



CSD INTERSESSIONAL WORKING GROUP: TUESDAY, 22 FEBRUARY 2000

The *Ad Hoc* Intersessional Working Group (AHWG) meeting on Finance, Trade, Investment and Economic Growth was opened by Minister Juan Mayr (Colombia), Chair of the eighth session of the Commission on Sustainable Development. This was followed by opening statements by the Co-Chairs, the introduction of the UN Secretary-General's reports, and the report of a relevant intersessional meeting. General discussion on finance and some trade issues proceeded in the afternoon, after an adjournment requested mid-morning by the G-77/CHINA.

Chair Mayr noted the major conflicts of the past year during attempts to develop approaches to such issues as trade and environment. He urged that CSD-8 come up with the key building blocks for bridges to facilitate better agreements in future.

The AHWG elected Co-Chairs, Choi-Seok-young (Republic of Korea) and Ahmed Ihab Gamaleldin (Egypt). Co-Chair Gamaleldin invited participants to elaborate concrete proposals to serve as elements for decisions at CSD-8. He further invited participants to comment on both the Finance and Trade clusters, and outlined the procedure for the preparation of the Co-Chairs' drafts. Co-Chair Gamaleldin explained that two papers are to be prepared during the AHWG: the Co-Chairs' summary, reflecting the overall thrust of discussion and serving as reference material, not as negotiating text; and the action-oriented paper on "elements for final decision." Both documents are to form the basis for discussion during the period between the Intersessional AHWG and CSD-8. The Co-Chairs will introduce their draft papers on Finance on Wednesday, 23 February, for discussion the following day. Their draft papers on Trade and Investment/Economic Growth will be introduced on Thursday. Co-Chair Gamaleldin asked participants to submit comments for the Co-Chairs' second drafts by Thursday night. Delegates adopted the agenda and programme of work (E/CN.17/ISWG/II/2000/I).

JoAnne DiSano, Director of the UN Division for Sustainable Development, introduced the UN Secretary-General's Report on Financial Resources and Mechanisms (E/CN.17/2000/2). She highlighted a number of recent developments in the financing of sustainable development since the Asian financial crisis, noting that although official development finance has risen since 1996, there was a sharp drop in total net resource flows to developing countries in 1998. This has been characterized by a decrease in official development assistance (ODA) and an increase in private capital flows to a narrow range of recipients. She emphasized the need for greater efforts to promote

domestic sources of capital through fiscal and monetary reform, and highlighted the adoption of innovative financial mechanisms in the power, water, sanitation, and transport sectors.

Introducing the UN Secretary-General's Report on Economic, Growth, Trade and Investment (E/CN.17/2000/4), DiSano emphasized the importance of the issues of economic growth and the environment, as highlighted by the recent WTO meeting in Seattle. Noting that economic growth may be constrained by environmental capacity, she highlighted the need to decouple growth from natural resource use, and to reduce the consumption of natural resources per unit of GDP in developing countries. She observed that there has been a tenfold increase in foreign direct investment (FDI) in the last 10 years, and emphasized the new business context for transnational corporations (TNCs), including the adoption of environmental management systems, the increased transfer of environmentally-sound technologies, and the growing use of multi-stakeholder reports.

Lin See-Yan (Malaysia), Chair of the Expert Group on Finance for Sustainable Development, summarized its fifth meeting, held in Nairobi in December 1999. He cited a consensus among the experts that the lack of financial resources and the failure to make progress on debt relief have hindered the implementation of Agenda 21. The experts discussed the elements of a new policy agenda for ODA, the need to reduce the risk factors for private capital flows to sub-Saharan Africa, the view that private financing for sustainable development must be encouraged, the need for subsidy reform, and environmental taxes. See-Yan welcomed the OECD's invitation to host the next expert group meeting in Budapest in 2001, giving particular attention both to issues of importance for Central and Eastern Europe and to the CSD's comprehensive review of Agenda 21 in 2002.

Co-Chair Seok-young invited comments. NIGERIA, for G-77/CHINA, requested an adjournment of the general discussion until the afternoon session at 3:00 pm so that the G-77/CHINA could consider the background documents in more detail.

FINANCIAL RESOURCES AND MECHANISMS & TRADE, INVESTMENT AND ECONOMIC GROWTH

In the afternoon participants engaged in a general discussion on Financial Resources and Mechanisms with permission to discuss related aspects of the Trade, Investment and Economic Growth cluster.

FINANCIAL RESOURCES AND MECHANISMS: Mobilizing domestic resources: The G-77/CHINA questioned the emphasis placed, in the UN Secretary-General's Report on Finance, on domestic financial mechanisms to achieve sustainable development. The RUSSIAN FEDERATION suggested using taxes to address

unsafe environmental practices and to promote environmentally sound energy sources. The RUSSIAN FEDERATION and JAPAN cautioned against the use of harmful subsidies. JAPAN advocated the increased use of cost-benefit analysis. EGYPT said that innovative mechanisms to mobilize domestic resources cannot substitute for additional finance. A number of countries, including the RUSSIAN FEDERATION, SWITZERLAND, and NORWAY, noted the importance of domestic policies for mobilizing internal financial resources. AUSTRALIA noted the role of ODA in this respect. The US underlined the importance of a strong enabling environment. CANADA noted the role of donor countries in supplementing domestic resources. MEXICO stressed taking account of domestic conditions.

