Abstract: This year presents us with two important opportunities to influence the direction of sustainable development financing – the UN Summit on Financing for Development and the World Summit on Sustainable Development. We may ultimately remember both as missed opportunities. We need to take a fresh look at the entire system of financing for development and reorient it towards a sustainable development orientation. This requires focusing on questions of legitimacy, accountability and capacity. Such action would challenge the now entrenched orientation of the regime as a ‘financing’ regime. It will require a re-examination of the institutions that are entrusted with the agenda and will find nearly all lacking in necessary capacities. An expanded institutional framework that incorporates intermediary and local non-government organizations (NGOs) would be absolutely critical. Finally, institutions (at all levels) will need to be invested in with a different set of performance metrics; measures which gauge the ability of institutions to deliver on their developmental goals, rather than focus only on financial accounting.

"Take some more tea," the March Hare said to Alice, very earnestly.
"I've had nothing yet," Alice replied in an offended tone: "so I can't take more."
"You mean you can't take less," said the Hatter: "it's very easy to take more than nothing."

Alice’s Adventures in Wonderland

1 Introduction

The year 2002 provides the international development community with two important opportunities to influence the direction of development financing – especially financing for sustainable development. We may ultimately remember both as missed
opportunities. The first, of course, is the just concluded United Nations Summit on financing for development (FfD; see http://www.un.org/esa/ffd). The second will be the World Summit on sustainable development (WSSD; see http://www.johannesburgsummit.org) which is scheduled to be held in the second half of the year. For developing countries in particular and for all those concerned with issues of international development, the substance of these summits and the fact that they come back-to-back is of considerable significance. However, despite the many obvious and deep links between the agendas of these two ‘super meetings’ – especially in terms of issues related to financing sustainable development – it is both surprising and rather disturbing that there has been only half-hearted interaction between the two meetings or the people involved with them.

Indeed, until very recently, many people deeply involved in the preparations for the WSSD did not even know that there was something called the FfD which would directly precede the WSSD. For their part, those who hold the highest expectations from FfD (i.e., the developing country delegates) have been well aware of WSSD but have been concerned – justifiably, in retrospect – that it would only distract from their agenda of drawing more international resources towards development financing. It seems evident that a clear environment vs. development divide is at work. Despite the ‘sustainable development’ in its title, WSSD is still being seen as a predominantly ‘environmental’ event and FfD was quite clearly a development moot that did not want the word ‘environment’ or even ‘sustainable development’ associated with it too closely. This very visible chasm between the two is a sad, but probably true, commentary on the state of sustainable development as a policy construct. Indeed, it has been argued that WSSD is in real danger of sucking out whatever little life exists in the concept of sustainable development as the purely ‘environmental’ concerns rid the debate of the developmental overtones that had been so ceremoniously adopted at the Rio Earth Summit of 1992 (Najam, 2001).

This paper looks at the one issue that has been central to both FfD and WSSD – financing for sustainable development – and outlines the challenges and opportunities that lie before us. In using the two conferences as the context, the paper highlights key questions that have come to the fore during the build-up to these major events. The paper is written in the belief, mistaken as it might turn out to be, that even though it is already too late to influence either process, it is still possible to seek a convergence of the overlapping themes in the follow-up phase.

II Focusing on ‘demand side’ legitimacy

The world of development finance is twice cursed. The persistent and deepening crisis about the amount of finance available for development assistance is compounded by the growing doubts about the efficacy, or even appropriateness, of the use to which these limited resources are put. (The debate on the effectiveness of aid has raged long and hard; a sampling of various arguments may be seen in Hancock, 1992; Bandow and Vasquez, 1994; Cassen, 1994; Rich, 1994; Smillie, 1995; World Bank, 1998; South Centre, 1999; Randel et al., 2000; Morrissey, 2001.) It is not only that the pie is small and shrinking but also that there is a lurking suspicion that it is being utilized less than effectively. The result is a vicious cycle: the lack of legitimacy that results from
ineffective use of available resources serves to reinforce the existing tendencies towards shrinking financing.

