

Tracking Global Environmental Financing

A Proposal

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informational management of global environmental financing flows will not, in itself, alleviate the problem of insufficient financing, but it can go a long way in improving the utilization of the financing that is available, in highlighting areas where financing efficiencies can be achieved, and in improving GEG coordination and the system's credibility.

To address these issues, this paper proposes the creation of a mechanism for tracking global environmental financing—the Global Environmental Financing Tracking Register (*the GEFT Register*).

This paper outlines a proposal for the establishment of a mechanism to track global environmental financing as a means to increase transparency, enhance efficiency and improve coordination and management of financial flows related to Global Environmental Governance (GEG).

One of the challenges identified in *Global Environmental Governance: A Reform Agenda* (see <http://www.iisd.org/pdf/2006/geg.pdf>) is the inefficient use of resources by the GEG system. It is quite clear that the GEG “system” has far fewer resources than it needs, but it is also clear that the resources available are used less than efficiently. At least part of the problem is informational. Those who provide, receive or use global environmental financing have equally haphazard and incomplete information on just what resources are available for what, or how and where they are being directed. Improving the



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As our book, *Global Environmental Governance: A Reform Agenda*, highlighted, while there is not enough money for the GEG challenges at hand, there is more money available than we think. These resources come from multiple sources and for multiple tasks, including: multilateral financial flows associated with multilateral organizations; MEAs and multilateral financial mechanisms; debt relief; private capital flows; non-traditional sources of financing; financing via the non-governmental sector; and domestic capital flows, etc. In our earlier work, we estimated that the global financial resources available for GEG-related activities is at least US\$10 billion, probably a gross underestimation.

However, one must be cautious in the use of such a number. There is no cause at all for complacency since this is but a fraction of the monies that would be required to properly manage the global environmental challenges of our times. Having said that, and largely because the challenges confronting us are so great, there is a pressing need to use the monies available as effectively and efficiently as possible. It is quite clear that this is not happening. Financial inefficiency is everybody's loss: it acts as a disincentive for donors to invest in the system, diminishes the credibility of the system's institutions and fails to provide full benefits to those who need them most.

One factor constraining the system's efficiency is a lack of transparency. There is a widely accepted assumption, supported by much anecdotal evidence, that resources in the GEG system are used inefficiently. There is a deep sense that the GEG system spends significantly on keeping the "system" and its institutions running, but relatively little actually gets spent on environmental action. This assumption comes with a heavy reputational price, discourages potential donors and makes it difficult for existing donors to secure budgets and fundraise.

The fact is, however, that there is very little information on just how much money is flowing through the system and for what purposes. In the final analysis, the reputation of the GEG system is diminished by a lack of information on whether the resources available are being spent wisely, or even ethically. This lack of information is due to the haphazard growth of the GEG system, among

other causes. In a way, the problem of tracking investments in the GEG system is equivalent to the accounting challenges that may be confronted by a small corner shop that rapidly grows into a chain of large stores. As the environmental enterprise has grown in size and complexity, the places the money is coming from and going to have proliferated. The result is that no one knows how much money is in the system, where is the money coming from and going to, who is using it, and how well it is being used.

Diversity in funding and financial flows is the natural consequence of the GEG system's tremendous growth and rapid expansion. One would expect that, as environmental issues are mainstreamed, different government ministries and agencies invest more on global environmental issues. This has created a challenge that relates not as much to a "lack" of information about global environmental investments as to a lack of meaningful ways to access and manage such information. Our proposal seeks to provide such a transparent mechanism.

The challenge is compounded by the inter-connected nature of environmental problems and the multitude of relevant actors and agencies involved in the generation and utilization of GEG-related financing. Even donor countries that invest significant resources on global environmental issues and have access to sophisticated financial information systems may find it difficult to say exactly how much they are spending on a particular global environmental issue at a particular point of time. It is not uncommon to find that different ministries and departments may be making different investments on the same issue, in different places, and to different recipients, with little or no coordination either between the various agencies in the donor country or the various recipients, even if they are in the same country.

To address these issues we propose the establishment of a mechanism for tracking global environmental financing—the Global Environmental Financing Tracking (GEFT) Register.

How will the GEFT Register work?

The GEFT Register—an information system on multilateral environmental financial flows—will provide transparent information on the type, amount and direction of financial flows in the GEG system, and enable policy-makers to make better and better-informed decisions. It could be modelled after the Financial Tracking Service (UN FTS) of the UN Office for the Coordination of Humanitarian Affairs (OCHA). The UN FTS is a Web-based database of humanitarian aid requirements and contributions. UN FTS depends on self-reporting by donors and recipients, has an agile system to access information, and information is normally updated every other day. The GEFT Register draws from the UN FTS tracking and reporting features and would allow sorting environmental financing by issue, by source and by recipient.

