Shaping a Sustainable Future

Exploring the role of development cooperation in delivering sustainable development

Simon Zadek, Maya Forstater and Sharmala Naidoo

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This is an executive summary of a briefing paper commissioned as a contribution to the Australia High-level Symposium in preparation of the 2012 Development Cooperation Forum. The full paper can be downloaded from http://www.un.org/en/ecosoc/newfunct/dcfaustralia.shtml or is available in hard copy at the event.

The Symposium will provide an opportunity to gather insights and share lessons learned on how to integrate sustainable development into development cooperation. Following the meeting, the paper will be revised to reflect these insights and recommendations. The upgraded version will be made available as a contribution to the meeting of the UN Development Cooperation Forum in New York in July 2012, and may be useful for the Forum's discussions and the UN Rio+20 meeting in June.

Comments or questions can be discussed with Sharmala Naidoo at the symposium or sent to: naidoo.sharmala@gmail.com.

This document was prepared by a consultant and does not necessarily reflect the views of the co-organizers of the symposium

Sustainable development is at the forefront of the international agenda, creating new challenges and imperatives for **development cooperation**. This paper seeks to illuminate the interrelationship between the two, asking (a) how the need for sustainable development **is shaping the goals** of development cooperation, and (b) how development cooperation could **contribute towards achieving** the imperative of sustainable development.

The challenge of sustainable development is increasingly clear. By 2030, there will be nine billion people on the planet, of which four billion will be middle class consumers. At the same time, almost three billion people could face endemic poverty if economic growth does not become ever more inclusive. It is estimated that even with wider use of today's most efficient technologies, demand for food will increase by 50 per cent, energy by 45 per cent and water 30 by per cent. Meanwhile the supply of natural resources is limited and some environmental boundaries, including loss of biodiversity and climate change – appear to have been crossed.[1] Environmental costs (e.g. pollution clean-up and health impacts) are already reaching US$6.6 trillion a year globally.[2]

The vision of sustainable development put forward twenty-five years ago by the Brundtland Commission has become a universal ambition.[3] It called for development that ***meets the needs of the present without putting future generations at risk.*** However, consensus on how to put this into practice remains hard to reach. There are diverse views on what the priorities should be, how to reconcile trade-offs between environment and development goals, which policies are likely to be most effective, and who should bear the costs and risks.

Shifting the global economy onto a sustainable development pathway means influencing the direction of a massive volume of investment over a prolonged period. Key areas include energy efficiency, production and consumption patterns, infrastructure agriculture, construction, and forest conservation.[4] For example, to stabilize atmospheric carbon, clean energy has to be developed at an unprecedented rate, including adding the equivalent of a third of Canada's hydropower capacity each year, and increasing the annual area of new solar panels installed by a factor of ten.[5] It is estimated that annual investments of around US$2 trillion are needed over the next 40 years to undertake the shifts needed; with almost 60% of this in developing countries.[6]

In the run up to the Rio+20 Conference the recommendations of The UN High Level Panel on Global Sustainability put a clear focus on getting the economics right. They recognize that public spending will not mobilize the trillions of dollars needed, but that public policies can redirect capital and help to reduce the cost of financing to developing countries. Key economic recommendations include:

- Establishing price signals that value sustainability, including through taxation, regulation or emissions trading systems;
- Developing sustainable development criteria for public procurement;
- Encouraging widespread adoption of sustainable development criteria in investment, including by sovereign wealth funds, public pension funds, development banks and export credit agencies;

- Development of risk-sharing mechanisms and the enhancement of certainty about the long-term regulatory and policy environment in order to incentivise private investment in sustainable industries.[7]

These recommendations echo the original call by the Brundtland Commission for the environment to be counted into economic decision-making. The Brundtland Commission`s message on economics went largely unheeded.[8] It came at the start of "the era of cheap" in which the addition of 1.5 billion workers to the open market-oriented economy from China, India and Eastern Europe combined with cheap capital and falling commodity prices to fuel consumption and asset inflation in North America and Europe.[9] Positively, this led to the lifting of hundreds of millions of people out of poverty. Negatively, there was an accelerated addiction to an unsustainable economic model, which culminated in the economic crisis.

