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Report of the Ad Hoc Inter-sessional Working Group on Financial Resources and Mechanisms and on Economic Growth, Trade and Investment

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Contents

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I. Introduction

1. The role of the Ad Hoc Inter-sessional Working Group on Financial Resources and Mechanisms and on Economic Growth, Trade and Investment of the Commission on Sustainable Development was to serve as a preparatory meeting for the eighth session of the Commission and to facilitate the Commission in achieving tangible, action-oriented results on the issues of financial resources, trade and investment, and economic growth. In accordance with the established practice of ad hoc working groups of the Commission, the meeting produced two types of documents on the two groups of issues included under the substantive item on its agenda. The documents were prepared by the Co-Chairmen of the Working Group on the basis of the discussions held during the meeting and comments made and proposals submitted by the participants on the preliminary drafts, but were not formally negotiated. The documents are:

(a) The possible elements for draft decisions/ resolutions which could serve as a starting point for further deliberations and negotiations during the eighth session of the Commission on Sustainable Development. It is expected that delegations and groups will further study these documents in the period between the meeting of the Working Group and the session of the Commission with a view to formulating their positions in preparation for negotiations in the drafting groups during the session of the Commission;

(b) The Co-Chairmen's summaries of the discussions, which attempt to reflect the overall thrust of the discussion in the Working Group and the main positions stated by delegations, and which record, when necessary, alternative views and proposals. These summaries will not be further modified and will be included as reference material on given issues in reporting to the Commission.

II. Financial resources and mechanisms

A. Possible elements for a draft decision of the Commission on Sustainable Development at its eighth session

2. The possible elements for a draft decision of the Commission on Sustainable Development at its eighth session on financial resources and mechanisms are the following:

"Introduction

"1. The principal objectives of activities in the area of financial resources and mechanisms should be pursued in full accordance with Agenda 21[a] and paragraphs 76-87 of the Programme for the Further Implementation of Agenda 21.[b] It is important that countries approach sustainable development through a holistic approach, in view of the interconnectedness of the trade, financial, environmental and social aspects of sustainable development.

"2. The rapid process of economic globalization and trade liberalization provides countries with opportunities, risks and challenges for the mobilization of adequate and more stable resources for sustainable development. This may have contributed to the increased supply of private capital flows, including foreign direct investment (FDI), to developing countries; however, it has been accompanied by a decline in official development assistance (ODA) during the 1990s and the marginalization of some developing countries, in particular least developed countries.

"3. In general, the financing for the implementation of Agenda 21 will be met from domestic resources. However, for many developing countries, in particular least developed countries, official development assistance is a main source of external funding, and substantial new and additional funding for sustainable development and the implementation of Agenda 21 will continue to be required.

"Priorities for future work

"4. The Commission will continue to address financial resources and mechanisms as an overarching issue. The next comprehensive discussion of financial resources and mechanisms for sustainable development will take place at the comprehensive review in 2002, of progress since the United Nations Conference on Environment and Development. The review will benefit from the outcome of the high-level event on financing for development which will take place in 2001. In support of the preparatory process leading up to the comprehensive review, a further meeting of the Expert Group on Finance for Sustainable Development is planned to be held in 2001 at Budapest.

“5. Priority areas for future work will include the following:

(a) Promotion of international finance for sustainable development;

(b) Mobilization of domestic financial resources for sustainable development;

(c) Exploration of innovative financial mechanisms;

(d) Improvement of institutional frameworks and promotion of public and private partnerships.

“Promotion of international finance for sustainable development

“6. Sustainable development requires developed countries to pursue consistently pro-sustainable development policies in all areas, which affect developing countries. Developed countries should prepare long-term strategies in support of sustainable development in developing countries.

“7. Governments of developed countries are urged to increase the quality and quantity of ODA. Governments of developed countries which have not yet fulfilled the commitments undertaken to reach the agreed United Nations target of 0.7 per cent of gross national product (GNP) for ODA are urged to do so as soon as possible, and where agreed, within that target, to earmark 0.15 to 0.20 per cent of their GNP for the least developed countries. In this regard, new ODA should be provided in the form of grants. Aid to the poorest countries, including the least developed countries and most of sub-Saharan Africa, should be carefully targeted to achieve maximum effectiveness.

“8. Governments in developing countries, in cooperation with donors and international organizations and in partnership with major groups, are encouraged to develop policies to enhance the efficiency and effectiveness of aid, policy dialogue, partnership, governance, sound management of public affairs and the participation of civil society.

“9. Creditor countries and international financial institutions are urged to implement speedily the enhanced heavily indebted poor countries (HIPC) initiative to provide ‘deeper, broader and faster’ debt relief to the eligible countries in order to allow as many countries as possible to benefit from assistance under the initiative as soon as possible. In this regard, donors are urged to implement their financing pledges for the enhanced HIPC initiative, and without further delay agree on an overall financing plan for the HIPC Trust Fund to provide forgiveness of bilateral aid debts for countries qualifying for the enhanced HIPC initiative.

“10. HIPC countries are urged to develop their national poverty strategies in a participatory way so that debt relief is linked with poverty alleviation and allows debtor countries to utilize budgetary savings for social expenditures in order to have maximum impact on poverty reduction. Eligible countries which have not yet entered the HIPC process are urged to implement the necessary policy measures to enable them to participate as soon as possible. The debt relief programme should form part of a comprehensive framework to facilitate the release of substantial resources for financing for development and to ensure that debtor countries do not fall back into arrears. Efforts should be undertaken to eliminate the structural causes of indebtedness. Both bilateral and multilateral creditors should continue to consider ways and means of identifying portions of debt assessed as unpayable for substantial reduction or outright cancellation.