To be effective, the GEFT register will have to be designed to be: (a) transparent; (b) user-friendly; (c) easily accessible; (d) up to date; (e) voluntary; and (f) scalable and it must minimize the reporting burden by building on existing processes.

To meet such criteria, we propose a voluntary mechanism to report international financial flows earmarked for environmental purposes, to be accessed and available through the Web. The GEFT Register would allow for reporting by donors and recipients from national and sub-national government bodies and agencies, international organizations, NGOs, major groups and private sources. The Register could be hosted by the United Nations Environment Programme (UNEP), which is the natural institution for this task, due to its multilateral and environmental dimensions. The GEFT Register would require a small secretariat to maintain the database, ensure consistency of reported environmental financing and prepare an annual report. We envision that a small group of proactive countries would fund the initial stages of the Register, in a similar way as UN FTS is supported by donors.

The GEFT Register would be based on voluntary reporting

from donors and recipients. Donors are expected to do the bulk of the reporting, but reporting from recipients can be useful to verify consistency and to identify previously unaccounted financial flows. Most donors will have an incentive to report, since there are significant benefits for donors—including enhanced visibility and opportunities to increase/maintain budgets/fundraising. The reporting requirements for donors are small, since the information is readily available to the reporting donor and, once the system is running, transaction costs are low.

Many recipients should also have an incentive to report, to increase their visibility and establish their credentials as a reliable recipient of environmental financing. More importantly, such a mechanism can provide significant benefits to financing recipients—including better information on donor preferences, information on what issues are priorities for which donors and the ability to influence donor choices by highlighting key trends.

In order to report, a donor or recipient would need to appoint a focal point or reporting liaison with the GEFT Register. The appointment of a liaison ensures consistency of data. Once the focal liaison is designated, the reporting on environmental financing can be managed through a secure Web interface. Reporting should be dynamic, preferably happening as soon as information is available, and the database should be regularly updated. Provisions should be made for the inclusion of preliminary data that that can be adjusted later. Properly tagged, preliminary information can be valuable in real-time analysis of financial quantum, financial flows and financial concentrations without affecting data quality.

In addition to donor/recipient-reported financial flows, the GEFT Register would also search for publicly reported international environmental financing, particularly in the initial stages. This would include information on the Web sites of major donor and recipient countries and organizations. Duplication of work should be avoided, and if the information for a particular issue exists elsewhere, such as the public budgets of a MEA secretariat, or

environmentally tagged entries in the OECD Aid Activity Database (DAC/CRS), appropriate arrangements should be carried out with the hosting institutions to include that information in the Register.

We picture the first steps of the GEFT Register as slowly building up momentum, with no need to bring everyone on board upfront for the Register to become an operative and useful instrument. Indeed, the mechanism can be launched by a small group of motivated donors and its demonstrated success will itself be an incentive for others to join in. As long as a significant portion of committed donors report their activities, the Register can be started, and gradually expand as more donors gain confidence in the mechanism and join. Keeping the Register voluntary avoids the complications of gaining global consensus as well as eases concerns of countries that may be unwilling to join immediately.

Information reported to the GEFT Register would be stored in a database, and tagged according to several categories. These categories should be designed carefully, in order to:

- ensure quality and consistency of data;
- facilitate clarity in use;
- enable easy analysis;
- allow for cross-cutting issues;
- avoid duplication and double counting (some implementation agencies and NGOs can be both donors and recipients of environmental financing);
- cover all major environmental issues; and
- separate private investments of commercial nature from those derived from GEG, such as CDM, or of environmental assistance nature.

While a more detailed list of attributes will need to be developed, the categories should at least reflect the following:

- quantity, type and form of the environmental financial flow;

- environmental issues being addressed;
- country of origin, destination and intermediaries;
- nature of source (governmental, NGO, private source, etc.); and
- nature of recipient (government agency, regional/local institution, NGO, etc.).

The experience in using categories of UN FTS, but also of other financial databases, such as OECD DAC/CRS, should be taken into consideration when establishing the GEFT Register.

Information available on the GEFT Register should be fully accessible to the general public through a Web interface. Data should be uploaded regularly and brought online when available. In addition to maintaining the Web-accessible database, it is suggested that UNEP should prepare an annual report based on the Register that outlines the key trends in global environmental financing. While interested donors, recipients, observers and academics are likely to use the Web interface directly for their research, a written report is convenient because it reaches a different audience and can provide a broader perspective.

