

Financing for Sustainable Development:

New Ideas, Perspectives and Obstacles for the World Summit 2002

Summary of a workshop hosted by the Heinrich Böll Foundation and the International Institute for Environment and Development (IIED) in New York on January 27, 2002¹

Two UN Processes Promoting Sustainable Development: Financing for Development (FfD) and the World Summit for Sustainable Development (WSSD)

Since the Earth Summit 1992 in Rio de Janeiro (UNCED – United Nations Conference on Environment and Development), governments from industrialized as well as developing countries, NGOs, sympathetic industry representatives and a number of other stakeholders are struggling with the goal of sustainable development. One of the main obstacles of the process towards sustainable development is that no adequate sources of financing have been made available, and thus hardly any progress has been made. Especially Southern governments fear that sustainability and development might be incompatible, that current economic trends could rather manifest global economic and political inequalities in the name of ecological sustainability. At the Rio Summit, the UNCED Secretariat estimated the financing needs of Agenda 21, the action program for the 21st century, to be in the region of US\$600 billion per year, including \$125 billion per year on grant or concessional terms. But in 2001, official development assistance (ODA) fell to its lowest level ever and although foreign direct investment has increased tremendously, it is not spent primarily in countries whose population is in absolute poverty, nor it is spent on measures which directly benefit the most disadvantaged groups.

In the year 2002, two UN conferences offer a major chance to turn around the present trends of economic globalization and liberalization of the global market, and to take a fresh look at the entire system of financing for development with the goal of achieving equity and sustainability. For the first time in its history, the UN is going to host an international conference on Financing for Development (FfD) in Monterrey, Mexico in March 2002. The goal is to provide new solutions for the permanent financial crisis of the countries of the South. Topics on the agenda go from the future role of public and private

¹ This summary was written by Nika Greger, Program Director North-South-Program, and Marc Berthold, Project Coordinator World Summit 2002, Heinrich Böll Foundation Washington, based on extensive notes taken of the workshop discussions. The summary tries to recapture the breadth and the depth of the exchanges of the day. It is by no means a full account of everything that was said. The views expressed in this summary are those of the individual participants and do not necessarily reflect those of the Heinrich Böll Foundation or the institutions the speakers are associated with. See the end of this summary for a list of workshop participants.

capital flows to the institutional reforms within the world financial system. Quantity as well as quality of development assistance should both be addressed in order to promote sustainable development in developing countries. Just as unique is the first World Summit on Sustainable Development (WSSD) in Johannesburg, South Africa – ten years after the Earth Summit 1992. The WSSD will review the worldwide implementation of Agenda 21. Even more important, it will bring together tens of thousands of participants, including heads of state and governments, national delegates and leaders from non-governmental organizations (NGOs), businesses and other major groups to focus the world's attention and direct action toward meeting difficult challenges, including improving people's lives and conserving natural resources in a world that is growing in population, with ever-increasing demands for food, water, shelter, sanitation, energy, health services and economic security.

In January and February, both UN Preparatory Committee Meetings were subsequently held in New York. To emphasize the linkages between these processes, the Heinrich Böll Foundation hosted the workshop *'Financing for Sustainable Development: New Ideas, Perspectives, and Obstacles for the World Summit 2002'* on the weekend in-between. This event, co-hosted by the International Institute on Environment and Development (IIED), was aimed at facilitating the debate on how to implement the shift of re-directing global financial flows for the financing of Sustainable Development, and how to solve the social and humanitarian crisis in developing countries. We invited experts from governments, international organizations, industry, NGOs, and other stakeholders active in both processes to discuss major questions such as:

- What are possible synergies between the negotiations on Financing for Development and the preparations for the WSSD?
- How can the lack of creative thinking on the issue of globalization, which has changed the world during the last decade, be overcome within the FfD as well as the WSSD processes?
- What is the current system lacking in order to make financing for sustainable development effective? And what would new approaches look like?
- And last but not least: Are there any new concepts as well as best practice examples already around that could lead to a new financing for sustainable development strategy as part of the Johannesburg Summit?