“11. Concerted national and international action is called for to address effectively debt problems of middle-income developing countries with a view to resolving their potential long-term debt-sustainability problems through various debt-treatment measures, including, as appropriate, orderly mechanisms for debt reduction, and encourages all creditor and debtor countries to utilize to the fullest extent possible, where appropriate, all existing mechanisms for debt reduction. Debt relief alone is not enough and should be complemented by trade liberalization with special and differential treatment for developing countries, provision of ODA and foreign investment, as well as by necessary domestic reforms.

"12. In order to attract foreign investment, especially foreign direct investment, Governments are urged to put in place the policies, institutions and capacities needed for a market economy to function in a predictable, transparent, non-discriminatory and stable fashion, and in this regard, the international community should support the efforts of developing countries and countries with economies in transition, to attract FDI and to devise appropriate measures by providing assistance in capacity-building, in developing and implementing sound economic policies, and the transfer of environmentally sound technology to developing countries as stipulated in Agenda 21 and the Programme for the Further Implementation of Agenda 21. Ways and means of utilizing ODA for the leveraging of private investment in sustainable development should be further explored.

"13. Given the important role of the increase in private capital flows for supporting sustainable development, Governments, in cooperation with international organizations, are urged to consider and implement appropriate measures to increase them and enhance their productivity, as well as to address the volatility of short-term capital flows and its potential negative effects. Measures are also needed to improve institutions at the national and international levels in order to promote stable financial systems.

"Mobilization of domestic financial resources for sustainable development

"14. Considering the importance of mutually supportive international and national enabling economic environments in the pursuit of sustainable development, Governments are urged:

(a) To promote the mobilization of domestic financial resources and to establish the basis for an enabling environment through, *inter alia*, a sound macroeconomic framework, a dynamic private sector, improved governance, and participatory development;

(b) To increase cooperation for addressing capital flight in order to broaden the domestic resource base for financing sustainable development;

(c) Taking into account their levels of development and institutional capacity, to consider ways and means for the integration of environmental finance into mainstream public finance, and in this regard, to enhance coordination at the national level;

(d) In accordance with their levels of development and institutional capacity, to conduct studies and research on ways and means of implementing a range of economic instruments, including fiscal instruments, and the gradual phasing out of environmentally harmful subsidies; such policies should be decided by each country, taking into account its own characteristics and capabilities, especially as reflected in national sustainable development strategies, and should avoid adverse effects on competitiveness and on the provision of basic social services for all;

(e) To provide the necessary incentives for sustained private investment, including macroeconomic, legal and regulatory frameworks which would reduce risks and uncertainty for investors; assistance for capacity-building should be provided to developing countries to enable them to design effective environmental regulation and market-based instruments and to use them widely, taking into account their different levels of development and possible socio-economic impacts.

"Promotion of innovative financial mechanisms

"15. Governments are encouraged to promote the use of innovative financial mechanisms. In this regard, Governments in cooperation with international organizations and major groups should continue to engage in study and research on ways to make such mechanisms more practical and effective, including by learning from the experience of others and to adapt those mechanisms to the particular circumstances of individual countries. These mechanisms are not a substitute for increases in financial resources for sustainable development from other sources, namely ODA, FDI and foreign portfolio investment.

“16. The clean development mechanism, which is a vehicle for increasing private-sector investment in projects in developing countries, can be an effective means of increasing the financial flows to developing countries once the Kyoto Protocol has been ratified and implemented. The Conference of the Parties to the United Nations Framework Convention on Climate Change are urged to take the necessary action to finalize and implement the mechanism as soon as possible.

“17. The Global Environmental Facility (GEF) should continue to be the principal mechanism for providing funding to developing countries and countries with economies in transition to pay for the incremental costs of providing global environmental benefits, and the augmentation of its resources should be considered in the discussions of the next replenishment.

“18. Innovative approaches should be pursued in order to strengthen the financial mechanism of the multilateral environmental agreements.

“Improvement of institutional frameworks and promotion of public and private partnerships

“19. There is a need to strengthen international cooperation efforts to improve the existing international financial system with a view to preventing recurrence of crises, and providing better mechanisms for crisis management in order to support and reinforce sustainable development.

“20. Governments, international organizations and major groups are urged to promote public-private partnerships to finance sustainable development.

“21. As recognized in Agenda 21, the cost of inaction could outweigh the financial costs of implementing Agenda 21. Therefore, all financial commitments entered into under Agenda 21, particularly those contained in chapter 33, and the provisions with regard to new and additional resources that are both adequate and predictable need to be urgently fulfilled.

“22. International organizations are urged to better coordinate their work in the area of finance for sustainable development in order to avoid duplication and to raise their effectiveness, focusing on their respective area of competence where they have a clear comparative advantage. In this regard, better cooperation and dialogue is needed between international organizations, including the Bretton Woods institutions, the United Nations Conference on Trade and Development, the United Nations Environment Programme, the United Nations Development Programme and GEF.

“23. Governments and international organizations should improve their coordination efforts, using the United Nations Development Assistance Framework, the comprehensive development framework proposed by the World Bank and the poverty reduction strategy process initiated by the World Bank and the International Monetary Fund.

“24. International organizations, Governments and major groups are encouraged to undertake further research in the following areas:

(a) The relationship between foreign direct investment and sustainable development, with a view to identifying how the compatibility of foreign direct investment with sustainable development can be enhanced;

(b) Capacity-building for the mobilization of foreign and domestic financial resources for sustainable development;

(c) ‘Green’ budget reforms as well as the various aspects of an effective implementation of environmental taxes and charges;

(d) Innovative international financial mechanisms.

“25. The Commission should convene an ad hoc intergovernmental panel to undertake an analytical study of the lack of progress in the fulfilment of the commitments made in the areas of finance, with a view to make recommendations to synchronize the progress on sectoral issues with cross-sectoral areas. The outcome of this panel can also contribute to the work of the Preparatory Committee for the high-level event on financing for development to be held in 2001, but the work of such a panel should not be dependent on the results of the high-level event.

