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RIO+10 – Key Issues and Concerns Related to Implementation of the Rio Agreements:

**Technology Transfer, Finance, Capacity-Building and
Global Governance for Sustainable Development**

Paper by the Commonwealth Secretariat

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Contents

- EXECUTIVE SUMMARY 3**
- INTRODUCTION 4**
- 1 BACKGROUND: THE APPROACH TO RIO+10 5**
 - THE RIO AGREEMENTS.....5
 - Rio Declaration5
 - Agenda 215
 - Commission on Sustainable Development.....5
 - Conventions: climate change and biodiversity.....6
 - Forests, desertification and small island developing states6
 - Finance6
 - THE IMPACT OF RIO7
 - RIO+108
- 2 TECHNOLOGY TRANSFER, FINANCE AND CAPACITY-BUILDING 9**
 - INTRODUCTION.....9
 - TECHNOLOGY TRANSFER.....9
 - Technology transfer – defining the challenge10
 - Policy options for technology transfer.....11
 - FINANCE.....12
 - Key issues for financing sustainable development.....13
 - New mechanisms for financing sustainable development.....14
 - CAPACITY-BUILDING.....16
 - COMMONWEALTH STRATEGY AT RIO+1016
- 3 GLOBAL ENVIRONMENTAL GOVERNANCE 18**
 - DOES THE CURRENT SYSTEM WORK?.....18
 - OPTIONS FOR CHANGE.....19
 - National governments.....19
 - Integration in the macroeconomic agenda19
 - Multilateral environmental agreements19
 - UN Commission on Sustainable Development20
 - UN Economic and Social Council.....20
 - UN General Assembly20
 - UN Environment Programme.....20
 - UN Trusteeship Council20
 - Action by groups.....21
 - Global public policy networks21
 - A new environmental court.....21
 - A new global environmental organisation21
 - COMMONWEALTH STRATEGY AT RIO+1021
- 4 CONCLUSIONS: OPPORTUNITIES FOR RIO+10 23**

Executive Summary

The World Summit on Sustainable Development, or 'Rio+10' will take place in Johannesburg in mid- or late 2002. It is designed to review the progress made towards the aims set out at the Earth Summit of 1992 and to accelerate the implementation of commitments. Rio+10 will be a failure if it ends up simply as a re-run of the negotiations and arguments of Rio; it should instead serve as a forum to generate the political will needed at the highest levels to implement commitments. This paper sets out proposals for some ways in which the Commonwealth can contribute to the Rio+10 process.

Discussions of *technology transfer, finance and capacity building* will be centre stage of many of the sectoral themes at Rio+10. This paper describes the way in which the issues of technology transfer, finance and capacity-building for sustainable development are closely linked, and highlights the fact that in many cases success in one area is heavily dependent on the effectiveness of policies in other areas. It therefore suggests that looking at these issues holistically could be a productive approach for the Commonwealth to take.

Two key technology transfer, finance and capacity-building-related themes which will be of central importance are the need to channel private sector finance to environmentally sustainable investment in developing countries and small states, and the need for the rapid expansion of the development and uptake of micro- and other small-scale finance initiatives for the poor. The Commonwealth could play a key role in developing ideas and proposals for policies to address these needs in the run-up to Rio+10, and may also want to consider identifying and backing specific initiatives, such as the Tobin Tax on currency transactions, or a large-scale capacity-building and financing programme for the development of micro finance.

In the field of *global environmental governance*, the Commonwealth could help to promote Rio+10 as a useful target date by which some options could be achieved and others initiated. Perhaps most importantly, Rio+10 should not aim to create another new international environmental institution; what the world needs is not more institutions, but more effective ones.

Specific proposals include setting the conference as a target date for the entry into force of key multilateral environmental agreements (MEAs), including the Kyoto Protocol, Cartagena Protocol, Rotterdam Convention and Stockholm Convention; and examining ways in which MEAs can be better co-ordinated and more effectively implemented and enforced. The operations of the UN Environment Programme could be improved if Rio+10 can provide the impetus for higher funding from donor countries, and also if ways can be examined in which its status within the UN system can be enhanced. Methods of ensuring that other UN bodies, including the Commission on Sustainable Development and the UN General Assembly, work together more effectively to advance the implementation of Agenda 21 should be pursued. And underpinning all other commitments, Rio+10 must give serious consideration what the effective policy integration, of the injection of sustainable development concerns and objectives, means in national governments and, particularly, in international institutions.

North-South tensions dominated Rio, and have done in many other international forums since. Perhaps the biggest role the Commonwealth can play is in addressing constructively those tensions and contributing to a positive analysis of problems and identification of responses. As the UN Secretary-General's commented after Rio: 'one day we will have to do better'. Rio+10 provides the opportunity to do better.

Introduction

1. The United Nations Conference on Environment and Development (UNCED), the first 'Earth Summit', took place in Rio de Janeiro in June 1992. Unique in size, scope, level of participation and process, it was attended by over a hundred heads of state and government, more than had ever attended an international conference before or since.
2. Ten years after Rio, the Rio+10 conference – or, to give it its proper title, the World Summit on Sustainable Development – will take place in Johannesburg in mid- or late 2002. Rio+10 is designed to review the progress made towards the aims set out at the Earth Summit and to accelerate the implementation of commitments. Its precise agenda and major themes are yet to be determined, and there is a danger that it will end up, as one observer put it, as nothing more than a 'conference to celebrate a conference'.
3. Whether it can achieve more will depend on the determination of governments to move beyond the experience of the first Earth Summit, to add commitments to agreements, and to consider new and emerging issues instead of simply recycling the debates of 1992. This paper sets out some proposals in the fields of financial assistance, technology transfer, capacity-building and global environmental governance, with the aim of assisting Commonwealth environment ministers to discuss how best the Commonwealth itself can contribute to the Rio+10 process.

1 Background: the approach to Rio+10

The Rio agreements

4. The Earth Summit of 1992 was designed to act as a catalyst and focus for injecting the concept of sustainable development into international institutions, national governments and the private sector around the world. Its outcome was agreement on three general documents (the Rio Declaration, Agenda 21 and the Forest Principles), one new institution (the UN Commission on Sustainable Development) and two new environmental conventions (on climate change and on biodiversity); there was also much associated discussion on financing mechanisms.

