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FINANCIAL RESOURCES AND MECHANISMS

Draft decision submitted by the Chairman

Financial resources and mechanisms
(Chapter 33 of Agenda 21)

1. The Commission on Sustainable Development welcomes the report of the Ad Hoc Inter-sessional Working Group on Finance and Changing Consumption and Production Patterns (E/CN.17/1996/7) and the report of the Secretary-General entitled "Financial resources and mechanisms for sustainable developments overview of current issues and developments" (E/CN.17/1996/4 and Add.1), and reiterates all decisions made at its second and third sessions on issues related to financial resources and mechanisms.

2. Having reviewed the financing of sustainable development, the Commission reaffirms that the commitments made at the United Nations Conference on Environment and Development on new and additional resources remain a key element of financial resources and mechanisms. The Commission also reaffirms that chapter 33 of Agenda 21 provides the framework and guidance for the discussion of various current and emerging issues, and that that framework is clear enough to take into consideration new developments, including the decline in official development assistance (ODA) relative to gross national product (GNP) and the increase of private flows to some developing countries. The Commission further reaffirms that, in general, financing for the implementation of Agenda 21 will come from countries' own public and private sectors.

3. As to mobilizing external financial resources for sustainable development, the Commission recognizes that ODA has a special role to play in promoting sustainable development in developing countries, particularly in the least developed countries. The Commission underlines the urgent need to fulfil all financial commitments of Agenda 21, especially those contained in chapter 33,

and attaches importance to its decision at its third session to promote, inter alia, new approaches to enhancing the effectiveness of ODA and increasing it within relevant bilateral and multilateral mechanisms with the objective of achieving the United Nations target of 0.7 per cent of GNP, as reaffirmed in paragraph 33.13 of Agenda 21, as soon as possible. The Commission stresses that it is important that donor countries promote greater public awareness of commitments concerning ODA as set forth in chapter 33 of Agenda 21.

4. The Commission emphasizes the need to improve the effectiveness of ODA by various means, including the leveraging of private-sector investments from national and external sources. Furthermore, where it is not already the case, the effectiveness of ODA could also be enhanced by tailoring it to the specific needs and circumstances of developing countries. ODA flows should be further examined on a continuing basis, particularly with respect to their overall levels and allocation among the interlinked components of sustainable development.

5. The Commission acknowledges the positive aspects of the expansion of external private capital flows to some developing countries, and emphasizes the importance of their contribution to economic growth and sustainable development of those countries. However, it stresses its concern at the volatility of such flows, which has a negative bearing on the efforts of developing countries to achieve sustainable development. Therefore, both developed and developing countries should examine initiatives conducive to a stable and more favourable environment for enhancing the stability of external private capital flows.

6. The Commission also acknowledges that the expansion of external private capital flows has been limited to some developing countries, and that therefore the great majority of developing countries are not benefiting from the expansion of such flows. The Commission recognizes that the further increase and more widespread distribution of external private capital flows should be encouraged through appropriate national economic, environmental and social policies and laws or regulations, as well as through a conducive international environment, including non-discriminatory trade and open investment.

7. The Commission, having examined the issue of external capital flows and their impacts, notes that foreign investors, in particular transnational corporations, should be encouraged to consider the goals of sustainable development and environmental responsibility in their investment projects, and also recognizes the importance of host countries adopting appropriate sustainable development policies.

8. The Commission welcomes the progress made in discussions on the debt problem of heavily indebted poor countries held at the meeting of the Development Committee of the World Bank and the International Monetary Fund (IMF) in Washington, D.C., on 23 April 1996. Consideration should be given to comprehensive approaches to assisting low-income countries with substantial multilateral debt problems through the flexible implementation of existing instruments and new mechanisms, where necessary. The Commission also recognizes that effective, equitable, development-oriented and durable solutions to the external debt and debt-service problems of developing countries, in particular the poorest and heavily indebted countries, can contribute substantially to the

strengthening of the global economy and to the efforts of developing countries to achieve economic development, social development and environmental protection as interdependent and mutually reinforcing components of sustainable development.

9. As to mobilizing national financial resources for sustainable development, the Commission emphasizes the importance of the participation of the private sector in sustainable development, in particular through increased investments. Sound and predictable macroeconomic and sustainable development policies at the national and international levels are important for promoting private-sector investment consistent with sustainable development objectives. Trade liberalization, an appropriate legal framework that protects private and intellectual property rights, and the development of appropriate domestic financial markets are also required.

10. To further promote private-sector participation, the Commission calls for greater use of innovative mechanisms, such as build-operate-transfer and similar mechanisms for financing infrastructure projects for sustainable development. The privatization of public enterprises and contracting-out of services should be encouraged, as appropriate, taking into consideration the different conditions and circumstances of countries.

11. The Commission encourages Governments to consider further studies and, on a voluntary basis, the gradual implementation of economic instruments, further examining the costs and benefits associated with the use of such instruments. The Commission also notes that in practice the application of economic instruments in a number of countries generally yields satisfactory results.

12. The Commission recommends that pollution abatement funds should improve their performance by greater use of project evaluation techniques. Governments are encouraged to consider measures for enhancing the effectiveness and reach of such funds.

13. As to financing the transfer of environmentally sound technologies (ESTs), the Commission emphasizes that financing for ESTs should come from national and external resources and innovative mechanisms in accordance with chapters 33 and 34 of Agenda 21. In pursuance of chapter 34 of Agenda 21, technology transfer efforts should be enhanced within a stable, predictable national and international economic and regulatory environment that will ensure the identification and development of markets for ESTs.

