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Environmental financing: A UNDP perspective

A New Green Economics.

“We have read the science. Global warming is real, and we are a prime cause. We have heard the warnings. Unless we act, now, we face serious consequences.

Largely lost in the debate is the good news: We can do something -- more easily, and at far less cost, than most of us imagine.

In this, it helps to have a vision of how the future might look if we succeed. That is not merely a cleaner, healthier, more secure world for all. Handled correctly, our fight against global warming could set the stage for an eco-friendly transformation of the global economy - one that spurs growth and development rather than crimps it, as many nations fear.

We have witnessed three economic transformations in the past century. First came the Industrial Revolution, then the technology revolution, then our modern era of globalization. We stand at the threshold of another great change: the age of green economics.”

UN Secretary General, Ban Ki-moon
3 Dec 2007, Washington Post

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1. The need for a paradigm shift.

Evolution of Environmental Financing.

In the past, comprehensive environmental management has often been seen as a priority of the international donor community. Developing countries rightly claimed that development was the first priority and that during this process part of the protection of the environment should be paid for by the international community.

This perception has changed greatly over recent years. Few will now doubt that a healthy environment is key for socio-economic development, and that environmental degradation can undermine and even reverse economic benefits. The current climate change debate is a good illustration of this strong awareness that sound environmental management is a condition sine qua none sustained economic growth is not possible. Many developing countries have made great strides in incorporating environmental management in their daily activities. These efforts should be supported and augmented.

Environmental financing can no longer be seen as a donor supported activity but must become part and parcel of national budgets and international financing.

Domestic resource mobilization.

Developed countries spend between 3% and 5 % of their GNP on environmental management. In many developing countries this percentage is less than 1%.

Moving from 1% to 3% can not be done overnight, and a systematic process needs to be put in place that gradually, perhaps taking 10-15 years, will introduce the necessary institutional, regulatory, legal, and market based changes that will enable countries to cater for their own environment management needs.

The question is how should the international community help countries achieve this transition?

From pilot projects to supporting redirecting environmental financing.

ODA funds in the past have often been used to help countries address their most urgent environmental needs. While this must continue, additional resources need to be made available to help countries further the transition from donor dependent environmental financing to environmental financing that is part of the national and local budgets.

New and additional ODA funds should be directed towards helping countries to access, integrate and sequence the different international environmental funding sources to redirect domestic (public and private) and international (IFI and private) funding towards sustainable investments.

The time for this paradigm shift is now for two reasons:

- We have the knowledge, the tools and the experience.
- The emerging climate change financing offers a unique opportunity to make this shift.

2. How to make the paradigm shift at the national level?

Five critical steps are needed to make the paradigm shift at the national level.

- **Step 1: Comprehensive review:** National reviews of all environmental flows are needed, for incomes and expenditures, and covering domestic and international financing, from both public and private sources. The methodology to carry out such comprehensive review in an inclusive manner exists, has been tested and can be applied.

- **Step 2: Realistic, long term planning.** Based on the review and the available environmental finance toolbox, comprising more than 360 tools, from taxes and subsidies to municipal bonds and public private partnerships, realistic, doable plans need to be developed to set in place the institutional, regulatory and market based changes that are needed to move over time to sustainable domestic financing. Quick wins should be identified to provide the political support for the changes.

- **Step 3: Well considered investment plans,** that helps countries move forward towards long term sustainability and the achievement of the MDGs. All too often, the investment decisions are divorced from the strategic planning decision and they are governed by different processes and interests. A much closer relationship is needed between sustainable development planning and investments, including foreign direct investment, trade, technology choices etc.

- **Step 4: Sound pre-investment studies and project pipelining:** To move towards sustainability, alternative solutions need to be considered prior to making the investment decisions, particularly in light of the challenge to address climate change. Business as usual might provide the quickest short term returns on investments but might not represent the most sustainable solutions or longer term benefits. More effort needs to be devoted to assess and implement alternative investment solutions that serve the double dividend: economic growth and poverty reduction.