Notes

[a] *Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992*, vol. I, *Resolutions Adopted by the Conference* (United Nations publication, Sales No. E.93.I.8 and corrigenda), resolution 1, annex II.

[b] General Assembly resolution S/19-2, annex."

B. Co-Chairmen's summary of discussion

Introduction

3. As part of the multi-year work programme agreed upon at the five-year review of the United Nations Conference on Environment and Development (UNCED) held in 1997, the Working Group met in New York from 22 to 25 February 2000 to review the progress achieved in the implementation of the objectives for financial resources and mechanisms as set out in chapter 33 of Agenda 21. It took into consideration the comprehensive five-year review. The Working Group aimed at providing inputs for the discussion of financial resources and mechanisms at the forthcoming eighth session of the Commission.

4. The discussion on financial resources and mechanisms was based upon the report of the Secretary-General on financial resources and mechanisms (E/CN.17/2000/2).

5. In support of the meeting of the Working Group and the eighth session of the Commission, an expert group meeting on finance for sustainable development was held at Nairobi from 1 to 4 December 1999. The meeting was the fifth in a series of expert group meetings that have been held since 1994 to provide inputs for discussion of financing for development in 2001. The Chairman of this expert group, Lin See-Yan, was present at the opening session of the Working Group to introduce his summary of that meeting.

6. It is important for countries to establish an enabling environment at both the domestic and international levels in order to eradicate poverty through sustainable development, taking into account all aspects of development, including trade, finance, debt, the environment and social development. This should be done in a spirit of partnership between developed and developing countries based on common but differentiated responsibilities and taking into account the development level of individual countries, as recognized in the Rio Declaration on Environment and Development and Agenda 21. As stated in chapter 33, paragraph 33.4 of Agenda 21, it is important to recognize that the cost of inaction could outweigh the financial costs of implementing Agenda 21 and that inaction will narrow the choices of future generations.

International finance and sustainable development

7. Many delegations emphasized that greater efforts are required to enhance the mobilization of external private capital and reduce its volatility. It was generally agreed that conditions need to be established to ensure that a larger number of developing countries will benefit from international investment flows. Delegations emphasized the importance of an immediate and sizeable increase of ODA to reach the agreed targets and of finding a lasting solution to the debt problem of developing countries, particularly the least developed countries, and eliminating the structural causes of debt and poverty.

8. It was generally agreed that ODA remains critical for the financing of sustainable development in developing countries, particularly for the poorest developing countries. Developing countries called upon developed countries to fulfil all the commitments of Agenda 21, particularly those contained in chapter 33, which call for new and additional resources that are adequate and predictable. At the same time, it was appreciated that a number of donor countries continually meet or exceed the agreed United Nations ODA target of 0.7 per cent of GNP. The trend towards untying ODA to respond better to development needs of developing countries was welcomed. The need to reverse the decline in ODA as a percentage of GNP and to reach the agreed United Nations target of 0.7 per cent of GNP as soon as possible was recognized.

9. It was emphasized that the effectiveness and efficiency of ODA needs to be enhanced. Some delegations expressed the view that donors should take into account the policy environment in recipient countries. It was also noted that a sense of ownership on the part of recipient countries is essential to increase the effectiveness of ODA, and that no new conditionalities should be imposed on the sovereignty

of recipient countries, which have the right to determine their development priorities.

10. Many countries stressed that ODA has yielded multiple payback to donor developed countries through information collection, knowledge accumulation and particularly through market research in recipient developing countries, and they urged ODA donor countries to comprehensively review the effects of ODA and make the results of such a review known to the general public.

11. One delegation expressed the view that ODA has declined for a number of reasons — public sector budget policies, new demands on available ODA and increasing demands from humanitarian emergencies, intensifying competition for public funds. In some cases, developing countries have adapted and progressed in this new environment, but other developing countries, especially those beset by conflict and political instability, face further marginalization. Multilateral ODA, especially from the multilateral development banks, has become more important, especially for the least developed countries.

12. In order to reverse the recent decline in private long-term foreign investment flows and for such flows to be spread more widely it was emphasized that the international community should support developing countries in their efforts to devise appropriate policy frameworks and strategies. This should include assistance in capacity-building. Some delegations stressed that recipient countries need to create a predictable, stable and non-discriminatory environment to become more attractive to foreign investors.

13. Some delegations stressed that in promoting FDI, environmental, economic and social considerations should be properly addressed in order to avoid any potentially negative effects of FDI on sustainable development. At the same time, the potential contribution of FDI to the transfer of environmentally sound technology to developing countries should be further pursued, in addition to the previously established undertakings of developed countries to facilitate the transfer of technology to developing countries on preferential terms, as mutually agreed upon.

14. It was generally agreed that debt relief programmes should form part of a comprehensive financial strategy for sustainable development. It will be essential to address the structural causes of indebtedness. The enhanced HIPC initiative, which links debt relief with poverty alleviation, is the first step in the right direction, and provides a deeper, broader and faster debt relief to heavily indebted poor countries committed to eradicating poverty. It was emphasized that more funding and an overall finance plan are necessary to finance the HIPC Trust Fund and secure the speedy implementation of the initiative.

15. Further steps for debt relief were also emphasized and various options were proposed. For example, it was proposed that both bilateral and multilateral creditors consider ways and means of identifying portions of debt assessed as unpayable for substantial reduction or outright cancellation. Other proposals were increasing the use of debt-for-environment swaps and inviting multilateral institutions and London Club creditors to continue to look for innovative solutions to multilateral debt.

16. One country stated that it has requested its debtors to repay their debts with the understanding that it will then extend to them grants of up to 100 per cent of the repaid amount to be used for programmes of poverty alleviation and priority areas of social development.

