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INTRODUCTORY REPORT OF THE EXECUTIVE DIRECTOR

Addendum

INNOVATIVE MEANS OF FINANCING AND ALTERNATIVES FOR UTILIZATION
OF NATIONAL CURRENCIES AND CONTRIBUTIONS IN KIND TO SUPPORT
THE IMPLEMENTATION OF REGIONAL ENVIRONMENTAL PROGRAMMES
OF COMMON INTEREST

Note

This report has been prepared in response to Governing Council decision 12/17 D on regional and subregional programmes in Latin America and the Caribbean region. Although it deals specifically with the conditions obtaining in that region, the Executive Director feels that its implications are much broader. It is possible that some of the ideas contained in the report might be of interest to other regions and particularly to the developing regions.

I. INTRODUCTION

1. The first Regional Intergovernmental Meeting on the Environment in Latin America and the Caribbean convened by the Government of Mexico from 8 to 12 March 1982 in Mexico City, agreed that regional and subregional approaches were the most appropriate for confronting the environmental problems in Latin America and the Caribbean.

2. The second Intergovernmental Meeting on the Environment in Latin America and the Caribbean which was held in Buenos Aires, Argentina, from 19 to 20 March 1983, identified the regional and subregional programmes of common interest and defined a strategy and guidelines for their implementation.

3. The Meeting requested UNEP in the light of its capacity and the availability of financial resources, and after consultation with Governments, to develop project outlines for the implementation of the regional and subregional programmes.

4. It was recognized by the Meeting that one of the principal reasons for the limited activities on the regional and subregional levels in the environmental field had been the scarcity of financial resources to support them and the mobilization of financial resources was identified as one of the fundamental components of the strategy to implement the regional programmes.

5. Complying with the requests of the Governments as expressed at the Buenos Aires meeting, UNEP developed specific project outlines to implement the programmes and submitted them to the third Regional Intergovernmental Meeting on the Environment held in Lima, Peru, on 12 April 1984. Together with the project outlines UNEP presented estimates of the costs involved in the initiation of the activities in question and suggested that a full implementation of the programmes could only be undertaken with the mobilization of national financial resources by the Governments of the region.

6. The Meeting reviewed the project outlines and took note of the range of financial resources that would be necessary to carry out the projects and of the inherent limitations, statutory and financial, preventing UNEP and other international organizations from supporting on a broad and continued basis the implementation of the regional programmes.

7. On this basis the Meeting adopted a resolution under which the Executive Director of UNEP was requested inter alia:

(a) To strengthen within the available resources of UNEP the support for the regional and subregional activities in Latin America and the Caribbean and to incorporate the regional and subregional programmes of common interest in the programme budget of UNEP for the 1986-1987 biennium;

(b) To compile information on innovative means to finance environmental programmes and prepare a study, in co-ordination with the United Nations specialized agencies and other bodies, for examining alternatives for using contributions in local currencies and in kind to support the implementation of the regional environmental programmes of common interest.

The Meeting further decided that the alternatives to be studied should take into account:

- (i) The mechanisms already existing in the region under which resources in local currency and in kind are made available as counterpart contributions to support activities financed by international co-operation resources;
- (ii) The experiences on the utilization of technical co-operation mechanisms in which human and financial resources of both national and international origin are being used;
- (iii) Strategies to strengthen inter-agency co-ordination mechanisms to achieve an optimum use of existing resources which are supporting ongoing activities relevant to the regional and subregional programmes of common interest.

8. At its twelfth session the Governing Council of UNEP in its decision 12/17 D echoed the requests made by the Intergovernmental Meeting.

