Global Environment Facility

GEF/R.5/8
February 27, 2009

First Meeting for the Fifth Replenishment of the GEF Trust Fund
March 17-18, 2009
Paris, France

INNOVATIVE FINANCING MECHANISMS FOR THE GEF

EXECUTIVE SUMMARY

As the GEF has started its Fifth Replenishment negotiations this year, innovative financing mechanisms could be a way to help overcome the structural constraints that the traditional burden-sharing approach to fund raising has imposed on the GEF. The fiscal and economic adjustments being currently undertaken to deal with the global financial crisis actually provide opportunities to introduce growth patterns that are environmentally sound.

Over the last two decades, the GEF has operated with the same resource mobilization approach that was used when it was first set up. The burden-sharing key for determining donor countries' contribution was modeled after the International Development Association (IDA) distribution key loosely based on a country's GDP. Pledges to the GEF trust fund are allocated within the foreign affairs, finance or development cooperation budgets of individual countries. The GEF's resource base has however declined in real terms, despite the fact that demand for resources to meet global environmental challenges has increased dramatically, and Official Development Assistance has increased significantly since 2002.

Several options discussed in this document have been identified as particularly promising when assessed against a combination of design features, such as the chance that they could be implemented quickly, that they are conceptually linked to the polluters pay principle, tap into a presumed significant public willingness-to-pay for global environmental protection activities, and have significant short-term or at least long-term fund raising potential. Most options lend themselves to both voluntary and mandatory implementation by individual countries, although the ultimate long term goal must be a multilaterally negotiated mandatory system that commits all countries.

While the paper presents 15 options, the Secretariat is of the opinion that the following six options offer the highest potential to the GEF from a combination of: (i) being actionable in the context of the replenishment and participating governments; (ii) building upon precedents elsewhere; and (iii) reflecting the GEF's mandate in global environmental management.

(a) Option 1: Allowing Supplemental Targeted Contributions within the GEF Trust Fund.

(b) Option 2: Selling GEF Emission Reduction Certificates.

(c) Option 3: Leveraging Investments and Establishing Private Sector Endowments.

(d) Option 7: Proceeds from Auctioning of Carbon Allowances.

(e) Option 8: Aviation and Maritime Transportation Taxes:

(f) Option 9: International Financing Facilities.

Other options

The document presents a number of other options (see table next page) which are deemed to be less promising then the ones singled out here, because they either lay outside the purview of the GEF replenishment participants, or are likely difficult to negotiate or complicated to administer, or in all likelihood have a limited fund raising potential. Many of them may still present viable instruments for raising funds either over the long run or for specific focal areas. The contributing participants in the replenishment should comment on these options and the need to further explore them.

One such option not listed as promising considers reforming the GEF burden sharing approach by introducing environmental indicators to determine what a donor country's share to the trust fund should be. In theory, this is a conceptually compelling idea because it ties into the polluter pays principle and recognizes equity considerations. A simple model calculation, however, demonstrates that developing such a new system would be a very complex and politically challenging endeavor which likely hampers its short-term usefulness.

Action to be taken by the GEF Replenishment Parties

The participants in the GEF replenishment are asked to consider the issues presented in this paper with two objectives in mind: (i) to explore fund raising options that could lead to an *immediate increase* in resources for the GEF trust fund during the GEF-5 replenishment; and (ii) to give guidance on the role the GEF can play in *advancing innovative fund raising ideas* that could result in larger resource streams in the medium to longer term benefiting activities in the GEF focal areas beyond the 5th replenishment period.

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INTRODUCTION

1. During the GEF-5 replenishment planning meeting convened in November 2008 in Washington D.C, contributing participants agreed to a series of meetings in 2009 with the objective of concluding the replenishment in early 2010. For the first meeting, scheduled to be held in Paris during March 2009, among other submissions, participants requested the Secretariat to prepare a document outlining innovative financing mechanisms for global environmental protection.

2. This document has been prepared[1] to respond to the above-mentioned request from the participants and presents 15 innovative financing options, of which six are suggested as relevant for the GEF in the short to medium-term. The participants in the fifth GEF replenishment negotiations are requested to consider the issues presented in this paper with two objectives in mind:

(a) to explore fund raising options that could lead to an *immediate increase* in resources for the GEF trust fund during the GEF-5 replenishment period; and

(b) to provide guidance on the role the GEF can play in *advancing innovative fund raising ideas* that could result in larger resource streams in the medium to long term benefiting activities in the GEF focal areas beyond the 5th replenishment period.

3. The proposed options cover three categories with regard to sources of financing: (i) national governments; (ii) the private sector; and (ii) international mechanisms.

Financing of the GEF

4. Since the GEF was established as a pilot phase in 1991, almost two decades ago, the world economy has grown dramatically, environmental problems have become more pronounced, and the search for multilateral solutions to emerging global commons problems has led to the creation of many new institutional responses and initiatives. The Kyoto Protocol, the Millennium Development Goals, the Convention on POPs, the International Criminal Court, global initiatives like Debt Relief for Sub-Saharan Africa and the Global Fund for AIDs are some examples of this, and many such efforts have employed new resource mobilization strategies.

5. The GEF, however, has continued to operate with the same resource mobilization approach that was used when it was first set up. The burden-sharing key for determining participant countries' contribution was modeled after the International Development Association (IDA) distribution key loosely based on a country's GDP. Pledges to the GEF trust fund in the case of most countries come out of foreign affairs or development cooperation budget lines. The

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GEF's resource base has however declined in real terms, despite the fact that the need to meet global environmental challenges is not resolved. The net decline of GEF resources compares to an impressive increase in overall Official Development Assistance from $58 billion in 2002 to $107 in 2005.[2]

6. There are other structural constraints that affect fund raising to the GEF trust fund. Among them is the limited number of donor countries which leaves out some industrialized countries and many higher-middle income emerging economies. A further limitation are legal and institutional barriers that prevent the GEF from attracting resources for individual focal areas only or engage in fund raising initiatives outside the periodic replenishment negotiations. Although donor countries are encouraged to provide co-financing to individual projects their periodic replenishment commitments are to the GEF trust fund only. Because of this the GEF may miss out on contributions from government and non-government sources that would like to target a specific focal area –such as biodiversity conservation - but do not want to contribute to all focal areas of the GEF at the same time.

7. As the GEF has started its Fifth Replenishment negotiations this year, innovative financing mechanisms could be considered as a way to help overcome the structural constraints that the traditional burden-sharing approach to fund raising has imposed on the GEF. The current global financial and economic crisis may provide a particularly opportune time to rethink some of the traditional fiscal policy approaches and provide an opening for moving beyond domestic taxation schemes towards targeted global fund raising mechanisms that provide funding for earmarked purposes.

8. The GEF's quest to explore new ways to generate more predictable and automatic revenue streams or at least some supplemental resources must be considered in the larger framework of multilateral cooperation efforts on a range of issues. The Conventions the GEF is serving are actively looking for ways to create special funding mechanism within the framework of the respective conventions. Such initiatives set precedents and are likely to influence the opportunity structure for the GEF. Replenishment parties should seek to both support efforts within the Conventions and other multilateral forums and help push initiatives that create synergies with the GEF.

