

10-1-2011

Brief 1: Financing International Environmental Governance: Lessons from the United Nations Environment Programme

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Recommended Citation

Ivanova, M. (2011). "Financing Environmental Governance: Lessons from the United Nations Environment Programme." Governance and Sustainability Issue Brief Series: Brief 1. Center for Governance and Sustainability. University of Massachusetts Boston.

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Financing International Environmental Governance: Lessons from the United Nations Environment Programme

by Maria Ivanova

Financing for the global environment is scattered among many institutions and, without an overview of total financial flows, often considered scarce. This issue brief begins an analysis of the financial landscape by focusing on the anchor institution for the global environment, the UN Environment Programme. It examines the relationship between institutional form and funding and offers insights into innovative financing.

In 1972, at the first UN Conference on the Human Environment held in Stockholm, Sweden, the governments of 113 countries agreed to create the United Nations Environment Programme (UNEP). Upon its establishment, UNEP received a mandate to institutionalize the integrative concept of the “environment” across existing UN agencies and to improve cooperation and communication between them. Catalyzing and coordinating environmental action within the UN system and beyond were among the core functions of the new, anchor institution for the global environment.¹ To assist in the effective fulfillment of these functions, the governments instituted UNEP’s Environment Fund, which would finance the costs of new environmental initiatives within the UN system and assist developing countries with their environmental actions. Over time, however, the Environment Fund became the primary mechanism for financing UNEP’s own programs rather than those of the UN system. Moreover, while the environmental agenda expanded, the Fund’s resources decreased in real terms.

The original proposal of the Environment Fund suggested that the largest consumers of energy contribute on an escalating curve to the fund.

Expanding the donor base, increasing funds availability, and ensuring stable and predictable financial flows are currently top priorities in international environmental governance. Contemporary institutional reform proposals, therefore, emphasize the need for innovative financial mechanisms for the environment.² Some scholars and policy makers also argue for a change in UNEP’s institutional status from a programme, a subsidiary body in the United Nations, to a specialized agency on the grounds that its budget would then comprise assessed rather than voluntary contributions³ and the organization would be able to institute innovative financing.⁴ This brief analyzes the relationship between institutional form and funding and suggests that a simple causal argument connecting the two could be misleading. It also highlights the fact that UNEP’s financial mechanism, the Environment Fund, was envisioned as an innovative instrument for an expanding environmental agenda and, if revitalized, could create opportunities for securing financial resources adequate to the task at hand.

Institutional Form and Funding: What Causality?

Compared with most of its peers, UNEP’s annual budget of \$217 million is small, especially in light of its ambitious mandate to “provide leadership and encourage partnership in caring for the environment.” Many of the specialized agencies—ILO, UNESCO, FAO, and WHO—have annual budgets ranging from \$360 million to \$2.3 billion (see Figure 1). Some scholars explain UNEP’s lower level of financing by its status as a UN subsidiary body and the requisite reliance on voluntary contributions. Specialized agencies, they argue, “can avail themselves of more resources and hence influence.”⁵ The assumption linking the institutional form of a specialized agency to a large financial base and therefore influence could, however, be misleading.

While some specialized agencies have budgets larger than UNEP’s, others’ resources are comparable or even smaller—WTO, UNIDO, and WMO, for example (see Figure 1 and accompanying legend for the full names of the organizations). In addition, voluntary contributions do not automatically

translate into low volume. Indeed, the data in Figure 1 point to the opposite. The four largest annual budgets in the UN system for 2010 (in excess of \$3 billion per year) are those of four subsidiary bodies that rely solely on voluntary funding—UNDP, WFP, UNICEF, and UNHCR. Figure 1 also highlights that even specialized agencies, whose core budget comes from assessed contributions, depend heavily on voluntary contributions. WHO, FAO and UNESCO all rely on voluntary funding for more than 50 percent of their budget.

