Editorial

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Funding for Global Environment Facility Continues to Decline

The year 2006 brought no breakthroughs in international efforts on key global environmental issues. Meetings of the parties to the conventions on climate change and biodiversity conservation in particular were disappointing exercises in conference diplomacy, stuck in the political stalemate that has characterized discussions over the last few years and lost in a web of ever more specialized deliberations on technicalities.[1] Again sidelined by the world's preoccupation with the war on terrorism and the U.S. misadventure in Iraq, advocates of serious efforts to respond to the increasingly manifest global environmental challenges had little to be optimistic about.

One of the more concrete positive developments was the agreement reached by donor countries in June 2006 to enable the Global Environment Facility (GEF) to operate for another 4 years. The GEF is an international financing mechanism supporting projects that help implement international environmental agreements in developing countries. It is formally linked to the multilateral agreements on climate change, biodiversity conservation, and the phase out of persistent organic pollutants and closely associated with the World Bank, the United Nations Development Program, and the United Nations Environment Program.

The March 2006 issue of *The Journal of Environment & Development* (*JED*) featured an article on the future role of the GEF (Clémençon 2006). When the article went to print in December 2005, negotiations to secure funding for fiscal years 2007 to 2010 had ground to a halt after the United States signaled that it would only commit to about half the money it had contributed to earlier GEF funding periods. Other major donors threatened to cut their own contributions commensurate to the U.S. contribution.

The impasse on funding found the GEF at a critical junction. In June 2006, donor countries did finally reach an agreement that managed to avoid the steep drop in donor commitment that had been feared and which would have further undermined the convention process. The agreement secures operation of the GEF for at least the two coming years, pending evaluation of the implementation of a controversial Resources Allocation Framework the United States had pushed through as condition for its participation (Clémençon, 2006, p. 59). The June agreement and its subsequent formal adoption by the Third GEF General Assembly in August 2006 has not brought the more fundamental questions discussed in the March 2006 article any closer to resolution. Questions of how a reliable and progressive increase in funding can be secured beyond individual funding periods, how scarce funding should be allocated between activities to address climate change and those targeting global biodiversity conservation, and to what extent GEF activities should target immediately measurable results or longer-term capacity building objectives as a priority, loom large.

A close look at the fourth replenishment of the GEF reveals both a continuing deterioration of the funding base as well as a sharp move away from an equitable burden-sharing arrangement among donor countries. The first clearly is an unfortunate development. The second development however may be seen as a positive, as it seems to signal a willingness of some donor countries to de-link themselves from a burden-sharing formula that has given the most reluctant contributors a factual veto-power over the size of the GEF trust fund. This could be a precursor to development of a more flexible approach to fund raising for the GEF in coming years. The danger of course is that the current compromise also means that some countries get a free ride, which, over the longer run, will no doubt discourage the more generous countries to keep up a disproportionately high level of commitment. One way to lessen this threat could be a burden-sharing formula that requires not all major donors but a qualified majority of donors to participate at a higher replenishment level.

The official GEF press release shows the replenishment for GEF4 to be $3.1 billion, which—using accounting methods criticized previously (Clémençon, 2006, p. 61)—suggests an increase in funding compared to previous GEF replenishments (GEF, 2006, p. 59). New commitments from donors however amount to only $2.26 billion, which nominally is the same amount that countries committed in new money in 2001 for GEF3. Inflation adjusted, however, this is 12% less than pledges in 2001 and more than 30% less than the first GEF replenishment in 1994.[2] US$ 840 million of the $3.1 billion GEF4 are carryover of nonprogrammed funds from GEF3 and projections of some investment income. The carryover, however, are arrears that in fact may never be cleared.

The GEF4 replenishment outcome looks even less impressive if one considers the recent decline of the U.S. dollar against major other currencies. GEF commitments are denominated in U.S. dollars and any decline in the value of the dollar reduces the value of the GEF trust fund. The dollar has lost close to 30% against the EURO since 2002. Taken together, the declining dollar combined with adjustment for inflation means that the purchasing power of new pledges to the GEF amounts to only 60% of the purchasing power of GEF3!

