

OECD Workshop

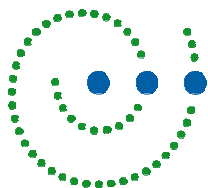
MULTILATERAL ENVIRONMENTAL AGREEMENTS AND PRIVATE INVESTMENT

ENCOURAGING BUSINESS CONTRIBUTION TO MEA IMPLEMENTATION

16-17 June 2005
Helsinki, Finland

KEY MESSAGES

<http://www.oecd.org/env/investment/workshop>



YMPÄRISTÖMINISTERIÖ
MILJÖMINISTERIET
MINISTRY OF THE ENVIRONMENT

OECD



OECD

OECD WORKSHOP
MULTILATERAL ENVIRONMENTAL AGREEMENTS AND PRIVATE INVESTMENT
ENCOURAGING BUSINESS CONTRIBUTION TO MEA IMPLEMENTATION

KEY MESSAGES

The OECD Workshop on Multilateral Environmental Agreements and Private Investment, organised in co-operation with the Finnish Ministry for the Environment, took place in Helsinki on 16-17 June 2005. The objectives of the workshop were to:

- improve understanding on how to promote private investment that contributes to the implementation of MEAs and thus also to the broader objective of sustainable development;
- explore business opportunities under MEAs and new ways to engage business in MEA implementation; and
- share experiences and disseminate information that can encourage and help businesses take further action to contribute to addressing global environmental problems, thereby making the implementation of MEAs more effective.

The workshop gathered about 60 people, representing governments, MEA Secretariats, enterprises, financial institutions, international organisations, research institutes and civil society organisations from both OECD and non-OECD countries.

The workshop focused on various aspects of the MEA-private investment link. The first day focused on experience with initiatives that have contributed to promoting private investment in support of MEA implementation. The second day looked at two issues related to successful implementation of MEAs that are particularly relevant to the role of private investment and business engagement: the financial aspects of MEA implementation and innovation, development and transfer of environmentally friendly technologies.

This paper has been prepared by the OECD Secretariat on its entire responsibility. A paper summarising the presentations and discussions at the workshop will be issued separately.

Key messages

Governments have the main role to play in MEA implementation, but private investment is also crucial to attain MEA objectives.

- *Implementation of MEAs needs the involvement of all actors.* MEAs deal with global environmental problems, and the way in which they are addressed is decided by the Parties. Governments have an important role to play in facilitating private investment and the support of other actors towards achieving the goals of MEAs.
- *MEAs provide both challenges and opportunities for private investors.* Business is both part of the problems and of the solutions addressed by MEAs and therefore needs to be involved more directly in MEA implementation. Governments and business should work together to explore the opportunities for business to further contribute to MEA implementation.
- *Governments can promote private sector engagement, by, inter alia, supporting public-private partnerships, promoting capacity building, contributing to the development of markets and trade opportunities (e.g., carbon financing opportunities and markets for renewable energies).*

- *Partnerships between different stakeholders*, including public-private partnerships, can be helpful in establishing more effective policies and legal frameworks for business involvement in achieving commitments and goals under MEAs. They can also help overcome budgetary restrictions by providing new sources of funding, and harness the efficiency of the private sector.

Other stakeholders can also make an important contribution to MEA implementation.

- *International governmental organisations and MEA Secretariats* can disseminate information about MEA objectives, provide technical support and assistance to technology transfer, develop guidance for business involvement, and, in the case of financial institutions, provide financial support to projects that help achieving MEA objectives.
- *Civil society organisations* can contribute by supporting environmentally-friendly projects; raising public and consumer awareness; exerting pressure on governments and the private sector, and an educational role; providing technical assistance and training.
- *Financial institutions* can contribute to MEA goals, by requiring that supported projects comply with environmental standards and providing instruments to mitigate the risks associated with innovative investments.

There are many ways for private investors to get involved in achieving MEA goals.

- *Enterprises can contribute to the implementation of MEAs, while, at the same time, realising good business outcomes.* They can do so by, *inter alia*, enhancing their overall environmental management, engaging in innovative investments, developing and transferring environmentally sound technologies, entering into partnerships with other stakeholders, and creating funds to support specific MEA goals.
- *First steps for enterprises to support MEAs* can include linking MEA objectives to the company's core business and corporate social responsibility approaches, and developing business plans and feasibility studies around concrete business opportunities and sustainable development benefits.
- *Private sector involvement in MEA implementation can bring many advantages but some caution is also needed.* The environmental impacts of investments need to be carefully assessed to ensure that global and local environmental problems are adequately addressed.