The GEF and the Conventions: Huge Mandate - Little Money

9. The GEF was first set up as a voluntary pilot phase in 1991 with the broad objective to fund projects that would benefit global environmental objectives. The GEF pilot phase responded to expectations of developing countries that they would receive financial support for joining international environmental agreements that were being negotiated at that time, notably the climate convention and the biodiversity convention.[3]

10. The GEF was formally established in March 1994 with the adoption of the GEF Instrument which lays out the mandate and objectives of the GEF "as a mechanism for

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[2] ODA has since declined to $104 billion in 2006 and $103 billion in 2007. See OECD at http://www.oecd.org/document/9/0,3343,en_2649_34485_1893129_1_1_1_1,00.html

[3] Sjöberg, Helen. 1994. *The Restructring of of the Global Environment Facility.* GEF Working Paper No. 10. Washington D.C.: Global Environment Facility.

international cooperation for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits…"[4] The *Instrument* furthermore determines that the GEF shall serve as the financial mechanism for the climate change and the biodiversity conventions and make use of its resources "in conformity with the policies, program priorities and eligibility criteria decided by the Conference of the Parties of each of those conventions."[5] Three conventions – UNFCCC, CBD and POPs - have subsequently decided to formally designate the GEF as their financial mechanism for the purpose of financing activities by developing countries in fulfillment of the provisions of the conventions; a fourth, the UNCCD has formally designated the GEF as a financial mechanism of the Convention.

11. The GEF in many respects is a unique institution. It is the single largest grant making institution for global environmental programs and projects in six focal areas. It can draw on the longtime experience of a range of partner organizations and has the capacity to provide an umbrella for a broad range of activities that respond to recipient country priorities while targeting global environmental benefits. The GEF derives its strategic mandate and rational from its own "instrument", but more importantly from its legal obligations to the conventions. The conventions represent the international communities' negotiated consensus commitment to protect global environmental commons for the benefit of present and future generations. As the primary financing mechanism of the conventions, the GEF therefore directly serves this long-term global public goods objective.

12. The institutional separation of the GEF from the conventions process however makes fund raising for the GEF more difficult, because there is no direct link between GEF replenishment commitments and country commitments negotiated within the Conventions. This institutional separation extends to the domestic level in the case of many donor countries, where different government agencies are responsible for the conventions, the GEF, multilateral development organizations, and fiscal policy.

13. Since 1994, new commitments to the GEF have declined in real, inflation-adjusted terms, although rolling over payment arrears from previous replenishment rounds into the total for the next replenishment has allowed the GEF to show slightly increasing amounts available for disbursement during the new GEF funding period.[6] GEF-1 in 1994 started with a $2 billion fund to be allocated over four years. New commitments for GEF-2 did not reach the $2 billion level in real terms, and while GEF-3 resulted in a small increase in new money compared to GEF-2 it remained almost 10 % below 1994 in inflation-adjusted terms. GEF-4 provided $2.3 billion in new funding, which thanks to the extra efforts of a number donor countries was a significant accomplishment in comparison to GEF-3 but which still fell short of $2.7 billion in new money that would have been required to draw even with GEF-1 on an inflation-adjusted level.

14. Many donor country governments have shown a strong commitment to the GEF and increased their contributions over the years, often well above their assigned share. The above

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[4] GEF. 2008. 3rd Revision. *Establishment of the Restructured Global Environment Facility*. Art. 2, p. 12. http://www.gefweb.org/uploadedFiles/GEF_Instrument_March08.pdf
[5] Ibid, Art. 27, p. 20.
[6] Clémençon, Raymond. 2006. "What Future for the Global Environment Facility." In *Journal of Environment and Development*, Vol. 14, No. 1, pp. 53 – 74.

discussion however does illustrate the limits of the GEF traditional burden-sharing approach and other structural constraints to yield resources at or above the level initiated in 1994, while overall ODA funds have increased during the last decade in response to concerted campaigns to fund extraordinary efforts to provide debt relief to the poorest developing countries and to fight the AIDS epidemic, and to meet Millennium Development Goals.[7] This observation leads to the conclusion that it is not the budgetary situation alone that impedes an increase in funding to the GEF but that there are other impediments.

Resource Mobilization and the UNFCCC

15. The conventions have recently increased their efforts to push for innovative financing mechanisms and for convention-specific resource mobilization. The most advanced is the discussion among the Parties to the Kyoto Protocol, under which the CDM and the Adaptation Funds have been created. A follow-up agreement to the Kyoto Protocol is expected to set clear reduction targets for developed countries and to significantly increase resource mobilization for helping developing countries both adapt to climate change and mitigate emissions.[8]

16. While the GEF Trust Fund is the main financing mechanism for the UNFCCC, the Parties to the Convention have established two special funds to provide support to particularly provide support for adaptation: the Special Climate Change Fund (SCCF) and the Least Developed Country Fund (LDCF), which are both operated by the GEF. The SCCF finances adaptation activities related to climate change that are complementary to those funded by the GEF Trust Fund. The LDCF was established to support the preparation and implementation of National Adaptation Programmes of Action (NAPA) and addresses the urgent and immediate adaptation needs of LDC Parties. Also, the GEF provides secretariat services to the Adaptation Fund under the Kyoto Protocol, which is close to becoming operational, and is funded from the proceeds of a 2% levy on transactions under the CDM.

17. Estimated resource needs for climate change adaptation and mitigation and a range of innovative fund raising ideas have been laid out in several recent reports prepared by the UNFCCC Secretariat.[9] Resource needs for global mitigation efforts have been estimated to be \$200 to \$210 billion annually by the year 2030.[10] The UNDP Human Development Report 2007 estimates adaptation costs to amount to \$86 billion a year by 2015.[11] Covering these funding needs will need to involve the creation of a mandatory financing framework to benefit developing countries.

18. A slew of proposals are on the table on how to raise funds for climate mitigation and adaptation activities in developing countries that are summarized in the UNFCCC November 2008 Report on "Investment and financial flows to address climate change: an update" (pp. 39 –

[7] E.g. Busby, Joshua William. 2007. "Bono made Jesse Helms Cry: Jubilee 2000, Debt Relief, and Moral Action in International Politics. *International Studies Quarterly* 51, 247 – 275.
[8] Commission of the European Communities. 2009. Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. COM(2009) 39 final. Jan. 28, 2009.
[9] UNFCCC. 2008. Investment and financial flows to address climate change: an update. Technical Paper. FCCC/TP/2008/7. 26 November 2008.
[10] Ibid, p. 17
[11] UNDP. 2007. Human Development Report 2007/2008. *Fighting Climate Change: Human Solidarity in a Divided World*. http://hdr.undp.org/en/reports/global/hdr2007-2008/. Chp. 4.

41). The options explored further in the present report are mindful of these existing proposals, although they are not all discussed here in detail.

