

Sustaining Global Environmental Governance: Innovation in Environment and Development Finance

Maritta R.v.B. Koch-Weser

SUMMARY

The 1992 Rio Earth Summit established a sustainable development plan of action, Agenda 21, but failed to achieve a global governance and finance system strong enough to implement it. Experience suggests that the additional funding needed for global-scale investments in environment and sustainable development is unlikely to come from the public sector alone. New efforts to fund the necessary initiatives must therefore come from enlightened citizens, social entrepreneurs, and the growing segment of the business community that associates shareholder value with sustainability and corporate social responsibility.

This chapter highlights a series of policy reforms that must underpin any improvements in global environmental governance. It argues, in addition, that funding must be increased significantly, and proposes the creation of 1) a Johannesburg Commission on Sustainable Development Finance, and (2) a new global financing mechanism – a Sustainable Development Exchange Facility.

THE MILLENNIUM GAP

To improve global environmental management, we need a stronger global environmental governance system. Stronger governance requires not only a solid financing system, but, very importantly, environmentally friendly national and international fiscal policies and legislation.

No matter how much the 1992 Rio Earth Summit appears to have galvanized governmental and public support for the environment, recent budget numbers stand in stark contrast to public rhetoric. Accelerated, often irreversible losses of biodiversity, forests, and ocean resources attest to the fact that we are not meeting the Rio targets. Instead, we are witnessing a deepening crisis.

Budget numbers reveal waning international commitment to the environmental cause and broader, overall stagnation in official development assistance. Today's public finance picture for the environment is epitomized by the limited resources of the United Nations Environment Programme. UNEP's core budget of some \$44 million annually (UNEP, 2001: 45) falls woefully short of its needs in fulfilling its global mandate.

Overall, trends in development aid allocations show continuous decline. The gap between official development assistance (ODA) pledges by the international community and actual contributions has never been wider.

Despite unprecedented levels of global wealth, the long-standing pledge by governments to contribute 0.7 percent of gross domestic product (GDP) to development assistance has remained largely unfulfilled. Instead, contributions since 1992 have fallen to 0.2-0.1 percent of GDP in many developed countries.

At the same time, the 2000 UN Millennium Summit committed national governments to numerically specific and time-bound targets for sustainable development. The global community has committed itself to halving absolute poverty by the year 2015 (lifting some 750

million people out of poverty over the coming decade). To achieve this goal, the world needs an estimated additional annual amount of \$50 billion in official development assistance (ODA).

This wider-than-ever gap – “the Millennium Gap” – between meager ODA pledges, on the one hand, and growing new commitments, on the other, must be narrowed and closed.

The World Summit on Sustainable Development (WSSD) in Johannesburg could continue to chart the course that the 2002 Monterrey Conference on Financing for Development outlined. In the *Monterrey Consensus*, heads of state agreed to mobilize financial resources and to achieve the national and international economic conditions required to fulfill internationally agreed development goals, including those contained in the UN Millennium Declaration.

It remains to be seen whether the Monterrey Conference should be hailed as a major success. So far, all it seems to have produced is a broader feeling of goodwill and promises for timid increases in development finance – many of which have yet to be approved and enacted by national parliaments.

In fact, the Monterrey Consensus provides neither new visions nor grand designs. In addition, a few weeks after the Monterrey Conference, its promises for greater global fairness have been derailed by stepped-up trade distortions in the form of increased agricultural subsidies.

The leaders gathered in Monterrey also failed to come to the rescue of the Global Environment Facility (GEF) – the only true additional line of environmental grant funding made available by the international community since the 1992 Rio Earth Summit. Established in 1991 as an experimental program, the Global Environment Facility was instituted as a permanent body after the 1992 Rio Earth Summit.¹ GEF funding is available for investments and technical assistance to address five major threats to the environment – global warming, biodiversity loss, degradation of international waters, ozone depletion, and persistent organic pollutants. The World Bank, UNDP, and UNEP share the responsibility for operating the GEF. Official pledges to the GEF had

¹ See Streck, this volume, for an analysis of the GEF.

increased in earlier years – in 1994, thirty-four nations promised \$2 billion in support of the GEF’s missions and in 1998, thirty-six nations pledged \$2.75 billion (GEF, 2002). Recently, however, and in spite of its fine performance, liquidity at the GEF has reached a low point.