The "Era of Cheap" has come to an end, permanently for the foreseeable future. Rising demand and volatility of supply means that commodity prices have risen by almost 150 per cent since the turn of the millennium. Labour costs in many developing countries are increasing. Costs of finance have also in general increased as policy interventions are put in place to reduce risk taking. This is, in principle, good for sustainable development, as it incentivizes more cautious material consumption and greater returns to labour. However, it also presents major development challenges; rising natural resource prices, whilst benefiting some nations, challenge the economic health of others. And even for those countries benefiting from commodity revenues, the spectre and impact of the "resource curse" is very real. Furthermore the technological shifts required for a revolutionary growth in natural resource productivity implies an intensification of competition to attract this new generation of industries. The dangers of being left behind in the next technological "long-wave" should not be under-estimated.

In this context, development cooperation could play an important catalytic role in *supporting transformation in economic policies, activities and outcomes in ways that deliver on the promise and commitment to sustainable development*. Development cooperation already plays an important role in directly supporting social goals such as health, education, access to energy and food security. However, the amount of development cooperation will always be a fraction of the total financial flows relevant to sustainable development.[10] Development goals are, in most instances, more likely to be impacted at scale where business is attracted and catalysed to create sustainable livelihoods, steward the natural environment and invest in people and technology.

New approaches are therefore needed to effectively overcome obstacles, and catalyse the economic drivers of sustainable development. Two key areas of innovation in development cooperation aim to leverage public interests and private enterprise, and to create scaled impacts:

- **Using public funding to catalyse private investment**. Increasingly, funders are seeking ways to channel funds through innovative mechanisms that seek to leverage and influence much larger flows of private investment.[11] Although there are critical risks and challenges, there is an emerging body of experience in risk-sharing and public-private partnership, and tools for assessing the effectiveness of such mechanisms.[12]
- **Cooperation focused on mutual interest**, as exemplified by South-South Cooperation which aims to foster positive growth and development benefits from closer economic

interdependence. An important context for this vision has been the resurgent interest in the role of an active, "developmental state", principally although not exclusively in developing countries.[13]

These two approaches are represented in the run up to Rio+20 by two somewhat different narratives of how the concept and principle of sustainable development can be put into practice. On the one hand, is the promise of '**green growth**'.[14] On the other hand, is the call for '**equal access to sustainable development'** based on equal per capita access to the global atmospheric commons.[15]

While they have different starting points and areas of focus, these approaches are not mutually exclusive or contradictory. Securing the benefits of the greening of the economy are not optional, as failure to do so will lead to instability, damage to vulnerable communities, and over-time a regression of development. The scale and pace of action needed requires that the private sector, including the capital markets, is mobilized, as well as leveraging the growing level of South-South development cooperation. It is also clear that this has to be done in a way that delivers on the right to development, requiring public action on technology transfer in its broadest sense, and the smartest possible use of limited public funds to enable equal access to sustainable development.

The implications of this, for all actors in development cooperation, include the need to:

1. **Continue to support vulnerable communities** inadequately protected by domestic, public finance and private capital and business, including through humanitarian assistance and disaster relief, and providing support for communities vulnerable to new threats such as climate change, water scarcity and food insecurity.
2. **Support the direct achievement of development gains for the poorest**, through sustainable economy solutions. Ensuring universal energy access is one key area, and a focus of the UN Secretary General's High Level Panel on Sustainable Energy for All.
3. **Build the capacity of people to participate in, and benefit from wider changes** in the economy. Transformative solutions involve complex political and economic decisions, and trade-offs in many cases. People's empowerment in claiming their rights and participating in the way these decisions are made is therefore crucial.
4. **Support the emergence of a new generation of economic development and industrial planning**, with a particular emphasis on policy developments enabling an effective transition of local and national economies to meet the challenges and opportunities associated with a globally connected, increasingly resource constrained world.
5. **Support action on economic transition through key public sector transmission mechanisms**, such as the redirecting of public procurement towards the promotion of more inclusive, environmentally-sustainable business, and the channelling of scarce fiscal resources towards pro-poor development and away from fossil fuel subsidies.
6. **Support such a transition by catalysing a broader range of financial flows**, including both commercial and public financing targeting mutually-beneficial economic investments.
7. **Actively innovate the mechanisms through which development cooperation can be most effectively channelled**, including new inter-governmental co-ordination platforms and

public-private partnerships in pursuit of, for example, lower-cost financing, development-focused business standards, and co-ordination and knowledge transfer mechanisms.

8. **Continue to strengthen transparency** in relation to all forms of development cooperation.

These messages build on, and support the effectiveness agenda for development cooperation, however, they also pose some challenges such as balancing the pressure to demonstrate short-term, direct results with long-term transformation.

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