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Taking Stock of Funding for International Cooperation on Environmental Matters

Issue Paper for the 19th meeting of the senior officials of the Environment Management Group¹

Executive Summary

This note is prepared by the EMG Secretariat to stimulate a discussion by the senior officials of the EMG at their 19th meeting on whether a contribution by the EMG to the issue of enhancing coherent and effective funding of the environmental agenda within the broader context of financing for sustainable development, as outlined in the outcome document of the Rio+20 Conference, would be useful. Elements for consideration would include: how environmental financing has evolved and how it can best be captured; what constitutes environmental funding and how environment-related financial flows should be categorized; whether the current data provides an adequate overview for policy makers; and whether a stocktaking by the EMG of existing financial flows for environment would add value.

The senior officials may also wish to consider whether a contribution on this issue by the EMG would be of value to the work of the UN Task Team Working Group on “Financing for sustainable development” which supports the Intergovernmental Committee of Experts on Sustainable Development Financing.

Introduction

The outcome document of the Rio+20 recognizes that “*greater coherence and coordination among the various funding mechanisms and initiatives related to sustainable development are crucial*” (para. 262). Enhancing the coherence and efficiency of funding for the environment is an integral part of enhancing financing of sustainable development, particularly given the current state of public budgets. As a first step towards improving coherence and coordination, the outcome document calls for the establishment of an intergovernmental committee, tasked with assessing financing needs and considering the effectiveness, consistency and synergy of existing instruments and frameworks (paras:255, 256).

In response to this call, the Expert Committee on a Sustainable Development Financing Strategy was established in early 2013. It had its first meeting in August 2013 and decided to organize its work around three substantive clusters of issues, namely: mapping of the current situation; resource mobilization; and institutional issues. The EMG senior officials may wish to reflect on whether the EMG can make a contribution in this area by providing a perspective on the environmental dimension of financing for sustainable development that can be shared with the UN Task Team working group

¹ This note was prepared by the EMG Secretariat with the support of Benjamin Görlach and Christiane Gerstetter (Ecologic Institute).

on financing for sustainable development or be used for further work in enhancing financing of sustainable development.

How have environmental financing systems evolved and how can they be captured?

For historical, political and administrative reasons, a multitude of different official actors provide funding for environment-related initiatives and activities through various instruments and mechanisms. In broad terms, the current financing systems can be looked at:

- *By actors involved* in financing environment-related activities: This includes UN agencies and programmes, the World Bank and GEF, regional development and investment banks, and bilateral donor countries. Each of these actors, in turn, may administer a set of different instruments and mechanisms. For instance, UNEP itself covers not only the UN Environment Fund, but also a considerable number of trust funds.
- *By funding instrument*: the most fundamental distinction here is that between loans and grants, but other innovative funding mechanisms have been employed (e.g. green bonds).
- *By environmental issues addressed*, from air pollution to wetland protection. Many of these issues are associated with their own frameworks.

The funding instruments and mechanisms differ considerably concerning, inter alia, their legal basis, the modalities for contribution and spending, their objectives, access and governance arrangements. The fragmentation of funding systems makes it extremely hard to give a consistent overview of total funding, and to keep track of the different flows. Monitoring and tracking are further complicated by the lack of clarity on what counts as environmental funding. Scholarly interest in the subject is not very high, and large-scale assessments of financing of environment are few. The fragmented character of the system has other negative effects, such as inefficiencies, imbalanced distribution of funding across countries and issues, the difficulty of mobilizing funding for large cross-cutting and integrated projects, and a heavy burden of transactions costs on recipient countries that need to deal with a large number of mechanisms and associated reporting obligations.

Is the current data sufficient for providing a big picture for policy makers on what constitute environmental funding? Would a stocktaking of existing financial flows add value?

Currently, the most comprehensive system for tracking official environmental funding is the OECD Development Assistance Committee's (DAC) Creditor Reporting System (CRS). This system tracks funding for Official Development Assistance (ODA) from OECD-DAC member countries as well as some other official flows. However, the scope and quality of data on environmental funding is limited, especially regarding the coverage of multilateral flows and emerging donors.

In the past, there have been several attempts to take stock of the existing funding mechanisms and flows: the 2008 Management Review of Environmental Governance within the United Nations System, produced by the UN Joint Inspection Unit, has looked at environmental finance, but it only

provides a broad overview². A 2011 study for the Climate Policy Initiative provides an excellent overview of climate finance, but does not include other environmental issues³. A 2012 study by the Ecologic Institute gives an overview of funding across all environmental issues, but acknowledges the limited available, consistent and reliable data on IEG funding.

A general problem is what to include in the accounting—i.e. what should qualify as “environmental” funding. In practice, there are often borderline cases where it is a matter of judgment if an activity is considered as primarily environmental. A case in point is funding for water supply and sanitation. Improved water supply and sanitation could be seen as primarily targeting human health; but it also clearly benefits the quality of the environment. Similarly, improving water resources management, which is primarily an environmental policy, is clearly beneficial for improving water supply and sanitation. Whether or not water supply and sanitation are included as environmental funding has considerable influence on the overall reported volume of funding. Another problem is the lack of common reporting standards. There are several discrepancies in current reporting—e.g., some institutions do not distinguish clearly between loans and grants, but instead report the sum of the two; agencies also report at different frequencies and in different currencies. Some of these discrepancies could be resolved relatively easily. Others, such as agreeing a common definition and categorisation of funding flows, could necessitate the re-organization of data and internal accounting practices in the different institutions, which is a considerable task.

A stocktaking exercise of the existing environmental finance flows might be needed, including options for a common understanding of what constitutes environmental funding. This would include definitions and categorization, as well as options on common data quality and reporting standards, which are currently absent.

What would be the value added of an EMG contribution?

As the UN system-wide coordination body on environment, the EMG is composed of 47 UN entities including MEAs and the Bretton Woods Institutions, a large number of which are engaged in financing the environmental agenda and which own systems, manage information and carry out assessments and analysis of direct or indirect financing of the environment at national, regional or global level. A stocktaking exercise by the EMG could provide a comprehensive overview of all of the environment-related funding flows provided or managed by its members, as well as collecting information through its individual members on funding flows, mechanisms, and instruments by other engaged official actors. This data could be compiled on the basis of a mutually agreed set of definitions and reporting categories, thus contributing to the formulation of a common reporting standard. The outcome of the stocktaking can contribute to the future efforts on developing a tracking system for environmental funding and could be made available to the UN Task Team Working Group on Financing for Sustainable Development.

² Inomata, T (2008): Management Review of Environmental Governance within the United Nations System. Document JIU/REP/2008/3. UN Joint Inspection Unit: Geneva. Available at: http://www.unjui.org/data/reports/2008/en2008_3.pdf

³ Buchner, B; Falconer A; Hervé-Mignucci, M; Trabacchi, C and Brinkman, M (2011): The Landscape of Climate Finance. Climate Policy Initiative: Venice, 27 October 2011