Change in institutional form to a specialized agency might therefore not be the single most important factor that would lead to an increase in UNEP’s financial resources as subsidiary body status does not by itself limit funding. Other features, such as mandate, size, and location are important determinants of the scale of financing. Institutions with clear operational mandates (UNDP, WFP, UNICEF, and UNHCR) hold significantly larger budgets than those with normative mandates (OCHA, WTO, and UNEP). Larger staff size and multiple locations also require larger resources. What the financial data also show, however, is that institutional authority and influence do not derive from resources alone. The World Trade Organization, an oft-cited example of significant global influence, operates with a budget at the lower end of the spectrum.

Three critical concerns about environmental financing require immediate attention by scholars and by policymakers: 1) roles that governments and the public at large expect international organizations to perform, 2) adequacy of available funds for effective delivery of these purposes, and 3) reliability of resource flows. Operational and normative roles require different levels of financing. In the environmental field, a number of organizations perform both roles without the necessary coordination and collaboration often resulting in duplication and inefficient use of resources.⁶ As the environmental agenda expands and environmental activities become embedded into most organizations at national and international levels, it is critical to assess both the resources available and the resources necessary to deliver the requisite results. To date, however, there has been no comprehensive overview of environmental funding. Proposals for a financial tracking system for the environment similar to the global, real-time database of humanitarian aid managed by UN Office for Coordination of Humanitarian Affairs⁷ are gradually gaining traction. Finally, stability, predictability and reliability of resources are critical to effective performance. UNEP’s financial resources have fluctuated dramatically over time as the subsequent analysis will show and any serious proposal for environmental governance reform needs to address the root causes of these oscillations.

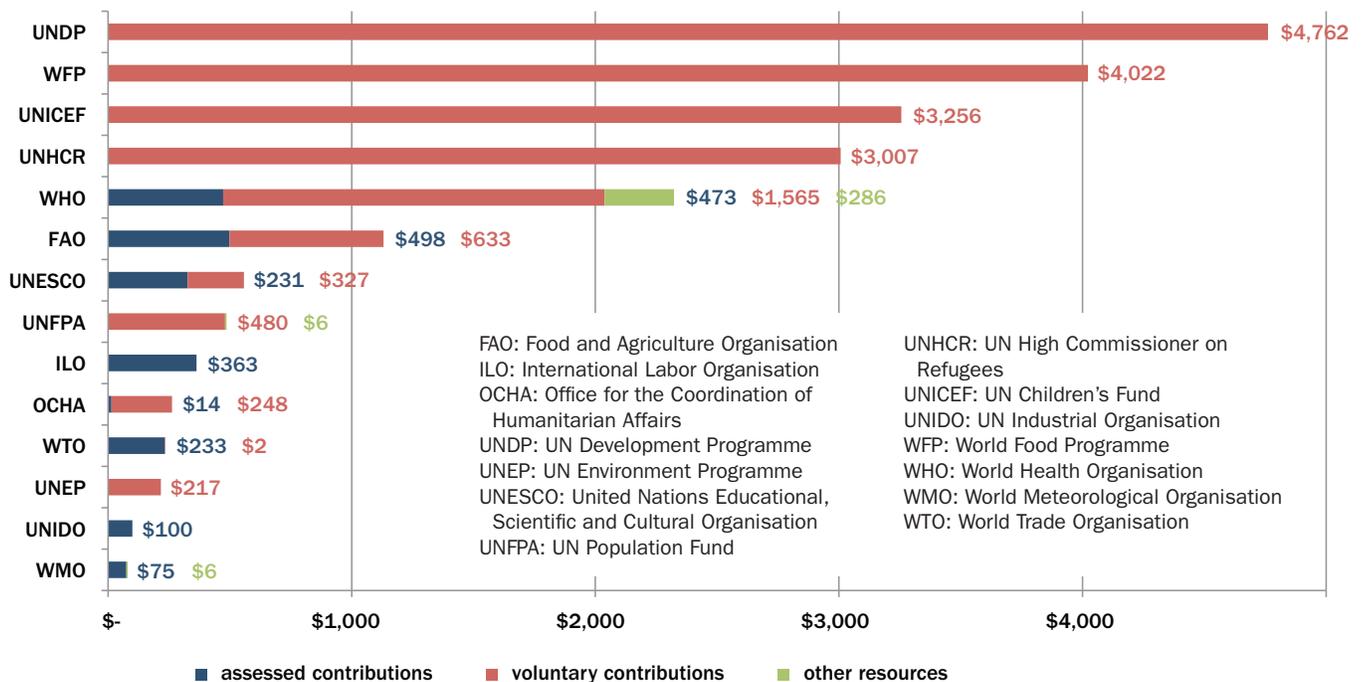


Figure 1: Annual budgets of select UN bodies for 2010, in millions of current USD

Budget data sources: Annual reports and other official documents on the organizations’ websites. See Endnotes.