An Evaluation of the FfD Process and the Agreed Monterrey Consensus

At the final FfD Prep Comm, government delegates agreed after long and difficult negotiations on a common outcome document – the Monterrey Consensus – which the heads of state and governments will adopt at the Monterrey Conference in March. The official negotiations ended only three hours before our workshop started, namely at 11 am on Sunday morning. Therefore, Swedish Ambassador Ruth Jacoby, one of the two chairpersons of the FfD Prep Comm, had to cancel her participation, and workshop participants were only able to have a short glimpse at the negotiated outcome document.

The general tone and value of the Monterrey Consensus, however, had been clearly visible from the beginning of the Prep Comm. Workshop participants from NGOs, academia, think tanks and international organizations, who have been following the FfD process since its beginning, considered the Monterrey Consensus a complete failure. The agreed document does not at all look like an improvement on the way to creative thinking

and linking the international finance agenda with the goal of achieving equitable and sustainable development.

Government officials, mainly from EU countries, and members of the FfD secretariat as well as the FfD bureau missed no opportunity to highlight that the FfD conference should only be seen as a starting point on the way to a much longer and intensive process of financing sustainable development worldwide. They also stressed the fact that within this process, for the first time in the history of the UN, official stakeholders such as the IMF, the World Bank and the WTO are sitting together with governments and civil society at one table to discuss the future of the international financial structure and the economic globalization. In fact, however, NGOs, as members of civil society, had mostly been excluded from the Consensus evolution, since negotiations had been held in so called 'informal informal' meetings between governments.

Thus these well meaning words hide the fact that many civil society representatives do not find themselves as partners with equal rights in open discussions and decision-making processes, and, even worse, do not see that the current FfD mechanism holds a chance to create a new global structure with the goal of sustainable development. Although the FfD process is placed in the UN framework, the U.S. delegation, for example, continuously called into question its legitimacy to address and tackle the reform of the international institutions that currently drive the global economic system, such as the World Bank, the IMF and the WTO. This was highly criticized by workshop participants from the NGO community.

While praising the 'marvelous dialogue and cooperation' of all stakeholders and the UN that has so far taken place within the FfD process, the U.S. made clear that demands which threaten its mandate or governance structures might drive it away from the process. It seems to be the U.S. view that the financial and trade institutions are only participating in the process to provide their expertise, but that all issues related to their own policies must not be addressed.

A statement from over 40 European NGOs which was presented during the first workshop panel brought the frustration into very concrete terms. They agreed on a number of points as a basis for their minimum expectations of the FfD process:

1. Stabilization of international financial markets
2. Increasing aid levels and agreeing to a binding timetable for reaching the UN target of 0.7 percent GNP for ODA
3. Improving the quality and effectiveness of aid for poverty reduction
4. A human development approach in measuring external debt sustainability
5. A fair and transparent debt arbitration procedure
6. Trade and foreign investment for sustainable development
7. International cooperation on tax matters
8. Participation in economic global governance and monitoring the achievement of the Millennium Development Goals (MDGs)

Analyzing the Monterrey Consensus, it is apparent that hardly any of the NGO demands are even reflected. One workshop participant pointed out that four of the demands are not addressed at all in the final outcome paper: These are the immediate increase in ODA, the agreement on a timeframe, a mandate to the UN to explore measures to enhance the stability of the international financial system, and the explicit reference to CTTs, the

evaluation of regulatory frameworks for trade and investment against their impact on achieving the MDGs and environmental protection and independent external evaluations of the performance of the international financial institutions.

Three demands are addressed only in an insufficient manner. These are the measuring of debt sustainability on the financial needs of countries to achieve the Millennium Development Goals, and widening of eligibility for debt relief, a commitment to enter into the designing of a fair and transparent arbitration process for sovereign debtors and the reform of the international financial institutions, starting with a participatory review process of the composition and procedures of the decision-making bodies.

Apart from this NGO agreement on essentials, the workshop discussion elaborated further missing points in the Monterrey Consensus. It

- ignores innovative approaches such as the debate on **Global Public Goods** and their financing;
- fails to confirm a **follow-up procedure or any commitment to implementation** for the study of the UN Secretary General on economic globalization, which is to look specifically at innovative measures of finance;
- fails to give a **clear role to the UN system** in the governance of global economic relations.

Workshop participants additionally criticized that the final outcome document completely lacked any references to **environmental sustainability** of development as it is embedded in the discussions leading to WSSD. Another speaker at the workshop broadened the perspective towards aspects that are not included into the FfD process at all; so does the FfD mechanism not provide any opportunity for establishing a **human rights framework** for development.