Rio Declaration

5. The *Rio Declaration on Environment and Development* is a short statement of twenty-seven principles for guiding action on environment and development. A recognisable descendant of the Stockholm Principles of 1972 (agreed at the first international environmental conference), it was a carefully negotiated, delicately balanced and – almost inevitably – in some places fairly ambiguous text. It seems unlikely to have had much direct impact on the behaviour of nations, but its adoption, *inter alia*, of the concept of sustainable development, the precautionary principle and the polluter pays principle has helped spread understanding of the means of integrating environment, development, and, to a lesser extent, social objectives and policies.

Agenda 21

6. *Agenda 21* is an immense document of forty chapters outlining an ‘action plan’ for sustainable development, covering a wide range of specific natural resources and the role of different groups, as well as issues of social and economic development and implementation. It effectively integrates environment and development concerns and is strongly oriented towards bottom-up, participatory and community-based approaches. As with the Rio Declaration, it seems unlikely that countries have altered behaviour simply as a result of Agenda 21 (particularly as anything especially sensitive, such as the possibility of reducing fossil fuel use, is dealt with in fairly vague language) but it does provide a comprehensive framework for achieving the global transition to sustainable development, and for measuring progress towards this goal. Agenda 21 does appear to have assisted, in a number of countries, the creation of new mechanisms for co-ordinating policy on environmentally sustainable development, and the development of national environmental action plans.

Commission on Sustainable Development

7. As with Stockholm, one of the main outcomes of Rio was the creation of a new institution, the *Commission on Sustainable Development*. Created specifically to follow up the Earth Summit commitments, the CSD’s key functions include reviewing progress in the implementation of Agenda 21 and the other instruments adopted at UNCED and subsequently, developing policy recommendations and promoting dialogue and building partnerships with governments, the international community and the major groups identified in Agenda 21. The CSD has certainly succeeded in promoting broad-based policy dialogues bringing together governments and civil society (which in turn has helped to legitimise the role of non-governmental bodies in some countries), and reports prepared by governments on their environmental performance have generated useful data. However, the huge breadth of its agenda, its low status in the UN hierarchy, its limited success in involving policy-makers in areas other than environment and development, its tendency to repeat, at a more general level, discussions which have taken place in other, more specialised, forums, and its

practice (standard, but of questionable value) of negotiating texts, mean that in practice it has been nothing more than a rather diffuse talking shop, with no significant means seriously of advancing Agenda 21.

Conventions: climate change and biodiversity

8. Of rather more importance for environmental diplomacy were the two new conventions opened for signature at Rio, the *UN Framework Convention on Climate Change* (UNFCCC) and the *Convention on Biological Diversity* (CBD). Neither were formally part of the UNCED preparatory process, but the date of the Earth Summit offered a useful deadline by which the negotiations could be completed – and the political impetus provided by UNCED helped both treaties enter into force with unusual rapidity. The UNFCCC, while only a framework convention, later gave rise to the 1997 Kyoto Protocol which, if and when it enters into force, will mark the first set of globally co-ordinated efforts to combat climate change. The CBD is generally regarded as a fairly cautious first step in addressing a huge and complex task, but it established some important principles, and has also led to a more targeted treaty, the 2000 Cartagena Protocol on biosafety (not yet in force).

Forests, desertification and small island developing states

9. Discussions at UNCED on forests proved particularly difficult; in the end the concerns of developed and developing countries could not be reconciled, and the outcome was a non-binding set of *Forest Principles*. Discussions on forest issues continued after Rio through the Intergovernmental Panel on Forests, subsequently replaced by the Intergovernmental Forum on Forests. These provided some useful analysis, but no concrete action, and further international arrangements – the UN Forum on Forests and Collaborative Partnership on Forests – have recently been agreed. Rio also marked the start of negotiations on *desertification*, leading ultimately to the 1994 UN Convention to Combat Desertification. The Convention has not so proved to be a particularly effective agreement, partly due to a lack of associated financing, but it has at least helped to mobilise developing country (particularly African) NGOs and local communities. Another outcome of UNCED (through Chapter 17 of Agenda 21) was the 1994 UN Global Conference on the Sustainable Development of *Small Island Developing States* (SIDS), which adopted a Programme of Action providing a comprehensive framework of action towards sustainable development in SIDS.

Finance

10. The most difficult and protracted issue for discussion at Rio was the question of *finance*. The idea of a global environment fund had first been floated at Stockholm in 1972, and the Global Environment Facility (GEF) was created in 1990, initially as a pilot programme. Administered jointly by the World Bank, UNEP and UNDP, the GEF's activities were confined to helping tackle specific global environmental problems: ozone depletion, climate change, biodiversity loss and international water pollution. Furthermore, it was designed to finance only the incremental costs of those domestic actions which produce global environmental benefits. Managed by what developed countries saw as the competent (and donor-dominated) management of the World Bank, the GEF has proved relatively successful in attracting commitments and has become a natural home for the financing instruments of the UNFCCC and CBD, although there have been some concerns expressed with excessive bureaucracy in the disbursement of funding.

11. Developing countries' insistence that Rio should generate new and additional funding for a wider range of development activities was not successful, and initial proposals to set 2000 as the target date by which the UN target of 0.7% of GNP in aid was to be reached ended up simply as a call to achieve the target 'as soon as possible'. The figure of \$625 billion per year estimated by the UNCED

Secretariat in 1991 as the total costs of financing Agenda 21 – made up of \$125 billion in Northern aid and \$500 billion spending by the South itself – has been widely quoted at and since Rio, but has never been seriously contemplated or approached. Nevertheless, a widespread perception amongst developing countries that the North has failed to honour its commitments on the provision of aid has contributed to a poisoning of the international political climate.

The impact of Rio

12. Although in retrospect Rio has often been regarded as an event of significant importance, at the time many viewed the products of the Earth Summit as something of a disappointment. At the closing session, the UNCED Secretary-General, Maurice Strong, referred to ‘agreement without sufficient commitment’; and the UN Secretary General remarked that ‘one day we will have to do better’.

