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FINANCING SUSTAINABLE DEVELOPMENT

**The problem of the generation of new
and additional financial resources
in the UNCED process**

by

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TABLE OF CONTENTS

1. INTRODUCTION
 - 1.1. UNCED - A STEP IN AN ONGOING PROCESS
 - 1.2. A PLATFORM FOR NORTH SOUTH CONFLICT
2. FINANCE: KEY-ELEMENT OF UNCED
 - 2.1. AGENDA 21 - A \$600 BILLION PROGRAMME
 - 2.2. GENERAL APPROACHES AND ATTITUDES OF THE MAIN PLAYERS
 - 2.2.3. G 77
 - 2.2.4. THE US
 - 2.2.5. JAPAN
 - 2.2.6. THE EC
 - 2.2.7. THE NORDIC COUNTRIES
3. THE GREEN FUND
4. THE GEF - THE NORTH'S ALTERNATIVE TO THE GREEN FUND
 - 4.1. THE TARGETS OF THE GEF
 - 4.2. THE HISTORY OF THE GEF
 - 4.3. THE STRUCTURE OF THE GEF
 - 4.4. IN WHOSE INTEREST?
 - 4.5. FIRST PRACTICAL EXPERIENCES
5. ODA
6. THE DEBT PROBLEM
 - 6.1. DEBT AND DEBT SERVICE RELIEF
 - 6.2. STRUCTURAL ADJUSTMENT
 - 6.3. DEBT CONVERSION
 - 6.4. OTHER PROPOSALS
7. ECONOMIC INSTRUMENTS
 - 7.1. TAXES
 - 7.2. TRADEABLE PERMITS
 - 7.3. PRIVATE INVESTMENT FUND
 - 7.4. REALLOCATION OF SUBSIDIES
8. TRADE
9. TRANSFER OF TECHNOLOGY/INTELLECTUAL PROPERTY RIGHTS
10. TRANSNATIONAL CORPORATIONS
11. PEACE DIVIDEND
12. CONCLUSIONS AND RECOMMENDATIONS
 - 12.1. CAN MONEY SAVE THE WORLD?
 - 12.2. MONITORING AND REFORMING THE GEF
 - 12.3. DEBT
 - 12.4. TRADE
 - 12.5. TRANSFER OF TECHNOLOGY
 - 12.6. TNC'S

ACRONYMS

ACP	- Africa, Carribean countries, Pacific
CFC	- Chlorofluorcarbon
CO ₂	- Carbondioxide
EC	- European Community
G 7	- Group of seven
G 77	- Group of seventy-seven
GATT	- General Agreement on Trade and Tariffs
GEF	- Global Environment Facility
GET	- GEF's Trust Fund
GNP	- Gross National Product
IDA	- International Development Agency
IMF	- International Monetary Fund
LDC	- Least Developed Countries
NGO	- Non-Governmental Organization
ODA	- Official Development Aid
OECD	- Organization for Economic Cooperation and Development
OPEC	- Organization of Petroleum Exporting Countries
PrepCom	- Preparatory Committee
SDR	- Special Drawing Rights
STAP	- Scientific and Technical Advisory Panel
TNC	- Trans National Company
UN	- United Nations
UNCED	- United Nations Conference on Environment & Development
UNEP	- United Nations Environment Programme
UNDP	- United Nations Development Programme
UK	- United Kingdom

FINANCING SUSTAINABLE DEVELOPMENT

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S U M M A R Y

The United Nations Conference on Environment and Development (UNCED) has initiated a process which serves as a catalyst to the debate on and the search for solutions to the problems of environment and development involving large sectors of public opinion and the NGO community. This role of UNCED will not end with the Rio conference.

After the marginalization of the Third World in international politics in the eighties UNCED has offered the opportunity to the South to bring the problems of development back onto the international agenda using as bargaining power the interest of the North in the solution of global environmental problems.

The net-transfer of financial resources to the South has been one of the centre pieces of the negotiations. The debt burden, the fall of terms of trade for commodities, the effects of Northern protectionism, the transfer of profits through transnational corporations (TNC's), structural adjustment and other mechanism lead to a "transfusion from the sick to the healthy" which amounts to several hundred billions of Dollars annually.

It is obvious that under these conditions both problems of development and of environment in the South can hardly be tackled successfully.

However, the UNCED negotiations were not able to reach any substantial result by now (2) to solve the problem of the South-North resource flow.

There is no agreement on:

- the amount of money required,
- on the sources where to generate new funds from,
- on the institutional framework and on

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(2) The paper was finished by May 14th, 1992.

- control and governance of new funds.

The centre-piece of the negotiations is a plan of action, Agenda 21, which will require \$125 billion annually until the year 2000 to be implemented.

The South is favouring a variety of institutional arrangements to channel the funds. The core, however, should be a so called Green Fund. The control of the fund should be transparent, democratic and with universal participation. Contributions to the fund should be compulsory.

The North, instead, favours a unitary fund. They want the Global Environment Facility (GEF) to be assigned that role. Although involving the United Nations Programme on Environment (UNEP) and the United Nations Programme on Development (UNDP) the World Bank is dominating the GEF, thus giving the major shareholders in the Bank an unproportional control over the fund.

Given the present balance of power the GEF is likely to be adopted, may be slightly amended, as the only new post-UNCED institution for the transfer of financial resources to the South.

As long as the GEF cannot be closed down NGO's should carefully monitor the fund and pressurize for it's transformation in the interest of the South. They should lobby for transparency, democratization and control of the GEF.

Although largely referred to in the documents of the UNCED secretariat and in the statements of many Southern countries structural changes in North-South relations which would go beyond the sheer transfer of money are hardly addressed in the negotiations.

The paper gives a survey of proposals for structural changes as discussed in the UNCED process, including the debt problem, structural adjustment, trade, transfer of technology and transnational corporations.

It furthermore presents new instruments to generate funds such as energy and consumer taxes, economic incentives for environmentally sound behaviour, tradeable permits to pollution, the peace dividend and others. Though being still under discussion they might be of practical relevance for the near future.

The paper recommends that NGO's should give emphasis to structural changes in the international economic system.

Furthermore changes in the pattern of production and consumption in the North are considered to be necessary.

A democratic character of the changes is a key question both on national and international level. This includes democratisation of international Institutions such as IMF, World Bank, GATT etc.

High priority should be given to the solution of the debt crisis. A full cancellation of the Third World debts should remain the long term target for a world-wide NGO strategy. At short term there should be a focus on total and unconditional debt cancellation for the Least Developed Countries (LDC's). The other indebted countries should get considerable reductions (ca. 60%).

As immediate targets for 1992 the paper suggests among others a moratorium of hard currency payments on official bilateral debt for low-income countries, reduction of debt service by 50% for middle income countries and the cancellation of the debts owed to the European Development Fund by the APC countries.

The present policies of structural adjustment, being economically, socially and environmentally unsustainable, have to be phased out.

The international trade, implying considerable losses for the South, remains nevertheless one of the main sources for accumulation. Therefore the trade regime is of paramount importance for the developing countries. In order to guarantee free access to international markets the protectionist and discriminatory practices of the industrialized countries have to be stopped. In return, the developing countries must be given the right to selective protection of their markets.

The fall of terms of trade has to be stopped and a stabilization of commodity prices is urgently required.

The present negotiations on GATT have to take into account the interest of the developing countries in equitable and fair trade. In particular the subsidies and other protectionist measures in favour of Northern agricultural products have to be phased out immediately.

The inclusion of services in a new trade agreement has to provide the possibility of free access for the South to the international markets and should protect the developing societies from dominance through Northern service companies.

The trade on intellectual property rights should be based on preferential and concessional terms in all sectors of vital importance for developing societies.

The transfer of technology to the South has also to be based to a large extent on preferential and concessional terms and cannot be left to market rules alone. The technologies offered to the South have to be environmentally sound. They must be adapted to the social and cultural environment of developing countries. Dangerous and destructive technologies such as nuclear power etc. have to be phased out.

Given the eminent role of transnational corporations as major actors in the international economic systems it is imperative to monitor and regulate TNC's, to control and reduce their adverse development, environmental, health and safety effects. The code of conduct for TNC's elaborated by the UN Centre on Transnational Corporations should become legally binding.

1. INTRODUCTION

The United Nations Conference on Environment and Development (UNCED) is a major attempt to establish international mechanisms and structures for the management of the global twin crisis of environment and development.

UNCED has become an important political process which goes far beyond the traditional scope of UN conferences. It has proven to be a catalyst for world-wide discussion not only on governmental level but also in the public and among NGO's. (3)

The problems of financing sustainable development (4) are a cornerstone of the negotiations. This paper tries to give a survey on the proposals and the different approaches to generate funds and to provide a transfer of financial resources from North to South.

1.1. UNCED - A STEP IN AN ONGOING PROCESS

The conference in Rio de Janeiro in June 1992 will be the biggest conference in the history of the UN. It is, however, not expected to bring about substantial progress on the issues under discussion and might even be qualified as a failure if it is measured by expectations as voiced by its secretary general, Maurice Strong: "UNCED is the last chance to save the planet."

In a more realistic perspective the summit in Rio will be a step in a process of global negotiations which will go on for years and which could end in a process comparable to the Conference on Security and Cooperation in Europe.

Despite the difficulties and complexity and subsequently some frustrations the negotiations might create, there is no other desirable alternative to the development of international instruments for promoting a democratic, socially equitable and environmentally sustainable development than in the framework of the UN.

In fact, there are other attempts to develop means for international regulation of the global crisis. With the G 7 (5) a regulatory mechanism is emerging, using among others the Bretton Woods institutions and GATT as a tool for the global management of environment and development.

The G 7 approach has a clearly hegemonial character promoting solutions to the problems which are in the interest of the North and which confirm the present pattern of dominance by the highly developed countries.

(3) The term NGO is used in the sense of non profit, volunteer organizations.

(4) The paper does not enter into the debate on the term "sustainable development", which is very much criticised among NGO's, especially when linked with economic growth as in the Brundtland Report and constantly repeated in the official UNCED process.

(5) The Group of Seven, G 7 consists of the US, Japan, Canada, U.K., France, Germany and Italy.

1.2. A PLATFORM FOR NORTH SOUTH CONFLICT

The conflict between the more democratic approach within the UN system and the G 7 hegemonial approach constitutes one of the major reasons for the problems, obstacles and impasses the UNCED process is encountering.

This conflict is at the same time a North-South conflict. In terms of power relations this is the core of UNCED.

After the disruption of the North South dialogue of the seventies, after the loss of political impact of the Non Aligned Movement and UNCTAD, after a period of political and economic marginalization the South tries with UNCED to come back on stage as a major political player. (6)

The historical conjuncture seems to be favourable to such an attempt. Not only the East West conflict has come to its end but the South has gained a new type of bargaining power: some environmental threats such as climate change, loss of biodiversity and the depletion of ozone have global dimensions threatening increasingly the Northern hemisphere. The North needs the cooperation of the South to solve these problems. The South, arguing correctly that the root causes for these problems stem from the North, tries to get concessions for his development concerns in exchange to cooperation on the field of global environmental problems.

Thus, we are witnessing a come back of "traditional" issues, discussed in the seventies under the vague title of a New Economic Order.