9. In preparing the present document in compliance with the request in paragraph 7 (b) above, account was taken of the following:

- (a) Discussions on the mobilization and utilization of national currencies and contributions in kind at the Meeting of Designated Officials on Environmental Matters held in Geneva in September 1984;
- (b) Consultations with regional offices of international organizations and with regional organizations, undertaken by a financial expert recruited by UNEP. The following organizations were consulted: Inter-American Development Bank, Organization of American States, UNDP Latin American Bureau, the United Nations Department of Technical Co-operation for Development (UNTCO), Caribbean Development Bank, the Latin American Institute for Economic and Social Planning (ILPES), the secretariat of the Andean Pact, the Latin American Association for Economic Development (ALADE);
- (c) Consultations with several Governments of the region and local UNDP offices;
- (d) An overview study entitled "Alternatives for using national currencies to support the Regional Environmental Programmes", prepared by the financial expert;

(e) The recommendations of an Expert Group Meeting on Financial Alternatives convened by UNEP in Mexico City from 28 to 30 January 1985, attended in a personal capacity by experts from several Governments and regional institutions. The report of the Expert Group can be made available to the members of the Council upon request;

(f) Earlier studies and actions undertaken by UNDP at the request of its Governing Council;

(g) Earlier studies undertaken by UNEP in response to General Assembly resolutions or Governing Council decisions.

II. THE SEARCH FOR ADDITIONAL OR INNOVATIVE MEANS OF FINANCING

10. The following principal potential sources for financing the regional and subregional environmental programmes of common interest were identified in the strategy approved at the Buenos Aires Meeting:

(a) National Governments participating in the programmes;

(b) The Fund of UNEP;

(c) Other United Nations organizations;

(d) Other regional and international organizations including bilateral co-operation institutions.

11. The mobilization of financial resources from these potential sources is conditioned by several factors:

(a) The Governments of Latin America and the Caribbean are suffering their worst economic crisis in the last 50 years according to the Economic Commission for Latin America and the Caribbean and other regional organizations. The structural nature of the crisis forecasts serious difficulties for the achievement of a prompt recovery. The most noticeable result of the crisis has been a sharp deterioration in the balance of payments and a resulting shortage of foreign exchange to meet external commitments. Therefore support by Governments in foreign exchange to the regional environmental programmes will be severely limited;

(b) The financial support from UNEP and other United Nations organizations to the new regional environmental programmes is limited due to the paucity of resources in their respective funds and their commitments as established by their governing bodies and statutory delimitations. UNEP's mandate, for example, demands a catalytic role in the development of environmental programmes and not support on a sustained basis. Notwithstanding these limitations, UNEP as well as other organizations of the United Nations system, can be expected to provide a measure of support, within their available resources, to the implementation of the regional programmes;

(c) Financial resources from regional and international multilateral organizations and from bilateral sources are also governed by specific orientations which might restrict their utilization for the support of the regional environmental programmes. However the consultations undertaken in the preparation of this document do indicate that there are possibilities of tapping additional resources from these organizations. Two ideas were advanced in this regard: first, that an inventory of the potential available resources in these institutions to support the regional environmental programmes must be carried out, and second, that since these organizations respond directly to the requests presented by Government representatives at meetings of their governing bodies, an effective co-ordination between the national environmental administrations on a regional basis is essential;

(d) Bilateral financial and technical co-operation resources are also negotiated directly between donor countries and the recipients of aid. In this case additional resources to support the regional programmes could also be envisaged if this item is stressed in the respective negotiations for aid.

12. In order to finance the implementation of regional and subregional programmes of common interest, resources must therefore be found among the sources identified above. This would mean tapping additional resources from international sources oriented to support regional or subregional co-operation programmes, considering the possibilities of increasing the support that can be provided by United Nations organizations including UNEP, and, more important, increasing the support from national sources in the region.

13. Mobilizing additional resources from international multilateral and bilateral sources would require specific negotiations on a project by project basis between Governments and these organizations. An initial phase towards achieving this mobilization should involve the development of and agreement on the specific project proposals and the identification of the potential sources.

14. As stated in paragraph 11(b) above, UNEP is already contributing to the implementation of the regional programmes. An increase in this support would only be possible if there was an overall increase in the resources available to UNEP for its activities in developing countries. The Environment Fund can make use of the following types of resources to finance projects:

- (a) Contributions to the Fund received in convertible currencies;
- (b) Contributions to the Fund received in non-convertible currencies;
- (c) Counterpart contributions by Governments and institutions to specific projects under rule 204.1 of the Financial Rules of the Fund;
- (d) Contributions to trust funds.

