

Encyclopedia entry – Financing for Development

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1. Introduction

This entry approaches financing for development as a field of two interconnecting realms of activity. The first is the main monetary, financial, trade and investment activities that constitute the macroeconomic flows of international public and private finance, and the complex patchwork of institutions, instruments and frameworks that make up its governance architecture. Such flows provide finance *for* development, as well as impact *on* development. The second is the United Nations (UN) initiative on financing for development (FfD). FfD is a series of UN-supported international conferences and related activities that focus on how development might be better financed, and how the wider macroeconomic field of financial activity that shapes this could be better governed. The former, broader macroeconomic field provides the structural policy context that shapes much of the debate and activities within the latter FfD field. The following section traces the main kinds of macroeconomic international financial activities that influence the financing of development, along with high-level features of their governance architecture that pose particular challenges for developing countries. Section three focuses on the FfD initiative, highlights aspects that distinguish it from other UN-led international conferences, briefly examines one aspect of its policy agenda and speculates on its impact. In light of knowledge from more recent initiatives on sustainable development and climate change, this entry concludes with a reflection on how FfD may effectively contribute to debates on the financing of *sustainable* development in the near future.

2. The structural context of financing for development

The main macroeconomic activities that shape how development is financed and impact on development consist of several inter-related kinds of financial activity. At the international level, these include finance from long-recognised areas such as trade and foreign direct investment; international development co-operation (including Official Development Assistance (ODA) and other official flows (OOF) such as grants and other finance from the World Bank and other development finance institutions and loans from the International Monetary Fund (IMF)); international remittances from workers abroad, as well as initiatives on international tax co-operation, tax avoidance/evasion and illicit financial flows (including capital flight and repatriation). At the national

level, activities such as the management of sovereign debt and maintenance of national reserves; the management of foreign exchange markets; the role of sovereign wealth funds and national development banks and, of course, taxation emerge more to the fore. In recent years, new areas of finance that either explicitly aim at a “development impact” or influence development more broadly have also come under the ambit of international development finance. These include activities from institutional investors (also known as the shadow banking system); activities in fintech, insurance, pension fund and asset management (portfolio management by private equity firms and hedge funds), along with philanthropic finance and blends of many of these via initiatives focused on “impact investing” or “innovative finance.”

From this overview, it is clear that the governance architecture of this international financial landscape is marked by three key features – first, a deep heterogeneity of regulatory institutions, instruments, actors and agendas, operating via a range of governance sites and levels; secondly, a complexity - sometimes to the point of incoherence - in the inter-relationships between these governance frameworks, and finally, a strong disparity in states’ representation and participation in the institutions of global economic decision making. For developing countries, this governance architecture poses distinct challenges. These include the legacy of control by the major developed countries of existing formal institutions such as the IMF and World Bank, whose capital-laden voting structures give richer countries extra leverage (Ocampo 2017). This exclusion of developing countries from the major financial regulatory bodies is not adequately addressed by the emergence of largely ad hoc, informal institutional arrangements such as the G7/8 and G-20. These, as well as many of the less institutionalised groups particularly those grounded in nonbinding bylaws, charters, and accords such as the Financial Stability Board, continue to be led by the major developed countries (Brummer 2015).

Furthermore, globalisation has fundamentally altered the landscape for financing for development in ways that militate against global financial stability and the creation of systemic conditions and pathways for the financing of development, in particular for lower-income countries. For example, the significance of capital flows now far exceeds those of trade to the global economy (Buckley & Arner 2012). This rise in capital mobility almost inevitably leads to a push for ever greater exchange-rate flexibility, which can be better managed by countries with more developed financial markets and stronger policymaking institutions (lower-income countries remain reluctant to relax capital controls since it is not certain that foreign capital will flow into appropriate sectors and uses) (Eighengreen 2019)). With capital markets now much more thoroughly integrated, periodic financial crises of a national (e.g. Mexico 1994), regional (e.g. the Asian financial crisis of 1997 affecting South Korea, Thailand, Malaysia, Indonesia, Singapore, and the Philippines), and international nature (e.g.

the international financial crisis that snowballed from the collapse of the giant US investment bank Lehmen Brothers in 2008) have clearly revealed several flaws in the governance architecture for international finance. Though dedicated international initiatives now exist to address particular challenges faced by developing countries (e.g. the IMF's Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative, and the World Bank-IMF Debt Sustainability Framework for low income countries), arguably the prevailing technocratic approach to debt management by the international financial institutions (e.g. IMF Debt Sustainability Analysis approach) elides from view the systemic and structural factors that perpetuate a crisis-prone international finance system, in which developing countries are particularly vulnerable. An understanding of this wider context is helpful to trace the debates and contribution of the UN-supported FfD initiative and critically analyse its merits and potential.

3. The international Financing for Development (FfD) initiative

The international FfD initiative is the only multilateral setting where the international community can discuss the broad concept of 'financing for development' in a comprehensive way (Lesage, McNair and Vermeiren 2010). FfD is a series of international conferences and summits consisting of Monterrey (2002), Doha (2008) and Addis Ababa (2015), with the latter strongly focused on the UN SDGs. (An international conference in New York (2009) that focused on the international response to the 2008 economic crisis may also be included, though will not be discussed here). Follow-up on the FfD within the United Nations is co-ordinated and supported by the Financing for Development Office (FfDO), established in 2003 within the Department of Economic and Social Affairs of the United Nations Secretariat.