When the developing country elaborated their common strategy for UNCED at a meeting in Peking in August 1991 they fixed their position as follows: "The inequities in current international economic relations confronting the developing countries, especially with regard to debt, financing, trade and transfer of technology, have led to serious consequences for them, including the reverse flow of financial resources, brain drain and backwardness in their scientific and technological capabilities. ... It is therefore imperative to establish a new and equitable international economic order conducive to the sustained and sustainable development of all countries, particularly the developing countries, thereby creating the conditions necessary for global cooperation to protect the environment. (7)

It was the South who managed to establish these issues on the agenda of UNCED whereas the North initially wanted the conference to deal purely with environment. Even now, most Western governments focus on the "E" and tend to ignore the "D" in the conference acronym.

(6) It even seems as if UNCED contributed to a certain extent to stop the long term trend of differentiation within the South. At least in the central areas of the agenda the South acted quite united.

(7) Final declaration of the Peking meeting; Letter dated 6 August 1991 from the Permanent Representative of China to the United Nations Office at Geneva addressed to the Secretary-General of the United Nations Conference on Environment and Development.

A/CONF.151/PC/85

In the negotiations on finance the North South Conflict even turned into a deadlock at the end of PrepCom IV. The controversy was about:

- the amount of money needed to finance Agenda 21
- the sources and areas where to generate new funds
- the control and governance of funds.

2. FINANCE - KEY ELEMENT OF UNCED

The negotiations on financial transfer are a centre piece of the UNCED process. Their result is considered to be a decisive criteria for the success of the Rio conference.

This is not surprising given the present state of art of North-South relations. There is a net transfer of resources from South to North of \$ 290 billion annually via manifold mechanisms:

a. Debt service	120 billion \$
b. Effects of Northern protectionism	55 billion \$
c. Impact of fall of terms of trade	60 billion \$
d. Direct and indirect transfer of profits of TNC's	30 billion \$
e. Capital flight	20 billion \$
f. Brain drain	5 billion \$
total	<hr/> 290 billion \$ (8)

The UNDP Human Development Report 1992 even argues that the South is loosing \$500 billion annually through "unequal partnership" in world economy, an equivalent of 20% of the total GNP of the Third World. (9)

The UNDP calculation is as follows:

a. Loss of potential transfer of revenues of Southerners not allowed to work in the North	250 billion \$
b. Loss through different levels of real interest rates in North and South	120 billion \$
c. Net capital flow from debts	50 billion \$
d. Protectionism esp. for manufactured goods	40 billion \$
e. Losses in technology transfer	20 billion \$
f. Losses in trade with services	20 billion \$

(8) Figures from IMF, World Bank, UNCTAD, UN; quoted from: WEED Studie Ökologische Dimensionen der Weltwirtschaftsbeziehungen; March 1992; p. xxxi;

(9) Quoted from epd Entwicklungsdienst 8/92 pp. 20/21

total

500 billion \$

The different figures indicate that it is very difficult to work out precise data. There are many methodological, statistical and practical problems. The present figures therefore are rough estimates. But nevertheless they show a general trend.

Regardless whether the \$290 billion or the \$500 billion are closer to reality - compared to the total ODA (OECD and OPEC Countries together) which amounts to \$55 billion annually the "transfusion from the sick to the healthy" is dramatic.

It is obvious that under these conditions both problems of development and of environment in the South can hardly be tackled successfully.

2.1. AGENDA 21 - A \$600 BILLION PROGRAMME

A comprehensive plan of action of 800 pages, the so called Agenda 21, has been set up during the UNCED preparations. It is a compilation of all issues dealt with on the agenda of the conference.

It comprises so called sectoral issues such as climate, desertification, oceans, fresh water, land resources, biodiversity etc. as well as so called cross-sectoral issues such as poverty, debts, population, transfer of technology, capacity building, trade etc.

The presentation of each issue under Agenda 21 is accompanied by an estimate of the costs of implementation for the proposed measures. The need for external financing, i.e. financing through the North, for the implementation of Agenda 21 amounts to \$125 billion annually until the year 2000.

The \$125 billion are not the full amount which is required to meet the development needs of the South and to save environment in the developing countries. According to the UNCED secretariat four to five times more i.e. \$500-600 billion are required. This amount would have to be provided by developing countries themselves. "External funding would therefore" as Maurice Strong put it "cover only a modest portion of these cost". (10)

Already when presenting his figures Maurice Strong realistically pointed out that the \$125 billion were not expected to be forthcoming immediately. He therefore was suggesting a "substantial initial commitment of new and additional resources, which represents an important and concrete step towards meeting overall needs, accompanied by the establishment of a continuing process through which these needs can be met over reasonable periods of time." (11)

2.2. GENERAL APPROACHES AND ATTITUDES OF THE MAIN PLAYERS

UNCED is essentially a North South conference. The main controversies are between North and South, in particular on financial and

(10) Introductory statement made by the Secretary-General of the Conference at the fourth session of the Preparatory Committee; PC/97/ADD.1

(11) *ibid.*

economic questions.

Of course, these two main players are not homogeneous. The G 77 is splitted over many issues. But there has been surprisingly much unity on the decisive issues by now. This might change when negotiations become tougher in their final stage and the alternative between failure and receiving some "peanuts" comes up.

The North (which is in reality the former West) has also been rather united on the key issues of finance. Nuances have been existing between the US, the EC, and the Nordic Countries.

The relatively united positions of the North on financial questions are among others determined by the global economic recession and the dramatic crisis in the former Soviet bloc which a historical challenge to the economic and financial capacities of all OECD countries. For political and strategic reasons Eastern Europe and the former Soviet Union have gained priority in the foreign aid of the West, in particular in the EC and the Nordic Countries. The economic and financial space of the North is therefore narrowed.

The following overview shows the general attitudes of the main players from the OECD countries in the UNCED process:

	EC	US	G 77	Nordic countries
General contributions to the UNCED process	M	B	M	E
Positions in favour of global sustainability	M	B	M	E
Readiness to fundamental changes	M	B	M	M
Proposals for fundamental changes	R	B	R	G

E = excellent, G = good, M = medium, R = meagre, B = bad

2.2.1. The G 77

The G 77 is using UNCED mainly as a platform to discuss the burning problems of the South and to mobilize financial resources to tackle them.

In a meeting in Peking in June 1991 the G 77 defined the common positions of the South.

With regard to financial questions the Peking declaration contains the following principles:

- environmental policy is closely related to economic and social activities. Environmental problems must not be viewed in isolation, and need to be addressed together with the process of development, by integrating environmental concerns with the imperatives of economic growth and development.

- The North bears the main responsibility for the inequities in current international economic relations especially with regard to debt, financing, trade and transfer of technology and brain drain
 - It is imperative to establish a new and equitable international economic order
 - Environmental considerations should not be used as an excuse for interference in the internal affairs of the developing countries, nor should these be used to introduce any forms of conditionality in aid or development financing, or to impose trade barriers affecting the export and development efforts of the developing countries.
 - The developed countries must take the lead in eliminating the damage to the environment as well as in assisting the developing countries to deal with the problems facing them.
 - The developing countries need adequate, new and additional financial resources to be able to address effectively the environmental and developmental problems confronting them.
 - There should be preferential and non-commercial transfer of environmentally-sound technologies to the developing countries.
- (12)

After the failure of the financial negotiations at PrepCom IV the G 77 reconfirmed at a ministerial conference in Kuala Lumpur from 26 to 29 April 1992 its positions.

In particular it was stressed that "funding should be provided in addition to, and separate from the Official Development Assistance (ODA) target commitments by the developed countries". (13)

The group furthermore insisted on its proposal to establish a specific and separate fund (Green Fund) for the implementation of Agenda 21. The governance of the fund should be transparent and "democratic in nature with an equal voice for all parties" and it should provide for funding of activities "according to the priorities and needs of the developing countries". (14)

Observers of the Kuala Lumpur meeting said that behind the scene there were differences whether the South should accept the GEF. Especially Latin American countries were said to be ready to accept the fund. A specific sentence in the declaration seems to reflect the problem and can be interpreted as a compromise, leaving open the option to accept the GEF under certain conditions: "... existing mechanisms governed by the criteria defined above, could also be utilized". (15)

(12) BEIJING MINISTERIAL DECLARATION ON ENVIRONMENT AND DEVELOPMENT, adopted at the Ministerial Conference of Developing Countries on Environment and Development on 19 June 1991; A/CONF.151/PC/85

(13) Kuala Lumpur Declaration Second Ministerial Conference of Developing Countries on Environment and Development, 29 April, 1992

(14) *ibid.*

(15) *ibid.*

2.2.2. The US

The US have a key role in the UNCED process. Their attitude towards the conference was very sceptical from the beginning. According to internal informations from the US delegation they only agreed to the project under the condition that there were no further institutions and no additional funds to be decided upon.

President Bush openly declared that his participation in Rio will depend on the economic costs of implementing the agreements reached at the conference. He warned that the agreements signed in Rio might "commit the U.S. to courses of action that would dramatically impede our long term economic recovery. ... I'm not going to go and do a bad deal". (16)

His policy of blackmailing was successful. The (separate) talks on a climate convention in New York in early May 1992 ended with a compromise on CO₂ reductions which is avoiding any binding obligation as to quantity and time schedule for reduction. This vague document allows Bush to go to Rio, but the climate convention which will be adopted there will have watered down any substantial progress.

During the first three PrepComs and the first half of PrepCom IV the US took quite a passive role in the process, blocking other positions but not making proposal of their own.

Their main arguments was that it would be undermining the principle of sovereignty to impose international agreements on the national states. This position was not so far away from many developing countries which with the same argument opposed a convention on forests.

Apart from that the US advocated, as usually, the free market as the best institution to solve problems and proved to be a hardliner whenever they believed that these principles were in danger.

Obviously, the present administration is not willing to give UNCED a major role in the management of international problems. They prefer to stick to the Bretton Wood Institutions, GATT, GEF and the annually World Economic Summits.

Furthermore, the political conjuncture in the US, the economic recession and increasing social problems are not favourable for major changes in the position of the Bush administration.

Many people argue that the campaign for the presidential elections would not be favourable neither for a more open attitude of the White House. On the background of the deep going structural roots of the US position it is however questionable whether after the elections the situation will really change - even if Bush's concurrent Bill Clinton, who presents himself as an environmentalist, should become president.

2.2.3. Japan

(16) ips, April 21, 1992

In general Japan kept a low profile at UNCED. In most of the essential controversies the country supported the US position.

However, Japan was expected to contribute with a considerable amount of additional money to the GEF and to increase its ODA.

These expectations were among others fostered by Japan's initiative to convene a meeting of eminent persons, mainly elder statesman after PrepCom IV in Tokyo (15-17 April) on the invitation of the former Japanese prime minister Noboru Takeshita. Among them could be found Jimmy Carter, Huang Hua, Raymond Barre, Olasegun Obasanju (Nigeria), Emil Salim (Indonesia) as well as the former presidents of the World Bank Barber Conable, Robert McNamara and the Chairman of the "Business Council for Sustainable Development" Stephan Schmidheiny .