13. Despite its lack of concrete achievements, however, the Earth Summit was not without impact. It brought a large number of governments together to discuss – for some of them, for the first time – global issues of environment and development. It generated much wider awareness of the term ‘sustainable development’ (though what precisely it means is more problematic), helped the concept penetrate the consciousness of government departments and leaders, again in some cases for the first time, and led, in some countries, to new local and national institutional mechanisms for promoting sustainable development. It provided an important staging post in the development of the global regimes on climate change and biodiversity. Perhaps above all, it demonstrated in a convincing manner the movement of environmental issues from the fringes of public debate and concern to somewhere at least a little nearer the centre, with a far higher profile amongst the media and civil society than hitherto.

14. In June 1997, heads of government and senior representatives from over 130 countries met in New York to consider what progress had been made since Rio. This Special Session of the UN General Assembly, inevitably dubbed ‘Earth Summit II’, or Rio+5, was something of a disappointment, failing to generate much political attention or momentum, or any real new spirit of international co-operation – though it did agree a useful work programme for the CSD. The assessment of progress since Rio recognised some positive developments – particularly at local and community levels – but pointed to growing problems of poverty, inequality and environmental degradation.

15. It is clear that despite some efforts at international, regional, national and local levels to promote sustainable development, the global environment and natural resource base has continued to deteriorate. As a discussion paper prepared by the Executive Director of UNEP for the Global Ministerial Environment Forum in 2000 argued, ‘gradual improvements to the environment are increasingly regarded as insufficient to meet the commitments made in Rio de Janeiro eight years ago.’ The paper highlighted some of the social and economic repercussions of the deterioration of the environment:¹

- Unsafe water and poor sanitation cause an estimated 80% of all diseases in the developing world; the annual death toll exceeds five million, of which more than one half are children.

¹ UNEP, Global Ministerial Environment Forum 2000, *Discussion papers presented by the Executive Director* (UNEP/GCSS.VI/8) – largely based on UNEP, *Global Environmental Outlook 2000* (London: UNEP/Earthscan, 1999).

- World-wide, more than one billion urban residents are exposed to health-threatening levels of pollution; in eleven East Asian cities alone, air pollution causes more than 50,000 premature deaths and 400,000 new cases of chronic bronchitis per year.
- In 1998, an estimated 25 million 'environmental refugees' emerged as a result of weather-related disasters.
- Global damage from natural disasters was estimated at \$120 billion for the two years 1997 and 1998.
- Desertification and drought affect more than 900 million people in 100 countries.

Rio+10

16. Rio+10 is designed to focus on the implementation of Agenda 21 and other outcomes of the Rio process, as well as the Programme for Further Implementation of Agenda 21 adopted at Rio+5. It has been agreed that Agenda 21 and the Rio Declaration should not be renegotiated, and that the review should 'identify measures for the further implementation of Agenda 21 and the other outcomes of UNCED, including sources of funding'.² It is supposed to focus on 'action-oriented decisions in areas where further efforts are needed to implement Agenda 21, address ... new challenges and opportunities, and result in renewed political commitment and support for sustainable development'.³

17. The CSD is assigned to act as the preparatory committee for the conference, with three additional sessions set for January, March and May 2002. The last of these, which will be held at ministerial level (in Indonesia) is to prepare a 'concise and focused document that should emphasise the need for a global partnership to achieve the objectives of sustainable development, reconfirm the need for an integrated and strategically focused approach to the implementation of Agenda 21, and address the main challenges and opportunities faced by the international community in this regard'.⁴

18. Section 4 of this paper sets out some of the general opportunities that the conference offers. The next two sections look at specific areas for action.

² UN General Assembly decision of 20 December 2000 (A/RES/55/199).

³ *Ibid.*, para 3.

⁴ *Ibid.*, para 17 (b).

2 Technology transfer, finance and capacity-building

Introduction

19. The cross-cutting issues of technology transfer, finance and capacity-building for sustainable development are all of central importance to the implementation of the Agenda 21 agreements, and to the achievement of progress on thematic issues such as freshwater, energy, and environment and poverty. However, as with many Agenda 21 issues, the international community has not made sufficient progress in advancing these agendas since 1992.

20. This lack of progress has been in part due to the marked differences between developed and developing countries' interpretations of the policy challenges presented by the need for technology transfer, finance and capacity-building. These differences have frequently led to negotiating stalemates within the CSD and other UN forums. One of the key challenges for Rio+10 will be to move beyond these stalemates by revisiting the underlying needs that these policy areas must address and by identifying new ways of taking action. This paper concentrates on how the Commonwealth could contribute to this process.

21. While this paper looks at each of the issues in turn, it is important to note that all are strongly inter-related. For example, without finance and capacity-building, developing countries are unlikely to have the resources to acquire or utilise sustainable technologies. Progress in each area will help facilitate progress in the other areas, and effective policy design will depend on understanding the linkages between the issues. This paper therefore recommends that the Commonwealth take an holistic approach to its discussion of these issues in the run up to Rio+10.

Technology Transfer

22. Chapter 34 of Agenda 21 points out the importance of 'environmentally sound technologies' for sustainable development, and defines them as 'not just individual technologies, but total systems which include know-how, procedures, goods and services and equipment as well as organisational and managerial procedures'. It states that '[t]here is a need for favourable access to and transfer of environmentally sustainable technologies, in particular to developing countries, through supportive measures that promote technology co-operation and that should enable transfer of necessary technological know-how as well as building up of economic, technical and managerial capabilities'. It calls for action on the co-ordination of research, on information dissemination, policy development, provision of financial resources and capacity-building, and highlights the need to maintain and protect environmentally sound indigenous technologies and to prevent the abuse of intellectual property rights.

23. Since 1992 technology transfer has been extensively discussed at CSD meetings. The most recent substantive discussion took place at CSD6 where key issues included:

- public-private partnerships as a means for increasing access to and transfer of environmentally sound technologies (ESTs), and the need for 'legal and policy frameworks that are conducive to long-term sustainable development and in particular to private sector investment in sustainable technology';
- public and market-based policy instruments for stimulating the development and uptake of sustainable technologies;

- financing programmes for small and medium-sized enterprises, including micro-credit initiatives; and
- education and training to develop skills in the use of ESTs.

24. Technology transfer has also been a key issue within negotiations on many multilateral environmental agreements (MEAs), in particular the Montreal and Kyoto Protocols. As with the CSD, formal discussion of technology transfer as an issue has tended to lead to negotiating deadlocks. These two MEAs have, however, produced some interesting policy mechanisms aiming to promote private sector technology transfer from North to South, including the Kyoto Protocol's clean development mechanism (CDM).

