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New World Conferences: New prospects for global environment and development financing?

Prospects for breaking new ground in financing

By Barbara Unmüßig

Preparations for two major UN conferences in 2002 are underway, albeit it with different intensity. For the first time in the history of the United Nations, an international conference on Financing for Development is to be held in Mexico in March 2002. And just six months later, the UN intends to assess progress and retrograde steps made in what is now ten years of the Rio follow-up process in Johannesburg, South Africa.

Whether this tight schedule ultimately turns out to be a blessing or a curse will be revealed in the course of the numerous preparatory conferences taking place over the next few months. Some government representatives in the North are worried that the developing countries could virtually boycott the World Summit on Sustainable Development in Johannesburg if the rich industrialised countries do not come up with substantial funding at the earlier meeting in Mexico. Getting international environmental and development diplomacy out of this cul-de-sac is the key challenge government representatives in the North and the South will have to face if sustainable ecological and social development is to be given a chance. Sticking to "old" rituals and exclusively demanding that Official Development Assistance (ODA) be boosted is not the way forward, even if a severe criticism of the industrialised countries, the majority of which have cut their development aid budgets, may seem more than justified. And it is true that the developing countries will require external funding to cope with a multitude of social and ecological problems in the future. However, in addition to the need for an increase in conventional ODA, the quality and effectiveness of conventional development aid requires a reassessment. Above all, it is high time to put into concrete terms the proposals and ideas regarding innovative finance instruments that have long been debated.

Disappointment among the developing countries

Finance is among the hard core issues of politics and, correspondingly, it has shaped the North-South debate ever since the sixties. The way that political objectives are financed is an unmistakable sign of the importance given to policy

fields. How much money is spent on what says more about political outreach and priorities than any rhetoric manifestations can.

Looking back, it was at the UN Conference on the Environment and Development in 1992 that the provision of new and additional funding was declared a key condition for the success of the Rio resolutions. At the time, it was estimated that 600 billion US\$ was needed merely to implement Agenda 21 in the developing countries between 1993 and 2000. Financial transfers from the industrialised countries were put at an annual 125 billion US\$. Against this background, developments in the nineties seem devastating. Funds for international development co-operation stagnated at a low level and reached a mere 56.4 billion US\$ in 1999. This sum also includes the Global Environment Facility (GEF) funds. GEF was founded in 1991 to support projects in the four core areas of climate protection, preserving biodiversity, and protection of the ozone layer and international waters. In 1992, the GEF was recognised as a financing mechanism for the Framework Convention on Climate and the Convention on Preserving Biological Diversity. These four topics underscore the priorities the Northern donors set in global environmental protection. Up to this day, the Convention on Desertification, initiated by the developing countries and above all aimed at local environmental problems (soil degradation, water shortage), has not had access to a comparable funding mechanism.

Moreover, even for the management of the global environment, the North has agreed to provide only the 'incremental costs' – that is, costs incurred to get global environment benefits over and above the national environment benefits. Just calculating these costs has proved to be a tough and convoluted task. Both Southern and Northern leaders have failed to come up with effective and acceptable solutions.

What is particularly disappointing for the developing countries is that the GEF funds have remained at a very modest level over the last ten years. Following another increase in funds after an initial phase of activities between 1994 and 1997, the GEF now has a mere 2.75 billion US\$ at its disposal for the period between 1998 and 2002. Neither the absolute amount nor the outreach of the funds is sufficient to finance globally sustainable development. In 2002, negotiations on the replenishment of the GEF will once again be on the agenda.

Small wonder that mistrust should be growing among the developing countries. They fear that the industrialised countries want to curtail their development prospects via sustainable development and at the same time refuse them the funds they require to this end. At the United Nations Conference on the Environment and Development (UNCED) in Rio de Janeiro in 1992, the South already made some clear statements that the Rio agenda had been determined mainly by the "North". Southern governments participated in it as petulant juveniles who are worried about lectures and dictates from industrialised countries. The Earth Summit was, therefore, the outcome of an unwilling partnership. Against this background, and because a large number of developing countries increasingly see themselves as the losers of globalisation, it is easy to understand their more reserved attitude towards the preparations for the two UN conferences planned for 2002. Since their faith in the industrialised countries has taken a considerable blow, they are showing less and less readiness to support further steps towards sustainability.

Giving new impulses

Here, the UN Conference on Financing for Development can give important impulses by promoting the ongoing debate about additional and innovative financing instruments for the objective of a globally forward-looking development and putting it into concrete terms. A clever combination of ecological course correction in the North and tapping new funds for transfer to the South could prove a way out of ritualised negotiating processes. Both sides have to make a move. The North needs to break new ground in global redistribution, for example by opening the door to international charges and taxes. And the governments of the developing countries have to at last accept that sustainable development can only be partly achieved via external sources. Even sufficient funding will not guarantee that problems are solved. Political willingness to correct the course has to be established in the developing countries as well.