15. The search to secure additional means to meet the environmental needs of developing countries has been a long-standing activity within UNEP. These efforts have concentrated on:

(a) Exploring new fund-raising mechanisms;

(b) Securing increased contributions to the Environment Fund through the established financial means;

(c) Increasing counterpart contributions to specific projects under rule 204.1 of the Financial Rules;

(d) Increasing the effectiveness of the utilization of the non-convertible currencies available to UNEP.

16. At its ninth session the Governing Council considered a report of the Executive Director containing several proposals for increasing the availability of resources (UNEP/GC.9/10/Add.2). The measures proposed covered a wide spectrum of ideas including international taxation of trade flows, taxes on polluters of the marine environment, revenues from the exploitation of ocean resources, utilization of proceeds from IMF gold sales and the levying of fees for use of geosynchronous orbits.

17. In the discussion of the above report in the Governing Council, although there was agreement that some of the proposals could provide a useful means of procuring additional resources, there was a feeling that major problems in connection with their economic and political feasibility, their establishment under international law and their administration on an international basis might take time to overcome. In view of the time it would take before even the most feasible of these proposals could be adopted, the Executive Director felt that they must be considered as long-term undertakings, and, as such, not suitable for providing support for the immediate and medium-term environmental needs of developing countries.

18. There are regular campaigns to seek increased contributions to the Environment Fund, to obtain their early payment and the payment of contribution arrears in order to increase the resources available for environmental projects and programmes to meet the increasing environmental needs of the developing countries and to counter currency changes and the inflationary process which has resulted in the loss of value of the level of contributions throughout the years. Such campaigns of course require firm and effective support from the Governing Council, since the actual situation of availability of resources is becoming more and more uncertain and the amounts of available funds, even in nominal terms, are continuously declining.

19. The Governing Council at its tenth session adopted decisions oriented towards strengthening the support to financing serious environmental problems in developing countries, in particular with a view to:

(a) Intensifying horizontal co-operation among developing countries by identifying subject areas and activities for a fruitful exchange of experience as well as identifying expertise and institutions in developing countries which could extend assistance to other developing countries or co-operate with similar expertise and institutions in those countries (decision 10/4);

(b) Soliciting resources to facilitate the provision of expert assistance to developing countries to address their priority environmental programmes and projects by calling upon Governments to make available resources additional to those already being provided to the Environment Programme in accordance with established procedures, for example by making counterpart contributions available in accordance with rule 204.1 of the Financial Rules of the Fund (decision 10/26).

20. Furthermore, the Governing Council requested the preparation of a study analysing ways and means to enable UNEP to address the most serious environmental problems in developing countries more adequately (decision 10/6).

21. Complying with the above decisions, UNEP has promoted counterpart contributions through a mechanism which facilitates the flow of additional resources to formulate and implement specific programmes and projects addressing the most serious environmental problems of developing countries. This is a brokerage mechanism between donors and developing countries which has been called the "Clearing-house mechanism" and is described in documents UNEP/GC.11/3/Add.5 and UNEP/GC.12/4.

22. At the time of the ninth session of the Governing Council in 1981, the total of funds in non-convertible currencies (NCC) accumulated in the Environment Fund amounted to 50 per cent of the Fund's resources. At that time, the Governing Council in its decision 9/23, paragraph 6, requested the Executive Director to make the most effective possible use of the non-convertible resources.

23. Although the NCC component of the Fund is being increasingly utilized, the present level of NCC resources amounting to 42 per cent of the total resources of the Fund, there are inherent administrative complexities when establishing projects using these resources, with the result that most of the projects are implemented in the first instance with government institutions in the NCC-donor countries concerned. The use of such resources to support the regional and subregional environmental programmes in Latin America and the Caribbean is thus limited.

24. In conclusion, although additional financing might be obtained from international and bilateral sources to support the regional programmes, these sources have to be identified, tapped, and catalyzed by a substantial regional counterpart contribution from the national Governments participating in the programmes in order to achieve full implementation of the regional and subregional programmes of common interest approved at the Buenos Aires meeting. In view of the balance-of-payment difficulties, such contribution would presuppose modalities of support not requiring the disbursement of foreign exchange.

