

FINANCING FOR SUSTAINABLE DEVELOPMENT: SOLUTIONS OF WORLD SUMMIT ON SUSTAINABLE DEVELOPMENT

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The World Summit on Sustainable Development (WSSD) held in Johannesburg, South Africa 2002 has given significant priority to finance and trade issues since funding has been identified as key constraints for the implementation of Agenda 21. The Summit adopted some ambitious programs specifically for poverty eradication such as halving the proportion of the world's people whose income is less than \$1 a day, proportion of people who suffer from hunger, proportion of people who are without access to safe drinking water and sanitation by 2015. Obviously, the implementation of all its decisions depends on the success of addressing development finance issues that covers a vast range, from official development assistance to commercial loans by multilateral financial institutions and private banks, foreign direct investment, domestic credits, investment and government transfers. The objective of this paper is to investigate whether the WSSD presents a solution to the financing for sustainable development taking Sri Lanka as a case study.

The study observed that between 1992-2000 Official Development Assistant (ODA) has fallen steadily from 0.33 % of donor country GNP to 0.22 % although at the Earth Summit developed countries agreed to provide 0.7% of GNP as ODA. This decline has affected the least developed countries (LDCs), who are highly dependant on ODA, which constitutes on the average almost 90% of their total long term capital inflows. However during this period, Foreign Direct Investment (FDI) has significantly increased. FDI to developing countries has increased from US\$ 36 billion in 1991 to US\$ 185 billion in 1999, but declined to US\$ 175 billion in 2000. This is however is only a small portion of the global FDI flows, which amounted to US\$ 1.1 trillion in 2000. In 2000, 80% of FDI went to only ten developing countries and LDCs attracted only 2.5 % of all FDI flows to developing countries. In Sri Lanka, foreign direct investments have dropped from US\$ 129 Mn in 1977 to US\$ 82 Mn 2001. Total outstanding foreign debt has rose from Rs. 235,358 Mn in 1992 to Rs. 634,622 Mn in 2001. This indicates serious debt crises in developing countries, which is not a favorable condition for attracting further FDI to developing countries.

At the same time measures taken by the international community to treat the excessive debt burdens of 41 heavily indebted poor countries (HIPC) have not delivered the expected results. Though the IMF and the World Bank have approved debt reduction programs for 22 countries in December 2000, only Uganda was able to clear the prerequisite the creditors. This evidently suggests that the proposed financing measures at the WSSD will also face implementation problems. Unless all debtors and creditors work positively without demanding unreasonable prerequisite for debt relief measures, the objectives of the WSSD cannot be achieved.