It is ironic that at the very time we approach the Johannesburg Summit, funding for the GEF has fallen and stalemate about its future has ensued. Some of the GEF’s sponsors are failing to meet their funding obligations. And the majority – who would be willing to continue to contribute and perhaps increase their support – does not wish to bail out those who fail to pay up, and on goes the downward spiral. This is a most depressing spectacle.

THE FIFTY BILLION DOLLAR CHALLENGE

An additional \$50 billion per year – the sum stipulated by the international community to close “the Millennium Gap” – is a large sum.

It has become clear that, for the time being, there is no prospect of achieving this goal within the current ODA framework alone. We must therefore chart a second, complementary path to fulfill the commitments our societies have made.

We could meet the “fifty billion dollar challenge” by scaling up a host of already successful innovative strategies and by testing some more recently proposed additional options:

- *Voluntary efforts.* Most require synergies between, on the one hand, civil society voluntarism and private sector social responsibility systems, and, on the other hand, government legislation conducive to voluntary giving.
- *Mobilization of large numbers of small contributions.* In the electronic billing and internet age, billions of tiny contributions can be raised at minimal administrative cost, and aggregated as sizable additional funding sources.

- *Creation of special funds, credit insurance, and lines of socially and environmentally oriented banking.*
- *New paths of government engagement.* Charges for the use of the global commons, voluntary or imposed charges on capital flows or currency transfers,² or Special Drawing Rights³ (SDRs) are among the proposals.

A scaling up of a broad-based approach to innovative sustainable development finance, involving all of the above, would need to be promoted from a suitable institutional base. Thus, institutional reform and a commitment to a stronger environmental policy structure must be advanced in tandem with a new system of finance.

POLICY REFORMS PLUS FINANCE

Before setting out an innovative finance agenda for Johannesburg in more detail, there is a need to address the arguments of policy reform advocates who suggest that the world should firmly hold on to its national purse strings until major policy reforms are put into place. They rightly claim that the lack of finance for sustainable development is of subordinate importance when compared to the importance of policy reforms. They also stress the need to root out poor governance and corruption, and establish new partnerships and alliances.

Some commentators argue that only if structural reforms on a greater scale came along would all be well. Consider, they say, the amounts – hundreds of billions of dollars – that could be mobilized

² Such charges are known as the Tobin tax – a very small tax, a fraction of one percent, on currency transfers across borders. It is intended to discourage speculation, but to remain small enough not to affect trade in products and services. See Patomaki (2001) for the case for a Tobin tax.

³ Special Drawing Rights (SDRs) are a form of financial assistance to developing countries. They are a claim on the freely usable currencies of International Monetary Fund (IMF) members, in that holders of SDRs can exchange them for these currencies (IMF, 2002). When countries exchange their SDRs for hard currency, they have to pay interest on the amount they receive, but not so long as they keep their allocations in the form of SDRs. See Soros (2002) for a detailed analysis of SDRs.

by debt relief, reductions in subsidies and other perverse economic incentives, and the elimination of trade barriers. They are right in many respects. The current global regime is off balance. What can small amounts of ODA achieve in the face of much larger, countervailing currents? This case has already been made convincingly for more than ten years now – starting with the World Bank’s 1992 *World Development Report on Environment and Development*. It is addressed under the World Bank’s debt initiative for heavily indebted poor countries, and under various proposals advocating the cancellation of debt servicing on old debts and the increase of grants and loans to developing countries (Sachs et al., 1999; Greenhill, 2002). Likewise, there is broad recognition of the fact that a reduction in import barriers in developed countries can positively support poverty alleviation in exporting countries in the developing world (IISD, 1994).

As much as they are needed, policy reforms should not be construed as substitutes for actual finance. They will not trickle down soon as direct sources of finance for urgently needed programs. Nor should they be construed as the precondition for any stepped-up support in line with the UN Millennium Goals.