The premise of this paper is that the dynamic can be reversed into a virtuous cycle; that strengthening the legitimacy and effectiveness of the development process on the ground could attract increased resources into public development activities. This builds directly on a framework proposed by Tariq Banuri and Erika Spanger-Siegfried (2001) which calls for the replacement of the current preoccupation with ‘supply’ side issues (i.e., the enhancement of the inflow of financial resources into development activities) with ‘demand’ side issues (i.e., enhancing the capacity of individuals, communities, governments and development institutions to access and effectively utilize financial resources). Policymakers and academics who look at issues of financing for development, including sustainable development, tend to be principally concerned about expanding the resource flows into development, particularly through state-centric channels. For example, the discussions during the build-up to the United Nations FfD process were largely preoccupied with issues of resource mobilization, both internationally and domestically. Similarly, a key concern of those preparing for the WSSD has been the abject failure of the international system to mobilize the resources that would have been needed to even begin implementing Agenda 21. While these are, of course, very legitimate and pressing concerns, much less attention has been paid during either discussion to the effectiveness – or lack thereof – of the resources that were available. Indeed, the sizeable endowments available to the World Bank and the International Monetary Fund (IMF) seem to have triggered correspondingly little change in the global developmental profile; the world continues to become an ever more unequal and ever more unsustainable planet (see UNDP 1999; South Centre 1999). For its part, the Global Environmental Facility (GEF) that had caused such anguish to Rio negotiators seems to be suffering simultaneously from neither having sufficient resources to meet its mandate, nor being able to spend the scant funds that it does have (Agarwal et al., 1999). Something is terribly wrong, and it is not just the amount of funds available for sustainable development.

This is not to suggest that resource mobilization is not important. It is, however, to suggest that questions of legitimacy and effectiveness of resource utilization are equally important and have a direct bearing on questions of mobilization. Our focus here is on issues of utilization; in particular, the systemic challenge of creating an environment of legitimacy and effectiveness in the universe of financing for sustainable development. This challenge should have been equally central to the agendas of FfD and WSSD but has been marginalized, if not ignored, in both discussions. Can these issues of legitimacy be brought back to the center of subsequent discussions on financing for sustainable development? Doing so will require rearticulating the discourse on at least three inter-related levels: the legitimacy of the goals of financing, the legitimacy of the actors involved, and the legitimacy of the measures by which we gauge success or failure.

III Goal: what counts?

Financing seems to have become a goal in itself. The tenor of development discussions in general, and multilateral environmental negotiations related to sustainable
development in particular, has become so routinized and the arguments so predictable that the issue of financing has become all but detached from the goal that it is supposed to achieve. Rather than being tied directly to a global public good (see Kaul et al., 1999 and World Bank, 2001) such as climatic stabilization, maintenance of biodiversity, and creation of sustainable livelihoods, financing has been reduced to little more than an act of charity. The North is implored by the South to throw a few crumbs of pity and benevolence because the South is poor; not in lieu of the South supplying a global public service (Banuri, 1992; Najam, 1995; Agarwal et al., 1999). While the North is understandably averse to any mention of ‘compensation’ for its environmentally irresponsible behavior in the past, the result of distancing financing from the goal that it is directed towards is rather perverse. From the North’s perspective, there is no compulsion to actually deliver on promises made nor any grounds for insisting on proper utilization; after all, this is merely charity and charity cannot be accounted for or be accountable. For the South, there is the humiliation of having to hold the beggar’s bowl but also the sense that how they use the alms given to them is ultimately their own business (Agarwal, 1992; Najam, 1995).