The report should contain, in addition to the yearly data on financial flows, a policy-relevant but non-prescriptive preliminary analysis of the raw data, identifying major trends and changes on financial flows by nature, by issue, by region and by other pertinent areas.

In the elaboration of the annual report, UNEP should seek input and advice from independent scholars and experts, maybe through an open input period. However, to be useful, the report should be prepared promptly to preserve time-relevance, requiring a balancing exercise between the amount of external input and the need for speedy publication. Such a report could be released each year at the Global Ministerial Environment Forum (GMEF) and would go a long way in focusing the discussions on the more practical policy issues and on efficiency and streamlining of the GEG system efforts, including on financing.

Who benefits from the GEFT Register, how?

Let us be quite clear in restating the point that, in and of itself, the GEFT Register or any other financial information management mechanism is not going to solve all the problems of environmental financing. However, the GEFT Register promises to be a fairly easy-to-do, low-cost and potentially high-benefit step in the right direction. In short, its potential benefits—in terms of facilitating a more efficient use of resources and a more transparent appreciation of financial possibilities and gaps—greatly outweigh the costs of putting such a mechanism in place. In the spirit of our earlier arguments of GEG, this is something that is not only worth doing, but entirely doable in the practical and political sense of the term.

- The key benefit from the GEFT Register is a more efficient GEG system. It brings transparency, increases information on financial flows and allows for real-time policy-relevant analysis. Information becomes a tool that facilitates a better matching between supply (of funding) and demand (for GEG financing), thus increasing overall efficiency and performance of the system.
- A more transparent and efficient system is likely to be more appealing to donors, thus increasing the overall amount of financial resources available for GEG.
- A better understanding can be gained on which environmental issues capture most of the funding and which are most underfunded.
- A better understanding can be gained on which policy instruments and institutional arrangements of MEAs produce more and more effective financial flows.
- There is an opportunity for rationalization of the portfolio of investments on GEG. Rationalization includes:
 - reaching a balance between issues, regions, recipients and donors, avoiding to put all “the eggs in one basket”;
 - enhanced coordination among donors; and
 - avoiding duplication and contradiction in funding.

However, we fully understand that in order to become reality, the idea has to make sense not only conceptually, but also practically and politically. We believe it does. Here are some reasons why:

- *Donor* countries and organizations would benefit from the proposed mechanism because it gives them the ability to demonstrate their financial commitment to GEG in quantitative terms. It also allows donors to obtain an improved understanding of and the opportunity to rationalize their environmental investments portfolio. For some donors, increased visibility facilitates securing/increasing future budgets.
- At the *domestic* level, GEFT can facilitate improved information sharing between different government agencies by reducing the burden of coordination on individual agencies and capturing the coordination benefits that can come from informational transparency. Informational transparency can also allow for improved resource allocation to different issues and agencies and rationalize budgetary claims and entitlements of various agencies within the same bureaucracy.
- *Recipient* countries and organizations would also benefit from the proposed mechanism because it provides a transparent snapshot of prevailing international interests, as well as the specific priorities of various donors. This can allow recipients to better tailor and target their requests for funding, to base their claims for support on easily accessible analysis and information, and to better match their own activities to available or potential funding trends.

In short, we believe the GEFT Register is relatively easy to implement and offers a low reporting burden. It has the potential to increase the efficiency, and as a consequence the total funding, of the GEG system. There is no need to reinvent the wheel—the Register can take advantage of the lessons already learned from the experiences in tracking financial flows in the development and humanitarian aid fields.

Importantly, the GEFT Register is a scalable idea. If it demonstrates success, it can be scaled up in terms of the number and type of donors and recipients, and the level of

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detail. The Register can also be scaled up by including demands for multilateral environmental funding, similar to how UN FTS registers appeals for humanitarian aid. In this regard, a scaled-up GEFT could also serve as a clearing house, much as UN FTS does.

The Register is also likely to attract more attention and self-reporting from more donors once the concept is demonstrated to be low-effort and high-impact. In this regard, leadership is the key ingredient for its success. Leadership by a group of donor countries will be needed in order to achieve a critical mass of reporting, as well as to encourage other agencies and organizations to participate and report to the Register.

In the longer term, the GEFT Register will succeed when, and only when, it manages to increase the visibility of donors, the transparency of the multilateral environmental flows and, overall, the effectiveness of the GEG system. It will certainly not be able to do so on its own, but it undoubtedly has the potential to contribute to that goal.

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