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Financing for environment and development

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Environment and Development, UK)

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IDDRI works on major governance issues related to sustainable development, in collaboration with international research networks.

As part of the debate on international environmental governance, the IDDRI, is co-ordinating a series of studies commissioned to international experts. This series of studies looks at various facets of international environmental governance identified during the conference which IDDRI organised on this theme in March 2004 in Paris. The purpose of this exercise is to provide the working groups with some background information in the context of France's initiative to initiate discussions around the creation of a United Nations Environmental Organisation.

The series of reports will deal with the following themes:

- Issues raised by the international environmental governance system
- Mobilisation, diffusion and use of scientific expertise
- Observation system and alert
- Mechanisms to monitor member states' commitments
- Articulation between the various levels of government
- Role of the stake-holders
- Implication of a UNEO for the global architecture of the international environmental governance system
- Financing for environment and development

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Table of Contents

Background.....	3
Funding needs from Rio to the MDGs.....	3
Funding for environment.....	5
Bilateral donors	5
Civil society and non-state actors	7
Innovative mechanisms to take forward	8
Markets for environmental services	8
Systems for international taxation	9
Environment Priorities and Inter-governmental Processes.....	9
Alternative mechanisms for channelling funds	10
Greening the systems of accounts.....	10
Taking a new look at investment flows.....	10
Building a broader framework for support to the environment.....	11
Conclusions	13

Background

1. There are various estimates of funding needs for developing countries to meet the targets set by the Earth Summit in Rio, the World Summit on Sustainable Development (WSSD), the Millennium Summit and Declaration, and Multilateral Environmental Agreements (MEAs). Goals and targets for funding have been a long standing element for negotiation and discord between North and South. The target set for rich countries of 0.7% of Gross Domestic Product (GDP), established in the 1960s, to be allocated for development assistance is respected more in the breach than in attainment. The EU has set a target for member states of 0.39% of GDP allocated to development assistance by 2006, which is broadly similar to the OECD average, though well below Nordic levels of 0.8% and more. Of total Official Development Assistance (ODA), the share going to enhance the environment has fallen since the mid-90s from nearly 20% to 9% of total ODA (OECD 2004). With a decline in the relative importance of official development assistance, the role of multinational corporations has become of much greater significance for investment and associated attributes, such as environmental performance. Poverty Reduction Strategy (PRS) processes have become the principal means by which multi- and bi-lateral donor funding is being allocated. Yet, environmental concerns are largely missing from such strategies. We need to ask whether such ad hoc approaches to funding global, national and local environmental agendas are the best means to tackle such major, life threatening issues. The scale of the challenge is enormous. The funds we are allocating to global environmental issues are tiny in comparison.

Funding needs from Rio to the MDGs

2. The Earth Summit at Rio in 1992 drew up a long list of actions to be taken in different countries, regions and globally, known as Agenda 21. This list of desired actions was estimated to cost \$600 billion over the period 1993-2000, equivalent to \$75 billion per year, of which grants of \$125 billion were envisaged. Actual spending on all international development co-operation in the 1990s was far less than this, reaching only \$56 billion for the year 1999.

3. The World Summit for Sustainable Development held in Johannesburg, 2002, did not seek to renegotiate Agenda 21, nor make major new funding pledges, but rather hoped to fill gaps and identify new and innovative mechanisms for achieving more sustainable development. These involve in particular a range of new "partnership" arrangements, between government, private sector, and civil society groups called type II partnerships. Such partnerships recognise that the private sector has become a much more significant actor in development, than was perceived at the time of the Rio Summit. While Agenda 21 was primarily an agenda for action by national government and civil society, today the central role of the private sector is acknowledged by all, such as with establishment of the UN's Global Compact, and the International Business Leaders' Initiative on Human Rights. It is estimated that more than \$200 million has been invested by many Northern governments in such partnerships, addressing highly diverse issues.