A more useful way to conceptualize the issue would be through an explicit contractual arrangement between those who are to supply a global public good, and those who are willing to pay a certain price for that service. For example, Anil Agarwal and his colleagues at the Centre for Science and Environment in India (Agarwal et al., 1999; see also Agarwal and Narain, 1991) have proposed such a schema for considering the maintenance of the global climate system; a service that the poor of the world provide by keeping their emissions low. They then propose a transfer of resources from the ‘over-emitters’ to the ‘under-emitters’ as a fee for the provision of this service. Conceptually, the beauty of such a framework is that the transfer of resources would be made directly to those who are actually providing the service rather than to the treasury of the country in which they live. Properly implemented, such a scheme would entail the transfer benefiting not the elites in the South whose own emissions may be no different from those in the North, but to the poor in these countries who are actually providing the global public service. While implementing any particular scheme would require significant design innovations in the implementation regime, the point to be made here concerns the need to directly link the provision of financing to the goal that it is supposed to serve. This entails more than simply earmarking funds for particular purposes or creating financing mechanisms for selected priorities. It would require explicitly identifying certain environmental services as global public goods and setting up a mechanism where those who benefit from these public goods transfer resources to those who provide or maintain the services. Financing, therefore, would not be the ‘end’ but the ‘means’ to larger socially desirable goals.

The key goal of concern to us is sustainable development. Financing for sustainable development is particularly sensitive to questions of scale and scope; the availability of large amounts of money for a small number of large projects may be less useful than the availability of relatively small amounts of money for a large number of relatively small initiatives (Sachs, 1999). A meaningful emphasis on the goal of financing for sustainable development necessarily broadens the focus from only how much financing is available to the goal of that financing, i.e., sustainable development. Importantly, it allows for other important questions to be asked: for what purpose are the resources going to be used, who will it be channeled and disbursed through, and how will the effectiveness
and legitimacy of this use be gauged? In the current discourse, such questions, even when asked, are marginalized as the spotlight remains fixated on the quantity of financial flows – private or public, non-concessionary or concessionary.

IV Institutions: who counts?

The principal systemic question related to financing for sustainable development concerns the institutions through which such financing is channeled. The legitimacy and efficacy of such institutions (including the World Bank, the IMF, the United Nations System, and NGOs) was central to the agenda of the FfD process and has also been discussed within the WSSD context. The questions, however, have tended to be rather limited in scope, concentrating mostly on the familiar issues of governance including management, representation and transparency. While these are important questions, a set of more fundamental questions regarding the legitimacy and effectiveness of these institutions need to be added to the debate. Two of these – scale and accessibility – will be addressed in this section, and a third – accountability – will be highlighted in the next section.

Irrespective of whatever other differences one may or may not have with international financial institutions (IFIs), it has become increasingly clear that they operate at a very different scale from where the problem happens. Efficient as they might be in disbursing amounts in the $1 million-plus range, they tend to be not only uninterested but actually incapable of operating effectively in the range of N-thousand, let alone N-hundred, dollars. Given their costly procedures and personnel such institutions do not have the ability to operate effectively at the medium- and small-scale; the scale where so many of the sustainable development initiatives reside (Rich, 1994; Banuri and Spanger-Siegfried, 2001). Similar problems of scale apply to many national financial institutions and, indeed, to large international NGOs (Clark, 1991; Edwards and Hulme, 1996; Najam, 1999). The hurdle is not one of ideological persuasion or intent; it is simply a question of capacity. The institutions that are best suited to raising large amounts of international finance are least suited to disbursing them at a level where sustainable development is most likely to happen.

The problem could, of course, be solved by simply passing on this financing to a set of intermediate institutions (local NGOs) were it not for the significant problems of accessibility. Most discussions of institutional transparency focus on the operational secretiveness of international institutions, particularly IFIs (the main concern revolves around the danger of inappropriate decisions being taken, sometimes consciously, under the veil of secrecy). However, the issue of accessibility is intrinsically tied to transparency. In addition to being non-transparent, IFIs tend to be inaccessible, not only for would-be watchdogs, but also for potential beneficiaries. This relates directly to the question of scale raised above. While IFIs are incapable of operating at the ‘ground-level’ of sustainable development because of their inbuilt pathologies of scale, those who are operating at the ground-level are denied entry to elevated levels by barriers of accessibility and often lack the capacity to operate in that environment (Clark, 1991; Hulme and Edwards, 1996; Najam, 1996).