14. As to the development of innovative mechanisms for the financing of sustainable development, the Commission welcomes the decision of the Economic and Social Council to include an agenda item entitled "New and innovative ideas for generating funds" at its substantive session of 1996, and recommends that the report of the Third Expert Group Meeting on Financial Issues of Agenda 21 be made available for the discussion by the Council under that agenda item. The Commission also emphasizes that the scope of the examination of such mechanisms should encompass all aspects - economic, social and environmental - of sustainable development.

15. As to policy options and financial instruments in the matrix approach, the Commission recognizes that economic instruments need to be tailored to reflect individual countries' circumstances, and reiterates the decision contained in paragraphs 137-139 of its report on its third session. Furthermore, the Commission stresses that that approach should not divert attention from the commitments contained in chapter 33 of Agenda 21. The Commission also recommends that the coverage of the matrix be broadened by including such issues as benefits to the traditional holders of indigenous knowledge. The Commission encourages wider dissemination of information on the use of such instruments and the costs and benefits associated with their use so as to enable further work on the matrix approach.

16. The Commission recognizes the relevant role to be played by major groups, including in financing the activities set out in Agenda 21, in particular the transfer of technology, and emphasizes that that contribution should be carried out in compliance with the policies and strategies of recipient countries.

17. In its discussion of practical steps towards resolving the above-mentioned issues, the Commission calls attention to the need for further studies, the desirability of strengthening cooperation and the necessity of improving the exchange of information. As to further studies, which should complement the work being carried out in other forums, the Commission emphasized that:

(a) ODA flows should be further examined on a continuing basis, particularly with respect to their overall levels and allocation among the interlinked components of sustainable development;

(b) There is a need to conduct an in-depth analysis of external capital flows to developing countries in order to better understand their social, distributional, economic and environmental impacts on sustainable development. In addition, a detailed analysis of the options for a regulatory framework for improving the impact of such flows on sustainable development is required;

(c) A study of trends in capital flows, especially towards developing countries, including the connection between private foreign investments and the objectives of sustainable development, should be carried out in order to facilitate a comprehensive debate on that issue;

(d) Further studies of the effects, costs and benefits of economic instruments should be undertaken. In addition, further studies on the impact of subsidies on sustainable development should be promoted to provide a better basis for policy makers to identify and gradually abolish subsidies that have clear negative impacts on sustainable development. Such studies should assess the economic, social and distributional impacts of subsidy reduction, as well as the transfer of resources to more sustainable and efficient activities, taking into account the specific circumstances and economic, social and ecological conditions of countries. Such studies should also examine the viability of ecological tax reform, its impact on international competitiveness and the modalities that could facilitate such reforms;

(e) A detailed cross-country performance review should be undertaken to identify how conservation trust funds can be made more cost-effective mechanisms for environmental conservation. Such a review should also aim to simplify the administrative framework of such funds and to improve strategies for leveraging their financial resources with other sources of financing;

(f) As to innovative mechanisms for financing sustainable development, it is important to study the feasibility of various innovative mechanisms, while continuing to pursue efforts to increase ODA, secure the adequate replenishment of the Global Environment Facility and encourage private-sector investment. The Commission stresses the importance of exploring other innovative mechanisms, as well as of continuing studies on the possible roles for insurance companies and alternative banking in facilitating the financing of sustainable development;

(g) As stated in paragraph 131 of its report on its third session, the need for and effectiveness of environmentally sound technology rights banks and the practical feasibility of establishing such banks should be further studied, and action in that area is called for;

(h) The use of economic instruments in different countries and sectoral strategies and programmes should be studied and the results reported to the Commission.

18. As to the desirability of strengthening cooperation, the Commission emphasizes that:

(a) Bilateral aid agencies, United Nations agencies, funds and programmes, the Bretton Woods institutions and other multilateral financial institutions should become more responsive to national priorities and sustainable development strategies, and should enhance their cooperation and coordination efforts for greater effectiveness in meeting the objectives of Agenda 21, particularly the mobilization of financial resources. In structural adjustment programmes, more consideration should be given to economic, social and environmental impacts, taking into account Commitment 8 of the Programme of Action of the World Summit for Social Development;

(b) Cooperation on developing innovative financial mechanisms is important, and the Commission would welcome an involvement of the World Bank, IMF, the Organisation for Economic Cooperation and Development, the United Nations Conference on Trade and Development, the United Nations Development Programme, the United Nations Environment Programme, the International Civil Aviation Organization and other institutions in making further progress towards understanding the prospects and requirements for the practical implementation of such mechanisms;

(c) In the context of promoting the transfer of ESTs, bilateral aid agencies, international organizations and financial institutions should cooperate with Governments to formulate and implement an enabling policy environment. In addition, the importance of the provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights of the World Trade Organization is recalled.

19. As to the necessity of improving the exchange of information, the Commission emphasizes that:

(a) The United Nations Environment Programme should further disseminate its two recent statements on the banking and insurance services industries, noting that the financial services industry is taking a strong interest in improving the environmental management practices of its business clients;

(b) The sharing of national experiences in the use of economic instruments should be promoted, and countries are invited to report to the Commission on their experiences concerning the implementation of various financial mechanisms and the use of economic instruments. The Commission should explore ways and means of enhancing the sharing of experiences in consultation with all interested parties;

(c) In the context of promoting the transfer of ESTs, international organizations, in particular financial institutions, should assist Governments in developing and implementing appropriate technical assistance programmes that help buyers and sellers of technology to identify each other, reducing pre-investment costs by providing technical, financial, and legal expertise, and identifying and supporting projects that demonstrate and commercialize ESTs in specific sectors.