4. The Millennium Summit and Declaration of 2000 reaffirmed the key principles underlying the governance, rights and responsibilities of each government in relation to the international development targets, agreed first in 1995. It sought to focus attention on delivery of a set of priority development concerns, as presented in the eight major goals and further more detailed targets. The Millennium Development Goals (MDGs) constitute a set of ambitious objectives to achieve by the year 2015, in fields such as poverty and hunger reduction, improved maternal health, provision of universal primary education, combating HIV/AIDS and malaria, ensuring environmental sustainability, and promoting gender equality. The environmental MDG 7 covers three principal targets, to integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources, to halve by 2015 the proportion of people without sustainable access to safe drinking water and sanitation, and by 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers. Current assessments agree that the water supply target is more or less on track (though not in Africa), while the sanitation target will be missed by half a billion people. Integration of environmental issues into country Poverty Reduction Strategy Papers (PRSPs) remains a very serious challenge, while the slum dwellers' target is also unlikely to be met. Government departments responsible for environmental issues are frequently weak and under-resourced, with little political leverage. One way forward, given this lack of capacity is to build better partnerships with local government, civil society and community based organisations, through decentralised management of land and natural resources.

5. MDG8 is defined as achievement of a global partnership between all nations of the world to address collective problems, to include developing rules-based trading system, improving market access, dealing with debt, implementing strategies for youth employment, ensuring access to essential drugs, and encouraging private sector involvement in spreading access to information and communication technologies. The first seven MDGs are seen primarily as the responsibility of developing countries, with financial support from the North. MDG8 is focussed much more on the responsibilities and obligations of the North to make major changes in policies which adversely effect the South, such as tariff and non-tariff barriers. However, MDG8 has no clear timetable and the indicators to assess progress are loosely defined. Nor does MDG8 have an agreed price tag in terms of the likely costs of achieving such a partnership.

6. It is reckoned that achieving the MDGs would require a doubling of aid from current levels, to find an additional \$50 billion a year. Resources for implementing progress by developing countries towards the MDGs are being channelled through poverty reduction strategies, while assessment of progress towards the MDGs is carried out through national monitoring and reporting. The mid-term review of the MDGs is due to be held in September 2005, and will offer a sober opportunity to assess how wide is the gap between ambition and reality, especially in sub-Saharan Africa. For example, it is reckoned that at current rates of improvement, the goal of attaining the health, education, water and sanitation Goals will not be met before the end of this century in many African countries.

Table 1: Percentage of bilateral aid targeted at specific MDGs

	Education	Health and population	Water supply and sanitation
LDC	9.2	8.5	3.1
Other low-income	8.1	6.5	8.0
Lower middle income	7.4	3.9	8.5
Upper Middle income	12.4	1.7	24.9
Higher Income	22.0	0.0	1.0
All developing countries	8.4	5.6	8.3

The magnitude of the problem to meet the MDGs is illustrated in Table 2 where the annual cost of several goals discussed in the background section is compared with the bilateral aid levels shown in Table 1.

Table 2: Cost of meeting the MDGs, compared with current expenditure

	Annual expenditure required	Contribution from bilateral ODA	\$billion
MDG (education)	8 to 15	3	
MDG (health)	46	2	
MDG (water)	Unknown	3	

Source: Harrison et al., OECD (2003)

7. Initial reports by the Millennium Taskforce in advance of the mid-term review suggest that much greater progress towards the MDGs could be made through a doubling or trebling of aid levels. A similar proposition has been made by proponents of the International Finance Facility (IFF), and also forms part of the recommendations of the Blair Commission for Africa. As will be argued in our conclusions, such an increase in aid is not sufficient for substantial progress to be made in meeting the MDGs. Rather, many of the mechanisms for delivery of aid, and especially the PRS process, require substantial change. The institutional architecture of the multi- and bilateral agencies, their scale, accountability and accessibility are critical factors here. Equally, there are distinct limits on the capacity of many governments to absorb and use more aid in an effective manner. Issues of governance and decision-making are at least as important as the quantity of aid, but harder and slower to deliver. Providing more money through multi-

and bi-lateral systems is relatively painless for many rich countries. The alternatives, such as cutting back on payments to farmers, and abolishing the subsidy on exports of surplus agricultural production, are far harder politically.

8. As Najam (2002) argues, we need to find a means to renew the development assistance debate in a way which focuses less on the size of financial transfers, and more on the outcomes of such spending. This means “strengthening the legitimacy and effectiveness of the development process on the ground... enhancing the capacity of individuals, communities, governments and development institutions to access and effectively utilize financial resources... The Global Environment Facility (GEF)... 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”.