The challenge here is that IFIs and their national counterparts have tended to be as resistant to learning to talk to intermediate NGOs as the latter have been hesitant to
In essence, the institutional chain that could have been the conduit of financial resources flowing to the appropriate level has a huge gap within it which only complements the existing tendency, and even incentive, to siphon off the financing at levels higher than where it might make the most sustainable development impact. The issue is one of mismatched institutional capacities. Institutions that can access global financial resources are constrained by their inability to operate at the level where sustainable development initiatives can most meaningfully be undertaken; and those who are able to operate at that level are either unable to raise the resources they need or are denied access to those who have such resources, often both.

V Information: how we count?

Institutions involved in financing for development, including financing for sustainable development, tend to see themselves very much as part of the financial system, rather than a development system. The distinction is more than semantic. Financial institutions are gauged, and should be gauged, according to financial criteria. However, such criteria are not entirely appropriate for gauging the performance of development institutions. Unfortunately, it is not only institutions such as the World Bank and IMF but also those such as the Global Environmental Facility (GEF) and many NGOs that increasingly insist on measuring their efficacy and legitimacy in terms of their financial strength rather than their developmental impacts (Edwards and Hulme, 1996; Najam, 1996). World Bankers, for example, are very fond of reminding their audiences that they are, after all, a ‘bank’ and that their rates of recovery would be the envy of any financial institution. It is quite clear that it would. What is less clear is how much of a virtue this is for a development institution (Rich, 1994). GEF reports are similarly detailed in terms of how much money has been put into the fund and how much has been dispersed. The impact this investment has had on fostering sustainable development is less clearly articulated (Agarwal et al., 1999). There seems to be a clear sense that those entrusted with development financing are far more comfortable being managers of money than facilitators of development. They certainly seek the validation of their ‘performance’ in terms of the former. To be fair, this tendency is not restricted to IFIs but is equally prevalent in agencies of national government and in many NGOs which are equally determined to highlight ‘dollars spent’ more than meaningful discussions of how this relates to the actual achievement of, or even attempted achievement of, sustainable development (Clarke, 1991; Najam, 1996). In all cases the ‘means’ (financing) are decoupled from the ‘end’ (sustainable development), not only in how claims are made for financing but how the institutional efficacy is accounted for. This tendency has contributed greatly to the deepening crisis of legitimacy of development finance.

Unfortunately, institutions at all levels (international, national, local) care most deeply about that which they count. It is not surprising, then, that we find a fairly developed culture of accounting for finances but only half-hearted attempts at accountability for development. This is not something that can be shooed away by reciting the well-rehearsed lamentation about all the known difficulties in trying to ‘define’ sustainable development. It is a question of making explicit the sustainability goals that we seek to achieve, determining some measures (quantitative or qualitative) of gauging the achievement of those goals, and holding those responsible (IFIs, national
governments, NGOs) accountable to those goals. To use an analogy from the private sector, just as financial markets have well-developed systems of financial disclosures and credit rating, the development system needs corresponding systems of disclosing the implementation variables and rating development impacts. While it is useful and necessary to have sound and accessible financial information and monitoring for FfD regimes, it is even more useful and necessary to have sound and accessible development information and monitoring of these regimes. Sustainable development reporting initiatives, therefore, are of prime importance in rationalizing the discussions on financing for sustainable development and moving the discussion away from a pre-occupation with financial performance to more fundamental concerns about sustainability performance.

VI A final word

The key point this paper seeks to make is that the global community needs to take a fresh look at the entire system of financing for development and redirect it towards a decidedly (sustainable) development orientation. Here we have identified only a few key elements of such a reorientation. Such an enterprise cannot be easy since it would challenge the now entrenched orientation of the regime as a ‘financing’ regime. One must begin with a rearticulation – or at least a reaffirmation – of the principal goal, i.e., sustainable development. Doing so with any degree of honesty will necessarily require a re-examination of the institutions that are entrusted with the FfD agenda and lead to the conclusion that while these institutions are certainly a part of the institutional chain that might deliver sustainable development, they are incapable of doing so in and of themselves. An expanded institutional framework that incorporates intermediary and local NGOs (by providing them access and investing in their capacities) would be absolutely critical if the goal of sustainable development is to be taken seriously. Finally, such institutions (at all levels) will need to be invested in with a different set of performance metrics; measures which gauge the ability of institutions to deliver on their developmental goals rather than focus only on financial accounting.

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