Resource Mobilization and the Convention on Biodiversity

19. Funding needs to implement targets set by the Conference of the Parties to the Convention on Biodiversity are also far from being met. A report on the *Economics of Ecosystems and Biodiversity (TEEB)* made public at the 9th Conference of Parties in May 2008 estimates that the world is experiencing a welfare loss of €50 billion a year of land-based ecosystem services alone, with a cumulative loss of €14 trillion by 2040.[12] The urgency of a "bailout package" for biodiversity has come from various observers, and was reiterated at the World Conservation Congress in Barcelona in October 2008. [13]

20. The CBD does not have the same opportunities to create its own fund raising mechanisms as does the UNFCCC through the establishment of carbon markets or adoption of energy or carbon taxes. Parties to the CBD however have adopted a number of decisions to create better conditions for resource mobilization for biodiversity conservation involving a range of steps including mobilizing both public and private-sector investments in biodiversity, and mainstreaming conservation objectives into national development plans. The GEF remains a particularly critical partner in funding such efforts.

Official Development Assistance, GEF and Innovative Financing

21. Innovative financing ideas are currently being developed in different international settings. The Monterrey Consensus between developed and developing countries in 2002 stipulates a significant increase in development assistance to achieve Millennium Development Goals and has for a while discussed the use of innovative resource mobilization approaches.[14]

22. The "Leading Group on Solidarity Levies for Fund Development" launched in 2006 has emerged as the focal point for discussing innovative fund raising for development cooperation purposes outside of the traditional channels. The group brings together 55 member countries and three observers and includes most of the GEF donor countries and has discussed many different proposals for raising funds for health and development cooperation related initiatives.[15]

23. Innovative funding mechanisms discussed in the development and health context are conceptualized mostly around the solidarity principle. At least four innovative mechanisms have

[12] See statement by Ahmed Djoghaf, Executive Secretary of Convention on Biological Diversity to the 34th Meeting of the Council of the GEF, November 11, 2008.
[13] E.g. Fonseca, Gustavo. 2009. A Bailout Package for Global Biodiversity. http://www.gefblog.org/archive/2009/01/28/a-bailout-package-for-global-biodiversity.aspx
[14] From November 29 to December 2, 2008, the international community reviewed the implementation of the Monterrey Consensus on Development Financing and adopted a comprehensive document reiterating the need to step up efforts to mobilize resources for development on every front (A/CONF.212/L.1/Rev.1). http://www.un.org/esa/ffd/doha/.
[15] Leading Group on Solidarity Levies for Fund Development. 2008. Contribution to the Follow-up conference on development financing in Doha, 29th November – 2nd December 2008. http://www.internationalhealthpartnership.net/pdf/IHP%20Update%2013/Taskforce/DECLARATION%20GP%20CONAKRY%20ENG%20(3).pdf

recently been implemented, the first the air travel solidarity levy to fund the fight against AIDS, second the International Financing Facility for Immunization that is providing financing for immunization in developing countries, third, the Advance Market Commitments to foster R&D for new vaccines, fourth, Global Fund to Fight AIDS, Tuberculosis and Malaria which to date has committed US$ 14.9 billion in 140 countries to support large-scale prevention, treatment and care programs against the three diseases.[16] The Global Fund has linked up with the private sector RED initiative that raises funds for poverty alleviation in Africa through the sale of RED products.

24. The GEF is uniquely placed to go beyond a solidarity appeal and to link innovative fund raising for global environmental protection to recognized international principles such as the polluter pays principle, the ecological footprint concept, common but differentiated responsibilities to fight global environmental problems and equity considerations. This should enable it to tap into revenue streams that bypass regular budgetary allocation procedures and that are truly additional to regular official development assistance, a requirement currently not met but stipulated by the environmental conventions the GEF serves.

25. Many of the options outlined on the following pages for the GEF would need to be closely coordinated with initiatives developed in the context of other international institutional settings and conferences, particularly with those targeting development cooperation funding. Ideally, however, the GEF would find its own fund raising mechanism through the full application of the polluter pays principle that would allow it to generate truly additional resources for global environmental protection efforts.

Conceptual and Design Issues related to Innovative Financing Mechanisms for GEF

26. Different options presented in the document would have to be developed within different types of opportunity structures and are often based on different conceptual arguments. Any new fund raising mechanism will face many hurdles to make it from the conceptual to the implementation stage. Latent public support for the underlying principle of an idea does not ensure endorsement and implementation by governments. A successful implementation of most schemes will lead to relative winners and losers and it is paramount that such distributional effects can be anticipated and dealt with in appropriate ways.

27. The following factors will influence the feasibility of developing a promising idea to an implementable mechanism to differing degrees.

Political and Institutional Support

28. Political and institutional support, or just the absence of strong opposition, is an important factor that determines if an idea has a chance of eventually being implemented. In some cases, such as with mandatory taxes, strong preferences can be assumed to exist. But in many instances strong preferences may not yet have emerged, which creates particular opportunities to address potential constraints in an effort to build early support among critical stakeholders.

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[16] http://www.theglobalfund.org/en/ and http://www.joinred.com/Home.aspx

29. Both political and institutional support is likely easier to generate when it comes to simply replicating or scaling up a tried and proven mechanism. This reduces the administrative and transaction costs for trial and error particularly when a few years of actual implementation experience is available.

30. Simply scaling up an existing fund raising mechanism for GEF purposes, however, may raise similar competitiveness issues that exist with the traditional budgetary allocation system, if this mechanism was instituted to serve a particular public policy initiative. An example would be the air travel solidarity levy that some countries have introduced unilaterally to fund the fight against AIDS in African countries. Such considerations may not be a significant hindrance, if the levy is still very small, and there is broad agreement that the activity should be taxed at a higher rate to mitigate greenhouse gas emissions.

31. Most, if not all, promising candidates for raising funds for global environmental benefits raise special institutional issues that may demand wide coordination. These relate to what legislative committee, implementing and collecting agencies are involved in initiating, negotiating and implementing the instrument. Environmental taxes relate both to environmental and tax policy making. Taxes per se fall under the primary jurisdiction of treasuries and finance ministries and the legislative authority of parliamentary committees dealing with tax and fiscal issues not with environmental, energy and resource management issues. While these challenges are not unique to environmental taxation, they may be particularly severe for these types of taxes that tend to seek both a market signal and raise revenues.[17]

32. Tax experts will look at any new taxation idea with suspicion and with distortionary side effects in mind. Fiscal and public policy experts furthermore tend to be wary of earmarking revenue streams, as this limits the government's flexibility and is believed to generate inefficiencies. Any attempt to use taxes for the purpose of raising funds for global environmental protection will require the development of a common understanding among relevant government agencies.[18]

33. Institutional issues also relate to the multilateral political level at which decisions to implement various innovative financing proposals need to be taken. Since most options will need to be implemented at the domestic level, governments in principle are free to unilaterally introduce any taxation or charge scheme they wish and use revenues as they see fit (at least as long as it does not have trade implications). However, any fair and viable solution ultimately must be negotiated and implemented multilaterally among as many countries as possible.