17. There was a suggestion that the Commission on Sustainable Development convene an ad hoc intergovernmental panel to undertake an analytical study of the lack in progress in the fulfilment of the commitments made in the areas of finance and technology transfer. This panel would make recommendations to synchronize the progress on sectoral issues with cross-sectoral areas. The outcome of this panel could also contribute to the work of the preparatory committee for the high-level international intergovernmental event on financing for development to be held in 2001.

Domestic finance and sustainable development

18. Some delegations noted that domestic resources will continue to be the main source for financing sustainable development and that countries need to develop an enabling environment to encourage the mobilization of additional financial resources. Key elements include a sound macroeconomic framework, a dynamic private sector, governance and participatory mechanisms. Special attention needs to be given to fiscal and budgetary policies, tax collection and transparency.

19. Some delegations observed that it is important to integrate environmental finance into mainstream public finance, but that this requires close cooperation between various ministries in order to avoid conflicts that can adversely affect the financing of sustainable development.

20. Many countries stressed that certain domestic policies, such as the creation of an enabling environment for financial resource mobilization, should not be imposed on developing countries or used as conditions for international financial cooperation. Furthermore, many countries also stressed that economic standards or models valid for developed countries have to be adapted to conditions in developing countries, as they have to take into consideration the specific characteristics in developing countries.

21. With respect to environmental taxes and charges, it was generally emphasized that these instruments, if carefully designed, can be useful. Therefore, they should be closely examined and studied. Developing countries expressed the need for these mechanisms to take into consideration the level of development and institutional and capacity-building aspects, and the need to ensure that the application of such measures does not negatively affect the competitiveness of their exports in world markets.

22. As regards the reduction or elimination of subsidies, it was emphasized that such action requires a careful review of the economic, environmental and social impacts, taking into account the different economic and social situations of individual countries and regions.

23. Some countries stressed the importance of the private sector in the promotion of sustainable development. It is important to provide the necessary framework for sustained private investment, including macroeconomic, legal and environmental policy frameworks that are clear, credible and stable. Privatization outcomes can be promoted when there is transparency, level playing fields and adequate regulatory supervision.

Innovative financial mechanisms

24. As far as international innovative financial mechanisms are concerned, the provision of financial resources of more than $2 billion in projects provided by GEF was appreciated. Efforts made by both GEF and its implementing agencies in obtaining over $5 billion of co-financing for projects were welcomed.

25. There was also a discussion on the clean development mechanism under the Kyoto Protocol, which as an international financial mechanism provides the possibility of channelling additional financial resources to developing countries for investments in sustainable development, especially from the private sector. It was emphasized that this new mechanism will be essential for the implementation of the Kyoto Protocol once it is ratified.

26. With regard to innovative domestic financial mechanisms, it was noted that these mechanisms have proved to be useful in such areas as electric power, water, telecommunications, sanitation and public transportation. However, some delegations emphasized that these mechanisms have not yet been fully exploited. It was mentioned that Governments are seeking private capital from home and abroad in order to be able to undertake infrastructure investment through public-private partnerships (build-operate-transfer) and joint ventures, as well as to establish micro-financing mechanisms for the informal and rural sectors. Many countries emphasized, however, that these mechanisms are not a substitute for increasing financial resources for development from other sources, namely ODA, FDI and foreign portfolio investment.

III. Economic growth, trade and investment

A. Possible elements for a draft decision of the Commission on Sustainable Development at its eighth session

27. The possible elements for a draft decision of the Commission on Sustainable Development at its eighth session on economic growth, trade and investment are the following:

“Introduction

“1. Activities regarding economic growth, trade and investment should be pursued in accordance with Agenda 21[a] and the Programme for the Further Implementation of Agenda 21,[b] with the overarching objective of sustainable development. Further steps to achieve this should also build on the outcome of the tenth session of the United Nations Conference on Trade and Development (UNCTAD). In this regard, cooperation and coordination between UNCTAD, the United Nations Industrial Development Organization, the World Trade Organization (WTO), the United Nations Environment Programme (UNEP) and other relevant institutions should be strengthened.

“2. Trade and investment are important factors in economic growth and sustainable development. Unsustainable economic growth and the lack of growth can cause environmental degradation. Unsustainable pattern of production and consumption, particularly in industrialized countries, as identified in Agenda 21, are the major causes of continued deterioration of the global environment. Poverty-related problems have also exerted pressures on the environment in developing countries.

“3. There should be a balanced and integrated approach to trade and environment in pursuit of sustainable development, taking into account the economic, environmental and social aspects, as well as the different levels of development of countries without undermining the open, equitable and non-discriminatory character of the multilateral trading system or creating any disguised barriers to trade.

“4. In particular, for developing countries and countries with economies in transition it will be an important challenge to stimulate domestic investment and attract foreign direct investment (FDI) to achieve sustainable development. At the same time, the international community should strive to avoid the risks that can be associated with the volatility of short-term private capital flows and to enhance the contribution that investments can make to sustainable development.

“Priorities for future work

“5. Economic growth, trade and investment will be considered as part of the 10-year review of progress since the United Nations Conference on Environment and Development. Priority areas for future work will include the following:

(a) Promotion of sustainable development through trade and economic growth;

(b) Making trade and environment mutually supportive;

(c) Promotion of sustainable development through investment;

(d) Strengthening institutional cooperation and promotion of partnership.

“Promotion of sustainable development through trade and economic growth

“6. Governments and international organizations are urged to support efforts of developing countries in building capacity to eradicate poverty, improve living standards and achieve sustainable development, including environmental protection. The promotion of trade, investment and sustained economic growth is essential to support such efforts. Furthermore, appropriate policies have to be implemented at the national level to ensure equitable distribution of benefits and provision of basic social services to all.