Trust, stability and a solid regulatory framework are keys to involving business in MEA implementation.

- *Investors require stability to engage in long-term operations.* Predictability is important: before engaging in risky and innovative investments in support of MEAs, investors need to know what is expected from them, and by when.
- *Governments can build trust* by putting in place and maintaining solid and predictable regulatory systems and effective enforcement mechanisms; long-term strategies for MEA implementation and private sector involvement in such strategies including long-term incentives; transparency and effective involvement of all stakeholders in the development of macro-economic policies and assessments of "what has worked and what has not".

For business to get involved, MEA objectives and targets have to be clear.

- *Clear and concrete objectives and targets under MEAs* create a framework within which the business sector can both align its practices with MEA goals and seize new business opportunities. Some MEAs include clear objectives, *e.g.*, those established under the Montreal and the Kyoto Protocols. Most MEAs, however, have general objectives, which cannot always

be easily translated into concrete action by the private sector, and further efforts may therefore be needed to enhance business involvement.

- *Governments can contribute to bridging the gap* between general objectives and concrete contributions by the business sector and other stakeholders. They can do so by (i) translating general MEA objectives into clear and specific requirements, targets and standards; (ii) involving stakeholders more efficiently in MEA negotiations and in the development of national implementation policies; (iii) putting in place adequate incentives to meet national targets; and (iv) developing economic instruments and markets that support MEA goals to promote effective business engagement.

The right tools and incentives have to be in place and unnecessary barriers need to be removed.

- *Develop tools that allow for the internalisation of costs to the global environment*, i.e. for taking account of the cost of externalities. Adequate tools, standards, economic instruments and regulation would help internalise such costs thus linking MEA objectives to decision-making processes within businesses.
- *Provide appropriate incentives to business*. Some MEAs seem to provide only indirect incentives to business and therefore, working with MEA processes often proves difficult for enterprises. Governments can develop more appropriate incentives, for example, by better tailoring implementation policies to business activity and developing economic instruments which encourage business to actively support MEA goals.
- *Level the playing field and remove perverse incentive*. Governments need to remove incentives and subsidies that prevent the effective implementation of MEAs or that support activities which run counter the targets and objectives of MEAs.
- *Remove unnecessary barriers*. Government inertia to implement environmental measures, lack of institutional capacity and unwillingness to change unsustainable policies deter business engagement. Removing excessive bureaucratic requirements, e.g., to access funding, would also enhance business involvement in MEA goals.

Governments and financial institutions need to ensure that they support the right investments.

- *Environmental guidelines should be geared towards MEA objectives*. Today, most governments and both private and public financial institutions, have mechanisms and guidelines in place to ensure that the projects they finance comply with certain environmental standards. To ensure a level playing field, it is desirable that the whole financial community effectively apply such mechanisms and guidelines. Efforts should be made to disseminate best practices for the assessment of environmental risk as an element of credit risk. Existing guidelines, such as the World Bank and IFC safeguard policies and guidelines, could be enhanced to be better geared towards achievement of MEA objectives.
- *Financial support should go to the right projects*. The public is more and more vigilant about private sector receiving subsidies and other support to achieve environmental and social goals. Some guidance could be useful to help identify how public sector agencies and the private sector can collaborate effectively.
- *Develop risk management strategies to crowd in private sector finance*. Developing new technologies or engaging otherwise in innovative investments involves risks. Product and market risks constrain technological change. These risks may crowd out finance by private institutions; in these situations, adequate risk-sharing strategies can stimulate a crowding-in effect. Examples include mechanisms that help share the financial and market risks of introducing new technologies and related products, and procurement policies that provide opportunities to innovative, often small, companies to enter new markets.

- *Influence large-size capital flows.* Institutional investors, such as pension funds and insurance companies, manage large funds but they often do not take environmental impacts of their investments into account. It is therefore important that institutional investors also apply guidelines for the assessment of environmental impacts.
- *Governments can serve as leaders to leverage good practice* by others by making sure that their own investment flows are in line with MEA goals. This can be achieved by “green” procurement policies, modernisation of central heating and cooling plants to reduce emissions, constructing of future buildings in compliance with environmental standards, “greening” the fleet of official vehicles, etc.