Change in institutional form to a specialized agency might not be the single most important factor that would lead to an increase in UNEP's financial resources since subsidiary body status does not by itself limit funding.

Purpose and Performance of the Environment Fund

Seeking to ensure that “efforts to improve the global environment [do not] go forward without the means to act,” the United States led the creation of a United Nations Environment Fund providing both the intellectual concept and 40 percent of the Fund’s resources. In his address to the US Congress on 8 February 1972, President Richard Nixon proposed the creation of the Fund “with an initial funding goal of \$100 million for the first 5 years ... to help to stimulate international cooperation on environmental problems by supporting a centralized coordination point for United Nations activities in this field.”⁸ The President acted on the recommendation of the US Secretary of State’s Advisory Committee on the 1972 UN Conference on the Human Environment, a group of scholars and policymakers who produced extensive analysis of all aspects of the conference in preparation for the US position.

The committee’s original proposal of the Environment Fund suggested that the largest consumers of energy contribute on an escalating curve to the fund: “A formula derived from each nation’s consumption of energy could provide the basis for the suggested participation in the United Nations Voluntary Fund for the Environment. Or, it might provide the basis for a long-range system of funding, which could be a matter of assessment rather than voluntary participation.”⁹ Governments, however, did not implement this idea of energy-pegged contributions, which would be predictable and fair and encourage a shift toward sustainable energy production and consumption.

Rather, they agreed to create the voluntary Environment Fund to support UNEP’s catalyzing and coordinating role in the UN system. The voluntary character of the contributions allowed President Nixon to approve \$40 million in US funding for the new UN body without excessive Congressional oversight at a time when the United States was cutting funding to the United Nations. While the Fund comprised solely voluntary contributions, its proponents in the US State Department acknowledged that industrialized countries held a responsibility to improve environmental conditions and should provide the bulk of the finances required. Participation by smaller nations—with symbolic amounts of \$1,000 per year—was encouraged as a means of emphasizing that all have a stake in international environmental protection.¹⁰ An allocation from the UN regular budget would cover the costs of servicing UNEP’s Governing Council and the Secretariat.¹¹

Importantly, the initial vision for the Environment Fund emphasized the expectation that its resources would increase as the environmental agenda expanded. The US Secretary of State’s Advisory Committee wrote about the Fund:

...we believe that \$100 million is a beginning. However, this amount should be viewed as a minimum, a starting figure. It is not yet clear how much money will be required for adequate environmental action.

The Voluntary Fund should be of such size as to guarantee that financing will not be a limiting factor to all necessary action. United States participation in this Fund should be exemplary and a reflection of the fact that we are the world’s major polluter.¹²

Following the US lead, thirty-two governments contributed to the Environment Fund in its first year and almost double—60 governments—contributed in UNEP’s second biennium, 1974–1975. Over time, the Environment Fund grew from \$60 million per biennium in the 1970s, when the organization gained ground, to close to \$180 million in 2008–2009. This threefold increase in the capitalization of the Environment Fund is only true, however, in nominal (or current) contributions.¹³ In real terms, the Environment Fund plummeted by 44 percent from 1977 to 1987 and has not yet reached the highs of \$160 million per biennium that UNEP attracted in the 1970s and then in the early 1990s in the run-up to the 1992 Rio Earth Summit.

The four-decade trend depicted in Figure 2 thus shows that the original intention to grow the Fund proportional with intensifying environmental problems was never truly realized. To the contrary, over time, countries decreased their investments in the Environment Fund. This dynamic is not true for all individual governments. Only a few countries’ contributions to the Environment Fund (the United States, Japan, Russian Federation) have decreased significantly in real terms (Figure 3). However, since UNEP’s donor base is very narrow—only fifteen countries account for about 90 percent of the Environment Fund contributions—fluctuations in government priorities and attention can be particularly impactful. Thus, despite the rise in Environment Fund contributions by the Netherlands, United Kingdom, Switzerland, Italy, and others, the cumulative effect has been negative.