“7. Governments in developed countries and international organizations are also urged to promote improved market access, technical assistance and capacity-building initiatives in favour of developing countries and countries with economies in transition with a view to helping them to increase export opportunities, promote export-oriented production and enhance their ability to trade, and to implement their commitment in existing international agreements, including the WTO Agreement. The international community should assist countries seeking integration into world trade system, in particular accession to WTO.

“8. Governments, in particular in developed countries, are urged to eliminate trade distorting policies, protectionist practices and non-tariff barriers to trade in order to improve market access for products of export interest to developing countries, in particular commodities, including agricultural products, and to devise ways and means to assist them in diversifying their export base.

“9. Market access conditions for agricultural and industrial products of export interest to least developed countries should be improved on as broad and liberal a basis as possible and urgent consideration should be given to the proposal for a possible commitment by developed countries to grant duty-free and quota-free market access for essentially all exports originating in least developed countries and other proposals to maximize market access for least developed countries. Consideration should also be given to proposals for developing countries to contribute to improved market access for least developed countries’ exports. Furthermore, special and differential treatment provisions for developing countries should be fully implemented.

“10. More focused financial and technical assistance should be provided to address effectively the problem of food security in developing countries, as outlined in the Rome Declaration on World Food Security and the World Food Summit Plan of Action, and problems of net food importing countries.

“11. It is encouraged to ensure that the benefits arising from trade liberalization are equitably distributed and reach those living in poverty.

“12. International organizations are encouraged to examine ways to promote the indigenous development of environmentally sound technologies in developing countries and their transfer and dissemination to developing countries, including through the implementation of relevant provisions in the Trade-Related Intellectual Property Rights (TRIP) Agreement, in particular articles 7 and 66.2.

“13. Governments and international organizations, in collaboration with business communities and other representatives of civil society, are encouraged to promote markets for environmental products, technologies and services.

“Making trade and environment mutually supportive

“14. International organizations and Governments are urged to enhance understanding of the economic and social implications of trade measures for environmental purposes for countries at different levels of development.

“15. Governments and international organizations, such as WTO, and the secretariats of multilateral environmental agreements, are encouraged to cooperate and explore ways to enhance the synergies between trade liberalization and environmental protection in order to achieve sustainable development. All relevant parties are encouraged to identify and pursue opportunities where trade liberalization, including addressing trade distorting subsidies, holds particular promise for producing trade, environmental and developmental benefits.

“16. Certification and labelling schemes should be designed in a transparent and non-discriminatory manner and should not lead to disguised barriers to trade or to unjustifiable obstacles to market access. Governments and international organizations are urged to facilitate full participation of developing countries in the standard-setting process. They are also urged to further explore the concept of equivalency and its application.

“17. Effective environmental policies should be pursued both nationally and internationally. However, the use of environmental measures for protectionist purposes should be avoided. Governments should also avoid imposing unilateral measures inconsistent with Rio Declaration on Environment and Development principles,[c] in particular principle 12.

“18. Governments, in accordance with their commitments under multilateral environmental agreements, are encouraged to assist developing countries in implementing their obligations under those agreements by providing technology transfer and promoting capacity-building.

“19. Governments and international organizations are urged to identify and address economic and developmental implications of multilateral environmental agreements as well as to further consider the relationship between multilateral environmental agreements and the WTO Agreement.

“20. The concepts of trade-related environmental impact assessment and sustainability impact assessment need to be further explored and emphasis placed on the development of methodologies, while taking into account the different levels of development of countries, their domestic capacity and current disagreements on the concept of sustainability impact assessment. Any such assessments would be conducted at the national level in support of national policy development. Relevant international organizations should assist in facilitating a better understanding of these concepts.

“Promotion of sustainable development through investment

“21. Governments are encouraged to promote a stable, predictable, non-discriminatory and transparent investment climate that encourages domestic investment and foreign capital flows, including FDI, while regulating the activity of investors, as appropriate. Governments and international organizations in developed countries are encouraged to provide adequate support for developing countries in their efforts to formulate and implement the appropriate domestic policies.

“22. Governments and international organizations are encouraged to address the potential risks that may arise from the volatility of short-term capital flows.

“23. To enhance the potential of investment, including FDI, to contribute to sustainable development, it is recommended that Governments and international organizations, in cooperation with relevant private sector organizations and stakeholders:

(a) Explore ways to ensure that a larger number of developing countries and countries with economies in transition benefit from investment, in particular FDI;

(b) Seek to promote the use of environmental management systems in and transfer of environmentally sound technologies to subsidiaries of transnational corporations in developing countries and countries with economies in transition, as well as their diffusion to domestic companies in the host country;

(c) Explore possibilities for encouraging companies to take responsibility to promote sustainable development by applying best practices and promoting environmentally responsible corporate behaviour;

(d) Explore the potential for improving environmental performance along the supply chain and in waste management, in cooperation with other stakeholders;

(e) Explore the potential role of environmental guidelines for making investment more broadly supportive of sustainable development.

“24. Governments and international organizations are encouraged to develop mechanisms for the environmental appraisal of export credit projects, as well as mechanisms for exchange of best practices and information.

“Strengthening institutional cooperation and promotion of partnership

“25. International organizations are invited to conduct further research on the possible applications of the principles of the Rio Declaration on Environment and Development relevant to international trade, in particular the operationalization of the principle of common but differentiated responsibilities.

“26. Donor Governments and international organizations are urged to improve coherence and coordination, with full participation of recipient countries, in providing technical assistance to and promoting capacity-building in the recipient countries to enable them to benefit from globalization and trade liberalization and to better integrate into the world economy. Governments and international organizations are further encouraged to promote capacity-building with a view to enabling them to implementing and enforcing effective environmental policies, including through the design and use of economic instruments, taking into account the specific conditions and the different levels of development in individual countries.