Funding for environment

Bilateral donors

9. A recent survey by the OECD, of twenty of the 23 Development Assistance Committee (DAC) members, provides the following data on financing levels for the main MEAs and for the principal global environmental commitments. Overall, for the period 1998-2000, the survey showed that DAC members allocated \$2.7b for climate change, \$0.7b for desertification, and \$1b for biodiversity related aid.

Bi-lateral aid to support of the Rio Conventions

	Column A Annual average 1998-2000 \$billion	Column B % of A in total bilateral aid
Climate change	2.707	7.2%
Desertification	0.729	2.0%
Biodiversity	0.995	2.7%
GEF	0.323	0.9%
Montreal protocol	0.132	0.4%
Multilateral ODA to Rio conventions	0.455	1.3%

Source: OECD 2002.

10. These figures are the best estimates but probably under-estimate actual sums. Data for Denmark for example excludes the commitments through the special environment fund, Danish Cooperation for Environment and Development (DANCED) while data for France do not include funds channelled through the Fonds Français pour l'Environnement Mondial (FFEM). An activity targeting one of the conventions may also be considered to be contributing to one of the others as well. Hence, the figures should not be added up as this would result in double counting. The figure for the Global Mechanism (GM) for the United Nations Convention to Combat Desertification (CCD) was on average \$0.4 million per year for the period 1998-2000. However, the very small sum involved is due to the GM being considered an initiating forum playing a brokerage role rather than having any funding responsibilities of its own.

11. The detailed data country by country shows very marked variations in the proportion of ODA allocated to these environmental activities. For example, Finland, Germany and Japan all spent more than 10% of ODA on climate related aid, while 7 countries spent less than 1.5% of ODA on this. By far the largest share went to countries in Asia. Given that some degree of climate change is inevitable and underway, climate change related aid will increasingly need to address not only mitigation measures, but vulnerability and adaptation for developing countries. Such adverse impacts from climate change will include drought, famine, flood, disease, and population displacement. It is estimated by some that ongoing climate change will push back substantially any hopes of attaining the MDGs in many poorer countries.

12. For CCD related expenditure, Germany was by far the largest contributor in both absolute and relative terms averaging \$330m per year, or 10.7% of ODA. Other major contributors were Norway and the Netherlands. Some 50% of expenditure was allocated to Africa. For biodiversity, Netherlands, Japan and Germany are the principal donors in absolute terms with Finland allocating the highest percentage of aid to this field at 12.1%. Expenditure on conservation of biodiversity seems reasonably evenly allocated across the three major regions.

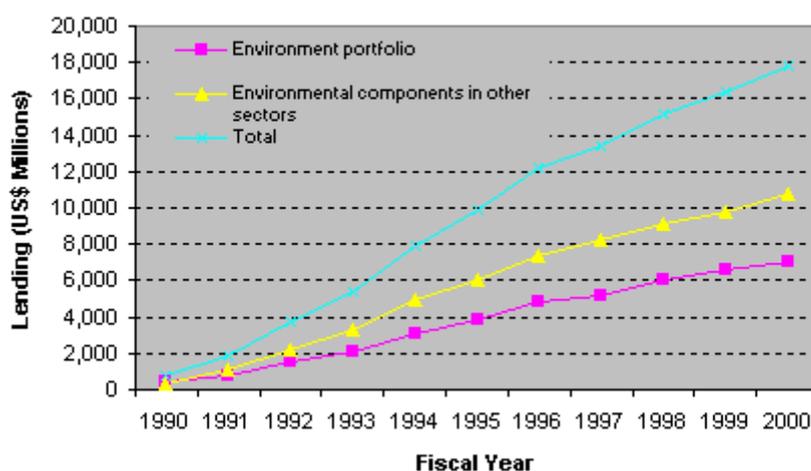
13. As for the GEF, provision of funds has remained at fairly modest levels over the period 1994-2002, averaging 0.275 billion per year. Since the 2002 replenishment, average annual sums available have increased significantly with \$3 billion pledged by 32 donors for the five year period 2002-2006. The annual average of \$600 million is intended to cover the four original focal areas and two new conventions on persistent organic pollutants (POPs) and desertification (CCD). The GEF is increasingly seeking to leverage substantial additional resources as a result of pilot activities. For example, it is reported that a bundle of eight carbon emission reduction projects attracted \$430 million on the basis of an initial investment by GEF of \$90 million.