Official Development Assistance (ODA): The G-77/CHINA said that ODA remains a critical resource for sustainable development in the Least Developed Countries (LDCs) and called for a reversal of the decline in levels of ODA. With INDONESIA, the G-77/CHINA cautioned against conditionalities being attached to new financial flows. The EU said he recognized the continuing need for ODA, especially for LDCs in Africa. With AUSTRALIA, the EU noted the catalytic role of ODA in leveraging private investment. PAKISTAN and EGYPT recalled commitments in Agenda 21 to provide new and additional funds for sustainable development. The RUSSIAN FEDERATION said that increasing flows of private capital could not substitute for ODA. JAPAN supported a strengthened role for NGOs and the private sector in partnership with governments. The REPUBLIC OF KOREA called for efforts to maximize the potential of ODA. The US said that ODA must be aligned with domestic and private resources in its allocation and use. CANADA and NORWAY reported progress in their commitment to increasing support for ODA.

Foreign Direct Investment (FDI): The G-77/CHINA urged the international community to support developing countries in devising appropriate FDI strategies by providing capacity building and promoting the transfer of environmental technology. Noting that private investment is critical for growth, the EU emphasized the need for an appropriate domestic environment, and agreed that developed countries should assist in building capacity. CHINA highlighted the need for promoting FDI in African countries. The REPUBLIC OF KOREA called for proper consideration of the possible deleterious environmental impacts of FDI.

Innovative Mechanisms: On innovative mechanisms for financing sustainable development, CANADA applauded the UNFCCC Clean Development Mechanism (CDM) as an important tool. The REPUBLIC OF KOREA welcomed the CDM as a potential complement to declining ODA. JAPAN supported the CDM and the Global Environment Facility as effective contributors to sustainable development. PAKISTAN noted that while innovative mechanisms were being prescribed, these do not address the need to increase the resources of developing countries. CHINA argued that it is unnecessary for CSD to intervene in discussions on innovative mechanisms.

The WORLD COUNCIL OF CHURCHES and INDIGENOUS PEOPLES' CAUCUS called on the High-Level Meeting on Financing Development, to be convened in 2001, to fund sustainable development in developing countries through taxes on, *inter alia*, financial transactions, commodities, the arms trade, and pollution.

International Private Flows for Development: The US welcomed the five-fold increase in international private financial flows to developing countries since 1990, but added that these resources were concentrated in a few countries. He acknowledged the need to examine how private flows can be extended to more countries and how to further integrate the private sector into the global development agenda. CANADA highlighted the importance of governance and of domestic legal and regulatory frameworks conducive to domestic entrepreneurship and investment. He called for further work on international financial architecture to build confidence under condi-

tions of globalization. The REPUBLIC OF KOREA called for more vigorous approaches to creating domestic enabling environments to attract private finance.

External Debt: The NORWEGIAN FORUM FOR ENVIRONMENT AND DEVELOPMENT called on participants to support the Jubilee 2000 campaign for the unconditional cancellation of unpayable external debt. A number of countries, including CANADA, the REPUBLIC OF KOREA, the EU, and INDONESIA, supported the Paris Club initiative on Highly Indebted Poor Countries (HIPC). JAPAN noted its contribution to the HIPC initiative, but cautioned that debt relief should not replace self-help. The RUSSIAN FEDERATION and NORWAY supported the practice of debt-for-nature swaps. NORWAY sought a strong emphasis in the Co-Chairs' summary on issues such as the untying of aid and enhancing the efficiency of ODA.

General Comments: PAKISTAN called on the CSD to convene an *ad hoc* intergovernmental panel to examine the lack of progress on the transfer of financial resources. POLAND offered to share its experience with national environmental funds as a means of mobilizing domestic and foreign finance. SWITZERLAND called for a research programme, including an examination of the relationship between foreign investment and sustainable development. NORWAY highlighted the potential of foreign portfolio investments, green funds, the work of the World Business Council on Sustainable Development, and UNEP's guidelines for financial institutions.

ECONOMIC GROWTH, TRADE AND INVESTMENT:
Globalization: The REPUBLIC OF KOREA argued that the nature and level of finance for sustainable development in developing countries has changed due to globalization. The EU emphasized the need to invest in human and social capital, and called on the CSD to focus on issues such as sustainable consumption and production patterns, and internalizing externalities in pricing.

Trade: The EU noted its commitment to granting duty free access to essentially all exports from LDCs, and to simplifying the rules of origin applying to these exports, by 2005. He said that they would support capacity building so that developing countries may take advantage of the new opportunities. The US said trade policies must be complemented by policies that provide for high levels of environmental protection. He reiterated the US President's call for a contribution to indigenous economic development, which may not be directly related to trade. AUSTRALIA called on participants to build on the recent UNCTAD X meeting in Bangkok by reaffirming the importance of trade liberalization. The G-77/CHINA emphasized the need to address outstanding issues of the Tokyo and Uruguay Rounds to ensure greater access to markets for developing countries' products.

At the close of the afternoon, Co-Chair Seok-young, summarized the discussion themes and suggested that the focus of discussion on Wednesday will be Trade, Investment and Economic Growth.

IN THE CORRIDORS

CSD-8 Chair Mayr, fresh from his successful introduction of novel approaches to the negotiations of the Biosafety Protocol in Montreal, is expected to work hard in the coming weeks at fostering a new role for the CSD. He wants the CSD to take the complex issues of trade, environment, agriculture and finance "out of the freezer" for more creative treatment by the Commission. Attentive to the historical gap between the ideas generated at the CSD, and their implementation, he does not envisage the CSD coming up with definitive solutions. Instead, he has been heard urging participants to limit their role to laying the foundations for problem-solving by other relevant international organizations.

THINGS TO LOOK FOR TODAY

AHWG GENERAL DISCUSSION: The Intersessional AHWG will reconvene at 10:00 am to continue discussion on Economic Growth, Trade and Investment in Conference Room 4.