The “fifty billion dollar challenge” remains: additional cash finance for development is needed now to pay for nature protection, education, sanitation, cleaner production, preventative health, natural disaster mitigation, and many other pressing needs.

Some analysts say that it is not money, but development effectiveness – the efficiency with which available funds are used – that is the real problem. Arguments that the key problems are institutional and that money does not matter are wrong-headed. To the contrary, institutional performance usually improves with adequate finance. In many poor countries, success can only come when institutions are strengthened financially and when public employees receive incomes decent enough to keep them outside the corruption trap.

A related concern is transparency and good governance. Some will say that not a penny should be given to developing countries so long

as they fail to root out corruption and poor governance. This view reflects universally held ideals as well as research findings. A report of the United Nations General Assembly states that “transparent and accountable governance” is necessary for “the realization of social and people-centered sustainable development” (UN General Assembly, 1997). Similarly, studies by the World Bank have shown that development effectiveness is closely correlated with good governance (Buckley, 1999; Evans and Battaile, 1998). Transferring scarce resources to corrupt governments with proven records of misusing aid may aggravate poverty among the world’s most vulnerable nations (Easterly, 2001). The World Bank and many bilateral donors put their money strategically where they witness better governance and withhold it explicitly from others.

And yet, the “good-governance-or-else” policy can also reflect an alarming lack of sincerity and understanding of institutional complexities. The quest for pure and transparent governance as a precondition for aid serves, at times, as a moral case for inaction – to the detriment of the poor and of urgent, time-bound sustainable development needs. If, for example, an ecosystem or biological species were threatened with extinction, we are obliged to ask whether their eternal fate should really be made so single-mindedly contingent on the quality of a temporary, current local government.

Some people and some threatened ecosystems will need support in spite of governments. And we cannot address the threats in the poorest regions if we insist on corruption being cleared up first. Development finance must not stay away, but try to make a positive difference within the current reality by advancing the good elements and people within bad systems.

In addition to reforms in policies and good governance, emerging public-private partnerships are frequently seen as one of the most effective strategies to address environmental and broader sustainable development issues. Public-private partnerships offer an alternative to

privatization “by combining the social responsibility, environmental awareness and public accountability of the public sector, with the finance, technology, managerial efficiency and entrepreneurial spirit of the private sector” (UNDP, 2002). Moreover, government efforts to develop partnerships with the private sector would lower the risks and costs of investments for private firms (Shin, 2001). However, public-private partnerships at times seem to be prematurely hailed as “the solution.” For now, many of them remain exceedingly *ad hoc* and small scale. To be considered a major global avenue to sustainable development, these partnerships must mature.

To sum up, efforts to advance policy reforms, development effectiveness, good governance, and public-private partnerships should all be seen as underpinnings, but not as substitutes, for improvements in sustainable development finance. Regardless of what other strategies are undertaken to promote sustainable development, the need for additional finance from new sources remains unchanged.

A JOHANNESBURG COMMISSION ON SUSTAINABLE DEVELOPMENT FINANCE

Two years ago, there were hopes that Johannesburg might become a watershed – overcoming the post-Rio shortcomings in global environmental governance and finance. These hopes have not been realized. The Monterrey conference took a step in the right direction, but did not go far enough. Time has now run out for a serious finance initiative to emerge in Johannesburg. Instead, the best possible WSSD outcome would be to launch a serious, in-depth technical work process, which might lead to tangible reforms over the course of the coming two years. The pre-Johannesburg process has produced an analysis of current shortfalls as well as many good ideas. These ideas now need to be galvanized in a follow-up process. A Johannesburg Commission on Sustainable Development Finance should be launched at the Summit – with terms of reference and the requisite political support and funding.

A Commission on Sustainable Development Finance should be launched to serve as an incubator for new ideas to promote development of funding instruments and institutional options. A technically skilled and multi-disciplinary team should be assigned to work for one to two years on financial, legal, and institutional designs, outside the formal public sector domain. Developing new financing systems requires space for entrepreneurship and innovation outside customary institutional confines.