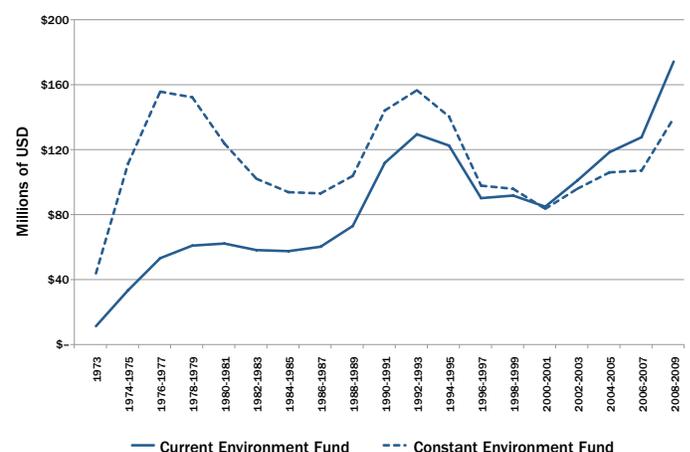


Figure 2: Environment Fund overview, in current and constant USD

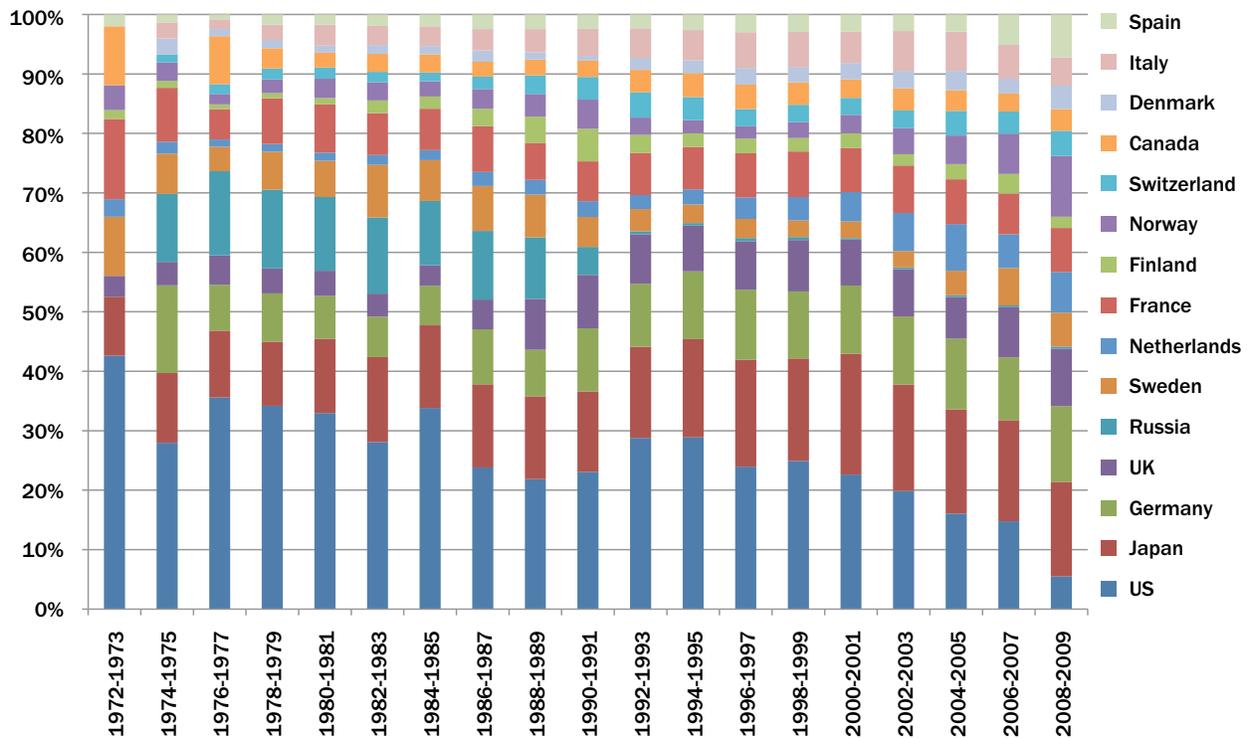


Figure 3: Trends in the size of top 15 donor contributions to the Environment Fund, 1972–2009, in constant USD