UNCED Secretary-general Maurice Strong qualified the meeting to be the most important event between PrepCom IV and the Rio summit and expressed his expectation that Japan was to take the lead in environmental protection. "Japan has been successful in curtailing air and water pollution at home. This experience, coupled with its economic strength makes it the best equipped country among the industrialised nations to take the lead." (17)

Noboru Takeshita declared that his country would make substantial contributions to environmental projects approved during the Earth Summit. According to the foreign ministry the government would have been studying various options to raise funds for environmental purposes in developing countries. (18)

Prime minister Kiichi Miyazawa promised to follow through with a Japanese commitment towards environmental protection but did not indicate details. Obviously Tokyo wants to wait until Rio to come up with concrete figures.

Keidanren, Japan's biggest business organisation, has also pledged to increase private financing of environmentally related projects in developing countries including debt-to-nature swaps. (19)

The final declaration of the Tokyo meeting of eminent persons remained rather vague and did not come up with concrete suggestions which would go beyond the proposals already discussed in the UNCED preparations.

The declaration called for a market access for developing countries, a speedy conclusion to the Uruguay Round, welcomed the idea of environmental taxes, expressed support for the GEF and tradeable permits and advocated "durable solutions to the debt problems of developing countries". (20)

2.2.4. THE EC

(17) ips/suwendrini kakuchi; April 15, 1992

(18) ips April 14, 1992

(19) ibid

(20) Tokyo declaration on Financing Global Environment and Development, 17 April, 1992

Southern countries and many NGO's expected the EC to be a certain counterbalance to the hardliner positions of the US.

These expectations were founded on a traditionally more open attitude of the EC towards developing countries. Furthermore, some EC countries such as the Netherlands and Denmark have relatively advanced positions on environmental problems.

In addition, the position paper of the EC had acknowledged the need for new and additional funding. In its general considerations it was accepting "a special responsibility on the more developed countries, not only to pursue sustainability themselves, but also to assist other countries". (21)

The paper was mentioning a whole set of potential funding resources ranging from the internalization of environmental costs in pricing, augmentation of ODA, debt swaps, the use of economic and fiscal incentives, such as charges and taxes on energy, up to considerations to use the peace dividend for financing sustainable development.

Parallel to the UNCED preparation the EC was holding negotiations to introduce a CO₂ tax. (22)

Though remaining rather vague in it's common platform it was expected that during the negotiations the EC would come up with concrete proposals. But the Community did not meet these expectations. Especially Germany and Great Britain blocked further commitments, for instance to increase the ODA.

In the main conflicts on finance, especially when pushing the GEF as the main instrument for financial transfer, the EC took a firm stand alongside with the US and the other OECD countries.

The EC's attitude is not only due to the increasing problems of the economic situation and the new engagements in Eastern Europe where the EC is more involved than Japan and the US but also by tactical considerations: the main interest of the EC in UNCED was in agreements on a reduction of greenhouse gases (climate convention). As the US were very reluctant to such an agreement the EC did not want to open up a further conflict with Washington, in particular since there were already heavy contradictions in the GATT negotiations.

2.2.5. THE NORDIC COUNTRIES

Among the OECD countries the Nordic countries are the most open to the concerns of the developing world, including finance questions. Their contribution to ODA is considerably above the 0,7% target.

The Nordics also belong to the most active promoters of UNCED. On the initiative of Sweden the first UN conference on environment, the predecessor of UNCED, was held in Stockholm in 1972.

(21) A common platform: Guidelines for the Community for UNCED 1992; 10339/91, ENV 395 ONU 16; Brussels 17 December 1991; p. 3

(22) The negotiations could not yet reach a result as the EC has tied the implementation of such a tax to similar steps to be taken by other industrialized countries.

Norway had hosted a preparative conference for UNCED in Bergen in 1990. The Norwegian Prime Minister, Mrs. Gro Harlem Brundtland, was heading the World Commission on Environment and Development, a kind of international "think tank" which in 1987 submitted the report "Our Common Future" (also called the Brundtland Report) serving as an ideological basis for UNCED. The principles developed in the Brundtland Report were guiding most of the documents issued by the UNCED secretariat.

The Nordic countries were acting as a group in the UNCED preparations and submitted many proposals. In critical situations they tried to act as mediator between Southern and Northern positions.

Especially when the negotiations on finance reached a deadlock they submitted a compromise paper. Their "Green Package" included proposals

- to create an environment and development window of the IDA;
- the strengthening of the resources of the Multilateral development banks and of UNDP;
- debt reliefs going beyond the agreements of the Paris Club from December 1991 and the Trinidad Terms;
- to develop tradeable permits, taxes and levies;
- to increase the funds for the GEF. (23)

The Nordic countries, in particular Norway, supported financially the involvement of NGO's in the UNCED process, with special focus on NGO's from the South and from Eastern Europe.

Given the international balance of power the efforts of the Nordic countries failed.

3. THE GREEN FUND

The G 77 has suggested the creation of Green Fund (Fund for the promotion of Sustainable Development) as institutional framework to organize the transfer of financial resources to the South.

A draft decision, submitted by China and Ghana on behalf of the G 77 defines the essentials for such a Green fund as follows:

- a. There must be new and additional funding. Any reallocation of existing funds (for instance ODA) for funding Agenda 21 has to be excluded.
- b. The Green Fund should serve the sustainable development needs of developing countries.
- c. Funding of the conventions (climate, biodiversity etc.) has to be provided by separate funds for each convention.
- d. The Green Fund should be separate from the Global Environment facility (GEF).
- e. The contributions from developed countries are mandatory.

(23) Proposal by the Nordic countries, Finland, Denmark, Norway, Iceland and Sweden for a Green Package on financial resources; New York, 3rd of March 1992

f. Governance of the fund should be transparent and democratic with an equal voice for all parties.

g. There should be no conditionality linked to the Green Fund.
(24)

An important principle in the G 77 approach is the argument that these funds "from the developed countries to the developing countries will be to a great extent of a compensatory nature." (25)

This argument gives the South's request for funding a completely new legitimacy. Funding is not seen any more in the perspective of help but as an off set for damages caused previously by the North.

The establishment of the Green Fund according to the above mentioned principles would be a qualitatively new step in organizing financial flows. For the first time resources for development purposes would be allocated on a multilateral, mandatory and equal basis between donors and recipients.

However, the proposal of the G 77 for the establishment of a green fund has been rejected unanimously by the industrialized countries until the end of Prep Com IV. The negotiations on transfer of financial resources broke completely down.

There are expectations, that on the Earth Summit in Rio itself certain commitments on additional funds for the South will be made, but nobody expects that the donors will accept the principles of the G 77.

4. GEF - THE NORTH'S ALTERNATIVE TO THE GREEN FUND

As the Green Fund proposal of the G 77 is not acceptable to the industrialised countries the Global Environment Fund (GEF) is now likely to be the one and only post-UNCED mechanism for finance transfer to the South given the real balance of power between donors and recipient in North-South relations.

The GEF is the project of the North. The industrialized countries consider it either to be the only possible instrument (US) or at least to be the main instrument (EC, Nordic Countries). The G 7 meeting in London in July 1991 had explicitly agreed that donors will not fund a new structure. It clearly suggested: "We support the use of existing mechanisms for this purpose in particular the GEF." (26)

The EC also took a firm stand on this issue: "A proliferation of funding mechanisms should be avoided. The GEF should play a leading role as the multilateral funding mechanism in the resolution of environmental problems of global significance in developing countries." (27)

(24) China and Ghana: draft decision; Financial resources; A/CONF.151/PC/L.41; p.2

(25) *ibid.*

(26) The G 7 Summary declaration

(27) Position paper for PrepCom IV. p. 1

This position was reaffirmed in a position paper of the North towards the end of PrepCom IV, when negotiations had reached an impasse. Authored by Japan, the European Community and the Nordic States it stated that the GEF "should serve as the appropriate multilateral mechanism to provide new and additional financial resources". (28)

The developing countries instead were always opposed to a monopolistic position given to the GEF accepting it, however, to be one mechanism among others.

Given the hard line of the North representatives of G 77 admitted in the meantime that they would not insist on their Green Fund proposal. Jamsheed Marker of Pakistan, Chairman of the Group of 77 said "Our original stand was to have a separate fund. We changed it to demand 'funding' and that was because we were not interested in any forms but on substance. Substance as we see it is 'funding' and not new institutions." (29)

The GEF will probably be the area of compromise on financial mechanisms in UNCED. It therefore might occur that under the pressure of the G 77 the GEF will be slightly amended and the structures and procedures as outlined in the following may change to a certain extent as well as the present financial volume.

4.1. THE TARGETS OF GEF

The targets of the facility are defined through the following principles:

1. The GEF should provide concessionary and additional funding of the incremental costs for achieving global environmental benefits on a voluntary basis.
2. The GEF should address issues concerning the global environment. These will include issues for which there is a global convention or agreement in existence or under discussion, as well as other environmental issues, discussed in global and regional fora, whose impact extends beyond national borders.
3. Global environment must be defined as the global commons or issues considered of significance for the planet's welfare.

In particular: - protection of biodiversity
- depletion of ozone
- reduction of global warming
- protection of international water

4. The GEF is designated to countries that have a GNP below \$4 000 per capita. Exceptions might be possible in the case of Eastern Europe. In fact, in Poland a forest conservation programme has been started and then been taken over by the German government with up to \$260 million.

30%-40% of the funds have been allocated for biodiversity.

(28) Inter Press Service 1992; April 1, 1992

(29) Interview with Jagdish Parikh April 7. 1992; taken from E-mail <ngonet>

5. The ceiling for GEF projects is \$30 million.

The GEF is considered by the World Bank to be the funding conduit for the Biodiversity and the Climate Change Conventions being negotiated at UNCED.

GEF has up to now access to around \$1,3 billion over a three year pilot phase. An increase is expected in the course of the further UNCED process.

Funding has currently been committed by 24 countries, among them 9 from developing countries.

4.2. THE HISTORY OF GEF

To understand what the GEF is about it is worthwhile to have a short look on how the project was established:

In September 1989 the French government, backed by the German government proposed the establishment of the GEF. The World Bank was assigned the task to look for potential donors and to prepare the lay out of the project.

In March 1991 the Bank succeeded in setting up the GEF's Trust Fund (GET).

It was only now, that the Bank implemented the requirement of the French Government to involve the United Nations Environment Programme (UNEP) and the United Nations Development Programme (UNDP) in the further process. This involvement is characterized by clearly paternalistic patterns: "...the Governing Councils of UNDP and UNEP were informed of the agencies' participation in the Facility." as the Bank stated itself. (30)

The whole procedure assured from the beginning the dominant role of the World Bank in the GEF process.

4.3. THE STRUCTURE OF GEF

The leading role of the Bank is also reflected by the design of the structure and the mechanisms by which the Facility is ruled.

The formal structure looks as follows.

I. Participants' meeting (twice a year) for the overall stewardship of the Fund. Participation in the Facility is tied to a minimum contribution of \$5,5 million. Low income countries can receive up to 50% of the minimum contribution through co-funding from other countries.

II. Implementation Committee composed of World Bank, UNEP and UNDP

(30) GEF Administrators Office, World Bank Washington D.C., "Future Evolution of the Global Environment Facility - Issues and options" 24. January 1992; p. 2

III. Scientific and Technical Advisory Panel (STAP), of 16 independent experts, appointed by UNEP. Chairman of the STAP is Robert Watson from the US space agency NASA.

