



**Global Environment Facility**

**FINANCING GLOBAL SUSTAINABLE DEVELOPMENT**

**By**

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It is a distinct pleasure to be back in Copenhagen. Denmark has been a leader on the issues of environment and sustainable development and a strong supporter of the Global Environment Facility (GEF). I would like to take this opportunity to register my sincere thanks and appreciation to the people and government of Denmark for their continued support of the GEF, both financially and intellectually.

I have often wondered what it is about this part of the world that produces such inspiring leadership on issues of greatest concern to humanity. Just as an example, next year's World Summit on Sustainable Development, under the able leadership of Nitin Desai, has its roots in the Commission chaired by the former Prime Minister Gro Harlem Brundtland, which helped introduce the concept of sustainable development to the World. Going back even further, the Stockholm Conference on the Human Environment in 1972 jump-started the environment agenda and led to the creation of the United Nations Environment Programme (UNEP).

I can go on and on citing examples of the consistency of support in the Nordic countries in general, and Denmark in particular, to multilateral responses to human and environmental security. And I will still wonder what is it in this part of the world that produces such admirable leadership? Is it something in the air, or perhaps the water, and can we bottle this spirit and serve it to all delegates preparing for, as well as participating in, next year's Summit.

But we all know that it will take much more than that to make the World Summit a success, and its impacts long lasting. I fear that, if we do not take advantage of the window of opportunity presented by the Summit to seriously put humanity on a sustainable path, we may

not have another such opportunity for at least a decade or two. Now is when we need to have a collective understanding of the urgency of the situation facing us and marshal the will, politically and economically, to address the problems of the 21<sup>st</sup> Century and to pursue actions that benefit people everywhere.

In the five minutes since I began my remarks, more than 725 people have been added to the earth's population of more than 6 billion. By the end of the day, we will be sharing our planet with more than 200,000 children who were not here when all of us woke up this morning. Consider for a moment: what kind of world can these children expect to live in as adults? Will it be a world of 2 billion additional people fighting for air, water, food, housing, jobs, schools, roads, and farmland? Will it be -- as experts predict -- a planet where one person in three lack adequate fresh water? Will it be a globe besieged by the wide-ranging repercussions of climate change? Will the political landscape be dominated by disputes, both between and within nations, over rights to shared natural resources and threats to their respective environmental security? And, will the widening gap between the rich and the poor become even wider?

Or, alternatively, can these children hope to live in a world whose government, international institutions, business, non-governmental, and scientific leaders have embraced, not the same old business as usual, but the values of responsible change and sustainable development?

Bringing about such "responsible change," however, requires, among other things, adequate finance and appropriate policies and institutional frameworks. Today I would like to

focus on finance because I agree with those who say that words are cheap but action costs money. And also because the GEF is in the business of translating words and international agreements into action and our experience provides some significant lessons.

Just like in Rio, I believe finance will be at the heart of deliberations in Johannesburg. In Rio, it was agreed in chapter 33 of Agenda 21, that “in general, the financing for the implementation of Agenda 21 will come from a country’s own public and private sectors.” However, new and additional external funds were deemed necessary to share the costs, and benefits, of sustainability. For that, developed countries reaffirmed “their commitments to reach the accepted United Nations target of 0.7 per cent of GNP for ODA.” In addition, the GEF was entrusted with channeling a significant portion of these “new and additional” funds to achieve global environmental benefits and “cover the agreed incremental costs of relevant activities under Agenda 21.”

Nine years later, the GEF is considered by many the only major financial accomplishment of Rio. In 1994, 34 nations pledged \$2 billion to the GEF, and in 1998, 36 nations committed another \$2.75 billion. We are currently negotiating the third replenishment and expect the discussions to be completed early next year. I am optimistic that the level of the replenishment will increase over previous ones in recognition of the GEF’s growing responsibilities in financing activities under the new POPs convention, in addition to ongoing support for climate change, biodiversity, international water, land degradation, and ozone depletion.

Today, GEF counts 168 countries as members, and its portfolio encompasses close to 800 projects in 140 developing and transitioning countries. We have allocated \$3.2 billion in GEF grants and raised another \$8.3 billion in co-financing from recipient governments, bilateral and multilateral aid agencies, NGOs, and the private sector.

One reason for our success and the increased demand for our assistance is that, while our mandate is the global environment, we recognized from the beginning that such objective can best be realized in the context of national sustainable development. Sustainable energy, sustainable forestry, sustainable fisheries, sustainable transboundary water management are, for example, the means for capturing global environment benefits related to climate change, biodiversity, and international waters.