The proposed Finance Commission should build on the achievements of previous government-focused initiatives, such as the Zedillo Commission. New emphasis should be placed on voluntary contributions by non-government entities, including corporations, NGOs, and citizens. The Johannesburg Commission should also examine the possibilities for encouraging private agents to participate in development finance efforts, and simultaneous ways to involve the public sector. The Finance Commission should develop design options and test concepts in the context of a meaningful consultation and engagement process. Its work should lead to pilot projects and actual start-up engagements.

Members of the Johannesburg Commission on Sustainable Development Finance should come from the world of innovative leaders and entrepreneurs, think tanks, foundations, NGOs, the private sector, and the government sector. Because the requisite thinking “outside the box” will require large degrees of creativity, freedom, and independence, the process of innovation would best be driven by those operating from outside the official family of environmental and development institutions.

THE ZEDILLO COMMISSION

UN Secretary General Kofi Annan appointed the Zedillo Commission, a panel of eleven financial experts under the Chairmanship of former Mexican President Ernesto Zedillo, in December 2000. Members included former U.S. Secretary of the Treasury Robert Rubin and former French Finance Minister and President of the European Commission Jacques Delors. Annan asked panel members to identify practical means of fulfilling international commitments to fight poverty, as set out at the 2000 Millennium Assembly, and building political momentum for the March 2002 Monterrey Conference on Financing for Development.

The report of the Zedillo Commission, *Financing for Development*, was presented in June 2001 at UN Headquarters in New York. The report advanced several reforms, including the creation of an International Tax Organization that would develop national tax policy norms, consideration of a global tax on carbon emissions, and new Special Drawing Rights (SDRs) allocations by the IMF. Unlike several civil society organizations, the Commission expressed skepticism at the idea of an international tax on financial transactions (Tobin tax). The Commission also suggested that the World Trade Organization attempt to fully integrate developing countries into the world trading system and called for the consolidation of the various organizations that share responsibility for environmental issues into a Global Environmental Organization.

<http://www.un.org/reports/financing/index.html>

A NEW GLOBAL FINANCING MECHANISM: A SUSTAINABLE DEVELOPMENT EXCHANGE FACILITY

The proposed Johannesburg Commission on Sustainable Development Finance should consider setting up a Sustainable Development Exchange Facility. Such a Facility would complement current multilateral and bilateral funding. The existing multilateral institutional system for financing sustainable development relies primarily on the World Bank and the regional development banks in Asia, Africa, Latin America, and Eastern Europe. The United Nations

**STRUCTURE OF THE PROPOSED JOHANNESBURG
FINANCE COMMISSION**

Membership: The Commission Members would be experts drawn primarily from non-governmental organizations and corporations, with some representatives from international organizations and the public sector. They would guide and oversee the work of a technical secretariat.

Secretariat: A small technical secretariat, under the leadership of a director appointed by the Commission, would – in close consultation with innovators, experts and subject matter leaders around the world – carry out the day-to-day work of the Commission.

Mandate: The Commission would be given a mandate to:

- Identify creative ways of raising funds for sustainable development, emphasizing the interconnection between private capital and social capital (non-governmental social entrepreneurship for sustainable development).
- Conceive of a system that would permit the continuous generation of new sources of funding. During its mandate and subsequently through a successor institution, the Commission would permanently seek new sources of funding.

Duration: The Commission's original mandate would extend over two years. It would be succeeded by a more permanent system, perhaps conceived along the lines of the Sustainable Development Exchange Facility outlined below, in order to continue the task of finding new sources of funding for development.

Development Programme also plays a critical role in capacity building, and the Global Environment Facility supports environmental efforts of global significance.

The purpose of a Sustainable Development Exchange Facility would be to achieve genuine financial “additionality.” Its quest for funds should not interfere or compete with current fundraising by civil society organizations or public entities. Such an Exchange Facility would succeed the proposed Johannesburg Finance Commission once its mandate expires.

