source of external finance for low income countries. Now, for a variety of reasons, this has dropped by more than half. The situation is exacerbated by the massive debt burden affecting countries, notably in Africa. Environmental protection is often one of the first things to be cut back to finance interest payments.

The most dramatic development in funding has been the rapid increase in private capital flows to low income countries. This has been concentrated on a few favoured countries – Asia, Europe, and Central and South America. Foreign Direct Investment is now the largest source of foreign private capital reaching developing countries (Bramble 2000).



Since Earth Summit, official financing for sustainable development has remained well below the level considered necessary to implement Agenda 21. "Harnessing private capital flows may be more important than increasing or maintaining public capital flows but much more will need to be done to ensure that private investment is not used for unsustainable forms of development and that the poorest countries receive a much higher share" (RIVM 1997).

From words to action – who's involved

The UN General Assembly has convened an Inter-governmental Preparatory Committee and a 15 member Bureau to organise the consultation. The Finance for Development Secretariat consists of UN agencies and the World Bank, as well as active input from the International Monetary Fund, the World Trade Organisation and similar international bodies.

In addition, a vast range of NGOs, development groups, human support organisations, and industry have maintained a monitoring, advocacy and lobbying role.

The Financing for Development (FfD) process

During the UN Commission for Sustainable Development, 8 main areas of the FfD were set as a priority for future activities. The June 2001 meeting will provide a crucial opportunity to take a closer look at institutional processes and linkages between FDI, trade, and financial mechanisms, in an effort to better target them into meeting sustainable development (UNED Forum 2000) and to show how FDI can be made a positive driver for a more sustainable future.

Issues up for discussion include proposals on:

- Mobilising domestic financial resources for development
- Mobilising international resources for development – foreign direct investment and other private flows
- Trade
- Increasing international financial co-operation for development through, inter alia, Overseas Development Assistance (ODA)
- Debt
- Addressing whole system issues – coherence and consistency of the international monetary, financial and trading systems in support of development.

In May 2000, the first preparatory meeting (PrepComm) was held, with regional consultations taking place in November and December 2000, and further preparatory meetings underway in February, May and October/November 2001. The results will feed into an international conference in Mexico in 2002, as well as into preparations for Rio+10. The debate, to date, has signaled broad commitment to accelerate the development of the Financing for Development process.

Other work under the CSD banner on finance for development has led to several new proposals, such as the Tobin Tax, which would raise money for environmental management through an international tax on financial transactions. In the run-up to Rio+10, Northern governments are looking at a variety of other financing mechanisms, partly linked to climate change.

There is a growing international movement advocating greater involvement of civil society in powerful international financial institutions, such as International Monetary Fund, the World Bank, and the World Trade Organisation, where donors dominate and governments have less influence. For decades, these institutions have been making decisions that affect the lives of people all over the world without a clear system for accountability and democratic participation. The 1995 Social Summit called for closer links between the Bretton Woods international financial institutions and the UN system.

Glossary

Sustainable Development: "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland Report, 1987) also "development which improves people's quality of life, within the carrying capacity of the earth's life support system." 2nd World Conservation Strategy (UNEP)

Sustainability: Working towards sustainability involves:

- Social development: increasing social equity
- Environmental protection: protecting and improving the environment
- Economic development: developing economic security for everyone

Stakeholders: Groups or organisations who have influence in a particular area of policy or are affected by policies. Agenda 21 identified 9 Major Groups: women, children and youth; indigenous peoples; NGOs; local authorities; trade unions; business and industry; science and technology, and farmers. This is not an exhaustive list; at any stage in a process there can be other specific stakeholder groups.

Helpful links and information sources

Finance for Development www.un.org/esa/ffd/index.html

Organisation for Economic Co-operation and Development: www.oecd.org

UN Commission on Sustainable Development: www.un.org/esa/sustdev

UNED Forum Central information resource with document downloads (UN etc), newsletters, briefing material, national reports plus links to the Road Map of how all the processes fit together: www.earthsummit2002.org

The World Bank: www.worldbank.org

References

Bramble, B. (2000) Financial Resources for the Transition to Sustainable Development. In: Earth Summit 2002: A New Deal. Earthscan. London 2000

RIVM (1997) Agenda 21 Interim Balance, 1997. Van Vuuren, D.P., and Bakkes, J.A. Globo Report Series No 19. RIVM Report No 402001008. RIVM. Bilthoven, The Netherlands.

UNED Forum (2000). Foreign Direct Investment Briefing Paper www.earthsummit2002.org

UNEP (1999) Global Environment Outlook 2000. Earthscan. London.

Also see

This short Briefing Sheet is one in a series specially prepared by UNED Forum for Life II. It aims to outline key issues covered within the topic and to act as a sign-posting service to further information sources and official documentation. Many issues are cross-cutting so we encourage you to investigate the other material available. Other sheets include:

- **A World of Difference? The Earth Summit 2002 process**
- **Investing in the Future: Financing for Development Process**
- **Making Women Count: The Beijing Process**
- **Promoting Development with a Human Face: The Social Summit Process**
- **Whose Decision it is Anyway?**
Decision-making Processes at the national & international Level
- **Promoting Involvement in the Search for Sustainability - We are all Stakeholders Now**
- **Resource Sheet - more Background Information and Inspiration**

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