“27. Governments and international organizations should foster partnership between public and private sectors at the national and international level for the promotion of trade and economic growth in a manner conducive to sustainable development and promote dialogue and consultations with stakeholders and civil society organizations.

` "28. International cooperation and support for capacity-building in trade, environment and development should be strengthened through renewed system-wide efforts and with greater responsiveness to sustainable development objectives by the United Nations, WTO, the Bretton Woods institutions and national Governments.

Notes

[a] *Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992*, vol. I, *Resolutions Adopted by the Conference* (United Nations publication, Sales No. E.93.I.8 and corrigenda), resolution 1, annex II.

[b] General Assembly resolution S/19-2 of 28 June 1997, annex.

[c] *Report of the United Nations Conference on Environment and Development* ... resolution 1, annex I."

B. Co-Chairmen's summary of discussion

Introduction

28. The discussion on economic growth, trade and investment was based on the report of the Secretary-General (E/CN.17/2000/4). It took into consideration the comprehensive five-year review of UNCED undertaken in 1997 at the nineteenth special session of the General Assembly, as well as the Bangkok Declaration and the Plan of Action adopted at the tenth session of UNCTAD, which was held at Bangkok from 12 to 19 February 2000.

29. Trade and investment are essential for sustained economic growth and sustainable development. Some delegations emphasized that trade and investment policies must, however, be complemented by policies that provide for high levels of environmental and social protection and enforcement of these laws at the national level. While some developing countries have benefited from globalization and trade liberalization, there is still a need to address the issue of marginalization, in particular of the least developed countries, and to support the integration of developing countries into the world economy. There is a need for new initiatives to ensure that developing countries, especially the least developed countries, are able to reap the full benefits of trade liberalization and share in international trade. Some delegations stressed the need for effective environmental policies to maximize the contribution of trade liberalization to sustainable development. There is also a need to consider links between trade liberalization and the social dimensions of sustainable development. Technical assistance and capacity-building initiatives in favour of developing countries must be identified. There is a need for improved coherence and coordination between donors and international organizations.

30. In developing countries, poverty eradication, supported by sustained economic growth and sustainable development, is the overriding priority. Accordingly, market access for products from developing countries should be further improved and special measures need to be implemented in favour of the least developed countries. Furthermore, many developing countries stressed that commitments contained in Agenda 21 and the Programme for the Further Implementation of Agenda 21, particularly in the areas of finance and transfer of technology, should be fully implemented.

31. As agreed in Agenda 21, developed countries should take the lead in addressing unsustainable production and consumption patterns, taking into account the principle of common but differentiated responsibilities. Several delegations also recognized the importance of keeping the public informed and engaging in regular dialogue between Governments and stakeholders.

Trade and economic growth

32. Both economic growth and the lack of it can have adverse environmental effects. Several delegations emphasized that economic growth must be pursued in the broader context of sustainable development, which integrates economic, social and environmental policies. Many delegations stressed that there is a need to progressively decouple economic growth from environmental stress in the developed countries.

33. In developing countries environmental stress, particularly pressure on the natural resource base, is largely the result of poverty, underdevelopment and the absence of alternatives, such as more sustainable livelihoods. Therefore, eradicating poverty is an

overriding objective of sustainable development. Trade is an important instrument for economic growth, and only through economic growth can developing countries meet the basic needs of their population and generate resources to address more adequately their priority environmental concerns.

34. A number of delegations said that, as reflected in the outcome of the tenth session of UNCTAD, greater efforts are required on matters of concern to developing countries, such as market access, commodities issues, access to and transfer of technologies, and capacity-building.

Trade and environment

35. The parameters for an agenda on trade, environment and sustainable development have been set out in Agenda 21 and the Programme for the Further Implementation of Agenda 21. In particular, many delegations stressed the need to address the issues of access and transfer of environmentally sound technologies at affordable terms more vigorously. Some delegations noted that the key issue is not access to such technologies but rather the terms of such access, in particular where technologies are mandated under multilateral environmental agreements.

36. Several delegations stressed that progress should be made in identifying appropriate forms of traditional knowledge, including options for benefit-sharing as identified in the Convention on Biological Diversity.

37. A number of delegations emphasized that sustainability impact assessments could be useful instruments to be applied at the national level to facilitate the integration of economic, social and environmental objectives. It was also noted, however, that there are diverse perspectives on the concept of such assessments and that further work is needed to build consensus. In any case, such assessments must be conducted at the national level in support of national policy development. There is also a need to take into account the limited capacities and resources, especially in developing countries, to conduct them.

38. Many delegations stressed that for developing countries to benefit fully from trading opportunities for environmentally preferable products, many obstacles, including certification issues, remain to be overcome.

39. An open, non-discriminatory and equitable multilateral trading system that enables countries to improve their economic structures and the functioning of commodity markets is essential for achieving sustainable development. Environmental measures should not be used for protectionist purposes.

40. Developing countries should be able to participate effectively in international standard-setting. Many delegations stressed that there is a need for capacity-building and other forms of assistance in favour of developing countries.

41. There is a need to enhance the contribution that trade liberalization can make to sustainable development. Many delegations emphasized the need for safeguarding and improving market access for products from developing countries, promoting new trading opportunities, removing trade obstacles and exploring "win-win-win" scenarios. For example, many delegations emphasized the need to eliminate or reduce subsidies, in particular agricultural export subsidies. One delegation observed that "win-win" scenarios could also be explored with regard to labour standards.

42. Delegations welcomed the decision on further work on trade and environment contained in paragraphs 146 and 147 of the Plan of Action adopted by UNCTAD at its tenth session. In accordance with these paragraphs, UNCTAD's work, in cooperation with other relevant organizations, should focus on helping to ensure balance in the trade and environment debate by highlighting issues of concern to developing countries and strengthening the development dimension; promote analysis and consensus-building, focusing on a range of issues that could yield potential benefits to developing countries; and identifying specific capacity-building needs of developing countries and promoting a broad programme of capacity-building on trade, environment and development.