The Exchange would develop several business options in parallel, in response to varying needs. It would:

- Raise and channel funds for loans or credit guarantees among the banking and insurance industries;
- Seek to raise funds for grants among the private sector and civil society;
- Develop financial sources based on international charges and taxes;
- Foster productive interrelationships between civil society and business initiatives and governmental schemes, such as tax breaks and other incentive systems;
- Become a continuous driver for financing deals, continually seeking out new and creative funding modalities;
- Be a trustworthy link for financiers and donors with implementing institutions, which would become eligible for funding on the basis of a certification system.

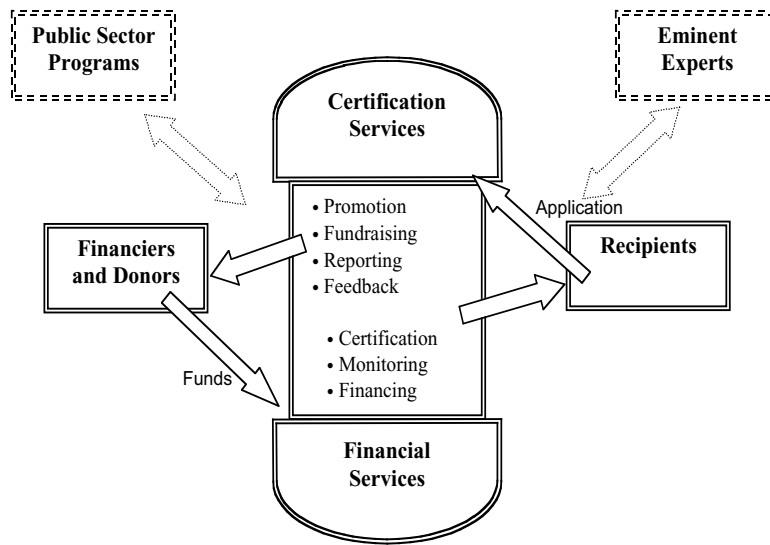
The Sustainable Development Exchange Facility would need to be incorporated as a cooperative, franchise-type system. It could combine the functions of a foundation and/or trust with services among its certified membership. The Exchange's governing body would comprise representatives predominantly from the private sector and civil society. At the same time, it would need to have strong and structured links to public sector local, national, regional, and international institutions.

The Exchange could start small and grow as "proof of concept" is achieved. To help attain the UN Millennium goals, the Exchange would have to be designed to eventually reach globally significant proportions. Pre-existing Exchange-type facilities (which exist under various social entrepreneurship ventures) could opt to accede to it.

The proposed Exchange would need strong leadership and convincing performance to engage increasing numbers of financiers and donors. It must be designed as a learning institution with continuous innovation functions to develop ever-smarter new instruments and methods. Above all, it must insist on and monitor the integrity and efficiency of the programs and institutions to which it channels funds.

The structure of the Exchange would bring into interaction four elements: financiers and donors, recipients, certification services, and financial services (Figure 1). It would be supported by two external pillars: eminent experts, as a resource for the Exchange’s certification services, and public sector development programs and supportive governmental structures.

Figure 1 Exchange Facility Structure



Recipients of the Exchange Facility

The Exchange Facility would function as a results-oriented environment and development resource service for accredited users. Recipients would typically be non-profit organizations focused on sustainable development through programs in environmental protection, poverty alleviation, provision of basic social services, or renewable energy projects. Private companies and public entities in need of compensation for adoption of environmentally superior business practices or technologies could also qualify as users with the Exchange.

For the recipients, the Exchange would facilitate matching proposed projects with financier and donor funds. Against a simple set of eligibility standards, it would apply streamlined project review and approval procedures, relying primarily on the track records and Exchange certification of applicants.

Financiers and Donors to the Exchange Facility

Sources of funding for the Exchange Facility could fall into a series of highly varied categories.