III. THE UTILIZATION OF NATIONAL CURRENCIES AND CONTRIBUTIONS IN KIND

25. The need for and importance of strengthening horizontal co-operation activities in Latin America and the Caribbean is now widely recognized and supported at the highest political level of the nations of the region.

26. The use of national currencies and resources in kind to support technical co-operation projects in Latin America and the Caribbean is not a new development. Strictly speaking, any regional or national technical assistance programme always involves expenditures that must be made in local currencies. A substantial amount, for example, of the expenditures of UNEP-supported projects in the region could be financed in local currencies or contributions in kind, particularly components relating to personnel, training and subcontracting.

27. Items which usually are or could be financed in local currencies include:

(a) Transportation of experts or fellowship-holders participating in regional co-operation programmes using the national airlines;

(b) Per diem costs of officers, experts or fellowship holders participating in regional exchange programmes;

(c) Fees for consultants, experts and lecturers participating in technical training programmes. Fees could be paid in the currency of the country of residence of the expert or consultant, as is already a common practice in many instances within international agencies based in a given country when paying experts residing in the country for consultant services;

(d) Provision of fellowships and training of personnel in the countries of the region;

(e) Printing and publication of educational and information materials;

(f) Supply of office and laboratory equipment, motor vehicles, computers and other goods which are manufactured in several of the most industrialized countries of the region for certain projects and activities.

28. Appropriate project-planning involving specific negotiations of concrete activities with national institutions would facilitate support for the implementation of the regional programmes through contributions in kind. Although these contributions must be specified once the particular project documents are developed, the following inputs of such contributions can be envisaged:

(a) Use of conference facilities;

(b) Use of research centres and field station facilities;

(c) Use of lodging facilities for extended training courses;

(d) Use of installed capacity for printing and reproduction of documents;

(e) Local transportation facilities;

(f) Use of computer facilities and software.

Scope and limitations of national contributions

29. There is wide experience in the utilization of national currencies and contributions in kind as counterpart contributions to bilateral technical assistance projects, where primarily the national resources are utilized to cover local expenditures. On the other hand there seems to be very little experience of administration and accounting practices to operate a regional project on the basis of a multiplicity of national non-convertible currencies.

30. Another foreseeable difficulty in a system whereby national currencies are committed to support regional programmes would be the gradual and sometimes rapid devaluation of currencies on account of the acute inflationary process which currently prevails in the Latin America and Caribbean region.

31. Since contributions in national currencies should appear on the national budgets of Governments, it would not be easy to maintain the flexibility that would be necessary to keep the contribution fixed at its real original value. Although this is not an insurmountable difficulty, it would require specific agreements with the respective participating countries to ensure ways by which their contributions towards the regional environmental programmes are kept at the appropriate level.

32. Contributions in local currencies and in kind to finance technical co-operation programmes are part of the process of horizontal co-operation which is becoming more and more important in the region. However, up to now the character of this horizontal co-operation has mostly been of a bilateral nature, and mechanisms to facilitate horizontal co-operation on a multilateral regional basis, would need to be developed.

Mechanisms for the mobilization of national contributions

33. As a result of the consultations undertaken for the preparation of this document several existing or proposed mechanisms for the utilization of national resources to support regional co-operation programmes were explored:

(a) The Inter-American Development Bank utilizes financial resources in national currencies obtained through the contributions of member countries to sponsor an Intra-Regional Technical Co-operation Programme (CT INTRA) through which experts from one or several developing countries provide technical assistance to another country, or fellowships are covered for training in particular technical areas. The expenditures associated with the travel, per diem and fees involved in this exchange are covered by the Bank's holdings of national currencies,

(b) Some offices of UNDP in direct negotiations with the Governments concerned have developed a system of "co-sharing", wherein their expenditures in the host country are covered by national currencies provided by the Government, unencumbering in this manner hard currency which can be utilized for other mutually agreed purposes. This system of co-sharing has, in certain instances, been expanded to include more than one country as a result of bilateral agreements between the countries involved and UNDP,