New global financing instruments

The growing discrepancy between declining development aid and the simultaneous growth in demand for financing of global social and development policy objectives led to efforts being stepped up in looking for new sources of finance during the eighties. This resulted in a number of proposals the basic idea of which is to finance new global challenges as global environmental protection, poverty alleviation or the stabilisation of the capital markets by new global means. Even if governments are still reticent about the issue, a public debate is currently underway on imposing international taxes on foreign exchange transactions or aviation fuel, as well as charges for fishing in international waters, luxury goods or the use of global commons. There is also talk of charges and levies on deep-sea mining, the international transport of hazardous substances or on the use of space near to the Earth (satellite fees) or on electromagnetic frequencies. For example, in its latest report, the German Advisory Council on Global Change (WBGU) made comprehensive proposals regarding utilisation charges.

Taxes and charges imposed internationally have the big advantage that, unlike direct government regulation or administrative limitation (of quantities) via a market mechanism, they help reduce activities putting a strain on the environment. Moreover, taxes and charges supply yields that can kill two birds with one stone. They benefit environmental policy channelling, for example of traffic and finance flows while offering income to finance global tasks ranging from combating Aids to climate protection.

In addition, given the new questions and problems globalisation is posing, the topic of international taxes is on the agenda in any case. More and more frequently, companies operating internationally are opting for the taxation system they deem most favourable for them or evade it altogether. The tax base of the nation states is shrinking in spite of the world-wide economic operations of companies causing ecological and social costs (e.g. oil-spills or large-scale resettlements). This already ought to point to international taxes as the logical consequence of globalisation if the aim is to maintain the political scope for action of the governments in the North and the South.

It is true that tax hikes are not exactly popular with people. But taking into consideration that the above activities that taxes would be imposed on affect the normal tax-paying citizen least of all, this argument ought to be easy to refute. In

contrast, the political acceptance of such fees and charges could increase all the more if an appropriate offensive communication strategy were to disseminate and explain that new tax income is to be spent on future tasks both at national and international level. The use of the taxes will be crucial to their being accepted. A mixture of national and international use would probably be most popular. The United Nations Development Program (UNDP) and, for example, the Indian Prime Minister are campaigning for a development policy use of the taxes in the debate over a Currency Transaction Tax (e.g. via a poverty alleviation fund).

Global Public Goods

The Global Public Goods (GPGs) concept could serve as a new peg to hang a public debate on. The political dynamics of this debate has been increasing recently. This was triggered by the book "Global Public Goods. International Cooperation in the 21st Century", edited by UNDP staff members Inge Kaul, Isabelle Grunberg and Marc A. Stern in 1999. Global Public Goods are defined as goods the use of which stretches beyond country boundaries and regions, sections of the population and generations. This broad definition encompasses the classic public goods of peace and security as well as an intact environment, health, cultural heritage and also financial stability, knowledge and information and even fairness and justice.

The editors argue that the markets fail to deliver a sufficient level of Global Public Goods. The world-wide ecological, social and economic crisis phenomena are seen as an inadequate provision of these goods. In a similar way to the failure of the market acting as a justification of government action, they call for increased intergovernmental co-operation in response to the global failure of the market. So far, however, decision-making structures enabling action to be taken as an intergovernmental counterpart to the global market have only been established in a rudimentary form. Therefore, the issue is quasi that of a structural failure of governments at global level. This implies the need for new institutions and new financing instruments to provide GPGs to a sufficient degree.

In the course of the preparations for the UN Financing for Development Conference in March 2002 and the Rio+10 Summit in September 2002, the debate on GPGs has assumed a new political status that should be made use of in the debate on new approaches in environment and development financing. For both the G-77 and the EU (as well as the World Bank) have declared this topic a priority but also point to a considerable need for discussion.

Financing global goods will be one of the central controversial issues in this context. As much as the introduction of uniform international taxes might appear to make sense, political opposition to the notion, also on the part of governments, continues to be very strong. There is clearly still a long way to go before innovative financing instruments to promote sustainable development are introduced, especially since the national parliaments are adamant about their budgetary and fiscal sovereignty – as is reflected in the tedious debates within the EU. However, the two forthcoming UN conferences in Mexico and Johannesburg in 2002 could accelerate the debate on innovative financing instruments and have a crucial impact on promoting a consensus in society, winning over political support and gaining international acceptance.

Dividing environmental problems into global and local ones has constantly given rise to conflicts between industrialised and developing countries. Whereas the latter have a considerable interest in solving their most urgent and immediate problems such as water shortage, deforestation or soil erosion, at international level, the industrialised countries above all want to see climate protection and the preservation of biodiversity, which are classified as global environmental problems. However, this splitting up of issues is inappropriate when it comes to solving the problems. Every global environmental problem has local causes, and in developing countries in particular, global problems, such as the consequences of the Earth heating up, are having a dramatic impact on the poor and poorest strata of the population (storms, flooding, shifts in rain zones, etc.).

Unless all environmental problems are addressed within an integrated perspective that takes into account the local and the global – the local within global and the global within the local – there will be little confidence within the developing world that their concerns are being addressed in the global environmental agenda.

Here, the UN Conference on Financing for Development can give the right signals for Johannesburg. There certainly are enough ideas around.

Barbara Unmüssig is President of WEED.

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