34. From the GEF perspective such multilateral efforts might involve as many as four levels: (i) the contributing participants in the GEF replenishment; (ii) the conferences of the Parties to the conventions; (iii) regional political organizations, notably the European Union and possibly high-level meetings among donor countries within the OECD, the G20 and the G8; and (iv) UN

[17] Milne, Janet E. 2008. "New Instruments on old Turf: the institutional challenges of environmental taxation." In. Chalifour et al. *Critical Issues in Environmental Taxation. Volume V.*

[18] See for example Chalifour Nathalie, Janet E. Milne, Hope Ashiabor, Kurt Deketelaere and Larry Kreiser. 2008. *Critical Issues in Environmental Taxation. International and Comparative Perspectives: Volume V.* New York: Oxford University Press.

General Assembly. Coordination will also be required on the domestic level between a range of ministries and agencies responsible for aspects of the options.

35. A few options below seem to fall solely within the legal purview of the contributing participants in the fifth GEF replenishment and therefore make particularly good candidates for quick action. Many options, however, will require considerable interagency cooperation both at the domestic and at the international level, as well as active involvement of GEF constituencies, such as national GEF focal points, in the discussions that take place in other forums. These may take more time to bring to fruition.

Polluter Pays Principle and Willingness to Pay

36. As far as the GEF – and for that matter other environmental funds –are concerned, it ultimately does not matter where the resources are coming from. The GEF should therefore pursue any promising fund raising opportunity that offers itself.

37. The polluter pays principle, however, provides the GEF with a powerful argument for levies or charges on certain activities that cause environmental damage or take advantage of environmental services. Options that build on this principle to raise revenues for GEF activities are also likely to find more support among the public than options that do not do this. There is a rich literature on environmental taxation that bears this out.[19]

38. This willingness to pay increases further if the charges are used for earmarked purposes. The polluter pays principle also offers the GEF a distinct fund raising opportunity that would generate funds that are truly additional to official development assistance that come from the regular budget.

39. A number of surveys suggest that citizens in most countries would be willing to pay much more for GEF-type activities around the world, than what they are currently paying in per capita terms, if they were asked specifically to do so.[20] Current contributions to the GEF trust fund per person in OECD countries amount to less than 50 cents. If bilateral grant resources that target focal area activities are included, the total is not much more than $1 per person. While there are significant differences between major donors in terms of the per capita payments to the GEF, they amount to only $7 even in the case of the most generous donor.

40. Studies suggest a willingness to pay for GEF-type activities that is well above current levels and may approach €100 a year per person.[21] However, one has to be careful when

[19] See fn 17, as well as Clinch, Peter, Louise Dunne and Simon Dresner. 2006. "Environmental and wider implications of political impediments to environmental tax reform." In: Energy Policy 34: 960–970 and Gee, David. 1997. "Economic Tax Reform in Europe: Opportunities and Obstacles." In: Timothy O'Riordan, ed. *Ecotaxation.* New York: St. Martin's Press.

[20] BBC World Service. 2007. All Countries Need to Take Major Steps on Climate Change: Global Poll. GlobeScan/Program on International Policy Attitudes (PIPA); Jacobson & Hanley, 2008. Are there income effects on global willingness to pay for biodiversity conservation? University of Sirling Discussion Papers. http://ideas.repec.org/p/stl/stledp/2008-03.html**.**

[21] Menzel, S. 2003. *Der ökonomische Wert der Erhaltung von Biodiversität. Die Herausforderung einer empirischen Erfassung zur Abschätzung internationaler Transferzahlungen*. Berlin: Disertation.de; Hanley N, Spash, C.L,

generalizing studies often done in a narrowly focused context. Results from WTP surveys differ a lot depending on the methodology employed. It matters for example if the WTP question is asked after an explanation is given about how the resulting revenues will be used, and whether or not the environment related question is embedded in a questionnaire that deals with many other current issues of concern to many citizens. Surveys, however, consistently find that a conceptually transparent environmental tax or charge linked to a well-crafted information campaign tends to meet with high public approval.

41. What makes it difficult for the GEF to capitalize on this assumed high willingness to pay by the general public for focal area activities is that after 18 years in business the GEF still lacks a corporate identity of its own and visibility among the general public, both in donor and recipient countries. In recipient countries, the GEF is represented by its implementing and executing agencies, and in donor countries it depends on government agencies to make the case for funding.

42. While the GEF has no specific mandate for public awareness raising, neither do the conventions the GEF is serving, as these are international agreements and negotiating forums that also lack the resources for such activities. The GEF's strongest supporters in donor countries are non-governmental organizations, the science community and dedicated politicians. However, they tend to have their own outreach and fund raising needs to be concerned about.

43. The contributing participants in the fifth replenishment are asked to consider the possible action the GEF could take to increase its visibility as a distinct entity in donor countries, in order to capitalize on a potentially significant willingness to pay for GEF focal area activities through some form of innovative financing mechanism.

Voluntary and Mandatory Approaches

44. A consideration that critically affects short-term acceptability and feasibility is whether an approach should be based on mandatory charges or voluntary contributions. The issue relates to two levels: domestic and international.

45. The trade-offs between mandatory and voluntary systems are obvious. The most difficult cooperative approach would involve a mandatory system implemented in all major donor countries, such as a global carbon tax. It would be a system that not only fully addresses the collective action/free rider problem but which could in theory be adjusted to fully respond to assessed funding needs. The political challenges to adopting a mandatory international scheme, however, are daunting as the negotiations on binding international emission targets illustrate, although not impossible to overcome provided political will in key countries aligns.

46. The next level forgoes a truly collective international approach and builds around voluntary commitments by at least a few countries that impose a mandatory mechanism on the domestic level. The EU Emissions Trading System and the air-travel solidarity levy are successful examples of this approach, although the former involves a much higher degree of

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Walker, L (1995), "Problems in valuing the benefits of biodiversity protection", *Environmental and Resource Economics*, Vol. 5 No.3, pp.249-72.

mandatory cooperation on a regional level than the later, which builds on voluntary opting in by countries. But both can be seen as setting precedents for similar innovative mechanisms.

47. At the end of the scale are voluntary efforts on the domestic level that try to capture a potential willingness-to-pay by targeted segments of society. Public-private partnership agreements and voluntary industry commitments fall in this category. They are easy in principle to implement as they do not require any legal action by governments but they also have limited fund raising potential.

48. Voluntary systems are politically the easiest to launch: there is no need for political, legislative or executive negotiations and decisions and there are no enforcement costs.

49. Voluntary schemes could provide an interesting starting point, particularly if governments were willing to play an active role in promoting them. Such support could come in the form of a public awareness campaign that advertises the value of what the GEF is doing and include institutional support for example by using government agencies to collecting the voluntary contribution (see car registration fee option (12) and tax return option (15)).

50. The options presented in the following build on either mandatory or voluntary commitments to various degrees. In principle, most options lend themselves to voluntary domestic implementation, albeit mandatory levies would be more desirable.

51. The conclusion from this discussion is that most approaches that hope to be able to raise additional revenues for the GEF trust fund in the short term should probably be designed around a voluntary scheme that is flexible enough to be scaled up into a mandatory system which eventually can resolve the free rider problem. At the same time, a serious discussion on other approaches that require much more political will to be established should be initiated with a view beyond GEF-5.