(c) The United Nations Industrial Development Organization (UNIDO) has developed a system whereby "Solidarity Inter-Ministerial Meetings" of developing countries are convened, at which participating countries are presented with a portfolio of projects describing industrial development projects for one developing country and requests for the specific assistance of the participating countries to implement them. The Meetings facilitate the multilateral flow of financial and technical assistance from several developing countries to promote development in another developing country;

(d) A regional horizontal co-operation system based on pledges in national currency to specific co-operation projects, and mutual compensation of accounts using the Inter-American Development Bank and other regional institutions as central mechanisms to ensure the liquidity of the system and guarantee rediscount co-operation credit agreements, is being proposed by ILPES and is at present under consideration by Governments.

34. The Expert Group Meeting on Financial Alternatives, held in Mexico City in January 1985, reviewed these and other options for the establishment of mechanisms of utilization of national resources and focused on the following possibilities:

(a) Establishment of a Regional Fund into which participating countries would deposit contributions in their national currencies. Disbursements from this special account or fund would be utilized by UNEP for projects within the framework of the programmes of common interest with the approval of the Governments participating in the projects;

(b) Establishment of a pledging mechanism through which Governments participating in a regional project would commit resources, which would be disbursed by each Government as required for the implementation of the component of the project to be undertaken in its country;

(c) A system of foreseeable commitments through which Governments, on the basis of a firm commitment to support the regional environmental programmes, would provide an indicative figure of the national resources they would be willing to allocate for each regional programme. This system would allow the planning of the development of projects around the indicative figures; each specific project would be developed and approved by Governments and contributions to them would be made within the limits of the indicative figures originally advanced.

35. The operational mechanisms identified and briefly described above provide some possibilities of utilizing contributions in national currencies and in kind to support the regional environmental programmes. Expanding the already existing practice of contribution in national currencies and in services in kind from the typical national bilateral conception to a regional counterpart contribution for region-wide projects, is feasible through one or a combination of these mechanisms or perhaps through mechanisms yet to be defined. It would be necessary to carry out tests until the right formula is found and adjustments made to suit the needs and the nature of the regional environmental programmes.

IV. CONCLUSIONS AND RECOMMENDATIONS

36. On the basis of the consultations with international or regional organizations, the findings in the study carried out by the consultant, the recommendations of the Expert Group Meeting on Financial Alternatives and UNEP's experience of seeking additional means of financing environmental programmes, the conclusions and recommendations reproduced below are presented for the consideration of the Governing Council. These conclusions and recommendations will also be discussed at the fourth Regional Intergovernmental Meeting on Environment in Latin America and the Caribbean and the results of these discussions will be reported to the Governing Council at its thirteenth session.

(a) In order to promote regional environmental co-operation in Latin America and the Caribbean and secure the financial and material resources necessary to implement the regional environmental programmes of common interest, a flexible, gradual approach to develop a mechanism for the mobilization and use of financial resources in national currencies and contributions in kind in support of these programmes, is a realistic possibility;

(b) Such an approach nevertheless requires the clear political will of the Governments of the region to commit increased resources in national currencies and in kind to regional co-operation, as well as new efforts to mobilize resources from regional and international financing institutions and bilateral donors;

(c) The steps suggested for the establishment of such a mechanism are:

(i) Agreement by Governments to the establishment of a mechanism of foreseeable commitments in national currencies and in kind in order to provide an indication of the resources within which each regional co-operation project could be developed;

(ii) Development of specific project proposals within the framework of the regional environmental programmes of common interest and UNEP's priority programmes, and determination of the specific financial requirements and requirements in kind that might be offered by each country participating in the regional projects. It is essential that in order to develop these specific projects, UNEP should be supported by Governments of the region through secondment of the required professional staff.

(d) On the above basis and within its overall set of priorities UNEP is prepared to assist the Latin American and Caribbean countries in the establishment of a mechanism for the mobilization of financial resources as a test model for possible introduction in other regions.

(e) UNEP would also be prepared to contribute towards the establishment of an information system concerning availability of financial resources for environmental regional projects of common interest from other international sources and assist in negotiating utilization of such funds for the projects.