IV. Chairman drawn from the staff of the World Bank.

V. Administrator drawn from the staff of the World Bank.

VI. GET, administered by the World Bank

Whereas for a comparable project - the "Multilateral Fund under the Montreal Protocol on Substances that Deplete the Ozone Layer" (Ozone Fund) - control over the fund remains in the hand of the Parties the structures of governance of the GEF give substantial control to the implementing agencies, especially to the World Bank.

The EC was indicating a certain flexibility as far as a broader involvement in the governance of the Fund is concerned: "The GEF, however, needs to develop and to adjust its structure and procedures taking into account the needs of the participating partners." (31)

Although the proposal of the US to attribute voting rights according to deposits (as it is the case in the IMF and the World Bank) was rejected in the December 1991 meeting an outstanding position of the World Bank compared to UNDP and UNEP is guaranteed. The two UN agencies have been attributed the following responsibilities:

UNDP is responsible for technical assistance and training activities and helps identify and prepare projects. It is also charged with running the small grants programme geared towards community based activities by grass-root organizations and NGO's.

UNEP provides environmental expertise and ensures the compatibility of GEF policies with existing environmental treaties.

In the participants meeting in December 1991 the following countries took part:

Developing Countries

Argentina
Bangladesh
Brazil
Chile
China
Côte d'Ivoire
Egypt
India
Indonesia
Kenya
Mexico
Morocco
Pakistan
Zimbabwe

OECD Countries

Australia
Austria
Belgium
Canada
Denmark
Finland
France
Germany
Italy
Japan
Netherlands
New Zealand
Norway
Sweden
Switzerland

(31) A Common Platform: Guide-lines for the Community for UNCED 1992; 9391/91 ENV 340 ONU 9; SEC(91) 1693 final;p. 8

Some 11 more countries including 9 from developing countries have shown their interest to join GEF. Nevertheless participation in the GEF is far from the universal character of the UN.

The participation of NGO's within the structures of the Fund has not been accepted. However, according to Kem Newcomb, GEF coordinator from the World Bank, the GEF wishes to have an open dialogue with NGO's. There will be semi-annual meetings. NGO's can propose projects and manage them under the condition that the government of the country concerned is in agreement. (32)

4.4. IN WHOSE INTEREST?

Looking at the targets, the structure and the mechanisms of the GEF a certain profile of interests behind the project becomes evident:

a. The use of the Fund for purposes to achieve global environmental benefits reflects the interest of the industrialized countries in an instrument for the management of environmental problems. Questions of development as additionally targeted in the Green Fund proposal of the South are excluded.

b. The use of the fund for incremental costs to achieve global environmental benefits reflects the interest of the industrialized countries in an instrument mainly for the management of problems which directly threaten themselves. Environmental problems which do not constitute a direct threat to the North will not be handled by the GEF.

c. The financing of the fund is on voluntary basis, whereas both the UNCED secretariat and the G 77 consider compulsory contributions to be necessary to meet the requirements and to guarantee predictability in the flow of resources.

c. The focus on environmental problems in the South does not address the root causes for the environmental degradation in the North.

d. The close linking of the GEF to the World Bank and the Bank's dominance in the Fund's structures gives the North control over the GEF. Especially the big share holders in the World Bank will be unproportionally influential. The main criticism of the South towards the GEF has therefore been it's undemocratic structure.

In the light of all the before said it is understandable that observers (33) have come to the conclusion that the GEF was a tactic to pre-empt agreements on the transfer of financial resources in the framework of UNCED. Based on the principle "one country one vote" the UN provides less favourable conditions for the North to

(32) Draft minutes of the Washington consultative meeting between NGO's and the World Bank, September 17-18th 1991

(33) Among others Koy Thompson, NGO representative in the British UNCED delegation; IPS Daily Press Bulletin on PrepCom III; No 15/1 p. 1

realize its interests than the World Bank dominated GEF.

4.5. FIRST PRACTICAL EXPERIENCES

The experience with the first tranche of GEF projects seems to confirm critiques who argue that the Bank is going to manage the GEF in the interest of its traditional policies. "70% of the GEF projects are mere tag-ons to the environmentally destructive projects of the World Bank" the Third World Network says (34). The Congo Wildlands Protection and Management Project one of the very first GEF projects for instance has not only been called a bait to make a \$25 million loan acceptable to the highly indebted Congo but also been qualified to "harm the country's biodiversity and hurt the global environment." (35)

The example of Congo indicates that one of the intentions of the GEF is to make ordinary World Bank projects more attractive to governments which normally would hesitate to accept them.

In the case of India the critiques argue that the Bank is contributing through its regular investments in several huge thermal power projects "to the build-up of greenhouse gases. Through the GEF it then proposes to give small amounts for windmills and solar panels to ameliorate the greenhouse effect without changing its normal investments in the energy sector." (36)

Another striking example: The plight of Indigenous Peoples has become a matter of world-wide concern and the United Nations has dedicated the year 1993 to Indigenous Peoples. Yet the GEF, which has allocated the lions share of all GEF project funds in Tranche 1 and 2 to the protection of biodiversity, does not have a policy or guide-lines on indigenous peoples and ignores the rights and central role of Indigenous Peoples in any strategy to conserve biodiversity. The Scientific and Technical Advisory Board (STAP) does not include social scientists.

NGO's both from North and South have come to the conclusion that the GEF has to be opposed. The Third World Network calls for a "rejection of the GEF as a credible formula for any funds emerging from UNCED" (37) and the World Rainforest Movement declared in November 1991: "The GEF should be closed down as soon as possible." (38)

5. ODA

Beside the Green Fund and the GEF an increase in ODA is the third

(34) Third World Network; Briefing Papers for UNCED, paper No. 14 Global Environmental Facility - A Diversion from Unsustainable Economic Models; (part 3); p. 4

(35) Environmental Defense Fund; The GEF Project for Congo: A Threat to Congo's Biodiversity and the Global Environment; Washington, November 22, 1991; pp. 2/3

(36) Third World Network; Global Environment Facility - Perpetuating Non-Democratic Decision-Making; Briefing Paper of the Third World Network, part 3 prepared by Vandana Shiva; p.4.

(37) *ibid.* Part 2; prepared by Charles Abugre; p. 1

(38) Leaflet of the World Rainforest Movement, 15 November 1991.

element to play a major role in the UNCED process.

Already in the seventies the UN has set as target 0,7% of the GNP of the industrialized countries to be granted as ODA. Except for the Netherlands (0,94%), Denmark (0,94), Sweden (0,97) and Norway (1,04) none of the OECD countries has reached this target. Especially the major OECD countries are far below.

ODA of the G 7 1989

as percentage of GNP

US	0,15
Japan	0,32
Germany	0,41
France	0,78 (without DOM/TOM: 0,35)
UK	0,31
Italy	0,42
Canada	0,44

The total of ODA granted by the OECD countries amounts to \$46,7 billion. (39)

On an average OECD ODA level about 0.35 percent of GNP i.e. only half of the United Nations 0.7 percent target accepted by most of the OECD members.

An increase to the 0,7% only of the US would mean an increase of \$25 billion. If all OECD countries would comply to the 0,7% target the \$125 billion for required for funding of Agenda 21 would be reached.

The UNCED documents on finance prepared by the secretariat all refer to this possibility.

The G 77 does not demand explicitly an increase of ODA. Reference to ODA is only made in the sense that a reallocation of existing is unacceptable to the developing countries. The developing countries are focussing on the Green Fund in the negotiations. As traditional ODA unlike for the Green Fund keeps control over size and use in the hands of the donors it is obvious that for them an increase in ODA would only be a second or third choice.

The positions of the main players in North towards an increase of ODA are not homogeneous.

The US were until midst of PrepCom IV rejecting any increase of financial transfer to the South. When during PrepCom IV their position risked to be isolated Bush announced that his country would deposit \$50 million into the GEF and another 25 million dollars to support national studies by developing countries on climate change.

The Nordic countries have suggested as a compromise to overcome the deadlock in the negotiations a concrete target and schedule for the increase of ODA: "Commitment by the industrialized countries to an agreed schedule to reach the UN target of 0,7 per cent of GNP in ODA as agreed and by the year 2000. Those countries that have not yet reached half of this target should aim to do so at

(39) All figures from: World Bank; World Development Report 1991; A special case is France whose ODA is given as 0,78% of GNP by the statistics. However, in this figure is included the assistance to the overseas districts and territories (Départements et Territoires d'Outre Mer: DOM/TOM) such as Martinique, Guadeloupe, Kanaky Islands etc. The assistance for these quasi colonial territories amounts to approximately 50% of France's ODA. Thus, the real French ODA is around 0,35%.

the latest by 1995." (40)

As the Nordic group has already reached the 0,7% target they are of course interested in a fair burden sharing between donors.

Japan is supposed to further increase it's ODA. By now there was, however, no concrete commitment. Probably the Rio conference will be used as the appropriate platform to make a respective announcement.

The EC had in principle agreed to an increase of ODA. The Guidelines of Community for UNCED reaffirm "the commitment to reach the accepted UN target of 0,7% of GNP for ODA." (41)

No agreement could be found on a time schedule. France, supported by Denmark, Italy and the Netherlands, suggested to fix the year 2000 as deadline to reach the objective arguing that this would be "the only way of giving reality to this commitment." (42)

Germany was opposing this proposal and preferred the vague formula "that the target should be reached at the earliest possible date." (43)

6. THE DEBT PROBLEM

The debt burden of the South is amounting today to \$1,4 trillion. Behind the overall figure there is a differentiated situation.

The social and economic impact is geographically different (44). There is an important difference between debts owed to private banks and to public donors as well as between bilateral and multilateral debts. These differentiations have far reaching consequences for a strategy which aims at solving the problem and especially the reports of the secretariat general where the bulk of considerations on debts can be found is dealing with it accordingly (see 6.1. and 6.3.).

Although UNCED is not considered to be the appropriate forum for concrete negotiations on the issue it has been widely recognized to be a key problem in North South relations. All main players are referring to it in the context of finance.

Progress in the debt question could be in fact a highly important factor. The only \$42 billion of annual net transfer from South to North through debt service would cover one third of the amount required for the external financing of Agenda 21.

(40) Proposal of the Nordic countries, op. cit. p. 1

(41) A Common Platform: Guide-lines for the Community... p. 6

(42) *ibid.*

(43) *ibid.*

(44) Geographically the debts are distributed as follows:

Subsaharian Africa	15%
Middle east and North Africa	12%
Latin America (incl. Carribean)	42%
East Asia and Pacific	21%
South Asia	10%

In recent years great attention was also given to the environmental effects of the debt crisis. Under the pressure of the debt service developing countries are obliged to increase their export revenues at short term. This leads to an overuse of their natural resources: the export of agrarian products is increased, arable land has to be increased, more chemical fertilizers are used etc. Often, the expansion of the use of natural resources goes along with environmentally harmful energy and infrastructure projects.

The debt question, being of major importance both for environment and development was therefore rightly put onto the agenda of UNCED under the item "cross-sectoral issues".

The G 77 refers positively to the documents presented by the secretariat and stresses in its own proposals the need of "addressing efficiently and urgently debt problems". (45)

The Nordic countries and the EC also take up the issue in their "Green Package" proposal (see beyond).

But real negotiations were even not started. As for many other issues on the UNCED agenda which do not deal with environmental questions in a narrow sense the North wants to handle them in institutions outside the UN system mainly the IMF, World Bank the Paris and the London Club. The official UNCED process will therefore not bring about any new aspects for the debt questions.