Pledges to the GEF Trust Fund

	Nominal Replenishment in Billion US$	Nominal New Money in Billion US$	**Inflation Adusted New Money in Billion 1994 US$**
GEF1 1994 (1994-1997)	2.0	2.0	**2.0**
GEF2 1998 (1998-2002)	2.8	2.0	**1.8**
GEF3 2001 (2002-2006)	3.0	2.3	**1.9**
GEF4 2006 (2007-2010)	3.1	2.3	**1.7**

Note: GEF = Global Environment Facility. Note that the decline of the U.S. dollar versus major other currencies has further eroded the purchasing power of the GEF trust fund.

In real terms, official government funding for global environmental projects has again gone declined at a time when global environmental change is ever more apparent. Sugarcoating negotiating outcomes for public consumption by including arrears and projected investment income as the GEF again did in June 2006 does not serve any purpose other than hiding the fact that real funding levels are falling. Putting an optimistic spin on the outcome also fails to highlight the extra efforts undertaken by some key donor countries, which helped partially offset cuts in contributions by others. France, Germany, Sweden, the United Kingdom, Finland, the Netherlands, and Denmark all contributed significantly more than what the original burden sharing key would have required them to contribute. On the other hand, Italy, Switzerland, and Norway stuck to their exact share in dollar terms, based on the contribution the United States finally made to the GEF, which came in $100 million short of its contribution to GEF3 in 2001.

The relative generosity of several key European donor countries was facilitated significantly by the declining U.S. dollar. Countries usually commit to international funds either in their own national currency, in U.S. dollars, or in Special Drawing Rights, a financial instrument that averages the value of major currencies and therefore provides safety against national currency fluctuations. Pledging contributions in dollars based on the burden-sharing key used in previous negotiations would have provided European countries with significant savings but would also have reduced the overall size of the GEF trust fund disastrously. GEF negotiators deserve credit for convincing many European countries to pledge contributions at least at the same level they pledged in 2001 in national currencies. When denominated in U.S. dollars, these pledges resulted in national increases compared to 2001 of some 30%. But several countries, notably Germany, France, and Sweden went farther and also increased their GEF contributions as calculated in national currency (GEF, 2006, p. 59). All this prevented a sharp drop in funding for the GEF that would have resulted had the traditional burden-sharing arrangement been strictly adhered to.

This is a laudable commitment by a number of countries at a time when the international community continues to struggle to reinvigorate its response to global environmental threats and to strengthen the languishing international climate change and biodiversity agreements, and improve management of such vital global resources like ocean fisheries and fresh water. It is an indication that at least some countries are determined to take the lead in getting the international community to pay more attention to critical challenges to the future prosperity of the world. Incidentally, they are the same countries who lead the way in implementing ambitious national sustainable development strategies and are taking concrete steps to reduce their dependence on traditional fossil fuels. There are signs that their leadership is having an impact beyond their borders. The two most populous and economically fast growing developing countries, India and China, have recently modeled a variety of energy efficiency and renewable energy laws on experiences of these countries.

Even in the United States—the most ominous laggard with respect to cooperating on global environmental issues among the developed countries—the climate change issue has received unprecedented media attention in 2006. The debate about mandatory C02 reduction measures has gained new momentum even prior to the mid-term Congressional elections and the power shift in U.S. Congress from a Republican to a Democratic Party majority that came into effect in January 2007. Below the federal level in the United States, the state of California is leading the way with one of the world's most ambitious solar power initiative and a new law to regulate C02 emissions from new cars.

On the positive side, it looks as if a paradigm shift is slowly taking place. On the negative side, this shift is taking place far from fast enough to meet objectives set out in international agreements.

In This Issue

The contributions in this issue of JED again span a variety of topics that we hope our readers will find interesting. Please let us know your comments and suggestions. We would like to hear from you.

Raymond Clémençon
Editor-in-Chief

Notes

1. See www.biodiv.org and unfccc.int for official information on these conventions. See the Earth Negotiations Bulletin for a more independent analysis of the outcomes of recent meetings: http://www.iisd.ca/climate/cop12/ for climate change and http://www.iisd.ca/biodiv/cop8/ for biodiversity conservation.

2. Calculated using inflation adjustor by U.S. Department of Labor, Bureau of Labor Statistics at http://data.bls.gov/cgi-bin/cpicalc.pl, visited December 28, 2006.

References

Clémençon, R. (2006). What future for the global environment facility. *Journal of Environment and Development*, *15*(1), 50-74.

GEF. (2006). Summary of negotiations on the fourth replenishment of the GEF trust fund. Retrieved August 2006 from GEF/C.29/3