- **Step 5: Redirect international development aid** to support countries to make this paradigm shift. Considering the plethora of development demands, many countries do not have the resources to initiate, let alone to institutionalize, this paradigm shift. While not overly expensive, new and additional resources are needed to assist countries. The UN is uniquely positioned to deliver this support, but this will require a shift in the way the UN conducts its business.

3. What needs to be done at the international level?

Five concomitant actions are proposed.

- **Action 1: Move to a continuum in service delivery: from policy planning and capacity development to investments and their evaluation.** The need to integrate all environmental finance sources and align it with development goals at the national level, should be mimicked at the international level This is currently not the case. For example, the UN assists countries to develop UNDAF's, the GEF provides grant funding for global benefits, and the IFIs support investment based on their criteria. Under Monique Barbut's leadership a closer cooperation between the GEF and the UN supported programmes at the national level is emerging. This closer cooperation and integration of all development support, from policy setting to investments, should receive priority attention, particularly at the national level, and in the emerging response to climate change.
- **Action 2: A new compact between the IFIs and the United Nations.** The current agreement on how the UN works with the World Bank stems from 1946. Surely there are compelling reasons to review this agreement. The UN is the only global system where all countries, donors and beneficiaries sit around the table as equal members. A privileged positioning and role that many financial institutions do not enjoy. Combining the development expertise of the UN with the investment expertise of the IFIs might result in a quantum leap forward in achieving the MDGs.
- **Action 3: A coherent delivery of environmental finance and investment support by all international development agencies, IFI, UN, bilateral donors, the NGOs and private sector.** Currently great strides are being made to improve the capacity of the UN to deliver as one. This initiative should urgently be expanded to involve the financial mechanisms. Efforts with the GEF are underway. These efforts need to be expanded to the IFIs, the traditional donor community and the new emerging donors. It is not a rational way to pursue development by divorcing planning and capacity development, from major financial flows and investments. The UNDG system at the national level could be expanded to incorporate all major financial actors, so as to provide an integrated response to the country priority needs, conform the Paris declaration on aid effectiveness.
- **Action 4: A strengthened system of international environmental finance support at the national and regional level.** The current capacity of the UN to implement the suggested comprehensive and integrated financial support to countries is rather limited. The knowledge and expertise, in my assessment, certainly exist in UNDP, but the "boots on the ground" to deliver it is just not there. The demand is great; the supply site is stretched to a maximum.
- **Action 5. A watchdog function.** To keep us honest and to provide guidance to public and private sector investors, a watchdog body, along the lines of Transparency International might need to be set up. We need to know where the major flow of finance is going and if it is directed towards sustainability and less carbon intensive development paths. We need to keep ourselves accountable and honest and review our actions to ensure the sustainability of this wonderful planet Earth

4. A personal reflection

I dare to say at this brainstorming session that we have the knowledge, tools and expertise to make major inroads into developing in the next couple of years a

sustainable environmental finance regime, at the national, regional and global level. The climate change challenge offers us the opportunity to do it. The cost to set up such a regime is modest compared with the costs that will be incurred if we continue to lack such an improved environment finance management system by 2020.

UNDP, as part of a cohesive UN wide response to the climate change challenge and in full cooperation with other UN agencies, is preparing itself to respond in a pro-active and coherent manner to these emerging opportunities and to position itself as the development agency that promotes, supports, catalyses and coordinates the establishment of long-term sustainable environmental financing practices at the national and local level. To be successful, the extensive expertise from different parts of the UN system needs to be called in. For example the FAO expertise with the FAO Investment Centre and forest and land management, the UNIDO technological expertise, the UNEP work on developing alternative technological and financial approaches.

UNDP can be the trusted and needed partner of national and local governments to help governments: (1) put long term sustainable environmental finance mechanisms in place, (2) decide on long term sustainable investments, amongst others through providing governments with (a) sustainable alternatives to b-a-u, (b) conducting pre-investment studies, (3) developing project pipelines for private sector implementation; and (4) providing governments with the necessary tools, expert networks and capacity to make sustainable choices. This, I believe, is what is needed to help countries access, integrate and sequence international environment financing in line with the Paris Declaration on aid effectiveness.

Thank you.