6.1. DEBT AND DEBT SERVICE RELIEF

On top of the proposal of the UNCED secretariat to address the debt issue is the demand of "substantial debt and debt-service reduction". (46)

Based on a study by the World Bank, the secretariat considers it to be possible to reduce debt owed to private banks by developing countries by about \$200 billion for a cost of about \$25 billion.

The secretariat suggests that most or all of the debt owed to bilateral official creditors by severely indebted low-income countries actually amounting to some \$40 billion should be written off.

Debt owed to bilateral creditors by severely indebted middle-income countries in the order of \$80 billion should be reduced by \$40 billion.

For arrears amounting to some \$3.5 billion owed to multilateral creditors and suggested for clearing the secretary proposes an annual subsidy of some \$2 billion in order to substantially reduce debt service to be paid by severely indebted low and middle-income countries to multilateral creditors. In total, a one-time payment of \$28.5 billion, a recurrent interest rate subsidy of \$2 billion a year and a write-off of \$80 billion are suggested.

(45) China and Ghana Draft decision...p. 2

(46) Report of the Secretary General of the Conference to PrepCom IV; INTERNATIONAL POLICIES TO ACCELERATE SUSTAINABLE DEVELOPMENT IN DEVELOPING COUNTRIES AND RELATED DOMESTIC POLICIES, (Section I, Chapter 1 of Agenda 21); A/CONF.151/PC/100/Add.3

Furthermore an enhancement of the Brady initiative is suggested comprising:

- authoritative estimates of the country's debt reduction and cash flow needs rather than estimates determined by the balance of negotiating strength,
- adjustment of laws and regulations on loan losses in creditor countries which encourage banks to participate in debt reduction,
- provision of additional funds to in support to debt relief to multilateral financial institutions and regional development banks.

The Toronto agreement and the Trinidad and Tobago Terms are welcomed as steps in the right direction. It is suggested that debt relief should not be at the expense of fresh aid as well as eligibility criteria should be reviewed in order to allow all least developed countries (LDC) and all IDA recipients to benefit.

This position is backed by the EC which "urges to promptly implement the agreement of December 1991 to provide debt relief for the poorest, heavily indebted countries that are pursuing structural adjustment" emphasizing however structural adjustment. (47)

It is furthermore recommended to extend the Paris Club Policies towards Poland and Egypt which have been granted a debt reduction of 50% to Southern countries both low and middle income.

The only concrete proposal on debt reliefs apart from the Secretariats report is the Green Package of the Nordic countries. It is "urging all creditors in the Paris Club to promptly implement the agreement of December 1991 to provide debt relief for the poorest, heavily indebted countries that are pursuing structural adjustment. Further reductions that go beyond this agreement are, however, needed and in this context the so called Trinidad Terms proposed by the U.K. should be a point of departure." (48)

6.2. STRUCTURAL ADJUSTMENT

When the debt crisis emerged in the early eighties the Structural Adjustment Programmes (SAP's) of IMF and World Bank were considered to be the right instruments to solve the crisis. Based on a neoliberal free market approach they intended to phase out inefficient sectors and practices in developing countries and to promote export orientation and international competitiveness. This would, according to the theory, enable the indebted countries to accumulate enough funds to solve their debt problem.

In the official UNCED discussions the question of structural adjustment did not play a role. The developed countries do not question the concept at all and therefore don't almost mention it. The EC when proposing debt relief for heavily indebted LDC's is

(47) Position Paper of the European Commission; p. 2

(48) Proposal by the Nordic Countries... p. 1

linking it to the "pursuing" of "structural adjustment" (49). The same do the Nordic Countries in their Green Package using exactly the same wording as the EC.

The report of the Secretary General also mentions them in passing as an unquestioned premise: "In order to foster adjustment and growth, the international debt strategy must be governed by objective economic criteria and not by political preferences or narrow financial concerns." (50)

Even the G 77 is not mentioning the problem. It is only in the Peking declaration that they reject environmental considerations be used "to introduce any forms of conditionality in aid or development financing". (51)

This treatment of the SAP's has to be qualified as a serious omission. A decade of experience with this approach has proven, that with few exceptions the SAP's could not meet these expectations.

Even if the social costs of SAP's such as decrease of income, increase of unemployment, reduction of social services etc. which mainly affected the weakest sectors of society could be left aside, the programmes in most cases could not improve the traditional imbalance in foreign trade nor could they reduce the budget deficits. At the contrary, the group of the highly indebted countries had to make a massive reduction of imports from \$130 billion to \$80 billion. (52)

For the Subsaharian countries foreign trade could from the beginning only play a marginal role given its structure and its modest volume. At the same time investment rates in Subsaharian Africa were decreasing. For the African countries the SAP's turned out to become an economic disaster.

With the target to stimulate exports at any price the SAP's became in most cases a catalyst of environmental destruction:

- In agriculture the need for the production of cash crops, often accompanied by monoculture, lead to the replacement of traditional crops, the use of pesticides and inappropriate technology and to an overuse of land, water, forests and other resources. Ghana for instance, often quoted as a positive example for SAP's, has increased its export of tropical timber by 500%. The social consequences, such as migration from rural to urban areas create new economic problems.

- As for non renewable resources are concerned the same mechanism can be observed. The foreign trade of countries like for instance Zambia, depend by 80% on the extraction and the export of copper. Under the pressure of the SAP's the country concentrated all efforts on an increase of copper exportation. As the copper prices were constantly falling down in recent years Zambia did not only sell out its natural wealth but was unable to undertake the necessary maintenance and modernization of its equipment, with the re-

(49) Position Paper of the European Commission; p. 2

(50) A/CONF.151/PC/100/Add.3

(51) PC/85 LETTER CHINA

(52) See Boeckle, H.; Effekte der Auslandsverschuldung in ausgewählten Entwicklungsländern; in IW-Trends, 16,1989, p.17 f.; quoted from WEED; Ökologische Dimensionen... p. 39

sult that mining is now partly breaking down.

The efforts of developing countries to increase export furthermore absorb the capacities which would be needed to establish more diversified structure in their exports. The SAP's thus contribute to a stabilization of monostructures and deepen the international division of labour.

- When it comes to industrial development the SAP's together with the general concept of development of the Bretton Wood institutions stimulate big infrastructure and energy projects which are a major cause of environmental destruction. The cutting of trees in the Amazonian basin is not so much motivated by exporting timber but due to the establishment of big industries such as aluminium, which are highly energy consuming.

Given the special fragility of tropical and subtropical ecosystems the long term economic damages of environmental destruction stimulated by SAP's cannot be overestimated, even if there are not yet concrete estimates on the table.

Both IMF and World Bank have tried over the years to react to the economic failures of the SAP's. The establishment of a special Structural Adjustment Facility by the IMF with soft conditions for countries which encounter difficulties in implementing SAP's seems to be one of the conclusions the Bretton Wood Institutions were drawing from the experience. The World Bank has started to consider social and environmental aspects of adjustment. But it has not been recognized that the SAP's have fundamentally failed even if only measured by their own criteria.

As the SAP's turned to become a part of the debt problem instead to be a solution they have to be stopped in their present shape. They are absorbing and consuming financial resources and preventing sustainable development.

Instead, there is a need for a combined approach of structural adjustment in the North (including among others cutting of subsidies and removing trade barriers), democratic reforms of the international finance institutions and an alternative type of structural adjustment in the South. (53)

6.3. DEBT CONVERSION

Being a conference on Development and Environment the debt for nature swaps are given great attention in the UNCED secretariat's list of proposals for debt conversion. Nineteen agreements in eight countries have been reached providing relief on debt with an original value of some \$100 million with a generation of funds for environmental purposes of about \$60 million (54). Most of them have been implemented by NGO's such as the World Wildlife Fund. The scope of these swaps has been very limited. A major debt to nature swap is however envisaged by Poland. The country started

(53) as proposed among others by the 'African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation' presented by the UN Economic Commission for Africa.

(54) A/CONF.151/PC/51 1991-07-29

negotiations with the Paris Club for a swap of \$3.3 billion. The proposal calls for establishment of a fund in Poland under joint Poland-creditor management to support critical environment programmes. If the agreement would be successful developing countries might use it as model.

Apart from the quantitatively insignificant impact of debt to nature swaps this type of debt conversion has been criticised for being a form of eco-imperialism interfering into the sovereignty of a country over its natural resources and putting a conditionality to debt conversion. This critique is not only voiced by Southern governments but also by NGO's.

The lack of democratic participation of local populations concerned and the acknowledgement of the legitimacy of debts have also been objected to debt to nature swaps.

The Nordic countries have proposed in their Green Package on financial resources the creation of "debt for sustainable development swaps". (55)

In the same direction goes a proposal of UNDP which suggests debt relief for promoting priority social expenditures. Similarly debt relief could be utilized for agriculture development or job creation. (56)

The World Resources Institute has proposed a "multilateral authority" to reduce debts and convert into environmental projects. The authority would purchase debt at a discount and then negotiate for phased forgiveness in response to adoption and implementation of sustainable development programmes. Examples include plans to control deforestation, to adopt appropriate energy pricing and least-cost energy strategies, to reduce population growth, to undertake land tenure reform, to raise the legal, social and economic status of women, and to implement manufacturing strategies emphasizing job creation. (57)

A similar scheme has been suggested in a paper prepared for UN-ECOSOC's Man-in-the-Biosphere programme which suggests a "Debt-for-Biosphere Reserve Management Investment Fund."

The UNCED secretariat is backing these proposals suggesting furthermore that the Special Drawing Rights (SDR) of the IMF could be extended and used for allocation funds for such a central authority.

Other types of swaps such as debt-to-equity swaps have not been playing a role in the UNCED process.

Debt swaps are the only debt related issue that has been taken up by the EC in the framework of UNCED. The Community is mentioning in its position paper debt swaps as a way of generating new financial resources both in the public and private sector without being more concrete on the type of swaps. (58)

(55) Proposal by the Nordic Countries... op. cit. p. 2

(56) UNDP's Human Development 1991; quoted from Report of the Secretary General... op. cit.

(57) WRI; Partnership for Sustainable Development, May 1991.

(58) A Common Platform: Guide-lines for the Community for UNCED 1992; 9391/91 ENV 340 ONU 9; SEC(91) 1693 final; p. 6

6.4. OTHER PROPOSALS

To the conventional practices of rescheduling debts the UNCED secretariat is adding a suggestion according to which very heavy indebtedness might be dealt with in a way analogous to the "Chapter 11" process utilized in the United States. A firm which has lost its credit worthiness enters into a Chapter 11 process of negotiation with banks. One result can be subordination of old debt to new, thus permitting an injection of new funding. In the case of heavily indebted governments, where much of the debt is often owed to or guaranteed by governments, this would be subordinated along with private debt.

Another interesting proposal was made in 1987 by the Austrian economist Kunibert Raffer, suggesting the application of US insolvency procedures for municipalities ("Chapter 9"). "Chapter 9" deals with debtors having governmental power. The regulation provides the option to pay only the part of the debts which rationally and under given circumstances can be expected.

The affected population thus has the possibility to defend its interests, in particular to refuse the payment of increasing taxes and other social costs which worsen their living conditions.

With some changes "Chapter 9" could be used internationally. The local population should be represented by its social organisations, NGO's, unions etc.