14. The Monterrey Conference concluded with agreement to double aid flows, by urging countries to make progress towards the 0.7% target. It also recognised that ODA is very far from being able to meet all development needs. Hence, donors need to see how their activities can help catalyse added private sector involvement, whether domestic or foreign. However, the relative balance between development assistance and foreign investment varies very greatly between countries. For most of the least developed countries, ODA remains the major inward flow, foreign direct investment being skewed towards larger, middle income developing countries such as China. Most Foreign Direct Investment (FDI) into sub-Saharan Africa goes to extractive industries, such as mining, oil and gas. Hence, FDI cannot be considered a substitute for development assistance, especially in smaller, less developed nations.

Multilateral funding for the environment.

15. The World Bank consolidated its approach to environment through its 2001 strategy: Making sustainable commitments. This aims to provide greater focus on poverty-environment linkages, and local environmental concerns. It also plans to focus on better integration of environment into sector decisions and policies and identification of institutional and financial incentives for improved environmental practice. It has developed a portfolio of investments devoted to environmental issues, and started to "mainstream" environmental issues into sectoral lending programs. (See the chart below.) The World Bank has also been willing to take a stronger role globally in dealing with threats to the global environmental commons, such as climate change, desertification, biodiversity loss, and degradation of international waters, especially as an implementing agency for the GEF and the Multilateral Fund for the implementation of the Montreal Protocol.

World Bank Environment Lending (FY1990-2000)



16. The President of the World Bank recently chastised rich countries for paying far too little money and attention to environmental concerns. Environment Matters (2004) estimates that aid for the environment averaged only \$2 billion a year over the last decade, equivalent to \$2.50 per person in rich countries – the price of a gallon of petrol in most industrialised countries. "We all must do a better job of protecting our planet's fragile environment," says James D. Wolfensohn, World Bank President. "Despite progress in some areas, the way we have abused the Earth is alarming. Responsible management of natural resources is essential to reduce poverty, especially among marginalized groups who depend on the Earth for their livelihoods." However, some observers see this as empty rhetoric given the Bank's continued heavy levels of investment in the oil and gas sector, and very weak support of renewable energy sources.

17. This support of local level environmental activities is made evident by the current call for projects on "Innovations for Livelihoods in a Sustainable Environment". The World Bank is running a competition for the best ideas through a competitive grant giving process totalling \$3 Million for Innovative Ideas. Whether it's protecting farms from elephant incursions by planting chili peppers in Africa, recycling discarded plastic into usable objects in Burkina Faso, or developing fly-fishing eco-tourism in Mongolia, the key word behind the competition is innovation. The Development Marketplace 2005, is open to anyone - civil society groups, social entrepreneurs, youth organizations, private foundations, academia, private sector corporations -- with a brilliant but unusual idea that may not get funded through traditional venues. The maximum award will be US\$150,000 per proposal. The Development Marketplace has evolved in a global event that has awarded nearly \$25 million for more than 500 projects over the last six years. In addition to the global competition, in 2005 the Development Marketplace will support nine smaller country-level competitions encompassing 14 countries, whose themes are aligned with the countries' poverty reduction priorities.

18. The United Nations Environment Programme (UNEP) is the other major global actor on environmental issues. Having faced some difficult years, 2003 saw a renewed interest and commitment of funds by the main donors to UNEP's programme of work. Contributions to the Environment Fund (which makes up about half of UNEP's budget) reached \$52.6 million in 2003. Additionally, a larger range of contributing governments now provide support to UNEP's activities. Apart from a contribution from the United Nations Regular Budget, UNEP depends entirely on voluntary support. The Environment Fund is the main source of funding for UNEP's activities. However, contributions to the Environment Fund continue to fall short of the budget approved by UNEP's Governing Council, forcing UNEP to scale down its work programme. In addition to the Environment Fund, earmarked funding for specific UNEP activities is provided through Trust Funds and Earmarked contributions. The programme of work of UNEP is also supported through some fundings from UN foundation. The Foundation aims to address environmental concerns in the areas of biodiversity and climate change.. A recent development is the conclusion of Partnership Agreements between UNEP and major donor countries, which aim at making additional support more strategic and predictable. UNEP has always been hampered by its mandate which limits its activities to those of "providing leadership and encouraging partnership in caring for the environment by inspiring, informing, and enabling nations and peoples to improve their quality of life without compromising that of future generations". Questions of major programmes and interventions are allocated to other actors.