Selected Short-term and Long-term Innovative Financing Approaches

52. The following list of innovative fund raising options presents many ideas that have been or are being discussed in other institutional settings, and a few additional ones that build on the GEF's particular strength. The participants in the GEF replenishment are invited to discuss these options and provide guidance which if any of these should be pursued further, and to advise on the direction of possible future work of the secretariat on innovative fund raising initiatives.

53. The options described in the document are organized in two groups according to their potential immediate usefulness for the GEF-5 replenishment. The first group contains proposals on which the contributing participants in the replenishment could conceivable decide on their own with little need for outside consultations; the second larger group lists mechanisms that would need to be developed in coordination with other international forums and government agencies not closely involved in GEF affairs or require political action on the highest political level to be realized. The ranking in both groups reflects the GEF secretariats thinking on which options should be considered the most promising, when assessed against the conceptual and design factors discussed above.

Table 1. Overview of Proposed Options

Option	Basic premise	Advantages	Disadvantages
1. Supplemental targeted contributions with the GEF Trust Fund	Create earmarked funds that allow targeted fund raising.	Allows targeting private sector and government donors particularly interested in one or the other focal area.	Probably minor, but may reduce GEF programming flexibility.
2. Selling GEF emission reduction certificates	Certify and sell carbon credits realized by future GEF projects.	GEF-financed projects reduce millions of tons of CO2. Could raise large sums immediately.	May push down price for carbon credits with adverse effects on CDM market. Problems may be overcome.
3. Leveraging investments and establishing endowment with private sector contributions	Change legal standing of GEF trust fund so it can accept private donations.	Could leverage significant contributions from the growing class of superrich who are looking for ways to make charitable donations.	None apparent.
4. Revising the GEF replenishment cycle	Negotiate a continuous annual contribution after a three year GEF-5 replenishment period	Would eliminate the need for cyclical replenishment negotiations. If commitments would also allow for an annual increase in real terms, this would improve the predictability and programming flexibility of the GEF.	None apparent.
5. Greening the GEF burden-sharing arrangement	Calculate GEF donor distribution key by using economic and environmental indicators.	Could help bring in new donors and establish a long-term revenue stream.	Selecting and adequately weighing indicators would be methodologically complex and politically challenging.
6. GEF postal stamps	Countries issue special stamps.	Could provide additional revenues possibly for selected focal areas.	Fund raising potential likely small.
7. Proceeds from Auctioning of carbon allowances	In the context of the EU Emission Trading System (EU/ETS) parts of emission rights could be auctioned off to generate revenues for climate activities.	Could provide large amounts for funding adaptation and mitigation activities in developing countries. Under consideration in the UNFCCC.	Political opposition and competition for resulting resources likely.
8. Air and maritime transportation tax	Tax fuels for international transportation modes that so far are not being taxed.	Under consideration in various other multilateral forums. Could provide large revenue streams and close a significant Kyoto-Protocol loophole. Even a small levy imposed unilaterally on outgoing flights of a country could raise significant amounts with little effect on demand.	An international tax on aviation and maritime transportation might be politically difficult to negotiate quickly.
9. International Financing Facilities	Create a facility that can borrow resources on the capital markets against long-term legal government commitments.	Can front-load resources without governments having to pay upfront.	
10. Issuing government	Issue government bonds to private sector investors	Can front-load resources without governments having to pay upfront but	

Option	Basic premise	Advantages	Disadvantages
bonds	with a secure rate of return.	increases debt burden.	
11. Scaling up levy on CDM	Increase the levy on CDM transaction and include other CER mechanisms.	Under consideration in the UNFCCC.	Some opposition likely.
12. GEF eco taxes (car registration fee)	Issue a voluntary or mandatory charge on a service or activity that is related to environmental externalities.	Allows taping directly into public's willingness to support GEF type activities. Could raise large amounts with small voluntary contributions and bring in new donors. Also allows raising awareness for the GEF and what it does.	Some political and institutional opposition likely. May be difficult to implement internationally.
13. Economic stimulus packages	Use economic stimulus packages to borrow for GEF trust fund.	Some countries may be willing to increase investments into global environmental protection efforts by borrowing as part of the stimulus packages.	GEF activities may not be seen as creating a short-term stimulus to the economy.
14. Add environment charge to national tax return	When filing regular federal and state tax returns households a global environment levy is added.	Could raise large revenues if imposed as a mandatory tax. Even designed as an opt-in or opt-out voluntary mechanism combined with public awareness campaign it could yield large amounts.	The imposition of a global tax would be a historic first and in many countries there may be strong opposition to this for a variety of reasons.
15. Global tax	Tobin tax on speculative currency exchange transactions or other international transactions. An international carbon tax.	Could raise large amounts.	Tobin tax proposal has been around since the 70s but has never been adopted. International carbon tax highly controversial in some countries.

INNOVATIVE FINANCING OPTIONS WITHIN THE RANGE OF CONTRIBUTING PARTICIPANTS IN THE GEF REPLENISHMENT

Option 1: Allowing Supplemental Targeted Contributions with the GEF Trust Fund

54. Many of the resource mobilization ideas discussed in other forums – such as the Global Climate Financing Mechanism proposed by the European Commission - would generate resources that would be earmarked for climate change mitigation or adaptation. The GEF might be asked to administer these new revenue streams in separate trust funds that would most likely not be available for other GEF focal areas.

55. Relative success of one convention over another to create convention-specific financial mechanisms raises the question how GEF Trust Fund resources should be distributed across focal areas in the future. It also raises the question how resources could be increased for focal areas that do not currently enjoy a high political profile as does climate change.

56. Many governments and particularly private donors, such as foundations, might be willing to allocate resources specifically for conserving biodiversity, protecting international waters, or POP convention implementation but are not able to do so because the GEF is not in a position to earmark bilateral donations to specific focal areas. Although co-financing individual program activities has been one successful way to leverage additional resources, the ability to capture focal area specific resources would increase the GEFs programmatic flexibility beyond the project context.

57. As the very large funding needs for the climate convention will increasingly be addressed as part of the UNFCCC process, it could be advantageous for the GEF to pursue focal area specific fund raising options that result in earmarked funds particularly for the non-climate focal areas. Focal area specific trust funds could open up more opportunities for leveraging financial commitments from different sources committed to a specific focal area objective.

58. Focal area specific trust funds would allow the design of highly targeted innovative revenue generating mechanisms that could tap into specific domestic support structures and constituencies. In addition, GEF replenishment could be structured as to allow donors to commit to supplemental contributions over and above their assessed contribution to the trust fund independently from the replenishment cycle.

59. It could also be useful to consider specific trust funds that are funded through low-interest loans provided by replenishment participants, and that could be tailored to support GEF activities with the private sector.

Considerations

60. Several possible options present themselves. They range from splitting off only the climate change area from the general GEF Trust Fund, to creating trust funds for every focal area. This may result in increased funding for some focal areas but decreased funds for others. But it might also motivate the respective conventions to become more involved in encouraging adequate focal area resource mobilization.