The role of the local or national judiciary could be taken over by an international neutral court. The arbiters should be selected by both parties equally.

The experience with debt regulation (London debt agreement in 1953 cancelling 51% of Germany's debts after World II, Indonesia's agreement in the sixties, defaults by countries like the US, France, Italy and the UK) proves that such an approach would be feasible and justified.

Among NGO's the concept of the ecological debts of the North towards the South is spreading. According to its promoters (in particular Latin American and some African NGO's, in Europe it has been taken up by the Italian Campagna Nord Sud) the environmental damages caused by the North in the South would set off by large the debts of the South.

This approach is in so far from interest as it is converging partly with the above mentioned G 77 argument that new and additional funds are nothing else than a compensation. In the last analysis this is also near to polluter pays principle which had already been adopted in the first UN conference on environment in Stockholm in 1972.

The problems with all these principles is that they have not become operational in international relations and especially not in North South negotiations between creditors and debtors.

7. ECONOMIC INSTRUMENTS

Economic instruments as means for regulating the behaviour of economic actors towards environment have been under discussion since years - mainly on national level in the industrialized countries. The EC has recently started negotiations on the introduction of a CO₂ tax and was strongly arguing in the negotiations for this type of instrument: " In order to reach the necessary reallocation of economic resources to achieve sustainable development, full social and environmental costs should be integrated into economic activities so that environmental externalities are internalized. This means that environmental costs and other related to the exploitation of natural resources in a sustainable way and borne by supplier country should be reflected in economic activities." (59)

The use of such instruments for generating funds to be channelled to the South for environment and development purposes are instead relatively new.

Most of the instruments under discussion have even not yet been implemented on national level and there is no experience with their economic and environmental effects. It therefore could not be expected that UNCED would be able to take concrete decisions on these issues. The proposals of the secretariat and the other parties therefore remain on the level of general declarations and recommendations, but they might be helpful in further intensifying the debate.

NGO's should participate in this debate and develop common positions towards the different proposals.

The core idea of the whole approach is the internalization of the social and economic cost of environmental damages into the economic costs both on micro and macro economic level.

Among the wide range of instruments discussed for national use - such as taxes, incentives, pricing, cutting of subsidies, etc. the focus for North South financial transfer is on taxes and tradeable permits.

7.1. TAXES ON ENERGY, GLOBAL COMMONS ETC.

The UNCED secretariat argues in favour of a "carbon" tax. Though the primary objective and the negotiating context of such taxes is mitigation of the risks of climate change there is a considerable revenue potential in some industrial countries which could be used for increases either in ODA or in funding multilateral institutions to use the funds for environmental and development purposes in the South.

As a focus on only carbon would leave out other greenhouse gases a proposal of the World Resources Institute should be considered proposing a system of coordinated national levies on greenhouse gases or their sources and the creation of a global Environment Trust Fund.

While the amount of revenue would vary depending upon the tax level established a tax equivalent to a 10 percent tax on coal would

(59) Position Paper of the European Commission... p. 3

produce industrial country revenues of more than \$25 billion annually. It even might be considered that the revenue measures should be applied at several stages in the production and consumption cycle.

There are a variety of options for utilizing and managing such revenues ranging from an agreement to channel a portion of them through existing institutions to the establishment of a fund under a UN institution. (60)

Another estimate on potential revenue from a carbon tax has come from Jos Goldemberg, Secretary of State for Science and Technology in Brazil (61). He states that a \$1 per barrel tax on oil or its equivalent would generate \$50 billion yearly. A tax at this level would be basically a revenue measure to finance global efforts rather than being an important disincentive to consumption. To modify consumption levels would require a tax substantially higher.

The Worldwatch Institute in its State of the World 1991 (page 183) reports on a US Congressional Budget office estimate that a phased-in tax on each ton of carbon beginning at \$11 in 1991 and going to \$110 in 2000 would yield by the year 2000 revenues in the U.S. of \$120 billion. Such a tax was projected to lead to a 37% reduction in carbon emissions and a 23% improvement in energy efficiency. Of course the revenue impact would be reduced to the extent offsetting tax reductions were implemented.

A more modest proposal has been suggested in working paper for "Financing Sound Energy Technologies in Developing Countries" prepared by the United Nations Committee on Transnational Corporations. Taxes of 1\$ would be imposed on fossil fuels at the source of extraction and on consumers at the retail level to raise a few billion dollars for a "World Energy Alternatives Commission". Funds would be used to develop energy strategies and for funding renewable energy and energy conservation projects.

From an environmental point of view it would be necessary to extend the concept of a carbon tax or tax on fossil fuels to include all non-renewable sources of energy. The practical effect of this would be to include nuclear energy. Otherwise taxes on the conventional energies would turn into a stimulus to the development of nuclear energy.

Another form of taxation would be the idea of gaining revenue from the global commons. The proposal was already articulated in the Law of the Seas negotiations. There could be potential revenue from sea bed resources, ocean fishing, use of the high seas by shipping, use of the atmosphere and stratosphere for air transport and for communication facilities which utilize global commons and from use of outer space. Taxing the use of the commons could be administered by national governments on behalf of the international community with revenues deposited in an internationally managed fund. Alternatively, an international taxing authority could be established under the United Nations with the revenues to be used for environmental protection and related development measu-

(60) Natural Endowments: Financing Resource Conservation for Development The 1989 Report of the International Conservation Financing Project commissioned by UNDP. Quoted from:

(61) And also minister for environment after the dismissal of José Lutzenberger

res.

Taxes could also be levied on other items such as packages, wastes, motor-vehicles etc.

The New Delhi based Centre for Science and Environment (CSE) has proposed a system consumer taxes for the rich countries which should generate all together \$30-40 billion (62). The funds should be used to finance a global survival programme which definitively puts an end to poverty. The CSE argues that most of the money would come back to the North, in an initial stage to buy food, at a later stage as demand for manufactured goods.

A further suggestion made by NGO's at the 2nd PrepCom and taken up by the UNCED Secretariat is the idea of "Earth Stamps". Funds would be raised by asking Member State governments to permit their postal system to sell Earth Stamps which would then be added to regular postage.

Such supplementary postage systems have in the early fifties been used by Germany to subsidise Berlin during and some time after the blockade of the city by the Soviets. If compulsory, such a measure would have the character of an indirect tax.

7.2. TRADEABLE PERMITS

As imbalance in emissions between North and South and between particular countries will not be overcome at short term the idea was born to apply the principle of comparative advantage to the environment of a country which is less contributing to pollution. Each country would be assigned a certain quota for emissions and giving it the right to trade these emission rights if the full quota was not used. Other countries which for a certain stage are not able to comply with the quota assigned to them could buy emission rights from the other.

The assignment of quota is based on a concept of "critical loads" being apportioned by an agreed upon formula and then made available for trading. The critical load should be grounded in a scientific assessment but in practice is likely to also take into account political and economic factors.

The whole concept is rather new in the international debate and there are no concrete steps to implement it by now, neither in the framework of UNCED nor elsewhere.

From an environmental point of view the concept of tradeable permits has been criticised because it gives those, who have more money than others, the possibility to continue pollution.

Some NGO's such as the above mentioned Centre for Science and Environment in New Delhi therefore suggest to link the concept to some additional conditions such as an economic incentive attached to preserving carbon reservoirs. In that case there would be a vested interest in averting global warming and a country which today

(62) The CSE Statement on Global Environmental Democracy, To be submitted to the forthcoming UN Conference on Environment and Development; New Delhi, pp. 8/9

is cutting forests for export earnings would chose to earn money by keeping its forests. (63)

In order to avoid licence to pollute penalties shall be imposed on nations whose emissions exceed the maximum permissible limits even after extra credits obtained through emissions trading.

There have been no concrete figures be named, thus it is difficult to estimate how much funds would be generated with this mechanism.

7.3. PRIVATE INVESTMENT FUND

The percentage of foreign investments in the developing countries has been decreasing constantly in the last ten years. In order to reverse this trend the UNCED secretariat proposes a private investment fund established to invest in and/or lend to developing country firms in co-operation usually with private sector enterprises and/or development banks. Such a fund should help to overcome the problems which exist in reaching the developing country private sector through government to government aid processes. The Fund could, of course, be authorized to also lend to or invest in government owned facilities under certain defined conditions.

Funding for such a private fund would come from the international investment community including from individuals. Governments should encourage institutions and individuals in their countries to invest through tax incentives, pay-roll deductions or guarantees.

Management would be provided by a full-time team of professionals. Provision would be made to preclude control by any single individual or group through limitations on share ownership or voting rights. In order to establish the financial integrity and credibility of the Fund, initial capitalization should probably be at a level of at least \$1 billion. Fund securities should be available to individuals throughout the world, making it eventually into a true "peoples fund".

A separate non-profit entity/foundation might also be set up, not directly linked to the investment fund. It would provide "soft" funding for sustainable development projects which may include improving the terms of an investment from the private investment fund. For example, a longer gestation forestry project which is otherwise economically attractive might need a longer grace period than would normally be available solely through a conventional investment. The Foundation could be funded by private and governmental donations and would conduct regular fund-raising campaigns.

Although the secretariat expressed it's hope that the Fund might be launched with the endorsement of governments at UNCED the idea even has not been discussed.

7.4. REALLOCATION OF SUBSIDIES

Subsidies, particularly in the agriculture of industrialized coun-

(63) *ibid.* p. 10

tries, are under heavy criticism for hampering the competitiveness of Third World products on the markets. There are yearly subsidies of \$200 billion of subsidies for agriculture with the US, Japan and the EC holding the lions share of them. There is obviously a huge potential for the generation of funds.

It is therefore a long standing request from the South to cut down subsidies. The funds which thus are released would be, at least partly, reallocated for environment and development purposes. Apart from the direct financial effect the cutting down of subsidies is furthermore considered to stimulate structural changes towards sustainability which at long term would generate gains. A sustainable agriculture in the North, for instance, would be more healthy for consumers and thus creates indirect positive financial effects for public health.

If sustainable agriculture in the North leads at the same time to a decrease in the quantities which are produced this would reduce pressure of Northern products on the world market as well as on world market prices and give Southern producers more space.

Similar results might be obtained if subsidies for unsustainable use of non-renewable energies are cut (64) this might stimulate energy efficiency and promote environmentally more friendly energies. Beside the effect on environment such measures will save money on the long run.

The chances for such approaches to be implemented depend very much on the resistance of the receivers of subsidies and on their political and economic strength. But also solid calculations about the future financial effects are badly needed.

8. TRADE

The present pattern of world trade is characterized by extreme North South imbalances. The percentage of the (non oil-exporting) developing Countries in world trade is decreasing and amounts to only 13% in 1990 compared to 16% in 1970. (65)

The international trade system implies considerable economic losses for the South. A decisive problem in North South trade is the decrease of terms of trade for commodities by 25% (66) in the eighties.

At the same time 75% of world trade is regulated through protectionist measures despite the official philosophy of free trade. (67). The Northern protectionism in agriculture is particularly dramatic for the developing countries given the importance of this sector for their economies.

Given the present structure of developing economies trade remains, however, one of the main sources for accumulation. Therefore the trade regime is of paramount importance for the developing coun-

(64) Coal for instance is subsidized in Germany and France.

(65) International Financial Statistics; IMF; Washington; quoted from WEED..., p.46

(66) UNCTAD; Trade and Development Report 1990; p. 70

(67) WEED..., p. XV

tries.