Civil society and non-state actors

19. Civil society groups and NGOs have been active members of the environment community, with a wide range of activities at global to local levels. Given their large number and diverse size, there is little accurate data on the exact sums mobilised through NGOs, whether for environment or broader development activities. In some fields they have become very substantial actors, such as in conservation of biodiversity, with large groups such as Conservation International, WWF-US, and The Nature Conservancy spending in total several billion dollars per year. Concerns have been raised about the reliance of these groups on raising money from the public and a few very wealthy individuals who want to "save the planet" is pushing such organisations towards a policy of "fortress conservation", in which local people have few if any rights. Mac Chapin of Worldwatch concludes that "As corporate and government money flow into the three big international organizations that dominate the world's conservation agenda, their programs have been marked by growing conflicts of interest – and by a disturbing neglect of the indigenous peoples whose land they are in business to protect." (Chapin,

2004) Environmental goals are being pursued at the expense of broader sustainable development principles, such as equity and access.

20. NGOs have been of considerable importance in support to different aspects of MDG 7. For example, Shack Dwellers International has been supporting federations of the urban poor in various cities in Asia and Africa to help secure tenure and improve access to water and sanitation. Major NGOs such as Oxfam, Action Aid and Save the Children have brought benefits to many communities in a range of settings, whether health, water, or improved farming methods. NGOs have often been particularly valuable in setting up pilot projects which allow for innovative approaches to be tested out. Thus, for example, early work on joint forest management in India, or community based natural resource management in the West African Sahel (*conventions locales*), has been developed by civil society actors. Such experimentation then provides a basis for lesson learning by government and donors, as to broader programmes to replicate such approaches.

Innovative mechanisms to take forward

21. Various proposals have been made to take forward the global sustainable development agenda in ways which break out from some of the constraints currently faced by multi- and bi-lateral frameworks, and private sector activity. Such mechanisms need to be found at global and local levels. Governments need to recognise how fundamental environmental concerns are for human well-being, and that investing in a better environment is not something that can be postponed for the next 10 to 20 years. As noted by Benn (2004), “the environment and development are not separate issues... we are using the planet’s resources faster than the planet can sustain. This is unsustainable development. But the opposite – sustainable development – is about much more than just bringing the environment into development ... we need practical, effective and fair principles for the sound management of the planet, that works for the poor as well as for the planet”. In most developing countries, government expenditure on environmental protection has been falling throughout the 1990s, while economic growth has depended heavily on extractive industries, and unsustainable use of land and natural resources. The collapse in global prices for many primary commodities has meant that most countries have had to run ever harder just to stay in the same place.

Markets for environmental services

22. At national level, there has been increasing experimentation with various forms of market for the services provided by the environment, such as watershed management and protection of water quality for downstream users, carbon sequestration arrangements, and conservation of biodiversity. Critical assessment of these mechanisms shows that in the right circumstances they have much potential to address externalities and broader public goods provision. For example, it is recognised that paying farmers to achieve more sustainable watershed management in the Catskill Mountains of New York State has provided much better quality water for New York city and at lower cost than installation of expensive water treatment plants. However, it has also become clear that such markets generate the risk of inequitable outcomes, with poorer groups being excluded from access, where there are weak institutions and poorly defined property rights. Thus, for example, in cases where tenant farmers in the upper watershed are offered payments for changes in land use for minimising soil erosion and sedimentation in water received by downstream users, such sums are appropriated by land owners.

23. At global level, there is an increasing number of voices arguing for an explicit contractual relationship between those people or countries who provide a particular global public good, and those willing to pay for this good. Such has been the argument, for example, underlying choices between conservation and agricultural development in the Amazon basin, given the enormously important role of the Amazon forest in global water and climate systems, coupled with heavy pressures from farmers for conversion of forest to farm land. Equally, the Clean Development Mechanism (CDM) provides a means by which carbon credits can be traded. The Contraction and Convergence (C&C) model provides a more advanced version of the CDM, and is based on trade in permits in the right to emit carbon dioxide¹. For such a system to generate resources for poorer people, such rights would need to be allocated on an entirely equitable basis across