Technology transfer – defining the challenge

25. The technologies that will be needed for the global transition towards sustainable development are very diverse, and many have yet to be developed. As indicated in Agenda 21, they will include not only hardware but software: techniques, procedures, services, and management approaches. The hardware needed ranges in scale and sophistication from the very simple, such as energy-efficient charcoal ovens in many parts of Africa, to the highly complex, such as zero-emission clean production manufacturing facilities. The potential users of sustainable technology are also diverse, ranging from governments and multinational corporations to self-employed women in developing countries. In order to be effective, policies for promoting technology transfer will therefore need to reflect the diversity of technologies that need to be provided, and users that need to be serviced.

26. Policy also needs to take into account the central role that industry will need to play in the development and transfer of sustainable technology. The EU-organised CSD Ad Hoc Intersessional Working Group on the Role of Industry and Technology Transfer in 1998 concluded that '[i]ndustry is the primary agent for developing technology, converting basic scientific research and progress into applied technological innovation. It is also the primary agent for technology transfer within and between countries. Through its day-to-day operations and investments, and working through supply chain mechanisms, it applies technical, managerial and entrepreneurial skills to make a reality of new ideas, and continually develops, adapts and improves old ones, making the benefits available through its products and services.'

27. However, the creativity and resources of industry are unlikely either to develop new sustainable technologies, or to deliver those technologies to developing countries, without a strong and effective framework of policies. The fundamental role of policies for technology transfer should be to create the conditions in which self-sufficient markets for sustainable technologies can emerge, markets which will incentivise industry to develop and supply new technologies and enable the private sector to make good returns on its investments. Creating these conditions in developing countries presents a considerable challenge, and will require substantial investment in capacity-building, both by the countries themselves, and by donors.

28. Policy should also reflect the urgent need to deliver sustainable technology to the poor. The experience of micro-credit organisations such as the Grameen Bank in Bangladesh shows that investment in capacity-building and the provision of credit can enable the poor to access new technologies. Policy also needs to be developed to enable mini-, small and medium-sized enterprises to access sustainable technology.

29. Small countries, which cannot benefit from economies of scale, face particular problems in accessing and applying ESTs, and technology transfer policies which can overcome these problems need to be developed. The regional co-ordination of incentive policies, by both small states and donors, might help tackle this problem.

Policy options for technology transfer

30. Achieving sustainable technology transfer requires policy development in a broad range of areas, each requiring action by a range of actors, including governments, donors, industry and civil society.

31. *Defining needs.* Developing countries need to develop the capacity to define their own technology needs and to put safeguards in place to ensure that new technologies can meet their economic, environmental and social needs in an appropriate manner.

32. *Incentives and regulation.* In order to encourage the rapid development and dissemination of sustainable technology, policy should be designed to create incentives for companies to develop, supply and purchase sustainable technology. Policy options for providing incentives include tax breaks, subsidies and market mechanisms such as tradable obligations to reduce emissions or purchase environmentally sound technologies. Policy can also be used to oblige companies to deliver services to the poor, for example as a part of contractual duties placed on companies given franchises to supply water. Generally speaking, the most economically efficient incentivising policies are those which set targets for the private sector and leave them the freedom to choose how to meet those targets.

33. Both developing and developed countries need to implement incentivising policies for the development of new ESTs, and many are starting to do so. Incentivising policies specifically targeted at promoting technology transfer to developing countries could be adopted by developing countries (e.g. by offering tax breaks to sustainable technologies), by the international community (e.g. through mechanisms such as the CDM) or by investing countries (e.g. by providing preferential access to export credits to companies selling sustainable technology). Creating domestic policies to incentivise the uptake of ESTs could be particularly beneficial for developing countries, and there is great scope for donor assistance to enable developing countries to design and implement such policies. Introducing, and ensuring compliance with, environmental regulation also creates a basic domestic demand for sustainable technology. By introducing and policing strong systems of domestic environmental regulation, developing countries can therefore help create the conditions for technology transfer.

34. *Providing finance.* Easily accessible sources of finance for investing in sustainable technology in developing countries need to be created, from both domestic and international sources. Domestically, this will require the increased engagement of both public and private financial institutions, and awareness-raising of the environmental importance, and the economic potential, of sustainable technology. Internationally, new mechanisms for supporting the export of sustainable technologies to developing countries could be designed and implemented (see para 47 below). Governments and multilateral institutions should also consider developing specific financial mechanisms for providing funding for technology transfer to micro-, mini-, small and medium-scale enterprises (see para 50 below).

35. *Building capacity.* Capacity-building has a key role to play in creating demand for, and enabling the supply of, sustainable technology. Relevant capacity-building policies include the introduction of

the stable legal and financial frameworks needed to attract foreign investors; the training of technology installers and operators; and technology research and development. To ensure that the benefits of technology transfer can be spread as widely as possible, capacity-building programmes must be designed to meet national, local and community needs. The challenge of enabling the poor to benefit from technology transfer is particularly important, and may require large-scale action (see para 55 below).

36. *Research and development.* Developing countries can potentially play a key role in developing sustainable technology that is appropriate to their economic, social and environmental needs. Policies to promote co-operation on technology development and exchanges of experience and best practice between developing countries have an important role to play in building endogenous resources for the development of new technologies.

37. *Intellectual property regimes.* There is a growing tension between the development of stricter regimes of intellectual property rights (IPRs) – particularly under the framework of the World Trade Organisation’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) – and developing countries’ need for greater access to the new ESTs on affordable terms. The protection of IPRs is important in rewarding innovation, but equally, stricter IPR protection is driving up the costs of ESTs. There is also a specific potential conflict between provisions of the TRIPS Agreement and the Biodiversity Convention. Resolution of these tensions will not be easy, but underlines the need for the effective integration of sustainable development objectives into all international institutions and agreements (see further below in para 66).

Finance

38. Chapter 33 of Agenda 21 states that ‘[t]he implementation of the huge sustainable development programmes of Agenda 21 will require the provision to developing countries of substantial new and additional financial resources’, and adds that such funding needs to be predictable due to the long-term nature of sustainable development objectives. Specific activities proposed in the chapter include an increase of funding for the GEF, multilateral funding for capacity-building, strengthening of bilateral programmes, debt relief and policies for mobilising foreign direct investment for sustainable development. As outlined above (para 10), the chapter estimates that the average annual costs for implementing Agenda 21 in developing countries will be \$625 billion, and suggests that \$125 billion would need to be provided by the international community in grant or concessional terms. In 1992 this target approximately equalled the UN target 0.7 per cent of GNP agreed after the Pearson report in 1970.