The regulations of international trade are currently negotiated outside UNCED in the Uruguay round on the General Agreement on Tariffs and Trade (GATT). As the bargaining power in these negotiations is determined by the foreign trade potential of a country the position of the development countries is very weak. Consequently the current trends in the Uruguay round indicate that a new agreement on GATT will deepen the North South gap in trade. The proposals made in the framework of UNCED are reflecting mainly the position of the developing countries.

The basic philosophy on trade in UNCED is the concept of free trade which is seen as promoter of development. According to the principle of comparative advantage an open trading system, which leads to the distribution of global production in accordance to comparative advantage, is supposed to be of benefit to all trading partners.

The documents demand in particular:

- improvement of access to markets for exports of developing countries and
- improvement of commodity prices,
- reduction of tariffs in developed country markets on products of export interest to developing countries.
- phasing out of tariff escalation against processed products of export interest to developing countries.
- phasing out of non-tariff barriers, such as quantitative restrictions, voluntary export restraints, surveillance measures, export subsidies, the use of anti-dumping laws for protectionist purposes,
- guarantee that consumption taxes in developed countries on primary and processed commodities are limited to those required for environmental ends.
- phasing out of agricultural subsidies and protectionism in developed countries.
- participation of developing countries in commodity agreements or arrangements with a view to eliminating supply overhangs, facilitating market transparency and predictability, enhancing commodity-related research and development, achieving prices reflecting environmental and resource costs,
- providing compensation mechanisms for shortfalls in commodity export earnings of developing countries. (68)

Trade was no issue in the UNCED negotiations. All parties kept to a tacit agreement that the Uruguay round on GATT was the right place to deal with trade questions. Thus, UNCED missed the opportunity to make pressure on the GATT negotiations in the interest of the developing countries.

(68) Report of the Secretary General of the Conference to Prep COM IV; A/CONF.15 1/PC/100/Add.3

9. TRANSFER OF TECHNOLOGY AND INTELLECTUAL PROPERTY RIGHTS

The North-South transfer of technology has always been the backbone of the mainstream in development policies which was defining development as modernization, first and foremost through industrialization with Northern technology.

Financially the transfer of technology has produced gains and losses in the South. But the data basis available at present is very small and the balance is very difficult to estimate. Among other problems there are hidden flows of resources through trade with patents, licenses etc. inside corporations which hardly can be detected. The UNDP Human Development Report 1992 speaks about \$20 billion loss annually for the South through transfer of technologies. Further research, case studies etc. would still be to be undertaken. Hence, the UNCED document on transfer of technology when raising the question of the costs of purchasing environmentally sound and safe technology has to admit that "there are no solid grounds for estimating the costs of such activities." (69)

Nevertheless, the transfer of environmentally sound and safe technology has been one of the major issues of UNCED. Technology is considered to be a key instrument both by the North and South to solve environmental problems: "The availability of scientific and technological information and access and transfer of environmentally [safe and] sound technology are essential requirements for sustainable development." (70)

The negotiations reflected very much the traditional North-South conflict over this issue. Whereas the South wants transfer of technology at concessional and preferential terms the North is favouring a "technological cooperation" (the EC and the Business Council for Sustainable Development were promoting as an innovation the formula of "cooperation" instead of transfer) on commercial basis.

Especially the United States were insisting on a more or less exclusive regulation of transfer of technology through free market mechanisms whereas the EC accepted a certain share of preferential terms in the framework of ODA. The common platform of the EC explicitly stresses that "technology cooperation cannot be left to the market alone" and declares its readiness to purchase patents as part of aid packages. The community also underlines the importance of enhanced South-South transfer of technology. (71)

A consensus on this main controversy could not be reached in the UNCED preparations.

Given the deep going conflicts of interests between North and South the concrete proposals therefore UNCED is able to submit

(69) Chapter 34 of Agenda 21; A-21: Technology Transfer

(70) *ibid.* The bracketed "safe and" indicates language which is not consensus. The US have strongly objected to accept the words safe because they did not want to hamper the application of biotechnology which is expected to become the leading sector of growth in the next century.

(71) A common platform ... *op. cit.* p. 8

concentrate thus on the establishment of information networks, clearing-houses and research centres with a special focus on developing countries' needs for capacity building in the fields of training, maintenance, technology assessment, environmental impact assessments and risk assessment, planning and dissemination of information on national, regional and international level.

Altogether the costs for these activities are estimated in Agenda 21 to \$450-600 million per year.

Closely related to the transfer of technology is the question of intellectual property rights.

Here again occurs the standard conflict, the South demanding easier access to patents, licences etc. whereas the North is preferring a commercial regime on intellectual property.

The controversy is reflected in a vague language trying to combine the different approaches: "Proprietary technology is available through commercial channels, and international business is an important vehicle for technology transfer. Tapping this pool of knowledge and recombining it with local innovations to generate alternative technologies should be pursued. At the same time, [assured] access to the environmentally [safe and] sound technologies ... should be [ensured,] promoted, facilitated and financed as appropriate, while providing fair incentives to innovators that promote research and development of new environmentally [safe and] sound technologies." (72)

As intellectual property rights are negotiated parallel to UNCED in the Uruguay round the North considers GATT the only appropriate framework to reach an agreement.

NGO's especially from the South have severely criticised the emphasis both North and South have given to the transfer of technology. They correctly argue:

- there is no clear definition of environmentally sound and safe technology. Nuclear technology for instance has not been questioned by UNCED;
- the Northern type of technology is one of the root causes of the environmental crisis, it is therefore part of the problem not a solution;
- the need for technological transformation in the North is not addressed;
- the existing technologies of local populations, indigenous people, women etc. which often have a long standing tradition of sustainable economy will be further marginalized;
- the transfer of technology risks to increase the Southern indebtedness. (73)

(72) *ibid.* the brackets indicate language which has not been agreed upon

(73) among others: Chee Yoke Ling; Technology transfer will not solve the environmental crisis; in : Third World Resurgence, 14/15 1991; Penang Malaysia

10. TRANSNATIONAL CORPORATIONS

Transnational corporations are the biggest actors in international economy. With a handful exceptions (such as Lonrho in Zimbabwe) they all are based in the industrialized countries. Their sheer economic power gives them a considerable influence on the economy of developing countries.

Through internal transfer of profits, internal overpricing and artificial pricing, internal sale of patents, licenses etc. they furthermore dispose of a wide range of instruments to transfer financial resources from their branches in the South to North without any control.

The debate on a new economic order of the seventies therefore always included proposals to control and regulate the activities of TNC's. A code of conduct was therefore discussed in UN fora throughout the last ten years without resulting in operational agreements.

At the contrary, the general trend towards deregulation in the eighties increase the operational space of TNC's. With the recent reform of the UN system undertaken by the new Secretary General Boutros Ghali, closing down the UN Centre on Transnational Corporations (74), the UN is confirming the general trend.

In recent year the environmental aspects of TNC's activities came under critique, particularly their use of resources and the transfer of technology. For instance TNC's oil production, road transport, chlorofluorcarbon (CFC) production electricity generation, energy intensive metal production and agriculture, account for approximately 50% of all emissions of greenhouse gases

UNCED dealt with TNC's at very low profile under the item of the agenda "major groups" such as women, youth, NGO's etc.

TNC's was assigned a positive function in the protection of the environment "through the promotion of improved management and regulation of industrial processes, and investment in and generation and dissemination of environmentally benign technologies and processes" as well as through the positive effect of the increase in research and development in the area of environmentally sound technologies. Their role therefore should be enhanced. (75)

During the negotiations an attempt was made to put an emphasis rather on control than on enhancement of the TNC's role through two sets of proposals calling on the one hand for corporations to rapidly adapt full-cost environmental accounting (proposed by Sweden) and on the other for establishing a framework for global corporate environmental management (proposed by the G 77 and China).

If they had been adopted these proposals, which originated from the UN Centre for TNC, would have led to the establishment of com-

(74) Not to be confused with the UN Committee on TNC's, which continues to exist.

(75) Contribution of the Commission on Transnational Corporations to the preparatory process of the United Nations Conference on Environment and Development; A/CONF.151/PC/68

prehensive guide-lines for corporations to follow on integrating environmental and health considerations in their activities, and for governments and international organisations to improve their monitoring of the activities of large enterprises including the TNC's.

However, both Sweden and the G 77 and China had agreed to withdraw their proposals during the negotiations. (76)

More than 50 NGO's in a joint open letter expressed their concern over the exclusion of the proposals for international monitoring and regulation of TNC's from the Agenda 21 of UNCED.

The NGO proposals were not accepted in the official negotiations.

11. PEACE DIVIDEND

The world-wide military expenditures amount to approximately one trillion US-Dollars per year. \$600 billion are spent by the US, Europe and the former Soviet Union.

This figure does not include environmental and social costs which are externalized such as the damages caused by armed conflict, and the destruction of environment in peace times through testing of nuclear and other arms, the dumping of hazardous wastes, the impact of resource use (for instance, the Pentagon is the biggest single oil purchaser in the world), the use of landscape, etc.

It is obvious that a reduction of the military expenditures could directly set free considerable financial resources and indirectly contribute to a reduction of the externalized costs.

A reduction by only 12% in the North's military budgets would already provide \$75 billion which are required to cover the between the existing ODA and the 0,7% target.

The smaller military budgets of the South also offer opportunities for savings. Over the last 30 years the South has averaged an annual increase of 7,5% in military expenditures. If developing countries froze military expenditures instead of continuing with the increases, cumulative savings could be \$180 billion by the year 2000.

After the end of the East West conflict there were in fact great hopes to release funds for development and environmental purpose. However, these hopes for a "peace dividend" have been frustrated.

In the Eastern bloc, especially in the former Soviet Union, there have been considerable reductions of the military budget.

Experience has shown that at least at short term the conversion of the arms industry is very costly as well as disarmament itself, especially when it comes to the destruction of nuclear and chemical weapons. For the latter it is even more expensive to destroy them than to produce them.

Furthermore the social costs for reducing the size of the armies

(76) Press release from Third World Network; New York 1 April 1992

have constituted a heavy constraint to the economies of the former Soviet Union. In the NATO countries there is, with few exceptions, only a slow down in increase and no real cut of the military budgets.

But even if the next years there should be considerable cuttings in military expenditures they are likely to be used for solving internal problems such as financing the budget deficit etc. Therefore, expectations into the peace dividend should not be too high.

In the UNCED process the peace dividend has been a very marginal aspect. It played a certain role in the report of the Secretary General, the first draft document on finance of the G 77, in a Swedish proposal, in the EC's position and of course in NGO proposals.

Except for some NGO proposals which gave concrete figures for reduction - Greenpeace International for instance requires a cut in military expenditures by at least 50% over the next three years (77) - reference to peace dividend remained very vague and no concrete figures were given. The EC proposal is very typical in that respect: "Consideration should be given to possible use of resources previously allocated to military purpose." (78)

The UNDP Human Development Report 1992 proposes a reduction of military budgets by 3% annually. The result would be an overall amount by the year 2000 of \$ 1,5 trillion in the North and \$279 billion in the South.

When the negotiations of the documents started there was a strong resistance of the United States towards any reference to the military in the context of UNCED. The U.S. has opposed any mention of safe regulation of military use of toxic chemicals and the storage of hazardous waste produced by militaries.