¹ See for example the work of the Global Commons Institute, <http://www.gci.org.uk>

the world, so that the entitlement to emit per person was the same for a herder in Chad, as for a two-car family in Washington, London or Paris. The transfer of resources from over-emitters to under-emitters would constitute a fee for the provision of this service. The challenges faced by establishing such a global mechanism are very considerable in the current global context. It would require agreement to a global limit on carbon levels in the atmosphere, and associated limits on overall CO₂ at a global level. Such permits to emit would then be tradable, with some system for monitoring of actual emission levels needed to ensure no cheating by those emitting more than their allotted share, but without having purchased rights from others. For the benefits to be fairly distributed, such transfers should be made directly to the poor in developing countries who are actually providing this service, rather than passing through the national exchequer (Najam 2002, Agarwal 1999).

Systems for international taxation

24. In an era of globalisation, there are ever stronger grounds for establishing systems of taxation on a range of global activities. Several proposals have been made, such as a levy on foreign exchange dealings, or aviation fuel, the revenue from which would be funnelled to priority activities such as support to HIV/AIDS and malaria control programmes, or extending provision of water supplies in poor communities. Other suggestions have been proposed such as a tax on fishing in international waters, luxury goods, or levies on deep sea mining. The advantages of such mechanisms include a reduction in those activities which put a strain on the environment, and the opportunity to impose tax on corporations who, because of their global activities, are increasingly able to avoid or evade national systems of taxation to a very large extent.

25. Examples of such transfer mechanisms exist at national and local levels, such as revenue from a congestion charge on private cars entering the centre of London being used for improving public transport; use of a share of value added tax being allocated to municipal governments based on good environmental performance in Brazil; and a percentage of electricity revenues being used for watershed management in Ecuador. Such national examples provide models for extension to global levels.

Environment Priorities and Inter-governmental Processes

26. Members of the development business have a strong tendency to vogueishness. A particular approach, or subject matter, becomes all the rage for a period of a few years before the wheel of fashion turns and it is edged off the agenda. In this context, it is perhaps surprising that the MDGs have managed to retain such a strong position on the donor agenda for so long, having been drawn up and agreed in 1995, under the auspices of the OECD as the International Development Targets. Two major problems have been generated by adherence to the MDGs which need to be dealt with. First, as with any list of goals, some things get left out. In this case, the MDGs cover a range of outcomes – such as improved provision of water or greater security of tenure for slum dwellers. However, they do not address the deeper-seated forces which generate poverty and inequality, which lead to very inadequate access to water for poor people, and insecure holdings for slum dwellers. As with all multilateral accords, there appear to be tight limits on how explicit can be the recognition of the great importance of political, economic and power relations in producing the mal-distribution of resources found in the world today. Second, as noted earlier, there are serious drawbacks to the PRS process, which mean that many environment and sustainable development priorities are ignored. This is due to several factors:

- Power and decision-making are held by the Finance Ministry, with government departments bidding for funds. This exacerbates political favouritism, and the highly centralised nature of decision-making, with more powerful ministers able to get their agenda funded, and weaker ones ignored. Environment ministries are always amongst the weakest in all government administrations.
- A focus is trained on those services which government delivers, such as education, health, and water supply. This has led to key sectors such as agriculture and land issues being largely left out, despite their enormous relevance for the poverty reduction and sustainability objectives.
- Aid flows are channelled to priorities identified through the PRSP, and cutbacks made in other forms of funding. This has concentrated power at central government level,

reducing the funds available for a range of local level activities, including those of civil society groups. Yet strong local government and civil society actors are essential to maintain checks and balances on how power is exercised at both national and local levels.

Alternative mechanisms for channelling funds

27. Consequently, there has been a growing call for alternative channels for transfer of funds to a range of environment and sustainable development activities, many of which rely on action at local level. As Sachs (1999) notes “the availability of large amounts of money for a small number of large projects may be less useful than the availability of small amounts of money for a large number of small projects”. Accessibility and scale are important linked variables. Many of the multilateral institutions are faced with serious weaknesses due to the scale and approach by which they operate. While they may find it easy to disburse grants of \$5 million or more, they have no capacity to disburse sums of a few hundred or thousand dollars, despite this being very often the scale at which much valuable activity needs to take place. “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” (Najam 2002). Ways of addressing such fundamental weaknesses are urgently needed, building on successful models for locally-managed funding mechanisms, accountable both downwards to recipients and upwards to funders, where they exist.