43. Several delegations were of the view that the Commission should encourage further work on the trade implications of environmental principles as well as on the application of the principle of common but differentiated responsibilities.

44. Several delegations emphasized the need for strengthened cooperation between WTO, UNCTAD, UNEP and other relevant organizations. There was a broad convergence of views on the need for a broad programme of capacity-building in the area of trade, environment and development. There is a need for strengthened coordination between different

institutions involved in capacity-building. Several delegations welcomed the UNCTAD/UNEP initiative for cooperation in capacity- and confidence-building launched at the tenth session of UNCTAD.

Foreign direct investment

45. Delegates stressed the increasing importance of private flows of FDI to developing countries. A larger number of developing countries should benefit from FDI, for example in sub-Saharan Africa. Some delegations emphasized the need to ensure stable, predictable, non-discriminatory and transparent investment climate to encourage domestic and foreign direct investment. They also encouraged developing countries to develop appropriate domestic policies, legal and institutional frameworks for attracting FDI, and recommended that assistance in the form of capacity-building be made more broadly available.

46. Foreign direct investment has the potential to support the economic, environmental and social objectives embodied in sustainable development. There was a broad convergence of views, for example, on the need to enhance the potential contribution of transnational corporations to sustainable development, as had been discussed in a seminar on making FDI work for sustainable development held before the tenth session of UNCTAD. Some delegations stressed that investors' rights need to be accompanied by responsibilities. They also referred to the possibilities to encourage voluntary commitments, approaches on "corporate behaviour" and investors' responsibilities. Some delegations emphasized that verifiable public reporting on sustainable policies and performance are key elements of any approach. Some encouraged multi-stakeholder approaches to promote environmentally sound FDI. Some delegations referred to the need to eliminate business practices that restrict the transfer of environmentally sound technologies.

47. The financial services sector had a key role to play in enhancing the contribution of FDI to sustainable development, and UNEP's financial institutions initiative was an excellent example on how to influence business practices towards sustainable development. Some developed country delegations also supported the development of environmental guidelines to determine which investment project should benefit from export credits and other support for overseas investment. The need for capacity-building in the area of investment and sustainable development was also emphasized.

IV. Adoption of the report of the Working Group

48. At its 7th meeting, on 25 February 2000, the Working Group had before it the draft report (E/CN.17/ISWG.II/2000/L.1) as well as informal papers.

49. At the same meeting, the Working Group took note of the informal papers and adopted its report.

V. Organizational and other matters

A. Opening and duration of the session

50. The Inter-sessional Ad Hoc Working Group on Financial Resources and Mechanisms and on Economic Growth, Trade and Investment of the Commission on Sustainable Development met in New York from 22 to 25 February 2000, in accordance with Economic and Social Council decision 1999/280 of 29 July 1999. The Working Group held seven meetings (1st-7th).

51. The session was opened by the Chairman of the Commission on Sustainable Development, Juan Mayr Maldonado (Colombia).

52. The Director of the Division for Sustainable Development of the United Nations Secretariat made an introductory statement.

53. The Chairman of the Expert Working Group on Finance made a statement.

B. Election of officers

54. At its 1st meeting, on 22 February, the Working Group elected Ahmed Ihab Gamaleldin (Egypt) and Choi Seok-young (Republic of Korea) as Co-Chairmen by acclamation.

C. Agenda and organization of work

55. At its 1st meeting, on 22 February, the Working Group adopted its provisional agenda contained in

document E/CN.17/ISWG.II/2000/1 and approved its organization of work. The agenda was as follows:

1. Election of officers.
2. Adoption of the agenda and other organizational matters.
3. Financial resources/trade and investment/ economic growth.
4. Other matters.
5. Adoption of the report of the Working Group.

D. Attendance

56. The session was attended by representatives of 38 States members of the Commission on Sustainable Development. Observers for other States Members of the United Nations and for the European Community, representatives of organizations of the United Nations system and secretariats of treaty bodies as well as observers for intergovernmental and non-governmental organizations also attended.

E. Documentation

57. The Working Group had before it the following documents:

(a) Report of the Secretary-General on financial resources and mechanisms (E/CN.17/2000/2);

(b) Report of the Secretary-General on economic growth, trade and investment (E/CN.17/2000/4);

(c) Note verbale dated 14 February 2000 from the Permanent Mission of Kenya to the United Nations addressed to the Secretary-General (E/CN.17/2000/9).

Annex

List of participants

Members

Algeria:	Abdallah Baali, Abderrahmane Merouane, Sidi Mohamed Ferhane
Angola:	
Belgium:	Andre Adam, Dirk Wouters, Jan Verschooten, Gunther Sleeuwagen, Chris Van den Bilcke, Rene Poismans, Ulrich Lenaerts, Jean-Paul Charlier
Brazil:	Maria Luiza Ribeiro Viotti, Barbara Briglia Tavora, Antonio Ricardo Fernandes Cavalcante, Alexandre Kotzias Peixoto, Audo Araüjo Faleiro
Bulgaria:	Vladimir Sotirov, Zvetolyub Basmajiev
Cameroon:	
Canada:	Yvan Jobin, Kim Girtel, Craig Wilson, Tim Marta, Jacques Forget, Andrew Kenyon, Iain MacGillivray, Rasheda Nawaz, Sharon Lee Smith, Raina Ho, Janet Stephenson
China:	Zhang Xiaoan, Shi Weiqiang, Xie Junqi, Sun Zhen, Bai Youngjie, Ni Hongxing
Colombia:	Juan Mayr Maldonado, Alfonso Valdivieso, Fabio Ocaziones, Mauricio Baquero, Adriana Soto
Cuba:	Bruno Rodriguez Parrilla, Rafael Dausá Céspedes, Modesto Fernández Díaz-Silveira, Ileana Nuñez Mordoche, Rogelio Curbelo
Czech Republic:	Jan Kára, Martin Fantyš, Petr Pařizek
Democratic People's Republic of Korea:	Kim Chang Guk, Mun Jong Chol
Democratic People's Republic of the Congo:	
Denmark:	Torben Mailand Christensen, Jørgen Hartnack, Peter Gebert, Annette Samuelsen, Lise Søe Naldal
Djibouti:	
Egypt:	Ahmed Aboul Gheit, Ahmed Darwish, Hazem Fahmy, Ahmed Ihab Gamaleldin, Riad El-Badawy, Ahmed Fadel Bedewi, Heba Fikry Basseli
France:	Alain Dejammet, Raymond Quereilhac, Genevieve Verbrugge, Souad Le Gall, Paul Luu, Daniel Le Gargasson