The U.S. and other countries have opposed Earth Charter language intended to build upon the 1972 Stockholm Declaration, which called for "the elimination and complete destruction" of weapons of mass destruction, by outlawing contamination resulting from the use of such weapons. In addition, the U.S. has opposed language to limit environmental destruction in war.

Whereas the EC did not even mention it's own proposal during the negotiations Sweden agreed to withdraw any mention of the safe management of military-produced radioactive waste after the U.S. threatened to oppose the entire chapter on radioactive waste from Agenda 21.

Mention of education concerning the violence of militaries was deleted in plenary and in the science debate wording proposing that "arms reduction efforts be turned into environmental efforts" was rejected. Language proposing to use military satellites to monitor environmental damage has also been rejected.

And even the G 77 as well left out it's initial proposal to use the peace dividend in a revised version of its latest draft on financial resources.

(77) Greenpeace International, "Financial resources" Paper prepared for the Fourth Session of the Preparatory Committee for the United Nations Conference On Environment and development; p. 3

(78) A common platform: Guide-lines for the Community... p. 7

The group of the Pacific Island Developing Countries have called for the prohibition of nuclear testing and of nuclear dumping to be incorporated in Agenda 21 section on oceans. Their demand remained bracketed, i.e. there has been no consensus on it until now and it is very questionable if there will be one.

Unless there is not made reference to in the final version of the Rio Declaration all UNCED documents will thus be cleaned up from references to military aspects.

12. CONCLUSIONS AND RECOMMENDATIONS

For NGO's UNCED has offered an opportunity to break new grounds. Never before an international conference of governments has opened up its doors for NGO's to such an extent as UNCED did. More than 1000 NGO's have been accredited at the fourth session of the Preparatory Committee.

The UNCED strategy sees a major role for NGO's to play in the process of implementation of its plan of action. The increasing role of NGO's may in future even be reflected in respective institutional arrangements in the UN system.

The massive presence of NGO's might not only increase their influence on decision making but also contribute to an improvement of cooperation and the development of common strategies.

UNCED has also given space for some important issues which since years have played a role in the arguments of NGO's. In particular the linkage between environment and development offers an opportunity to break new grounds.

For the environmental discourse this linkage integrates the social problems with environmental problems thus overcoming technocratic and/or eurocentristic approaches to the solution of environmental problems.

For the development discourse it puts into question the paradigm of progress and draws the attention to the development resp. mal-development in the North.

Another innovative element in the debate is the concept of compensation. The G 77 (79) is considering the transfer of financial resources not any longer in terms of aid but gives a new legitimacy to it's requests for funds.

Despite these new elements the traditional patterns of North-South conflict of the seventies have to a high degree dominated the UNCED negotiations.

However, the nineties are not the seventies and today the economic crisis haunting most regions of the Third World has not only deepened and is containing new problems such as the debts of the Third World and structural adjustment. Moreover, with the environmental crisis threatening not only the North but even more the South we are confronted with a completely new dimension.

Furthermore there is wide spread understanding about the failure of the traditional paradigm of development, which always has been understood as modernization repeating the Western model. There is consensus today that this model neither can be transferred to the South nor is it sustainable in the North.

For NGO's and the social movements it would therefore be erroneous to deal with the North South conflict in the traditional manner.

(79) The G 77 is a UN category of countries, initially consisting of 77 countries consisting of today 128 developing countries.

12.1. CAN MONEY SAVE THE WORLD?

Especially when it comes to the question of transfer of financial resources there is no reason to back the position of the Southern elites in a simplistic black and white scheme. Of course new funds are required and there is a responsibility of the North to generate them. But the focus on the simple transfer of money should not divert the attention from the fact that structural changes are needed if additional flow of money is not to ooze away as it happened in the past or would even be harmful in many cases.

If such structural changes are not put on the agenda and if business as usual should prevail there are no perspectives for solutions.

Although some documents of the UNCED Secretariat and of the G 77 are raising these questions the negotiations were either not addressing them or they were immediately blocked, as in the case of Northern consumption patterns. NGO's therefore should focus on these structural questions.

NGO input is needed for strategic and conceptual thinking. What will the money be used for? Who has control over it? To what extent are local populations, women and indigenous people involved? These should be the questions NGO's should emphasize.

Northern NGO's in particular should focus on the problems of reforming the international economic order dominated by the North and on structural adjustment towards a society which is environmentally friendly and sustaining an equitable development.

In the following part of this paper emphasis is given to proposals which correspond to the need of such structural changes.

NGO strategies which aim at contributing to the generation of new and additional funds should focus on the following areas:

- monitoring and reforming the GEF
- debts
- trade, with special regard to GATT
- transfer of technology
- the role of TNC's

12.2. MONITORING AND REFORMING THE GEF

As long as the GEF cannot be closed down and given the South's readiness to accept it as a compromise NGO's can not avoid to deal with it. It will be necessary that they monitor carefully the GEF activities and work for a structural reform. In particular they have to look for:

1. GEF projects must respond directly to the needs and priorities of developing countries, especially local communities directly affected by projects.

2. Complete GEF project documentation should be made available to the public in appropriate languages and throughout the project cycle.

3. In case of GEF projects associated with other projects and loans, full documentation on these projects should be disclosed early in the project cycle. This means that institutions such as the World Bank will have to modify their information disclosure policy to accommodate this principle.

4. The GEF's scarce resources will be wasted unless the GEF will serve as a catalyst to promote environmental reform in existing development programs, for this reason:

(a) GEF implementation agencies must be committed to ensuring that their other development activities, projects and loans do not undermine the goals of the GEF (for example through environmentally unsound lending in the forestry and energy sectors);

(b) Only those countries should qualify for GEF funding which have in place or are developing policy and institutional frameworks that promote the goals of the GEF.

5. Specific guide-lines for GEF projects in each issue area need to be established by a broad range of scientists, including a significant share of social scientists, in consultation with potentially affected population groups, e.g. Indigenous Peoples' representatives in the area of biodiversity protection.

6. NGO representatives should be invited to all GEF participants meetings and be granted at least observer status as it is the case in the Montreal protocol.

7. Quality control, monitoring and evaluation of the GEF should be separate from the implementing agencies and should be vested in an independent governance body with representation of developed and developing countries as well as of NGO's and popular organizations. (80)

12.3. DEBT

A full cancellation of the Third World debts should remain the long term target for a world-wide NGO strategy. As this target will not be reached at short term there should be focus on total and unconditional debt cancellation for the LDC's. The other indebted countries should get considerable reductions (ca. 60%). The rest of 40% could be paid back in domestic currency. Debt service should be adapted to the capacities of each country. Interest rates should be at maximum at the lowest level of market rates.

As immediate steps for Western European NGO's EURODAD suggests as "Target '92" the following:

1. By the end of 1992, none of the low-income debt burdened countries should be making hard currency payments on official bilateral debt.

2. By the end of 1992, official bilateral debt service payments by middle income countries should be cut by an average of at least

(80) The seven points are based on the NGO-Statement to the GEF Participants' Meeting on GEF Governance to be held in Geneva on February 14, 1992.

50%.

3. By the end of 1992, all outstanding non-concessional IMF and World Bank debt owed by the poorest debt burdened countries should be paid off through new, concessional finance.

4. By the end of 1992, all remaining aid loans debt should be cancelled.

5. By the end of 1992, all outstanding debts owed to the European Community's European Development Fund by the ACP countries should be cancelled.

6. By the end of 1992, European governments should adopt a policy towards European banks to pressurise banks to adopt any debt relief packages agreed at governmental level.

The present policies of structural adjustment, being economically, socially and environmentally unsustainable, have to be phased out.

The democratisation of international finance institutions such as IMF, World Bank is required.

12.4. TRADE

A restructuring of trade towards a system in which the rules are set democratically and applied in a fair manner to all countries is needed. The regulations of free trade alone will always lead to the superiority of the strong economies. Therefore corrective mechanisms like price stabilization which protect the South are necessary. Pricing must fully reflect the environmental costs.

During a transitory stage the North must open up its markets to the developing countries, whereas Southern economies should have the right to selective protectionism. Discriminatory measures and restrictions against free market access for products from developing countries have to be phased out. Environmental standards should not be used as an excuse for Northern protectionism.

Developing countries need access to international markets at preferential terms.

Mechanisms for compensation of losses in export revenues have to be established. Existing mechanisms such as the STABEX and SYSMIN systems under the Lomé convention have to be improved according to the needs of the developing countries.

With regard to the current negotiations on GATT the inclusion of services into a new agreement must permit preferential access to the Northern markets for the developing countries. The technological advance of services in the developed countries, in particular in the sectors of communication, banking and insurances should not be (mis)used to gain dominant positions in developing countries.

The trade on intellectual property rights, patents and licences has to be based on preferential and concessional basis in all sectors which are of vital importance for developing societies.

GATT must become more transparent. NGO's should be granted observer status. At long term GATT should be replaced by a democratic

World Trade Organization. In the meanwhile the role of UNCTAD should be strengthened.

12.5. TRANSFER OF TECHNOLOGY

The transfer of environmentally sound technology has to be based to a large extent on preferential and concessional terms and cannot be left to market rules alone.

Hidden resource flows from South to North, for instance through trade of patents inside TNC's, have to be stopped.

NGO strategies on transfer of technology would have to focus on phasing out and on the prevention of proliferation of technologies which have proven to be harmful both to environment and development such as:

- toxic substances
- nuclear power and weapons
- large-scale hydroelectric power plants
- capital intensive agricultural technologies,
- destructive fishing practices, such as large-scale drift-net fishing.
- intensive and destructive forestry practices.
- manufacturing and use of genetically engineered products

Furthermore the relocation of environmentally "dirty" industries in the South has to be stopped.

Clean production in closed circuits and with high energy efficiency has to be developed. Subsidies in technological research and development have to be reallocated accordingly.

A framework for technology assessment must be developed. Based on this framework nations and local communities should have the right to reject technologies offered by aid agencies.

Community control over the development and application of technology should be a fundamental principle. Therefore, the access of the public to information has to be guaranteed.

International, national and contractual law has to be adjusted to the above mentioned requirements.

The development and dissemination through South-South transfer of small scale appropriate technologies should be given a high priority.

Ecologically sound Southern agricultural, irrigation and other technologies should be transferred to the North, thus opening up space for Southern countries to increase their export earnings.

Technological transformation should not imply the creation of one, new homogeneous set of technologies. Diversity and knowledge and experience of traditional communities should be recognized.

12.6. TNC'S

It is imperative that the UNCED process results in multilateral agreement to monitor and regulate TNC's, to control and reduce their adverse development, environmental, health and safety effects.

The code of conduct for TNC's elaborated by the UN Centre on Transnational Corporations should become legally binding. Therefore the establishment of coordinated international and multilateral mechanisms and institutions is needed.

International mechanisms should furthermore be developed to make TNC's liable for compensation and other payments for the harmful effects caused by their operations on environment, safety and health (polluter pays principle).

National governments should be helped to improve their capacity and capability to understand, monitor and regulate the activities of the TNC's. Financial and technical resources to this end should be allocated as part of Agenda 21 activities. (81)

(81) Based on the NGO Declaration on TNC's at PrepCom IV of UNCED; See press release from Third World Network; New York, April 1, 1992