The Soviet Union, the fifth-largest donor to the Environment Fund (Figure 4), is a case in point. The country had been a significant contributor to UNEP in financial terms as well as through political, technical, and human resources support until it ceased to exist in 1991. On average, the Soviet Union contributed approximately \$7.3 million a year to UNEP’s Environment Fund from 1975 to 1991. Soviet contributions accounted for 12.1 percent of the Environment Fund during that period. By comparison, the United States contributed 28.6 percent of the Environment Fund during the same time, the United Kingdom 5.7 percent, and France 4.0 percent. From 1992 to 2009, the Soviet Union’s successor, the Russian Federation, oversaw a decline in contributions to \$0.47 million a year (0.8 percent of the Environment Fund). UNEP thus lost one of its most significant donor countries, and the downward trend in the Environment Fund illustrated in Figure 2 can be explained partly by the disappearance of the Soviet Union.

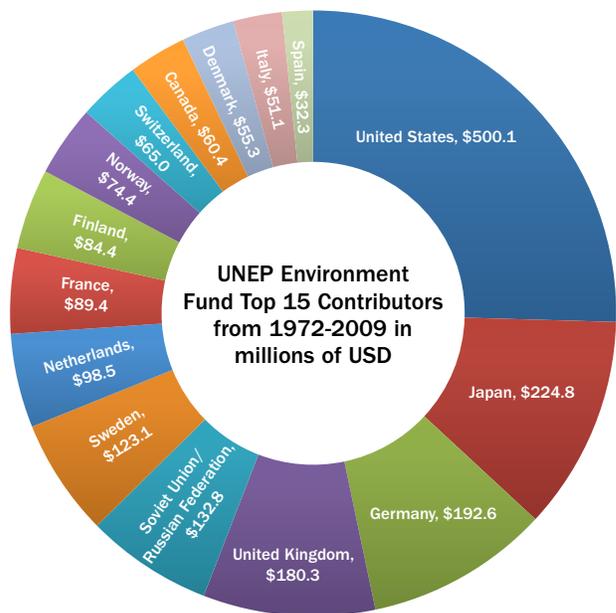


Figure 4: Top 15 Environment Fund contributors, 1972–2009, in millions of constant USD

Since UNEP's donor base is very narrow — only fifteen countries account for about 90 percent of the Environment Fund contributions — fluctuations in government priorities and attention can be particularly impactful.

Widening and deepening UNEP's donor base is indeed necessary. In reality, 35 percent of UNEP's donor countries have contributed less than what in 1972 was considered a symbolic amount—\$1,000 per year, or \$5,000 per year in 2009 terms. Thus, even an expansion of UNEP's donor base, while necessary, is not sufficient. A system of minimum contributions as envisioned at the time of the Environment Fund's creation might be a useful complementary mechanism. The Voluntary Indicative Scale of Contributions (VISC) that UNEP initiated in 2003 might offer a foundation on which to build a more robust financing system that would ensure stable, adequate, and predictable funding for UNEP. The issues surrounding the VISC system will be discussed in a subsequent Issue Brief in this series.

Earmarked Contributions: Control or Accountability

Similar to other UN bodies, the voluntary contributions that make up most of UNEP's financial basket are delivered in two ways: either through a general contribution to core funding through the Environment Fund or through contributions to specific elements of UNEP's work program and projects via earmarked funds. Earmarked funding for UNEP began in the 1980s, grew significantly over the 1990s, and eventually eclipsed the share of the Environment Fund during the last decade (Figure 5). Currently, two-thirds of UNEP's budget comprises earmarked funds and only one-third comes directly from the Environment Fund.