39. In 1997, the Rio+5 conference noted with concern that levels of development assistance were falling, at the same time as pointing out that aid had the potential to play an ‘important complementary and catalytic role in promoting economic growth and may in some cases play a catalytic role in encouraging private investment’. Other key items on the Rio+5 finance agenda included funding for the GEF, funding of UN agencies, the role of the private sector, debt relief, the need for domestic action to promote finance for sustainable development, micro credit, environmentally damaging subsidies, economic instruments and innovative financing mechanisms. Finance for sustainable development has also frequently been discussed at CSD meetings; the most recent discussion was of financial resources and mechanisms for freshwater management at CSD6.

40. The UN General Assembly's High-Level Consultation on Finance for Development planned for the first quarter of 2002 also has strong links with Rio+10. The event is intended to address the issue of mobilising financial resources for the full implementation of the outcome of the major UN conferences and summits of the 1990s. The success or otherwise of Rio+10 is likely to depend to a large extent on the amount of progress that is made in the Finance for Development process.

Key issues for financing sustainable development

41. *Domestic investment.* It is important that developing countries with significant levels of investment financed from domestic sources identify policies that can help steer domestic finance towards sustainable investments. Potential policies include eco-taxation, tax breaks for sustainable investment, and mobilising savings e.g. through micro-credit initiatives. Countries should also work to remove perverse subsidies (subsidies which reward environmentally polluting activities, common particularly in the energy, fisheries and forestry sectors), thereby freeing up new and additional resources for sustainable development.

42. *Official development assistance.* ODA from the OECD to developing countries has been falling since 1994, when it reached a high point of \$59.6 billion (0.30 percent of OECD GNP),⁵ despite many OECD countries' commitment to the 0.7 percent target. In his advanced unedited report to the Finance for Development Preparatory Committee, the UN Secretary General calls for new commitment to the targets, saying that '[t]he prosperity in industrial countries and the policy reform efforts in developing countries make this a unique moment in which major increases in aid volumes and enhanced aid effectiveness are not only possible but could achieve a massive impact in terms of poverty reduction and of development'. Progress on the issue of ODA will be crucial for success at Rio+10. This is, however, a highly controversial issue, and new approaches are urgently needed if the current deadlock is to be overcome. Issues relating to the effectiveness of ODA, including the need for increased co-ordination and the issue of ODA repatriation through tied aid also need to be addressed.

43. *The Global Environment Facility and multilateral environmental agreements.* The GEF is currently the major multilateral source of additional funding (over and above ODA) for sustainable development. However, the GEF's effectiveness has been questioned; critics argue that it is too bureaucratic, and that its additionality requirement has hindered private sector involvement (see above, para 10). GEF replenishment is currently an important and controversial issue. The GEF is also likely to be the major, and possibly only, financing mechanism for recently negotiated MEAs, such as the Kyoto Protocol or the draft convention on the control of persistent organic pollutants (the POPs convention). The financing mechanism of the Montreal Protocol – the Multilateral Fund – predated the GEF and is therefore separate from it. It has proved relatively successful, though, in mobilising funds (more than 85% of money promised has been raised and over \$1 billion disbursed), in delivering funding in targeted and efficient ways, in adapting to developing circumstances and in being overseen by developed and developing country representatives in equal numbers; there is much that can be learnt from it for the GEF and other MEAs.

44. *Debt.* In 1998 developing countries' debt repayments came to more than \$300 billion and exceeded their receipts of ODA by a factor of five to one. This level of indebtedness clearly must have an impact on these countries' ability to meet the challenge of sustainable development, and is a major contributor to the fact that public financial flows from South to North actually exceed those from

⁵ OECD Development Assistance Committee, 1999.

North to South. The \$70 billion of debt relief that was offered by the Cologne Debt Initiative will have a significant impact on the debt burden; however, the continuation of indebtedness will continue to be an issue for developing countries for the foreseeable future. A key issue that needs to be addressed is the question of whether or not debt relief, as it is currently planned, is adequate to help developing countries to achieve *sustainable* development.

45. *Private international financial flows.* Private and commercial flows to developing countries have grown from \$44 billion in 1988 to \$227 billion in 1998, and now far exceed ODA flows. These figures suggest that private flows present a significant potential source of finance for sustainable development in developing countries. However, harnessing private flows for sustainable development presents three significant problems. Firstly, most foreign direct investment (FDI), the most important source of private investment for developing countries, flows to a small number of countries; in 1998, 55 percent went to just five major recipient countries, while the 48 least developed countries received less than 1 percent. Secondly, foreign investors do not generally choose to invest in sustainable development-oriented projects, preferring to invest in conventional projects and businesses, including the highly polluting extractive and processing industries. If private international flows are to be harnessed for sustainable development, particularly in the poorest countries, policies will need to be put in place to address these issues. It should also be noted that international private financial investment is unlikely to be a suitable source of funding for investment in the typically small-scale financing initiatives, such as micro-credit, which best meet the needs of the poor, as such initiatives tend to require financing at below-market rates.

New mechanisms for financing sustainable development

46. There is clearly a need to identify new mechanisms for financing sustainable development, in order to move beyond the deadlock over ODA, to channel domestic and international investment to sustainable projects and to meet the needs of the poor. The following is a list of some of the mechanisms and policy approaches that are currently under discussion in national and international forums.

47. *Public-private partnerships.* PPPs can enable governments to access private financial resources to deliver public goods. They are suitable for major infrastructure projects, and could play a part in delivering sustainable energy, freshwater supplies and transport. However, it should be noted that they are only suitable for large-scale investments, while many of the investments needed for sustainable development are intrinsically small-scale.

48. *Risk-sharing instruments.* Governments and multilateral institutions have historically shared overseas investment risk with the private sector through extending export guarantees, etc. These mechanisms could be adapted to promote investment in sustainable development initiatives, for example through setting up new, dedicated funds for this purpose, or by requiring all projects to meet environmental and social sustainability criteria.