Innovation, development and transfer of technologies are key to MEA implementation, and can be supported through the right incentives.

- *Channel investments toward new technologies.* Investments will go into technologies anyway and the key is to provide incentives for fostering the innovation and development of technologies that contribute to the goals of MEAs, *e.g.*, by offering instruments to mitigate risks. It is important that such incentives be elements of governments' long-term strategies to achieve MEA objectives.
- *Enhance conditions for the transfer of appropriate technologies to developing countries.* This requires an enabling environment, community choice and appropriation, stakeholder involvement, adequate information and networking, and flexible frameworks. Transfer and sharing of knowledge between developing countries can be an efficient approach.

Communication and language barriers have to be overcome.

- *Improved communication about the objectives, targets, and means of implementation* is needed to get business interested and involved in MEA implementation. Links between business goals and benefits to MEAs need to be made evident: not only environmental benefits but also business opportunities have to be identified. When communicating with businesses, not only environmental departments and advisors, but also departments linked to the core business including core managers (CEOs) should be targeted.
- *Improving communication concerns all stakeholders.* Governments can explain to businesses what each MEAs means, how it will be implemented at national level, and how business can contribute. They can also improve the integration of MEA goals in economic policies by, *inter alia*, enhancing communication of such goals throughout government, including at regional and local levels. MEA Secretariats can continue providing useful information on specific aspects of MEAs, along with lessons learnt, constraints and success stories, *e.g.* through their websites and databases. Business associations can provide to their members information on MEAs and ways for enterprises to contribute to their implementation. Civil society organisations can relay the views of the general public, exert pressure, and have an educational role.
- *The right signals have to be given in order to involve all.* For example, there is often a perception that only large multinational enterprises have a role to play in incorporating better environmental management practices and preserving the global environment. However, also small and medium enterprises can make an important contribution, and governments and others may need to make a special effort to give them opportunities for involvement and adequate incentives.

All MEAs are different, and approaches to private sector contribution to their implementation need to take these differences into account.

- *No "one-size-fits-all approach".* Though most MEAs address global environmental problems which are often inter-linked, "umbrella" approaches to enhance private sector involvement do not seem to be particularly promising avenues to enhance their implementation. Rather, the specific goals and objectives, *modus operandi* and requirements of each MEA should be considered when designing approaches to promote private sector involvement.
- *Synergies exist and should be further explored.* Lessons learnt from experience with private sector involvement under one MEA could be useful for effective implementation of other MEAs. Improving communication, exchange of information, sharing of experience, etc. among MEA Secretariats, as well as among national contact points of the different MEAs, would be useful steps. Further reflection is needed on how experience gained under mechanisms that have been set up under one MEA to involve business, such as the CDM, could serve in the implementation of other MEAs.

Where to go from here?

- *Continue the dialogue.* The workshop was not designed to develop any concrete guidelines or recommendations on how to enhance private sector involvement in MEA implementation. Rather, its purpose was to facilitate a dialogue between actors in MEA implementation, and to share relevant experiences. This dialogue should continue in other fora and involve other relevant stakeholders.
- *Reflect on further improvements and share experiences.* All actors – governments, MEA Secretariats, international organisations, financial institutions, enterprises, civil society organisations – have a different role to play, within their respective capacity and mandate and should continue to reflect on how to further improve their own approaches to MEA implementation as well as co-operation with others active in the field.
- *Concrete action can include* increasing private sector involvement in relevant meetings related to MEAs and their implementation; organising side events at Conferences of Parties to further raise awareness and sensitise government officials; exploiting the synergies between MEAs to strengthen the case for private sector involvement; encouraging multi-stakeholder discussions around concrete experiences and lessons learnt; improving collaboration among stakeholders, including bilateral and multilateral agencies, the business sector, civil society organisations and research institutes, to develop or enhance proposals and feasibility studies for further private sector involvement in MEA implementation,
- *The role of the OECD.* The OECD, through its Working Party on Global and Structural Policies will reflect whether and how best it can contribute to the efforts of its membership in enhancing private sector contribution to implementing MEAs. Useful recent experience is the revision of the OECD Guidelines for Multinational Enterprises and work on the implementation of its Environment chapter, as well as the Recommendation on Common Approaches to Export Credits and Environment. In keeping with OECD policies, any follow-up work would involve the relevant stakeholders.