Earmarked funding has increased across the United Nations and is an important part of the budget even for specialized agencies. The World Health Organization, for example, relied on voluntary contributions for 72 percent of its budget in 2006–2007.¹⁴ Assessed contributions, the hallmark of a specialized agency status, comprised less than a third of WHO's financial base. This reliance on earmarks has been a controversial development as the engagement of donor governments has shifted from unrestricted core funding to strategic investments focusing on program priorities compatible with donor agendas. From the perspective of the recipient organizations, earmarked funding asserts the influence and control of donor governments' diminishing predictability and flexibility of resources as well as the autonomy of the organization to pursue program

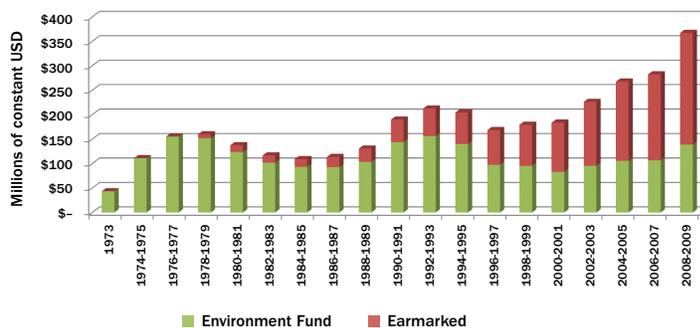
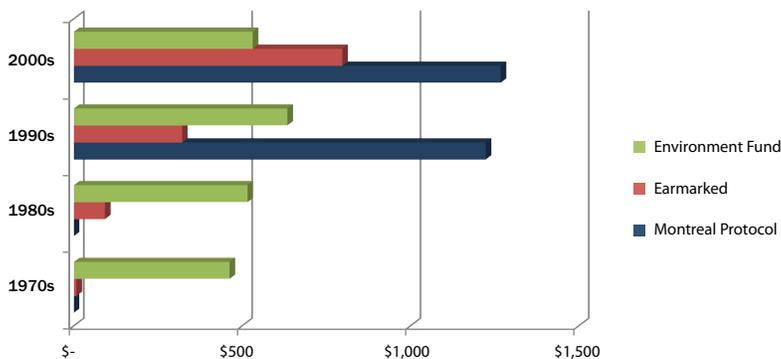


Figure 5: Total contributions by biennium, excluding funding for the Montreal Protocol, in constant USD

priorities. For donor governments, such funds ensure targeted accountability and allow for greater flexibility in mobilizing funds for a particular purpose.

In the environmental field, the earmarks trend took hold with the Montreal Protocol on Substances that Deplete the Ozone Layer,¹⁵ which entered into force in 1989. The Montreal Protocol is considered one of the most successful international environmental treaties and has the largest trust fund within UNEP. The significant financial resources devoted to the treaty can be seen both as a reason for and an indicator of the treaty's effectiveness. From 1988 to 2009, governments have invested \$2.5 billion in the Montreal Protocol—an amount equivalent to combined Environment Fund and earmarked contributions during that period. Such large, sustained investment could be the main reason for the success of the Montreal Protocol. The magnitude and consistency of investment, however, can also be construed to indicate that governments are willing to contribute because the Montreal Protocol has delivered results. In reality, these two dynamics reinforce each other. Significant initial investment was critical to the fund's success and the initial success stimulated sustained investment. Figure 6 illustrates the priority governments have accorded Montreal Protocol activities in comparison with the Environment Fund and other earmarked funding.

Figure 6: Total contributions to UNEP, in millions of constant USD



Conclusion

In 1972, governments created the Environment Fund to enable UNEP to serve as the anchor institution for the global environment through enticing collaboration from the rest of the UN system and providing funds for bridging the policy-implementation gap through new revenue streams for implementation. The Fund was the core environmental financing mechanism in the UN system in the 1970s and 1980s. With the proliferation of additional funds and earmarked contributions, however, the linkage between policy goals and financing instruments weakened, donor contributions fluctuated and decreased in real terms, and the Fund (and even UNEP as a whole) was ultimately eclipsed by alternative financing mechanisms.