As we have also learned in the GEF, the challenges ahead of us cannot be categorized under headings as simple as “environment” or “poverty” or “health.” Doing so ignores how each affects the other, and hinders our abilities to find comprehensive and effective, long-term solutions. In my view, international cooperation towards sustainable development demands an understanding of the linkages between the health of the environment, the health of people, hunger and poverty alleviation.

On the ODA front, development assistance flows have been declining in recent years. With the exception of Denmark and other Nordic countries that have achieved or exceeded the 0.7% of Gross Domestic Product target, total ODA last year dropped to 0.24% of GDP, its lowest level since Rio. One can argue the recent agreements on debt relief and of course the

emergence of private finance as a major accomplishment since Rio. In fact, three years ago, Foreign Direct Investment (FDI) reached a high of about \$260 billion or 5 times the volume of ODA, and even with the economic slow down FDI was \$160 billion in 2000. Such a leading role for the private sector in sustainable development should be further encouraged and nurtured. In this era of globalization, public-private partnerships and cooperation between private and public finance can go a long way towards addressing the ever-growing global environmental and social needs.

As we look ahead to the Johannesburg Summit, we need to recognize that pursuing sustainable development and mainstreaming environmental priorities across sectors as well as borders is a complex and costly proposition. Despite some progress in the last nine years, resources available to developing countries for truly sustainable development are still small compared to the needs. As a result, a number of ideas have been advanced for mobilizing additional finance for sustainable development beyond the stagnating ODA.

A carbon or energy tax is often suggested as a means of generating revenues for global environment and sustainable development purposes. Closely related is the recent fund-raising provision of the Kyoto Protocol known as the Clean Development Mechanism (CDM) which is linked to carbon emission trading and joint implementation. There are also ideas related to taxing international air transportation, international tourism, and even a surcharge on automobile registration.

The one idea, however, that seems to be gathering support lately is the Tobin Tax. Currency speculators trade over \$1.8 trillion each day. A tax of 0.1 to 0.25 percent would generate \$100-300 billion a year and the revenue could go into earmarked trust funds for urgent international priorities related to sustainable development and the global environment.

I realize that “taxes” in general are not a popular subject with politicians. One alternative is to find a way to attract some of the \$50 trillion in world stocks and bonds to address the sustainable development needs of developing countries and economies in transition. This would involve raising the interest of institutional capital funds in the long-term benefits that characterize sustainable development investments.

Let me add one more point -- while we all agree that finance is very important, it is not sufficient by itself to ensure sustainable development. We need to deal also with the underlying economic, demographic, and political forces. Whether in addressing wasteful consumption and production patterns, population growth, or inefficient energy and transport systems, the right policies always count. In other words, adequate finance without adequate policies will not deliver the full intended results. In fact, the right policies concerning energy pricing and proper natural resource valuations can generate substantial financial resources. In the case of energy subsidies, they amount to \$200 billion worldwide -- which takes us full circle back to finance.

I would like also to take this opportunity to revive an idea that, as many observers have noted, contributed to the final agreement in Rio on the financial resources chapter of Agenda 21. The idea was included in the statement of the President of the World Bank, Mr. Lewis T.

Preston, to UNCED on June 4, 1992. It is the idea of an “earth increment” for IDA to help low-income countries meet their national environmental needs. Whether we should call it an “earth increment” today and whether to have it in IDA or some place else, the premise here (and I know because I was Chief Environmental Adviser to the President of the World Bank at that time) is that additional resources are needed to help address national environmental issues and to support sustainability in developing countries. Should such a fund be established through public and/or private means, it would provide a powerful synergy for co-funding with the GEF, thus addressing both national and global environmental concerns within a framework of a country’s sustainable development plan.

As one of the contributions of the GEF to the preparation of the Johannesburg Summit, working closely with Nitin Desai and his staff, I have proposed, and the GEF Governing Council agreed, that we convene a round table dialogue between Ministers of Development Cooperation, Finance, and Environment from developed and developing countries to address this central issue of finance for “sustainability.” We expect that the roundtable will meet twice prior to the Summit and that its conclusions be shared widely before and at the Summit itself.

Finally, I very much hope that the international community will seize the opportunity of the Johannesburg Summit to re-energize international cooperation for sustainable development and the global environment. Multilateralism and cooperation must once again provide the foundation for the pursuit of sustainable development and protection of our global commons. I am convinced that the 21<sup>st</sup> Century can provide answers to many of the questions that plagued humanity in the 20<sup>th</sup> Century. The international community has a golden opportunity to help

make the world a livable and peaceful place for all its inhabitants. I very much hope that it does not squander it.

Thank you.