61. Two concerns would need to be addressed: first, additional focal area specific funds should not come at the expense of the general trust fund, unless it can be guaranteed that the overall funds available for the next replenishment period for all focal areas would be well above the GEF-4 level. Secondly and related, donor countries should be discouraged from disengaging from one focal area for the benefit of another.

62. The fifth GEF replenishment negotiations should likely focus on replenishing the GEF trust fund above the level of GEF-4 but consider the establishment of supplemental focal area trust funds and other supplemental funds.

Replenishment Guidance

63. The contributing participants in the replenishment are invited to consider the establishment of additional focal area specific trust funds that could capitalize more easily on leveraging opportunities that may exist among various constituencies, including the respective conventions. This would require that the GEF Secretariat first sorts out the legal and administrative implications, and second, devises a focal area specific fund raising strategy that could be employed as soon as possible.

Option 2: Selling GEF Emission Reduction Certificates

64. The GEF has been a critical early mover on climate change mitigation and as such has contributed to the avoidance of large amounts of CO_2 in developing countries long before the Clean Development Mechanism came into being and started to produce certified emission reduction credits for sale in the international carbon markets in 2006.

65. Since its inception, the GEF has invested $2.4 billion of grant money into the climate change focal area and has leveraged another $14.6 billion in co-financing (GEF Annual Report 2007, p. 31). Quantified avoided CO_2 emissions during the GEF-3 funding period (lifetime emissions from facilitated investments) are estimated to be between 800 and 1200 million tons. Assuming an average carbon price of US$22,[22] these GEF activities would have a market value of $17.6 to $26.4 billion. Selling these assets at even a high discount rate would have generated large resources.

66. An argument could be made that the GEF should be allowed to capitalize at least a small percentage of quantified emission reductions that are generated by using tax payer funds. This would allow it to raise significant funds immediately that could front-load investments into future mitigation and adaptation efforts that are not easily covered by other funding mechanisms like the CDM.

[22] The price for Certified Emission Reductions (CERs) has fluctuated considerably over the last two years and is declining as a result of economic problems and a current oversupply of CERs. A survey of brokers by Bloomberg suggests 2009 prices will average around €17.50 over 2009 (CarbonPositive at Carbonpositive.net, accessed January 25. 2009). This compares to prices of the 2008 benchmark contract averaging €22.55 in 2008.

Emission Reductions in Recent Project Proposals

67. The *China Thermal Power* project approved at the last Council meeting anticipates a reduction of approximately 90 million tons of CO_2 within 4 years at a total project cost of $176 million, of which $19.7 million is GEF grant funding (GEF Program Document, November 2008, p. 26). If one were to issue CERs commensurate with the GEF financing component, about 11% of project emissions reductions would qualify, resulting in some 9 million CERs at a value of some $204 million (at €17.50/$22.7 per CER).

68. The *Russia Efficient Lightning* project anticipates reductions of approximately 58 million tons of CO_2 over the project life for a total cost of $27.5 million, with GEF grant financing being $7.02 million, or 25% of total (Ibid, p. 35). The value of the GEF component in CERs would be $329 million.

69. The *Sustainable Geothermal Power Generation Development Program in Indonesia* (WB, GEF: $4 million; total cost: $9 million) anticipates a reduction of 60 million tons of CO_2 over the life-cycle of the project. In this case, 26 million tons of CO_2 can be attributed to GEF funding, which could be worth close to $600 million.

70. These three projects alone would generate $1.13 billion in revenue, even if just projected GEF CO_2 emission reductions could be certified and sold in the market.

Considerations

71. The sale of GEF carbon credits could generate significant new resources at no direct government costs that could be invested back into expanding the GEF portfolio. In the CDM markets, profits are privatized. The GEF, however, would use CER returns to replenish a revolving fund, which would clearly benefit global mitigation efforts.

72. There are a number of open questions related to the idea of having the GEF certify and sell CERs from past or projected projects.

73. Some are more technical in nature. How would GEF emission credits be calculated? Should co-financing entities be able to benefit from any certification of emission reductions? Should GEF emission credits be sold in the voluntary market or should CDM guidelines be used to certify GEF project emissions? GEF projects are much larger in scope, than CDM projects. The 1341 CDM projects so far registered are worth 247 million CERs, but average only 184,000 CERs per project.[23] The most expedient way would likely be to agree on a simple highly discounted formula for issuing GEF CERs (see further down).

74. Another important question relates to the market impact GEF realized CERs would have on carbon prices. The GEF would enter into direct competition with private sector financed

[23] CDM/UNFCCC, http://cdm.unfccc.int/Statistics/index.html, accessed January 25, 2009. For UNFCCC/CDM guidance see UNFCCC/CDM/EB 41, Annex 12, Guidelines for Completing the Project Design Document (CDM-PDD) and the Proposed New Baseline and Monitoring Methodologies, 2008, http://cdm.unfccc.int/Reference/Guidclarif/pdd/PDD_guid04_v07.pdf)

emission reduction efforts currently under way under the CDM and could invariably push prices down even further in the coming years. This alone is likely to lead to objections from current CDM market participants, who are already facing a very difficult economic climate, because of the dramatic decline in carbon prices in 2007 and 2008.

75. However, donor country governments who are part of the European Union Emissions trading system could relatively easily affect demand for emissions credits from the GEF. Entities that fall under the ETS can fulfill a certain part of their reduction obligations by purchasing cost-effective carbon offsets from various sources such as the CDM. Conceivably, governments could increase this allowance; even specify that the additional credits would need to be purchased from the GEF. This might also allow controlling the price for GEF CERs. Such steps could address the concern that GEF CERs would drive down the price for CDM CERs.

76. The formal legality and conformity of such a fund raising approach with both the GEF Instrument and the Convention guidance would also need to be considered. The Convention text lays out the legal obligation of developed countries to provide "new and additional" funding to support developing countries in their effort to comply with the UNFCCC provisions, which relates to the "common but differentiated" commitments that are based on the recognition of the Convention of differences in historic and future contribution and ability to pay. If the GEF were to sell emissions reductions that were realized in fulfillment of its obligation as the financing mechanism to the UNFCCC, this might be seen as violating the spirit of the Convention text if not its actual wording.

77. It appears that from a purely legal standpoint the GEF's climate change portfolio projects go beyond satisfying the Convention provisions, which require the GEF to fund enabling activities both for mitigation and adaptation activities and national reporting. Since developing countries have not committed to any mitigation measures under the UNFCCC, GEF mitigation activities in these countries can be considered as beyond the legal obligation of the GEF.

78. If all these issues could be addressed, the final question would be how funds generated by selling GEF CERs should be distributed across the GEF focal areas. But since the assets sold are the GEF's, this decision lies squarely with the GEF Council.

79. The modalities of capitalizing on some of GEF's future emission reductions would need to be carefully worked out. It would seem to be within the authority of the European Union who runs the only mandatory emissions trading system in the world so far to accept or reject GEF CERs for offset purposes within the EU ETS.