Greening the systems of accounts

28. In the run-up to the Earth Summit in Rio, 1992, effort was put into ways to “green” national accounting systems so that they better represent the changes in asset values associated with a particular pattern and level of economic growth. A single focus on financial indicators, as through the national accounts – whether gross national income (GNI) or GDP – has widely been recognised as inadequate as a measure of well-being, as seen by the design of such as the UNDP’s Human Development Index, which recognises that a proper comparison of the well-being of nations should include measures of access to many other factors, such as health and education systems, rather than relying on GDP/head alone. Much conceptual work behind green accounting exists, but little or no progress has been made on taking this forward into implementation. Putting these alternative accounting systems into practice has enormous potential for shifting how decisions are made regarding the allocation of resources, and choices between different policy options.

29. Given the huge economic and political power exercised by global corporations, a similar argument holds in favour of greening corporate accounting systems. Currently, the value of a company is assessed on its financial accounts and returns due to share-holders. Corporations have been under some pressure to demonstrate their adherence to a range of principles and practices aimed at shifting behaviour in a direction more in tune with broader social and environmental goals. However, adherence to such principles, in excess of national regulations, is voluntary. While corporations may see the need to adhere to these values to ensure good publicity, there is also resort to the excuse that corporate practice ultimately has to be justifiable in terms of the bottom line. If the bottom line is only defined in financial terms, then we are unlikely to see any fundamental shift in corporate behaviour towards greener practice.

Taking a new look at investment flows

30. Investment is central to the attainment of sustainable development. It is well established that current economic practices are not sustainable, and the only pathway to a more sustainable economy leads through investment—profitable private investment in projects that are less destructive of the goals of sustainable development than current practices. It is consequently imperative that public policies at all levels that affect investment should be designed to promote greater sustainability.

31. Improvements to environmental performance depend in large part on new investment which embodies resource-conserving, and less polluting techniques. This is particularly the case for major infrastructural investments, such as power generation and transport systems which have a long life span. Currently, many developing countries, particularly in sub-Saharan Africa, are so keen to attract foreign direct investment that they apply few if any conditions. Indeed, in some cases, a number of benefits such

as tax holidays and access to land are provided to encourage inward capital flows, and the hoped-for jobs they bring with them. Consequently, there is little or no bargaining power in the hands of national governments for attaining good environmental performance. The World Bank and International Finance Corporation (IFC) have drawn up a series of guidelines and safeguard policies to provide both mandatory and non-binding guidelines on different forms of activity, depending on the sector and context.

32. Some of the major financial institutions have also signed up to a set of voluntary principles aimed at establishing agreed values to underpin their operations, and the projects to which they loan money. Known as the Equator Principles, drawn from the World Bank guidelines, these provide an approach for financial institutions to assess and manage environmental and social risk in project financing for investments of over \$50 million. They constitute a series of steps to be followed in carrying out environmental and social assessments to ensure, for example, compliance with host country regulations. They also are meant to ensure that a certain minimum has been met regarding standards for pollution, account has been taken of land acquisition and use, and any associated re-settlement of people, as well as protection of endangered species and sensitive ecosystems. While such measures have been drawn from the World Bank and IFC guidelines, the Equator Principles have independent status and are entirely voluntary, a weakness which is mitigated by the role that NGOs and other civil society groups can play in highlighting departures from the agreed code of practice. A related challenge concerns how best to strengthen capacity amongst millions of small and medium sized enterprises to follow more sustainable practices.

Building a broader framework for support to the environment

33. Support to the environment, globally and locally, is a patchy mosaic of activities and funding sources linked to global conventions, multi-lateral funders, bi-lateral aid delivery, private sector investment and operations, and the NGO sector. The amount of money available to support environmental objectives has been falling since the mid-1990s. The diverse actors involved are highly unequal in terms of economic and political power. The lack of coherence at all levels generates a system unable to address the major problems we face in terms of moving towards a more sustainable planet. The current focus on the MDGs, while providing some much needed harmonisation amongst the donor community, has not brought the resources and attention needed for the environmental challenges we face. For example, MDGs cover only a limited set of environmental issues. Many of the fundamental forces which underpin our current directions, globally, are not explicitly recognised. These concern particularly issues of power, governance, legitimacy, market failure, and the interplay between economic and political power at all levels. At the same time, the vehicle for aid delivery in most poor countries is now the Poverty Reduction Strategy, within which environmental concerns have been largely ignored.