Low Expectations for the Upcoming Monterrey Conference

All in all, the discussion on the outcome of the FfD process ended on a negative note. As one participant put it: "As heads of states and governments are preparing their travel to Monterrey on March 20 to hail the 'Monterrey Consensus' as the beginning of a new era in development financing, they should know that, outside the meeting hall, people feel rather tempted to yell at them than to join the party. In the two years of the "Financing for Development" (FfD) process that paved the way to Monterrey, almost all of the innovative ideas and proposals that could have made Monterrey a serious departure for "achieving a fully inclusive and equitable globalization" have been scrapped, watered-down, transformed into non committal suggestions, turned back to sender for further study, or simply ignored. The Monterrey Consensus does not generate a single dime more for development, nor does it at least open promising new financing avenues. It fails to tackle a single knot in the worldwide web of irresponsible, unaccountable economic governance. Worse still, the Monterrey Consensus is in many regards a step backwards, measured at the achievements of UN conferences in the last decade. Will heads of states recall the nexus between development and environmental sustainability established in Rio in 1992? Will they remember that the Social Summit in Copenhagen in 1995 ventured the establishment of a human rights framework for development? Didn't they commit, at the Millennium Summit of 2000, to timelines for reaching the Millennium Development Goals by 2015? The Monterrey Consensus turns back the clock on all these issues."

At the end of the day, for many participants, the FfD process showed that it is highly questionable whether the G77 – being the main force behind the conference in the first place, can be considered a political force. The G77 gave up on a lot of their issues during the final days of negotiation and therefore deliberately refused the opportunity to gain political leverage by extending negotiations on to the Monterrey conference on some key demands.

What is left from Monterrey for Johannesburg?

An imminent question during the workshop was what message the minimal results of the Monterrey Conference will send to the WSSD in August/September. Many participants see it as their duty to inform the public as well as the participating stakeholders in the preparation for the WSSD about the insufficient base for the financing of sustainable development. Especially the Social Forum in Porto Alegre, the activities surrounding the upcoming European Council meeting in Brussels, and the Global NGO Forum, which is going to take place in Monterrey from March 14-16, before the official start of the FfD-Conference, all seem to hold a good chance to discuss further steps and holistic strategies, and to bring some of the following topics, ideas and solutions on the international agenda.

Many participants made it an imperative to align the agendas for trade, investment, finance and sustainable development in order to secure an equitable, sustainable future. In the words of one discussant: “Economic issues can not be addressed in isolation from sustainability concerns if the overall goal is to aggravate poverty and inequities, and to accelerate the degradation of the earth’s environment and natural resource base.” Therefore the appropriate linkages between trade, investment, finance and sustainable development should be made by emphasizing the important relationship between Financing for Development and the World Summit on Sustainable Development; by supporting the harnessing of international trade and resource flows to support sustainable development – not just development by all means; by endorsing the principle that development should be pro-environment, pro-poor and pro-equity and by engaging all stakeholders in the decision-making processes.

After the discussion about the insufficient outcome document and the remaining opportunities of the Monterrey conference with its Global NGO Forum and the Round Tables during the official part, participants focused on open topics that should be included and pushed forward within the WSSD agenda. As FfD clearly will end on the note that Sustainable Development is given insufficient importance, WSSD should include - in order to achieve real and long-term progress – concrete proposals for **poverty eradication, equitable economic growth, and environmental integrity**.

One particularly important topic within this context is the concept of **Global Public Goods**. Not mentioned within the FfD document, it should be an important part for the WSSD negotiations. The concept of GPGs is based upon the idea that the marketplace is the most efficient way of producing private goods, but that markets also rely on a set of goods that they cannot provide, such as property rights, predictability, safety, nomenclature and so on. Public goods are recognized as having benefits that cannot easily be confined to a single "buyer" (or set of "buyers"). Yet once they are provided, many can enjoy them for free. For example, financial stability has public good qualities. A bank or financial institution can generate much profit through risky lending. All it stands to lose is its capital if it fails. But in a complex and interdependent financial system, the costs of a single institution defaulting are in fact much higher - often a multiple - because one

default can lead to more failures and defaults. The difference between the private cost to the bank and the public cost measures the externalities in risky behavior - in this example, the negative externalities. While public goods are understood to have large externalities (and diffuse benefits), a stricter definition relies on a judgement of how the good is consumed: if no one can be barred from consuming the good, then it is nonexcludable. If it can be consumed by many without becoming depleted, then it is nonrival in consumption. Pure public goods, which are rare, have both these attributes, while impure public goods possess them to a lesser degree, or possess a combination of them.