Selling Eco-system Services

80. One could try to expand the idea of certifying emissions reductions to the biodiversity conservation focal area. The GEF might for example want to try to quantify results achieved in expanding protected areas. It is not immediately apparent, however, how measurable GEF achievements in other focal areas can easily be turned into marketable assets. The most obvious

way is to look at carbon sequestration as an ecosystem service for which carbon credits can be issued to generate funding conservation purposes.[24]

81. A more symbolic sale of protected area shares could possibly be used in conjunction with some voluntary mechanisms that attempts to capitalize on individuals willingness to contribute directly to GEF-type activities. Individuals could become share holders of parts of protected areas. They might make a one-time contribution in return for some official looking certificate for a designated parcel of protected area that can be exhibited and perhaps even traded. Or they could commit to continuous payments in return for various types of small incentives. Linked to a crafty campaign such initiatives could potentially trigger significant public buy-in.

82. These are of course the type of campaigns that non-governmental organizations have long employed successfully. But the GEF could employ such resource mobilization strategies in a much more comprehensive way and with donor government support, which should allow it to capitalize much more systematically on an existing willingness to pay by the general public.

Replenishment Guidance

83. It would seem that the advantages in terms of the immediate fund raising potential of selling GEF CERs would far outweigh the possible disadvantages of such a proposal. This is because the sale of some GEF emission reductions could very quickly increase the funding available to the GEF, thus help front-load important activities that can generate global environmental returns. The contributing participants in the fifth replenishment should discuss the conceptual and political viability of this option and advise the GEF secretariat on how to proceed.

Option 3: Leveraging Investments and Establishing Endowments with Private Sector Contributions

84. Since its inception, leveraging the private sector has been a key objective of the GEF and its agencies. However, because of the economic framework conditions, opportunities have not been large and have varied widely across GEF focal areas, with most opportunities in the climate change focal area. The economic crisis may make it easier for the GEF to leverage private sector investments. Returns on all types of investments, particularly speculative investments, have dropped dramatically. This is making private investments into long term, low-yield activities, similar to those activities that the GEF is involved in, considerably more attractive than they have been in the years prior to the economic downturn.

85. The GEF could also establish partnerships with private companies to channel voluntary public contributions, e.g., RED products partnership established by the Global Fund for AIDS, Malaria and Tuberculosis, UNICEF partnership with British Airways, etc.

86. The GEF does not have the legal standing to leverage philanthropic giving as part of its fund raising strategy for the trust fund, an approach used successfully by many non-

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[24] See the discussion within the UNFCCC on Reducing Emissions from Deforestation and forest Degradation (REDD), http://unfccc.int/methods_science/redd/items/4531.php.

governmental organizations who receive large percentages of their operational funds not from member contributions but from philanthropic foundations.

87. The world economy has grown rapidly since the GEF was established and economic liberalization and globalization has created tremendous wealth pockets in many parts of the world. While income inequalities have sharpened both among countries and within countries (OECD 2008; UNDP 2008), the number of extremely wealthy individuals who have benefitted from the stock market and real estate boom of recent years has increased significantly in most countries, even after allowing for the recent dramatic economic downturn. Many very wealthy individuals are now looking to give away parts of their wealth to worthy causes, notably in the health, education and environmental areas.

88. In 2007 the Clinton Global Initiative for example generated pledges worth $8 billion to alleviate poverty, combat climate change, and improve public health and education. According to the Foundation Center and Council on Foundations U.S. foundation giving for international purposes reached a new height in 2007 of $5.4 billion.[25]

89. Philanthropy has also emerged as a new trend in developing economies. China now has more than 100 billionaires and 345,000 millionaires.[26] Asia's richest self-made man in 2006 - Li Ka-shing - announced that he would give 1/3 of his $32 billion fortune to his philanthropic foundations in the hope to promote other Chinese entrepreneurs to follow suit.

Considerations

90. If the GEF in return for their contributions endorses individual companies by letting them use its corporate image or logo for promotional purposes, these companies would need to live up to certain environmental standards. The GEF secretariat is already working on an overall private sector strategy that addresses some of these issues.

91. The GEF can attract private contributions to the GEF Earth Fund through its implementation with the IFC. Through the GEF Earth Fund, the IFC can accept parallel contributions and co-financing from private contributors/donors in accordance with WB/IFC Trust Fund policies, but the GEF Trust Fund itself is not set up to capitalize on such private contributions.

92. Tapping into private philanthropy is a fund raising strategy that does not attempt to link to any of the principles on which both the conventions and the GEF are based. Conceptually there is also the question, to what extent critical public policy objectives should be funded through voluntary private sector contributions.

93. Pragmatism, however, would demand that the GEF should be allowed to leverage private sector and foundation donations. Such sources of funding could provide significant supplemental resources to the GEF Trust Fund that could be used in various ways, either to cover current costs or to set up endowments or sinking funds that can generate predictable revenue streams over

[25] Global Philanthropy. 2009. Accessed Jan. 30 2009. http://globalphilanthropic.com/subpage.php?p=85
[26] Dobrzynski, Judith Carnegie Report, Spring 2008, p.24.

time. Such an approach may have implications regarding the representation of private sector participants in the GEF governance structure.

Replenishment Guidance

94. Replenishment participant are invited to comment on the possible linkages between the new private sector strategy and its relevance for the replenishment of the GEF trust fund and possible focal area specific funds that may be established.

95. The contributing participants in the GEF replenishment should seek clarification on the legal steps needed to allow the GEF to seek private sector donations either as pledges to the GEF trust fund or to an endowment that could produce interest payments to supplement trust fund monies.

96. Replenishment participants should consider the possibility of granting tax incentives to firms willing to contribute to the GEF.

97. The GEF Secretariat could be asked to launch an outreach effort to foundations and private individuals with the goal of endowing a fund worth $5 or $10 billion. At a conservative 3% interest rate such an endowment would eventually generate $150 to $300 million a year.

98. Such an initiative would require considerable public relations efforts and could profit from enlisting opinion leaders from the private sector, the political world and even celebrities from entertainment and sports.

Option 4: Revising the GEF Replenishment Cycle

99. The current replenishment model requires government negotiations every four years. The rational for setting the GEF up this way was to give governments a chance to periodically assess the GEF's accomplishments before agreeing to replenish the GEF Trust Fund. The GEF overall performance studies have demonstrated that the GEF and its implementing agencies have successfully met institutional and operational challenges of earlier years, have contributed critically to building capacity in recipient countries to address focal area objectives and have led the way in financing innovative programs and projects across its operational programs that have produced measureable global environmental benefits. The GEF's role as the main financing mechanisms of various conventions has furthermore only grown.

100. These observations suggest that the cyclical replenishment process could be replaced by a more automatic mechanism that would provide more predictability and increase the planning horizon for the GEF.

101. The 5th replenishment negotiations should still target a three or four-year replenishment period with its traditional encashment schedule. But contributing participants should explore the possibility of committing to an automatic annual payment schedule beyond the three year period that would continue indefinitely unless a country revokes its commitment instrument. Such a model could include an automatic annual percentage increase. A four year cancelation clause could provide a reasonable planning horizon for both the participants and the GEF.

102. Setting up an automatic contribution schedule without the need for periodic replenishment negotiations would provide a particularly attractive solution for countries if combined with one of the innovative revenue generating mechanisms – particularly some form of eco-tax - discussed in other options further down.