Donations would remain a central category. Some of the funding might come from governments. All funding would be on a voluntary basis, including:

- *Regular voluntary subscriptions.* Very small amounts could have a significant cumulative effect. If given the option, individuals worldwide could choose to contribute through different kinds of payment plans. For example, contributors' utility, telephone or credit card bills could be rounded up to the dollar every month, or an amount of \$0.05 could be deducted from their bank accounts after a certain number of transactions as a contribution to the Exchange Facility.
- *Corporate grants.* Corporations could be encouraged to make donations. These could take the form of one-time grants. They could also take the form of a long-term commitment of a very small percentage of revenue from a product line to match an environmental cause that requires continuous funding. Corporate grants of this sort could be publicized, benefiting the corporation's reputation, and advancing the general concept that shareholder value is associated with corporate responsibility and sustainability.
- *Donations by philanthropists.* Affluent individuals could be encouraged to make significant grants to finance projects in their name.
- *International lotteries.* In addition to voluntary donation programs, the Exchange Facility, with the approval of national governments, could organize an international lottery and/or collaborate with existing lottery systems. Given the international nature of the initiative, all citizens would be eligible to participate and potentially win a considerable amount in convertible currency. The proceeds from the lottery would be contributed to and earmarked by the Exchange Facility for projects of global environmental significance.

Private sector finance would be equally important. The Exchange Facility should seek to collaborate with private sector financiers willing to accept below market profit levels for environmentally friendly ventures. The Exchange would, for example, work with:

- *Development financiers* willing to invest in development and environment projects that promised at least a minimum measure of return;
- *Insurance companies or banks* willing to guarantee/provide collateral for meaningful commercially fundable environment and development entrepreneurship ventures.

Public contributions could also become significant. The Exchange Facility could work with governments and international organizations worldwide to set up other international schemes that would not place a burden on national budgets. These could include:

- *International transaction surcharges.* These taxes could involve micro-percentages on capital flows, currency flows, or trade- or labor-related transactions. The Tobin tax on international currency transfers is an example of this kind of surcharge. While the Tobin tax itself has its critics, some of its underlying concepts could inspire alternative schemes suitable for fundraising for development finance.
- *User charges for global public goods.* Very small fees could be imposed on goods that relate to car registrations, international travel or tourism – for instance, in connection with charges on aviation gasoline, flight tickets, or high seas transportation. In aggregate, these could add up to very significant sums.
- *Global energy or carbon tax.* Some scholars have called for a tax on carbon emissions to secure a more appropriate level of global emissions – a proposal that has been endorsed by the Zedillo Commission. By linking the money levied through such a tax with the proposed Sustainable Development Exchange Facility, such a carbon tax could produce a double benefit for the environment.

The Certification System of the Exchange Facility

A certification system would regulate recipient access and participation in the Exchange. For donors and financiers, such a system would provide a guarantee that their money is likely to be well spent, by organizations that have demonstrated their competence in the past. Certification would give financiers a realistic picture of the qualities and risks of applicant recipient institutions.

The certification system would draw on eminent experts worldwide. Some would come from academia and civil society, others from institutions like the World Bank, the UNDP, and the secretariats of various multilateral environmental agreements. A Global Environmental Mechanism and its global environmental information clearinghouse could also play a role in the proposed certification process (see Esty and Ivanova, this volume).

Demonstrable achievement and good past performance would be at the core of applicant certification. Development entrepreneurs and other potential recipients would need to apply to the certification system before receiving any financial (applicant certification) support.

Recipients who participate in the Exchange should also be required to submit to periodic re-certification; that is, to a general review of their achievements and administrative and accounting practices. Poor performers would lose their certification temporarily or permanently depending on the case. In reviewing proposed projects and programs, the Exchange would rely largely on the good judgment of applicants, provided their past record lent them sufficient credibility. Within tight timeframes, criteria, and service standards, a basic review of projects would be carried out.

Institutional reviews in the course of the certification process would also permit the Exchange to attend to rather specific requests and designations made by donors. The Exchange could thus serve as a broker between donors and users, matching particular donor preferences to particular recipient institutional profiles.

A Financial Service Window

A financial service window could also be established to administer and leverage funds received from donors. A financial service window might foster the development of a web of standardized high quality, transparent, and duly audited transactions between participating certified sponsors, financiers, and recipients. The financial service window would support certification services in monitoring the progress of ongoing projects.