With globalization, the externalities are increasingly borne by people in other countries. Indeed, issues that have traditionally been merely national are now global because they are beyond the grasp of any single nation. Therefore, in applying the concept of global public goods, one has to look for goods whose benefits reach across borders, generations and population groups. All public goods, whether local, national or global, tend to suffer from underprovision. The reason is precisely that they are public. For individual actors, it is often the best and most rational strategy to let others provide the good - and then to enjoy it, free of charge. At the international level, this collective action problem is compounded by the gap between externalities that are becoming more and more international in reach, and the fact that the main policy-making unit remains the nation state.

The FfD outcome fails to recognize the fact that many GPGs today are founded from sources such as ODA, that should be spent rather for development issues in developing countries than for GPGs, where everybody, in particular rich, developed countries are profiting. Participants at the workshop, therefore, demanded the creation of an additional funding mechanism for Global Public Goods – a demand which definitely should be part of the WSSD agenda later this year.

Another highly discussed topic at the workshop, which also needs to be on the WSSD agenda, was the **debate about the future global trade agenda**. Participants pointed out that trade liberalization must be more than just generating economic growth; it must also contribute to greater equity among and within countries; and it must lead to the sustainable use of the environment and its natural resources. Observers of the FfD Prep Comm noticed that during the first UN sessions on FfD, trade was barely paid attention to at all. To the January FfD Prep Comm, however, the U.S. sent its trade experts from Washington DC in order to negotiate the trade chapter within the Monterrey Consensus and to adjust it to the WTO-Doha-Outcome. While the WTO Ministerial in Doha had ended without an official agreement on a new trade round, the European Commission together with the U.S. pushed hard to include new language into the FfD outcome document stating that governments had agreed in Doha to launch exactly such a new round. They also tried to evade the WTO chairman's note which clearly states that there can only be a new trade round if all WTO member countries agree - which has not happened yet.

This EU/U.S. attempt put G77 delegates at a disadvantage as none of their trade negotiators attended the FfD Prep Comm. In the Doha Declaration, the WTO is committed only to negotiate agreements on the four 'Singapore Issues' (investment, competition, transparency in government procurement, and trade facilitation) after the 5th Ministerial Conference. By pursuing these topics in the WTO, Doha has brought nearer a development disaster of great proportions as the proposed new agreements would close off many development policies and possibilities, and result in "re-colonization" by industrialized countries, and in unprecedented power to global corporations at the expense of the sovereignty and people's rights and needs.

However, the note of the Chairman is believed by many to be the authoritative decision on the Singapore issues, and G77 officials as well as representatives from the civil society have called on all governments in future discussions to reject the start of negotiations and to remove these issues from the WTO. Especially within the ongoing preparations for the WSSD stakeholders should be aware of the fact that EU and U.S. delegates will use the same approach to get new, not agreed language into the outcome documents which then could be used for the WTO launching a new trade round through the back door.

Outlook

Clearly a topic that is important whenever UN conferences are part of the agenda, the question was raised at the end of the workshop whether or not involvement and commitment to processes such as FfD or WSSD are worth the time and effort. Opinions were split among participants, some of them being very disappointed after the - as they called it - failure of FfD. Expectations for WSSD, in particular for more Round Tables and Multi-Stakeholder sessions, are running low as it seems that while on one hand economic globalization together with its neo-liberal strategies dominates more and more the international agenda, on the other hand industrialized states such as the US or Germany are not very likely to change their political approaches in the basement of the UN. Other fora, such as the World Social Summit or protest on the street seem for many, particular those coming out of the social justice movement or the civil society in general, a better way of raising their voices and demands than trying to lobby their respective government officials in some UN processes.

This question will surely be an important part for the upcoming WSSD negotiation process. If it shows that governments are trying to use civil society representatives only to legitimize decisions made without any real possibility for those actors to be involved and heard, governments should not be surprised if they find themselves alone with people protesting outside on the streets.

List of Workshop Participants

Name	Institution
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