



United Nations  
Environment  
Programme



Distr.  
General

UNEP/Oz1. Pro.WG.III(2)/Inf.4  
2 May 1990

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ENGLISH ONLY

OPEN-ENDED WORKING GROUP OF THE  
PARTIES TO THE MONTREAL PROTOCOL  
Second session of the third meeting  
Geneva, 9-11 May 1990

A Note to the  
Development Committee  
Funding for the Global Environment  
(Prepared by the staff of the World Bank)

Na.90-2219



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(Prepared by the staff of the World Bank)

April 10, 1990

1. In recent years, the Development Committee has discussed environmental matters on several occasions, paying particular attention to the progress that the World Bank is making in integrating environmental issues into its policy and operational work. In addition, the Development Committee has emphasized the importance of global climate change issues and noted that technological transfers and additional external financial support will be needed to help meet the increased costs and requirements of expanded efforts to integrate environmental considerations in development plans. At the September 1989 meeting of the Development Committee, the Bank was asked to review associated financial requirements and mechanisms.

2. At the previous meeting of the Development Committee, Mr. Warnke, Minister of Economic Cooperation, Federal Republic of Germany, introduced the general concept of a facility to finance environmental measures. Mr. Beregovoy, the Finance Minister of France suggested that the Bank explore interest among its members in establishing a facility for funding programs in developing countries which would address global environmental objectives. If there was interest, France was prepared to support such a facility with a tentative amount of FFr. 900 million over three years.

3. In response to these requests, a Discussion Paper entitled "Funding for the Global Environment" (attached) was prepared. This paper was discussed at a meeting in Paris on March 15-16, 1990. The meeting was chaired by Mr. Ernest Stern, Senior Vice President for Finance of the World Bank and attended by representatives from seventeen donor countries<sup>2/</sup>, UNEP and UNDP. The paper puts forward a proposal for the creation of a Global Environment Facility to address four key areas of concern:

- o Protection of the Ozone Layer;
- o Reduction of emissions of greenhouse gases which cause climate change and emissions which result in transboundary pollution;
- o Protection against degradation of international water resources; and
- o Protection of biodiversity.

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<sup>1/</sup> This cover note and the attached paper of the same title are background for discussion under the agenda items "Progress Report on Environmental Issues."

<sup>2/</sup> Australia, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Italy, Japan, The Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, and United States.

4. The Paper proposes the funding of a pilot program to address these issues through the provision of additional concessional finance for technical assistance and investment programs in developing countries. It envisages a tripartite collaboration between UNEP, UNDP and the World Bank in the operation of a Global Environment Facility with each organization building on its comparative advantages: the experience of UNEP in developing global policies and integrating them into multilateral conventions and in assisting developing countries in defining their needs for implementing these treaties; the significant role that UNDP plays as a source of technical assistance for developing countries and its management and coordination capacity at the country level through its 113 field offices; and the experience of the World Bank in project formulation, aid coordination, policy advice and program implementation.

5. The Paris meeting revealed a wide range of views, with general endorsement of efforts to develop proposals for an environmental facility. While the modalities of the proposal remain the subject of discussion and further work is needed to elaborate specific mechanisms, four broad themes emerged from the meeting:

- First, donors recognized the need for additional concessional funding to finance environmental activities of global concern. All donors recognize the importance of achieving as much additionality as possible, although this objective is not amenable to precise definition in practice. Some indicated that while initially funds might be taken from aid budgets, in subsequent years additional funding could be sought. On the issue of concessionality most donors considered that both low- and middle-income developing countries would need concessional funding in support of investments which were justified mainly in terms of their beneficial impact on the global environment. The Bank was asked to carry out further analysis on how to differentiate such programs from those which provided adequate returns to the national economy and which therefore should be supported through the Bank's regular lending program.
- Second, there was general agreement that while broad-based and significant multilateral participation was required in funding the Facility, this need not mean initially formal burden sharing arrangements according to a set formula. Donors envisaged a combination of voluntary contributions and the incorporation of whatever contractual obligations or assessments which may be agreed in the context of individual conventions (e.g. the Montreal Protocol).
- Third, a number of donors were of the view that the Facility would require a multilateral core fund of a size sufficient to constitute a credible pilot program in support of action by a wide range of developing countries to address global environmental issues. While donor representatives generally

felt that more information on prospective uses would be needed before they could take a position on the desirable size for a Facility, the Chairman suggested that a core fund of SDR 1 billion for an initial three-year period was the minimum needed for engaging a broad range of developing countries in a serious re-examination of their investment priorities as they relate to the global environment. A number of representatives urged flexibility in arrangements which could permit contributions to the core fund to take different forms as well as the association of bilateral cofinancing to enlarge the scale of the overall program.

- Fourth, there was broad endorsement by donors of the proposal for a tripartite collaboration. Donors emphasized several points in this regard. First, they underlined the importance of the current set of negotiations under UNEP's direction which are intended to achieve international agreements on the major global commons issues. They were concerned that support for a Facility should not delay the process of reaching agreement on the global framework. Both the UNEP representative and the Bank pointed out that the Facility was intended to be supportive of these efforts and to be compatible with them. Second, it was also noted that there is a need to strengthen significantly the human resources base and capacity of developing countries to manage natural resources and environmental aspects of global concern, and that UNDP could expand technical assistance for this purpose within the framework of the Facility. Third, the donors emphasized the important role they wanted the Bank to play in the formulation and implementation of investments which address global environmental issues. They wanted reassurance, however, that this would not come at the expense of the Bank's efforts to support national environmental programs. Bank staff at the meeting explained that the Bank fully intended to continue its priority and commitment for national programs and that many aspects of the global agenda were intimately bound up with these national programs so that their integration offered the prospect of addressing both areas in a more efficient and effective manner. Fourth, while recognizing that the efficient management of the Facility required straightforward decision-making procedures, donors stressed the need for the Bank to undertake extensive consultation--not only with its partner agencies, UNEP and UNDP--but also at regular intervals with donors and developing country representatives, and periodically with the scientific community and relevant NGOs.
- In general, the participants at the Paris meeting welcomed the initiative the Bank had taken in putting forward the proposal and urged the Chairman to report to the Development Committee on the outcome of the meeting.

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Ministers may wish to express their views on the issues discussed at the donors meeting and set out above. In addition, are there other issues which would be of concern to Ministers if discussion on the establishment of a Facility is to proceed? Would Ministers agree that the more detailed analysis needed to advance this proposal for a Facility should now be undertaken? Would Ministers agree that as a next step, there should be follow-up meetings with donors with a view to completing negotiations on the Facility this calendar year?