34. Climate change represents the greatest challenge facing the world, and is emblematic of the inequalities and power relations which characterise many other global problems. Yet a proper assessment of climate change, its current and likely future impacts on poverty and the MDGs, is almost entirely absent from PRSPs. If significant progress is to be made in the next ten years to 2015, a more intelligent and broad-based approach will be needed to integrate environmental concerns into the practices of the donor community.

35. The diverse range of actors engaged in environment concerns needs to be matched by similarly diverse tools and approaches. Some of these involve national level measures, such as establishing mechanisms for improved watershed management, and strengthening institutions for securing land and property rights. Others require higher level engagement and support, such as testing out systems for green accounting, and encouraging private sector commitment to reporting on social and environmental indicators which are more than cosmetic. How best to achieve the pulling together of such a mosaic at global level? This needs to be done in a way which adds value without constraining innovation, which recognises the complementarity of different forms of activity and allows people to share lessons from such diverse practice, and which has the recognition and authority needed to contest market-based paradigms in which things which have no formal price are considered of no value.

36. Dipak Gyawali of the Institute for Social and Economic Transition in Nepal has suggested that sustainability in this context is reliant to a large extent on collaboration 'like to like' between Northern and Southern governments, civil society organisations and private sector:

37. “Instead of donor governments giving aid to recipient governments and expecting the latter to deliver ‘sustainable development’ to its poor, it might make more sense to envisage co-operation between North and South businesses, activists and regulatory bureaucracies. ... What such a shift implies is the need to move away from ‘funding’ as the primary activity to one which prioritises finding the right partners that can sustain engagement activities across international divides through common interests.” (Gyawali, 2004).

Conclusions

38. What does all of this mean for the ongoing debate on institutions and financing for international environmental governance? What principles should be applied in considering options for changes in this area? We start with some reflections on the implications in many of the recent proposals for reform and then consider what should be priorities underpinning changes in future.

39. First, there is a real danger that the costs of institutional reform will continue to be imposed on the poorest – as has all too often been the case in the past. Although the rapid growth of international environmental governance over the last three decades has brought many beneficial changes it has imposed a disproportionate burden of implementation on developing countries. In addition, the objectives pursued following the Stockholm, Rio and Johannesburg Summits have been predominantly set by the North and pushed on the rest of the world – often at the expense of concern for issues of justice, equity and sustainable development. (See Najam, 2001) There is little in the current debate on international environmental governance to suggest that these imbalances are about to be remedied.

40. Secondly, we have to ask what will change with the creation of a new, more powerful 'World Environment Organisation'. Proponents of this shift argue that it will both streamline bureaucracy and give a more coherent voice to environmental issues at global level, as a counterweight to powerful bodies prioritising free trade and market liberalisation². It is not clear how this new model would change the underlying factors which are evident in the current system: will rich countries shift from their current unwillingness to meet their fiscal obligations in this and other areas? If UNEP and other global environmental institutions have had weak mandates, insufficient resources to pursue their core objectives and poor co-ordination between parts of the system this is at bottom the decision of countries with money and influence – and there is little prospect of a seismic shift in the *realpolitik* that has led us to this point.

41. Thirdly, we have to be very careful not to throw the baby out with the bathwater. There is clearly much that needs attention in the current system of international environmental governance, and the process by which financing needs are identified and met. But there is also much in the existing arrangements which has gradually evolved over 30 years to reflect both broader political realities and the particular context at hand. In many instances, this process has been contributed to and supported by Southern governments – not least as a result of the location of UNEP in Nairobi, which encouraged developing countries to engage constructively with the only UN programme based in the South.

- The issues addressed in this paper also raise some important priorities which should be reflected in any efforts to strengthen financing mechanisms for environmental objectives.
- value of global targets / framework for action but
- need to strengthen local/national processes to identify priorities and tackle them in appropriate ways
- need to engage civil society and the private sector
- need to develop innovative mechanisms (MES etc)
- need to address the broader international architecture (investment, trade, taxation, accounting)
- need to strengthen alternative mechanisms for channelling funds.

² see for example the position taken by the alliance of European Green Parties in advance of WSSD, online at <http://www.europeangreens.org/info/resolutions/berlin8.html>

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