49. *Policies for attracting private investment in sustainable development to the least developed countries and small states.* The challenge of attracting sustainable investment to these countries is a complex one, and is likely to require action on several fronts, including:

- developing stable legal and financial frameworks;
- developing these countries' capacity to regulate foreign investment to ensure that it meets sustainability criteria;

- creating incentives for sustainable investment, through domestic policies (e.g. tax breaks) or international policy (e.g. the clean development mechanism);
- providing targeted funds for risk guarantees for sustainable investment in these countries, e.g. through export credit agencies (see para 48);
- raising investor awareness of available incentives and of the commercial potential of investment in sustainable projects in these countries (raising awareness of the public relations potential/corporate governance rationale of such investment may also be useful).

While it is possible to talk generically about the policies needed to attract sustainable investment to the least developed countries and small states, it should also be noted that the most effective policy frameworks for promoting sustainable investment tend to be sector-specific, as such policies can be designed to meet the particular needs different kinds of sustainable investment (e.g. renewables, sustainable transport, etc.).

50. *Micro- and mini-finance.* The success of micro-finance initiatives such as the Grameen Bank needs to be replicated on an extensive basis if global poverty levels are to be significantly reduced and sustainability targets are to be met. Policies for supporting the expansion and replication of existing initiatives, including funding for capacity-building and new sources of concessional finance for this type of initiative, should be considered. The need to supply finance to very small businesses in developing countries should also be addressed.

51. *Financing global public goods.* Distinctions can be made between the financing of national sustainable development, and the financing of measures which benefit many or all countries – in other words, ‘global public goods’, such as the mitigation of climate change or the protection of the ozone layer. In his Advance Unedited report to the Finance for Development Preparatory Committee, the UN Secretary General points out that many public goods and services, which were traditionally national in scope, have become international – e.g. narcotics control, disease management, clean air, law and order, peace and security, and financial stability – and can no longer be provided through domestic policy action alone. He suggests that the international community should recognise the difference between these global public goods (the funding of which can be considered to be of direct benefit to developed countries) and the North’s commitment to helping the South to achieve sustainable development, and points out ‘the risk that these global concerns may draw away attention and resources that should be destined for conventional official development assistance programmes, for the eradication of poverty and for the inclusion of all countries and peoples in the benefits of globalisation.’

52. This new distinction between global public goods and development assistance could provide the basis for a different approach to financing sustainable development, and could provide a rationale for new sources of funding. However, it should be noted that this is very similar to the rationale behind the establishment of the GEF, and it is not at all clear that the GEF has so far attracted adequate resources to pay for the global environmental services provided by developing countries.

53. *New international mechanisms for raising finance for sustainable development.* Several global financial instruments for raising finance for sustainable development are under discussion internationally, including the Tobin Tax on international currency transactions, taxation of international transport and taxation of internet mail. The most actively promoted of these mechanisms is the Tobin Tax, which could have additional benefits by reducing exchange rate volatility. Given that it is proposed that these taxes would be raised on a national basis, and relatively few currency

transactions take place in developing countries (particularly in the least developed countries), any new mechanism would need to include provision for redistribution of revenues to developing countries.

Capacity -building

54. Chapter 37 of Agenda 21 indicated the need to promote ‘an ongoing participatory process to define country needs and priorities in relation to Agenda 21 and in so doing to strengthening human resource and institutional capabilities’. The latest decision at CSD 6 recommended intensification of capacity-building efforts, based on participatory approaches, with the aim of having national sustainable development strategies or their equivalent in place by 2002 for implementation, as called for by Rio+5 in 1997. Towards that goal, CSD encouraged, *inter alia*, sharing of experiences and increasing of South–South and sub-regional co-operation.

55. Activities in which developing countries need to engage in order to build their capacity to achieve sustainable development include the following:

- the capacity to effectively engage in international sustainable development negotiations, and to ensure that those processes are responsive to the special needs and concerns of developing countries;
- the capacity to implement international policy decisions;
- the development and implementation of sustainable development strategies and domestic environment policies, including regulation, fiscal policy and market mechanisms (see paras 32–33);
- the development of stable financial and legal frameworks to attract domestic and foreign investment (see para 49);
- awareness-raising, research and development and education;
- development of local and community level initiatives for the promotion of sustainable development, e.g. micro-credit initiatives.

56. While developing countries clearly need to invest in capacity-building themselves, and while there is an important role for South–South co-operation and sharing of best practice, capacity-building is probably the most important role that ODA can take in the promotion of sustainable development in developing countries. Given the current downwards trend in ODA, an important challenge for Rio+10 will be to define developing country needs for capacity-building, and to highlight the ways in which investment in capacity-building can facilitate economic development and leverage private funding. One way of using Rio+10 to attract increased ODA might be to identify specific, ambitious capacity-building initiatives (e.g. for attracting FDI to the least developed countries and small states, or for radically increasing the development and geographical spread of micro-financing initiatives) and to campaign for international commitment to them.

Commonwealth strategy at Rio+ 10

57. Discussions of technology transfer, finance and capacity-building will be centre stage of many of the sectoral themes at Rio+10. As this paper has shown, the issues of technology transfer, finance and capacity-building for sustainable development are closely linked, and in many cases success in one area is heavily dependent on the effectiveness of policies in other areas. This would seem to suggest that looking at these issues holistically could be a productive approach for the Commonwealth to take.

58. Two key themes which should be of central importance to Rio+10 are the need to channel private sector finance to environmentally sustainable investment in developing countries and small states, and the need for the rapid expansion of the development and uptake of micro- and other small-scale finance initiatives for the poor. The Commonwealth may therefore want to consider using the run-up to Rio+10 to develop ideas and proposals for the following:

- Policy recommendations for strategies to attract private sector investment in sustainable technology to the least developed countries and small states, including market mechanisms, new financial instruments, capacity-building programmes etc., at national, bilateral and international levels.
- Policy recommendations for strategies to increase substantially the development and uptake of micro- and other small-scale financing initiatives for the poor, including recommendations on capacity-building and identifying new sources of international and national finance for such initiatives.

59. Given the urgent need for leadership in the run up to Rio+10, the Commonwealth may want to consider identifying and backing specific initiatives, such as the Tobin Tax or a large-scale capacity-building programme for micro-finance, and working to build support for such initiatives internationally.