Given the political demand for improvements in international environmental governance, three main dynamics in environmental financing demand further attention by scholars and governments. First, it is important to clearly articulate the roles of institutions with environmental mandates and ensure a more systematic and coherent division of labor in the international system. Operational activities may demand larger

resources while normative mandates require greater stability and predictability of financial streams. Second, an assessment of available versus required resources is a necessary condition for effective environmental governance. A financial tracking system to monitor and evaluate environmental financial flows, volumes, and impacts is therefore urgently necessary. Third, reliability of funding needs to be improved significantly to avoid a short-term focus and improve the ability to commit to and implement visionary programs and activities.

To this end, the original idea for UNEP's Environment Fund merits new attention. An environmental financing mechanism for core program work could comprise contributions calculated on the basis of countries' energy consumption. This could transform into assessed contributions that would ensure predictable funding on a scale proportional to the relative size of environmental impact. In addition, a scheme of voluntary contributions with a specific minimum from all countries would provide the resources necessary to supplement existing programs and launch new and innovative initiatives.

Acknowledgement

This research was carried out with financial support from the Center for Governance and Sustainability at the University of Massachusetts Boston, the Federal Office for the Environment of Switzerland, and the UN Environment Programme. The author would like to thank Laurence Delina and Rinske Wijtmans for research assistance and Ivar Baste, Ambassador John W. McDonald, Wondwossen Sintayehu, and Oran Young for helpful comments on earlier drafts.

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The original vision for the Environment Fund might hold the innovative ideas that governments are currently seeking.

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Endnotes

- ¹ The use of “anchor institution” to denote UNEP’s central function in the United Nations system’s environmental activities was first introduced in Ivanova 2005. A historical overview and analysis of UNEP’s design could be found in Ivanova 2007, 2009, and 2010.
- ² UNEP 2010a.
- ³ Assessed contributions are payments made as part of the obligations that nations undertake when signing treaties and are based on each country’s ability to pay. Voluntary contributions are left to the discretion of each individual member state. See also Yussuf, Larrabure, and Terzi 2007.
- ⁴ Biermann and Bauer 2005; Najam, Papa and Taiyab 2006: 80; UNEP 2010a, 2010b.
- ⁵ Biermann 2011.
- ⁶ Inomata 2008; FOEN 2009.
- ⁷ Najam, Papa and Taiyab 2006: 56, 87.
- ⁸ Nixon 1972.
- ⁹ United States 1972: 132.
- ¹⁰ United States 1972: 132.
- ¹¹ Funding from the UN regular budget, however, accounts for less than 4 percent of the total UNEP budget.
- ¹² United States 1972: 132.
- ¹³ Current or nominal USD represent nominal values in the series from 1973 to 2010, in contrast to constant USD (or real values) which have been adjusted to remove effects of price changes over time by considering inflation.
- ¹⁴ See http://www.who.int/about/resources_planning/resources/en/index.html, accessed on 28 August 2011.
- ¹⁵ Budget for the Montreal Protocol is sometimes included in UNEP’s budget. We remove the amount allocated for the Montreal Protocol from the overview of UNEP’s budget in order to provide a more granular picture.

Budget data sources for 2010

FAO: Additional Information on the Medium Term Plan 2010-13 and Programme of Work and Budget 2010-11

ILO: Programme and Budget for 2010-2011

OCHA: OCHA webpage: Funding & Financial Analysis

UNDP: UNDP budget estimates for the 2010-2011 biennium

UNEP: Proposed biennial programme and support budgets for 2010-2011

UNESCO: Approved Programme and Budget for 2010-2011

UNFPA: UNFPA webpage: Resources

UNHCR: Biennial Programme Budget for 2010-2011

UNICEF: Annual Report 2009

UNIDO: Programme and Budget for 2010-2011

WFP: Annual Report 2010

WHO: Financial Report for the year 2010 in the Financial Period 2010-2011

WMO: Budget for the second biennium (2010–2011) of the fifteenth financial period

WTO: WTO webpage: Secretariat Budget for 2011

Citation information

Please use the following citation for this brief:

Ivanova, M. (2011). "Financing Environmental Governance: Lessons from the United Nations Environment Programme." *Governance and Sustainability Issue Brief Series: Brief 1*. Center for Governance and Sustainability. University of Massachusetts Boston.

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