Germany:	Martin Lutz, Stephan Contius, Frank Mann, Reinhard Krapp, Ulf Dietmar Jaeckel, Barbara Schäfer, Peter Christmann
Guyana:	George Wilfred Talbot
Hungary:	Sándor Mózes
India:	
Indonesia:	Makarim Wibisono, Makmur Widodo, Djauhari Oratmangun, Ngurah Swajaya
Iran (Islamic Republic of):	Bagher Asadi, Mehdi Mirafzal, Mohsen Esperi
Ireland:	Martin Farrell, Patrick McDonnell, Dympna Hayes
Italy:	Sergio Vento, Valerio Astraldi, Corrado Clini, Davide Morante, Giovanni Brauzzi, Valeria Rizzo, Paolo Soprano, Fabio Cassese, Antonio Strambacci, Ines Zezza, Giovannino Di Palma, Andra Camponogara, Walter Gallinetta, Umberto Binatti
Japan:	Yuji Kumamaru, Koichiro Seki, Mitsuo Usuki, Masatoshi Sato, Atsuhiro Meno, Shunichi Nakada, Yasuyuki Inoue, Yutaka Nakao, Yuji Yamamoto, Toru Nagayama, Norimasa Shimomura
Kazakhstan:	
Lebanon:	
Mauritania:	
Mauritius:	Anand Priyay Neewoor, Premsagar Bholah
Mexico:	Manuel Tello, Mauricio Escanero, Manuel Ontivero Jimenéz, Cipactli Camero Cortés, Margarita Pérez Villaseñor, Cruz Arcelia Tanori de Casillas, Mario Duarte-Villarelo, Gabriela Elías Antillón, Arturo Ponce
Mozambique:	
Netherlands:	Pieter Verbeek, Frists Thissen, Vincent van Bergen, Ko van Doorn, Ton Waarts, Herman Verhey, Jeroen Steeghs, Jacqueline Broerse, Kirsten Kuipers, Marja Cochius, Alexandra Valkenburg, Hans Alders, J. F. de Leeuw, Hans Hoogeveen, J. Smids-Goossens
New Zealand:	
Nicaragua:	
Niger:	
Panama:	
Paraguay:	
Peru:	Manuel Picasso, Rubén Espinoza, Eduardo Pérez del Solar

Philippines:	Libran N. Cabactulan
Portugal:	António Monteiro, Júlio Mascarenhas, Nuno Brito, Helena Martins, Joao Fins-do-Lago, Isabel Mertens, António Botão, Nádia Pires, José Manuel Bual, Nair Alves, Carlos Pais, Rosa Caetano, Maria de Lurdes Caiado
Republic of Korea:	Suh Dae-won, Choi Seok-Young, Yoon Jong Soo, Shin Won-woo, Kim Chan-Woo, Oh Youngju, Lee Sang-jae, Jeong Young-Dae, Shin Chang-hyun, Kwak Il-Chun
Russian Federation:	Vassili A. Nebenzia, Aleksandr A. Pankin, Dmitry I. Maksimychev, Sergey F. Bulgachenko, Sergey O. Federov
Slovakia:	Igor Vencel
Spain:	
Sri Lanka:	
Sudan:	
The former Yugoslav Republic of Macedonia:	Naste Calovski, Vasko Grkov, Donka Gligorova, Goran Stevcevski
Tunisia:	
United Kingdom of Great Britain and Northern Ireland:	
United States of America:	Mark G. Hambley, Adela Backiel, David Hales, Jennifer Bergeron, Christine Bergmark, Thomas Brennan, Ann Carey, James Colby, Wayne Denney, Michael Gallagher, Melissa Kehoe, John Lewis, Daniel Magraw, Jonathan Margolis, Franklin Moore, Christopher Muller, Lynette J. Poulton, David Shark, Kenneth Thomas, David van Hoogstraten, Kathryn Washburn, Norine Kennedy, Thomas Rogers
Venezuela:	

States Members of the United Nations represented by observers

Austria, Barbados, Belarus, Croatia, Finland, Gambia, Greece, Guatemala, Israel, Jordan, Kenya, Lithuania, Norway, Pakistan, Poland, Romania, Samoa, Saudi Arabia, South Africa, Sweden, Trinidad and Tobago

Entities represented by observers

European Community

Non-member States represented by observers

Switzerland

Specialized agencies and related organizations

International Labour Organization, Food and Agriculture Organization of the United Nations, United Nations Educational, Scientific and Cultural Organization, United Nations Industrial Development Organization, World Trade Organization

Secretariats of treaty bodies

Convention on Biological Diversity

Intergovernmental organizations

Commonwealth Secretariat

Non-governmental organizations

Global Education Associates
International Association of Lawyers
International Chamber of Commerce
Norwegian Forum for Environment and Development
World Council of Churches
World Wide Fund for Nature International