60. Given the expertise that both the private sector and civil society groups have in technology transfer, finance and capacity-building issues, and the central role that both have to play in implementing policy in these areas, the Commonwealth may also want to consider involving expert representatives from both the private sector and civil society in its preparations for Rio+10.

3 Global environmental governance

61. The two main global environmental institutions established over the past thirty years have been the UN Environment Programme (UNEP), set up after the UN Conference on the Human Environment, in Stockholm in 1972, and the Commission on Sustainable Development (CSD) created after Rio. Other institutions are also of relevance to global environmental governance: within the UN system, the Economic and Social Council (ECOSOC), of which the CSD is formally a functional commission, the UN General Assembly, the International Court of Justice, and the various structures of interagency co-ordination all have parts to play.

62. More than 200 multilateral environmental agreements (MEAs) form a central part of the framework for global environmental governance, often adopting and implementing dynamic and innovative solutions, though the negotiation of a new MEA can take many years and much effort. Finally, the decisions and actions of international financial and trade institutions – the Global Environment Facility (GEF), the World Bank and the International Monetary Fund (IMF), and the World Trade Organisation (WTO) – clearly have a considerable environmental impact. This section briefly reviews the current performance of the current structure and considers options for reform.⁶

Does the current system work?

63. Despite a number of notable successes, it is clear that the current system of global environmental governance is failing to deal adequately with the challenge of sustainable development. As UNEP's *Global Environmental Outlook 2000* report stated, 'the world is undergoing accelerating change, with internationally co-ordinated environmental stewardship lagging behind economic and social development'.⁷ In particular, the following inadequacies are most apparent:

- Identification and assessment of emerging problems and response options is poor, particularly in developing countries. UNEP already plays a key role in problem identification, but is constrained by lack of funds. There is no clear overall international structure providing clear routes for identifying and assessing response options, assessing their costs and benefits and making appropriate choices leading to action.
- The record of policy integration, at national, regional and international levels, is poor. Despite some successes, national environment ministries and agencies possess neither the political influence nor the resources necessary to implement sustainable development strategies across all areas of government activity; and the same problem is repeated amongst international institutions.
- Financial support for international environmental activities – including most notably UNEP, and MEA secretariats and implementing bodies – is inadequate. In particular, MEAs in general lack the capacity to gather, monitor and independently verify the data on parties' performance which is the bedrock of implementation and compliance.

⁶ For further detail, see Joy Hyvarinen and Duncan Brack, *Global Environment Institutions: Analysis and options for change* (RIIA, September 2000, available from www.riia.org/Research/eep/eep.html).

⁷ UNEP, *Global Environmental Outlook 2000* (London: UNEP/Earthscan, 1999), p. xx.

- There is an obvious and urgent need to increase support to developing countries, in terms of development assistance, technology transfer and capacity-building. This is covered in more detail in section 2.
- International activities across the board need to be more focused and efficient. Partly this needs to be addressed through better co-ordination at the national level, leading to more coherent government engagement in international policy- and decision-making processes; and partly through international institutions spending less time and effort in organising largely ineffective talking shops.

Options for change

64. A range of specific options for strengthening the structure of global environmental governance are set out below. None of these options are mutually exclusive, and many combinations are possible. Ministers may wish to consider issues raised by these options and develop a Commonwealth position on the way forward.

National governments

65. Conflicts between different international bodies (e.g. the WTO and MEAs) ultimately reflect conflicts between national ministries and a lack of coherence between policy objectives. Greater efforts need to be made at the national level to ensure co-ordination in advance of international meetings and policy-making processes. Ideally, national co-ordination of negotiating approaches and implementation should take place on a continuous basis, involving all relevant government agencies. Inputs from industry and civil society stakeholders should be an integral part of the process.

Integration in the macroeconomic agenda

66. One of the priorities for strengthening the global environmental governance structure must include wider and deeper integration of environmental considerations in the international financial and trade institutions – more effectively harnessing their operations to the pursuit of sustainable development. As the interaction between economic activity and the environment is more fully understood, and as the scope of these institutions' (particularly the WTO's) activities grows, the interface between them and environmental institutions is a matter of growing concern.

Multilateral environmental agreements

67. MEAs are one of the most effective and dynamic components of the international environmental system, being in general more targeted, specific and adaptable than other elements can be. However, their sheer number means that roles and responsibilities can be fragmented, effort can be duplicated and co-ordination is sometimes lacking. Reinforcing linkages among MEAs is an obvious route towards strengthening the global environmental governance structure. Joint meetings of heads of secretariats, possible co-location of secretariat functions, greater co-operation in areas such as reporting and verification, or approaches to the GEF, and the possible development of 'umbrella' conventions (covering, for example, those dealing with biodiversity issues, or chemicals) are all avenues worth exploring. Perhaps most importantly, the development of more effective data reporting and verification, compliance and enforcement mechanisms should be pursued. Whereas the past two decades have been a period of *negotiation* of many important new MEAs; much more effort now needs to be focused on effective *implementation*.

UN Commission on Sustainable Development

68. Strengthening the CSD could include narrowing its focus to a more limited number of issue areas, where it can add value. Another route is ‘upgrading’ the CSD in some way – for example, by linking it more closely with the main ECOSOC debates, or UN General Assembly debates on environment and sustainable development, which may help to involve a wider range of ministers and officials. Above all, the CSD needs to concentrate on the activities it does well – primarily its multi-stakeholder dialogues – and avoid recycling decisions and negotiating texts of questionable value.

UN Economic and Social Council

69. ECOSOC’s broad mandate, encompassing economic, social, human rights and other issues, could provide a basis for integrated and comprehensive institutional development. It also now has the responsibility for addressing how the UN system can better co-ordinate its response to the world summits of the 1990s. However, the political scope for adaptability may be limited in light of ECOSOC’s less than prominent role in the past.

UN General Assembly

70. The UN General Assembly debates on environment and sustainable development could provide an opportunity to provide overall direction to the international system, indicate broad priorities and address overlaps and unclear relationships; one approach could be to make greater use of the Assembly’s consideration of the report of the UNEP Governing Council. The Assembly could also make more use of its subsidiary structure.

