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Finance that empowers, that motivates and that provides global public goods

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The Current Column
of 14 November 2013

Finance that empowers, that motivates and that provides global public goods

Bonn, 14 November 2013. The Millennium Development Goals (MDGs) had one key function that has often been overlooked: they mobilised development aid at a time of growing scepticism about its impact, justifying an increase in the volume of aid over many years.

The success or failure of the post-2015 development agenda will also be measured by whether it can, once again, generate momentum on a scale that is reflected in the budgets to finance sustainable development. The question is, should this still be the priority, as it was in 2000?

On the one hand, answering 'yes' to this question seems to be right – clearly it is important to ensure enough financial resources for countries to implement a future development agenda. On the other hand, however, this assumption is problematic, given the upheavals in development policy.

It is difficult to form an accurate picture of the contribution of development aid to successful development processes without at least some ambiguity. This is illustrated by the debate between Jeffrey Sachs and William Easterly that began during the push for achievement of the MDGs and that continues to this day. On the Sachs 'side' there are those who emphasise technical approaches to fill the development investment gaps and who prioritise the 'proper' use of financing for development. On the Easterly 'side' we find the sceptics who reject any development plans that involve a 'model' world of development aid.

Such debates throw three key and emerging factors into sharp relief when it comes to financing for development: empowerment; incentives and motivations; and the provision of global public goods.

Empowerment through external financing for development

Every country needs resources for financing for sustainable development at some point. This is true not only for developing countries but also for even the richest countries in the OECD.

This can be seen in the current debate over the actual or perceived needs for infrastructure financing in Germany, a European country that is, it is generally agreed, doing fairly well for itself. Indeed, the European Union is a system that works cooperatively to finance public investments across its region and supports weaker members, and even weaker regions in rich member countries, through redistribution. There are even equalisation mechanisms within individual nations, such as the fiscal equalisation between the federal states in Germany. Here, financing for development and support mechanisms are not reserved for developing countries.

At the same time, the needs for financing for development and the limited resources available to many countries, particularly the poorest developing countries, will continue to be a significant long-term need for a number of developing countries, even though the actual number of countries in need is likely to decrease.

This means that there will still be a need for investment in sustainable development in the future. The specific context in each country will, in particular, determine how these needs for financing are to be covered and whether or not the conventional financing mechanisms of development aid will play a role. Diverse needs for financing for development that go beyond mere concessional loans and grants and that include an increasing number of commercial and combined approaches (such as blending commercial loans with grants) could crop up nearly anywhere.

Incentives and motivations

Financing for development is always to be considered within the context of incentives and motivations; it is not enough to base it merely on 'needs criteria'. The limits of such an approach can be seen clearly in the phenomenon of the 'resource curse', such as readily available oil revenues that fail to improve the lives of the poorest.

External financing for development is, therefore, much more than a means of financing: it influences the allocation of expenditures for specific policies and has to consider unintended side effects in relation to this expenditure. What does the external contribution mean for a country's own motivation? Would the investment have been made even without the external involvement? Such questions are also part of the key

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debates of all equalisation systems, even in Europe.

The debates over results-based approaches are not a cure-all, but they can help to increase awareness of the incentive structures. The important Reducing Emissions from Deforestation and Degradation (REDD+) approach in the environment sector follows such an incentive approach, while these types of approaches are still in their early stages in the traditional development sector. Such approaches are hard to implement and could create perverse incentives, but they have the potential to help the development of new business models for aid.

Moving beyond national welfare to global public goods

In the future, financing for development will have to be provided to target the provision of global public goods (GPGs). There is increasing political acceptance that many policies must be designed at the global and regional level, going beyond sustainable social and economic development at the national level. But financing for development approaches are not yet geared towards this.

Increased funding will be required for GPGs to enable collective action in the most varied of sectors. In relation to regional security on the African continent, for instance, the financial contributions from development aid could be applied to the peace operations of the African Union (AU). The AU aims to provide the GPG of 'security' and funds from development aid sources cover a significant portion of the cost. Similar trends can be seen in other sectors focusing on, for example, the reduction of the causes of climate change (such as the Green Climate Fund that is being developed) or the prevention of the spread of diseases across borders.

This means that today's financing for development is already partly oriented towards tackling collective tasks while, at the same time, there are a variety of prioritised funding facilities at the global or regional level to promote or enable collective action.

It is clear that financing for development will continue to play an important role but it will be transformed into a new concept of financing for sustainable development with a stronger orientation towards universal goals. The need for investment for 'development' in a narrow sense (poverty reduction in poor countries) tends to decrease when one looks at today's development context from a traditional viewpoint. Of course, the elimination of poverty will continue to be an important role for finance in the foreseeable future, involving both the private and public actors and, perhaps, a growing contribution from dynamic economies, in particular.

However, the long-term issues of financing for development show that it is necessary to view financing for development as an instrument in international cooperation – an instrument that must now perform far more extensive tasks to provide global public goods.

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