While the certification service window would evaluate progress primarily in terms of sustainable development criteria, the financial service window would audit the users and ensure that funds had been used appropriately. The financial service window could also provide feedback to donors through regular financial and other progress reports, and use the results in the overall promotion of the Exchange.

Beyond directly funded projects, funds could be used to leverage limited resources. The monies might be used to stimulate and promote investment by private companies in cleaner production technologies (Deere and Bayon, 2002). Financial incentives could be particularly effective at promoting environmental investment among small and medium-sized enterprises whose characteristics, cost structures, and technical support needs allow them to respond better to promotional strategies than to imposed charges or taxes.

THE BENEFITS OF AN EXCHANGE FACILITY

The proposed Exchange Facility would aim to be an efficient connection between private capital and social capital. It could develop into:

- *An instrument to facilitate the work of those who serve the poor directly.* A fundamental constraint of the current institutional arrangements for financing environment and development is the mandate of the Bretton Woods institutions to provide financing

exclusively through national governments. So long as international institutions are obliged to reach the poor through the mandatory intermediation of governments – many of whom who are not committed to the wellbeing of their citizens – many efforts will come to naught. Instead, much like servicing the commercial private sector through the International Finance Corporation (IFC), social entrepreneurs should be treated under the Exchange as direct clients in recognition of their key roles in front-line development work.

- *Just-in-time funding.* Based on its institutional certification system, the Exchange could be designed with the capacity to approve new projects in a short time – from a few weeks to a few months – in contrast to official ODA processes, which often take years.
- *Emergency stand-by funding arrangements.* In some cases, even a response time of a few weeks can be too long. In this regard, the Exchange Facility could establish an emergency oriented stand-by system with the potential to rush with funds to the site of critical problems. This mechanism might be deployed to protect endangered environmental species or resources in times of calamity, war, migrations, fires, floods, and other disasters. To facilitate these operations, an “International League of NGOs” might organize environmental monitoring efforts along the same lines that Amnesty International does for human rights (Susskind and Ozawa, 1992: 159) and might find interested donors through the Exchange.
- *Continuity funding.* More than any of the existing sources of funding for development, the Exchange would prioritize sustained support for long-term programs, recognizing the importance of operation and maintenance beyond project start-up periods. For example, following start-up environmental investments in the 1980s and 1990s, funding is now required for the long-term maintenance of established protected areas and services. Ecosystem conservation requires small, uninterrupted contributions, rather than one-time grants. In linking donors to users, therefore, the Exchange could encourage long-term matching of funds and donor-users relationships.

- *Low transaction costs.* The Exchange would work with a minimum of core staff, and rely otherwise on outside technical experts who would be engaged on a task basis. To the greatest extent possible, the Exchange should remain an (almost) virtual institution, rather than turning into yet another development bureaucracy.

The effectiveness of the Exchange will depend on the degree of convergence between the interests of financiers, donors, and recipients.

Donors and Financiers of the Exchange Would Benefit From:

- The ability to earmark funds in accordance with geographical, thematic, or institutional preferences they might have;
- Transparent information about the project selection process, criteria, and results;
- Feedback on funded projects through internet-based reports from recipient institutions and users, along with periodic monitoring, evaluation, and independent audit reports, as well as the option to visit sites;
- Quality assurance services.

Recipients of Funds From the Exchange Would Benefit From:

- Assistance in matching highly varied needs with the equally diverse interests of the donor community;
- Advice and support for efforts to seek commercial loans for viable sustainable development investments;
- Guarantees and insurance instruments to back up market-based transactions for the environment;
- Advice on the design and development of projects;
- Leveraging and co-financing for cooperative funding schemes;
- Grants for operations not eligible for commercial finance;
- Advice on sound management and reporting practices.

CONCLUSION

The “Millennium Gap” can be narrowed and eventually closed. Multiple financing mechanisms could be mobilized and, in aggregate, provide the required additional funding. Much of the initiative to make this happen will need to come from civil society and the private sector, in close collaboration with governments.