Inaugurated in Monterrey (2002) (at which more than 50 Heads of State and Government and over 200 ministers of foreign affairs, trade, development, and finance attended), the FfD initiative was prompted by several developments. At the macroeconomic level, some developing countries were suffering the effects of two decades of a markets-focused model of development based on neoliberal orthodoxy tied to the policies of the Washington Consensus. Furthermore, there had been a decline in international levels of ODA, and the volatility, unevenness and lack of productive investment deriving from the huge increase in international financial flows, described in the section above, caused concern that progress on the recently internationally agreed Millennium Development Goals (2000) may be compromised.

The Monterrey Conference was different to previous international initiatives on development finance. First, FfD was intended to take a "beyond-UN" approach to the subject of financing for

development and directly engage with key international financial institutions such as the World Bank and the IMF. Secondly, it sought to involve the UN in a more direct role in international economic affairs (Caliari 2016). Though the UN Charter (Art 1.5 and 55) gives the UN a role in international economic co-operation, this had been sidelined over several decades. Thirdly, it was a quadripartite exchange between governments of states, and representatives of civil society, the business sector, and the major international institutions, a departure from previous UN international conferences held in the 1990s. Fourthly, it shifted focus on development finance from its historic preoccupation with ODA, to consideration of wider systemic issues such as debt, the nature of foreign direct investment, and the roles of various development finance institutions. Finally, it shone a light on problematic areas of global economic governance, such as the participation and decision-making roles of developing country states in the major international finance organisations and proclaimed again a role for the UN and the General Assembly (with universal membership) “as fundamental to the promotion of international cooperation for development and to a global economic system that works for all” (UN 2002).

The unanimous adoption of the Monterrey Consensus captured a vision and framework for financing development for the 21st century (Subedi 2002), one that rhetorically committed to the goal of eradicating poverty, achieving sustained economic growth and promoting sustainable development while “advance(ing) to a fully inclusive and equitable global economic system” (UN 2002). The Consensus addressed in detail a range of challenges at the macro-institutional governance level as well as specific issues relating to productive foreign direct investment, international trade, the management of sovereign debt and international cooperation on taxation.

However, the deeper impacts of the Consensus might best be described as ambiguous. Ffrench-Davis viewed it as “a substantive step forward in the international development agenda,” and welcomed its attention to previously ignored issues such as the productivity of financial investment, attention to financial crises, the fair management of unsustainable debt and the necessity of cooperation on international taxation to address tax evasion and money laundering (Ffrench-Davis 2009). In contrast, Soderberg viewed Monterrey as an effort to manage the negative effects of globalisation, embrace a market-led model of development underpinned by governance and institutions and practices in service of that aim, and depoliticise the power of transnational capital “by portraying their role as equal partners with civil society and states of the South but also (by) represent(ing) their growing role in the development agenda as some sort of natural occurrence” (Soderberg 2005).

Two follow-up conferences have taken place after Monterrey: Doha (2008) (with official representatives from over 170 countries and 40 Heads of State attending, from which the Doha

Declaration on FfD was produced), and Addis Ababa (2015) (with 24 Heads of State and representatives of 174 countries attending, from which the Addis Ababa Action agenda (AAAA) was produced). Given the link between the Addis conference and preparations for the post-2015 agenda Summit and the UN's Sustainable Development Goals - whose scope was far broader and more detailed and the Millennium Development Goals - the stakes at Addis were considerably higher (Caliari 2016). A key question was whether the FfD initiative, with its attention to problematic issues within the international economic system that hampered both the financing and outcomes of development, would become inexorably bound up with the Means of Implementation of the SDGs, or could continue a life beyond the SDGS. While Caliari, perhaps optimistically, clearly identifies a distinction between the AAAA and the wider FfD initiative, it remains to be seen whether the FfD initiative can hold a dedicated space for a distinctive UN voice in international economic affairs.

Initial signs urge caution. On the important area of international co-operation to address tax evasion and illicit financial flows, for example, a generic call within the Monterrey Consensus (2002) to strengthen international tax co-operation had evolved in Doha (2008) to a commitment to make tax systems "pro-poor" (para.16). However, in the AAAA (2015), this became a mere commitment to increase the number of sessions of the Committee of Experts on International Cooperation in Tax Matters (a subsidiary body of the Economic and Social Council) from once to twice per year, with a duration of four working days each. Normatively, this was a watering-down of a proposal, supported by several representatives from states from the Global South, to upgrade that Committee to an intergovernmental tax body under the auspices of the UN, one with the mandate and resources to ensure that all countries could participate in the setting of international tax norms (UN 2015). From a governance perspective, it leaves the OECD (an international organisation whose membership is from predominantly Northern capital-exporting states) as the main governance site where initiatives to improve international tax policy is addressed (such as the OECD's base erosion and profit shifting (BEPS) initiative). Though valuable, the latter is recognised as not principally geared to developing country concerns (CSF 2015, AU/ECA 2012).

4. The field and concept of financing for development

With more recent information now available on the grave threats to the ability of our natural environment to sustainably support life, it is clear that the current model of neoliberal, capitalist, growth-oriented development not only generates periodic economic crises of a global nature along with great inequality and concentration of wealth, but it also consumes an unsustainable share of the earth's natural resources and has dramatic consequences for our climate. An uncritical adoption of the "sustainable" moniker to the prevailing model of development and its financing, arguably

masks the more fundamental question of whether it is possible to reconcile this model with caring for and protecting the environment and achieving social equity. It remains to be seen how the main governance institutions of international public and private finance respond to the challenge of ensuring sustainability. In this context, it remains all the more necessary for the FfD - as the only international institutional space where developing country members have, superficially at least, an equitable voice to debate international financing for development - to sharpen its critique and develop proposals that address effective reform and oversight of the institutions that govern international finance.

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