UN Environment Programme

71. UNEP has achieved much to its credit, but it is handicapped primarily by lack of resources (its current annual budget is less than \$100 million, a trivial sum). A further limiting feature is its nature as a ‘programme’, rather than a decision-making organisation, within the UN, and its current focus on a specific set of tasks in the environmental area. It may be possible to improve matters within the existing structure, but it might be more worthwhile to consider making UNEP a specialised agency of the UN. Greater co-ordination with the GEF, possibly even integration of the GEF in UNEP, is another avenue worth exploring, as is closer collaboration with the UN Development Programme (UNDP).

72. The recent innovation of Global Ministerial Environmental Forums (the first took place at Malmö in May 2000) provide a possible route for considerable strengthening of the global environmental governance structure, particularly if they can achieve effective, results-oriented ministerial deliberations, providing added value. Preparations at the national level would be important, including co-ordination with all relevant ministries and exploring the feasibility of expanding future Forums to include other ministers.

UN Trusteeship Council

73. The UN Trusteeship Council was created to supervise the administration of League of Nations and UN mandate and trust territories, and effectively became redundant in 1994. In his 1997 report on UN reform, the UN Secretary-General suggested that the Council could be reconstituted as the body through which UN member states would exercise their collective trusteeship for the global environment and common areas such as the climate, oceans and outer space (though some states, notably the US, have opposed this). This could help to raise the profile and status of issues of sustainable development and environmental security within the UN system, though careful co-ordination with all the other relevant agencies would, of course, be essential.

Action by groups

74. Regional blocs may provide a more effective forum than wider international institutions for dealing with environmental challenges, particularly in terms of policy integration, and may also help to develop constructive leadership at the wider international level. Groups such as the G8, for example, could provide a limited forum for 'like-minded' countries to develop and argue for a reform of environmental institutions.

75. The Commonwealth itself, as one of the very few international groupings bringing together significant numbers of developed and developing countries, could play a more active part in helping to break down the North–South divisions (often based more on perception than reality) that frequently impede international consensus. Ministers may wish to select key areas where Commonwealth consensus-building might make an effective contribution.

Global public policy networks

76. 'Public policy networks' bring together governments, international agencies, private sector representatives, NGOs and other civil society stakeholders in a effort to solve problems outside existing formal institutional arrangements. They can mobilise the skills and other resources of diverse global actors, cutting across national, institutional and disciplinary lines. Their establishment should be considered on various aspects of the international sustainable development agenda; the CSD could possibly provide a catalytic role.

A new environmental court

77. Proposals to replace or supplement the International Court of Justice (ICJ) with a new World Environment Court have in general failed to explain how they could improve upon the high standing of the ICJ and its environmental chamber. Incremental reform of the ICJ, together with greater development of UNEP and MEAs' non-compliance systems and implementation capacities, would be more useful goals to pursue.

A new global environmental organisation

78. Many proposals for a new World Environment Organisation have been put forward in recent years – and undoubtedly will be again in the run-up to Rio+10 – but have always suffered from a lack of detail and a failure to explain why the creation of a new global environmental organisation would make any difference to the underlying problems of lack of resources, lack of political will and inadequate policy integration. It may be the case that a new institution could develop in an evolutionary, rather than a revolutionary, way, through the transformation of UNEP, the strengthening of MEAs, and other reform options such as those described above – but it is important to stress that unless the political framework is right, any new institution would simply reproduce the weaknesses of the old.

Commonwealth strategy at Rio+10

79. The CSD, acting as the Preparatory Committee for Rio+10, is instructed to 'address ways of strengthening the institutional framework for sustainable development and evaluate and define the role and programme of the work of the CSD'.⁸ Both the Stockholm Conference of 1972 and the Rio Conference of 1992 resulted in the establishment of new international environmental organisations. It

⁸ UN General Assembly decision of 20 December 2000 (A/RES/55/199), para 15 (e).

should be a high priority for Johannesburg in 2002 to avoid creating another one. What the world needs is not more institutions, but more effective ones.

80. Most of the options explored above in this section can be pursued outside the Rio+10 process, but the event itself provides a useful target date by which some options could be achieved and others initiated. Particular targets for Rio+10 for improving global environmental governance, which the Commonwealth could help to promote, include:

- Setting the conference as a target date for the entry into force of key MEAs, including the Kyoto Protocol (climate change), Cartagena Protocol (biosafety), Rotterdam Convention (prior informed consent) and Stockholm Convention (persistent organic pollutants).
- Examining ways in which MEAs can be better co-ordinated and more effectively implemented and enforced (see para 67).
- Improving the operations of UNEP, by providing the impetus for higher funding from donor countries and examining ways in which its status within the UN system can be enhanced (see paras 71–72).
- Agreeing methods by which the other UN bodies – the CSD, ECOSOC and UN General Assembly – can work together more effectively to advance the implementation of Agenda 21.
- Consideration of what effective policy integration, of the injection of sustainable development concerns and objectives, means in national governments and, particularly, in international institutions.

Given the diversity of Commonwealth membership, the organisation could make a significant contribution in building consensus on the way forward in all of these areas.

4 Conclusions: opportunities for Rio+10

81. Rio+10 will be a wide-ranging event, and this paper can only scratch the surface of a few of the more important issues. Proposals for action by the Commonwealth are summarised at the end of Sections 2 (paras 57–60) and 3 (paras 79–80). Some general themes are also worth stressing:

- Rio+10 will be a failure if it ends up simply as a re-run of the negotiations and arguments of Rio. Concrete commitments are more important than agreements for agreements' sake; achievements are more important than processes. Rio+10 should serve as a forum to generate the political will needed at the highest levels to implement commitments.
- While ultimate objectives are important, smaller steps should not be ignored. The argument around the financing of sustainable development, for example, should not simply focus on total sums, important though this aspect is; it should also examine how *existing* flows can be made to work in support of sustainability objectives.
- The concept of 'sustainable development' needs to be stressed in its original meaning. The term is used so widely now that it is in danger of becoming valueless; some use it to mean simply 'environmental protection' while others employ it only to mean 'development'. The genuine integration of economic development, social development and environmental protection should run through the whole conference and its aftermath.

82. North–South tensions dominated Rio, and have done in many other international forums since. Perhaps the biggest role the Commonwealth can play is in addressing constructively those tensions and contributing to a positive analysis of problems and identification of responses. To repeat the UN Secretary-General's comment on Rio: 'one day we will have to do better'. Rio+10 provides the opportunity to do better.