This agenda can only advance with careful technical design – a task the proposed Johannesburg Commission on Sustainable Development Finance should take on. The design of the Finance Commission will need to be tested, implemented, and refined – a task for which the proposed Sustainable Development Exchange Facility would be well suited.

REFERENCES

- Buckley, Robert. 1999. *1998 Annual Review of Development Effectiveness*. Washington, D.C.: World Bank. Available from <http://wbln0018.worldbank.org/oed/oeddolib.nsf/htmlmedia/pubparde.html>
- Deere, Carolyn, and Ricardo Bayon. 2002. "Investing in the Environment of the Americas." Working paper, on file with author.
- Easterly, William. 2001. "Debt Relief." *Foreign Policy*, November/December 2001: 20-25
- Evans, A., and William Battaille. 1998. *1997 Annual Review of Development Effectiveness*. Washington, D.C.: World Bank.
- GEF. 2002. *What Is the Global Environment Facility?* Global Environment Facility [cited June 23 2002]. Available from http://www.gefweb.org/What_is_the_GEF/what_is_the_gef.html
- Greenhill, Romilly. 2002. *The Unbreakable Link: Debt Relief and the Millennium Development Goals*. London: Jubilee Research, New Economics Foundation.
- IISD. 1994. *Principles of Trade and Sustainable Development*. Winnipeg, Manitoba: International Institute for Sustainable Development.
- IMF. 2002. *Special Drawing Rights: A Factsheet*. International Monetary Fund [cited June 28 2002]. Available from <http://www.imf.org/external/np/exr/facts/sdr.HTM>
- Patomaki, Heikki. 2001. *Democratising Globalisation: The Leverage of the Tobin Tax*. New York: Zed Books.
- Sachs, Jeffrey, Kwesi Botchwey, Maciej Cuchra, and Sara Sievers. 1999. "Implementing Debt Relief for the HIPCs." Cambridge, MA: Center for International Development, Harvard University.
- Shin, Myoung-Ho. 2001. "Financing Development Projects: Public-Private Partnerships and a New Perspective on Financing Options." Paper read at OECD/DAC Tidewater Meeting in Penha Longa, Portugal.

Soros, George. 2002. "Special Drawing Rights for the Provision of Public Goods on the Global Scale." Paper read at Roundtable on New Proposals on Financing for Development, in Washington, D.C.

Susskind, Lawrence, and Connie Ozawa. 1992. "Negotiating More Effective International Environmental Agreements." In *The International Politics of the Environment: Actors, Interests, and Institutions*, edited by Andrew Hurrell and Benedict Kingsbury. New York: Oxford University Press.

UN General Assembly. 1997. *Agenda for Development*. New York: United Nations. Available from <http://www.un.org/Docs/SG/forward.htm>

UNDP. 2002. *What Are Public-Private Partnerships?* United Nations Development Programme [cited June 23 2002]. Available from <http://www.undp.org/ppp/about/what.htm>

UNEP. 2001. *UNEP 2001 Annual Report*. Nairobi, Kenya: United Nations Environment Programme. Available from <http://www.unep.org/Evaluation/AR%202001%20FINAL%20MINUS%20PIS.pdf>

Zedillo Commission. 2001. *Report of the High-Level Panel on Financing for Development*. New York: United Nations. Available from <http://www.un.org/reports/financing/index.html>

Maritta R.v.B. Koch-Weser is founder and President of Earth3000, a non-profit organization promoting environmental security and long term systemic improvements in local, national, and global environmental governance. She is also head of the Centennial Group's Social and Environmental practice. Prior to founding Earth3000, she was Director General of IUCN – The World Conservation Union. Previously, she worked at the World Bank as Director for Environmentally and Socially Sustainable Development for the Latin America and Caribbean region, Chief of the Asia Environment and Natural Resources Management Division, and Chief of the Environmental Assessments & Programs Division of the Environment Department.

mkochweser@earth3000.org

mkochweser@centennial-group.com

<http://www.earth3000.org/>

<http://www.centennial-group.com>