103. As a start, some participants may consider establishing direct channels between a domestic voluntary environmental charge system and the GEF.

Considerations

104. The move from a four-year replenishment to an automatic one-year replenishment model would not dramatically change the nature of GEF fund raising, but it could set the stage for a more automated system possibly linked to domestic revenue generating schemes outside the traditional budgetary allocation process.

Replenishment Guidance

105. The contributing participants in the replenishment could request the GEF secretariat to developed different options that build on the basic idea to move away from a 4-year replenishment cycle.

Option 5: Greening the GEF Burden-sharing Arrangement

106. Current replenishment negotiations are based on a traditional multilateral burden sharing approach but using the International Development Association (IDA) distribution key as the model. A weakness of the GEF replenishment process is that it does not recognize differences among countries in terms of their contribution to global environmental problems. A conceptually more compelling distribution key in line with convention provisions would take into account economic capacity and environmental footprint indicators.

107. Such an approach to fund raising would also mirror the current discussion within the Conference of the Parties to the Convention on Climate Change. For example, Mexico suggested that raising resources for international cooperation on climate change should be determined through the "adequate" use of three simple indicators: greenhouse gas emissions, population and gross domestic product (UNFCCC, Mexico Proposal). For the purpose of determining GEF Trust Fund contributions, indicators could be included that reflect other focal areas than climate change, such as land area per person, forest cover, and other factors.

108. The advantage of determining annual contributions according to a set of weighted indicators would be that once agreed upon and implemented it could eliminate the need for periodic replenishment talks. There could be periodic amendments to the burden-sharing arrangement involving adjustments to the relative indicator weights in the calculation formula. If countries could also agree on a progressive scale of the assessment key, contributions could be set to automatically increase over the years. One advantage of an eco-based burden-sharing approach would also be that it could provide a stepping stone for bringing in emerging economies into the donor country group.

109. However, while conceptually compelling, to be meaningful, the recalculation of the burden-sharing table according to environmental indicators would lead to significant adjustments in donor countries' relative contributions, which might make it politically difficult to implement.

110. Selecting the indicators that should go into the calculation of the distribution key and adequately weighing them against each other will undoubtedly prove to be a very challenging endeavor.

111. The model calculation used for table 1 uses a very simple formula involving the following four indicators: *CO_2 per capita*: contribution to global warming is a proxy for consumption of environmental space; *GDP Index:* adjusted Gross Domestic Product Index is a proxy for ability to pay; *forest area per person* is as a proxy for ecosystem services provided per capita, which would make up for some of the CO_2 per capita; *total land territory per person* is as an additional proxy for ecosystem services per capita that would favor countries with low population density.

112. The calculation adjusts per capita tons of CO_2 emissions by subtracting a value between 1 and 3 for per capita land area and per capita forest area and multiplying this with the GDP Index value. The resulting contribution key is then used to calculate three scenarios, departing from current contributions to the GEF by three countries: the United States, Denmark and Germany.[27]

113. The first scenario considers the current US contribution to GEF-4 as the baseline and recalculates what other countries' contributions would be in relation to the current US contribution if this distribution key is used. The result is that the GEF Trust Fund contributions of this group of countries overall goes from SDR 1.1 billion to SDR 353 million.

114. The second scenario uses Denmark, the country with the highest per capita contribution to GEF among the countries listed here, as the departing point. The outcome is predictably very different and the total for this group of countries now would be SDR 7.5 billion. The third scenario uses Germany with a median per capita contribution to the GEF as the baseline. This scenario as well would result in contributions to the GEF trust fund significantly higher than under GEF-4, at $2.6 billion.

[27] Note that this is a hypothetical calculation only intended to highlight the complexities that would be involved in developing a set of indicators and weighting scheme that would be acceptable to all participants. A The GEF Green distribution key is calculated as follows: GEFGK = = (CO2Cap - Ad1 – Ad2) * GDPIndex. (CO2Cap= CO2 per capita; Ad1 = adjustment for per capita land area; Ad2 = adjustment for per capita forest area (density of <50%); GDP Index from the Human Development Report). Three scenarios are then calculated using this key: GEFGK * POP * BASELINE FACTOR. The baseline factor is calculated by dividing the actual contribution by the baseline country to GEF4 by its recalculated total contribution using the GEFGreenKey.

Table 1: GEF Trust Fund Contributions based on a Hypothetical Environmental Indicator key

	Tons CO2 per cap	Land per capita (ha)	ad1	Forest per cap (ha)	ad2	GDP Index	Per cap Green GEF distr key	Pop (mil)	GEF4 cont.	GEF4 per cap contr	New with baseline US	New with baseline Denmark	New with baseline Germany
Canada	20	27.94	3	10.05	3	0.97	13.58	33	89	2.6	20.0	427.1	148.6
Denmark	9.8	0.77	2	0.1	1	0.973	6.62	5.5	34.75	6.3	1.6	34.7	12.1
Finland	12.6	5.75	3	2.87	3	0.964	6.36	5.3	28.5	5.3	1.5	32.1	11.2
France	6.2	0.85	2	0.22	1	0.954	3.05	65	128.7	2	8.9	189.1	65.8
Germany	9.8	0.43	1	0.15	1	0.949	7.39	82	201	2.45	27.0	577.7	201.1
Italy	7.7	0.49	1	0.12	1	0.944	5.37	60	73.5	1.2	14.4	307.1	106.9
Japan	9.8	0.29	1	0.2	1	0.959	7.48	127	207	1.6	42.4	905.3	315.1
UK	9.7	0.4	1	0.08	1	0.969	7.46	60	172	2.85	20.0	426.6	148.5
US	20	3	2	0.69	2	1	16.00	305	218	0.7	217.6	4650.6	1618.7
TOTAL									**1152.5**		**353.4**	**7550.5**	**2628.0**
Algeria	5.5	7.2	3	0.01	1	0.711	1.07	33	4		1.6	33.5	11.7
Argent	3.7	7	3	0.63	2	0.828	-1.08	39	4		-1.9	-40.0	-13.9
Brazil	1.8	4.4	3	2.19	3	0.74	-3.11	190	4		-26.3	-562.8	-195.9
China	3.8	0.7	1	0.1	1	0.703	1.27	1400	4		79.0	1688.3	587.6
Chile	3.9	4.7	3	1.17	2	0.799	-0.88	16	4		-0.6	-13.4	-4.7
Egypt,	2.3	1.7	2	0	1	0.629	-0.44	73	4		-1.4	-30.6	-10.7
Ghana	0.3	1	2	0.12	1	0.536	-1.45	23	4		-1.5	-31.7	-11.0
Hungary	5.6	0.9	2	0.16	1	0.866	2.25	10	4		1.0	21.5	7.5
India	1.2	0.3	1	0.03	1	0.591	-0.47	1134	4		-23.9	-511.0	-177.8
Mexico	5	1.82	2	0.38	1	0.781	1.56	105	4		7.3	156.3	54.4
Nigeria	0.9	0.6	1	0.04	1	0.404	-0.44	142	4		-2.8	-60.1	-20.9
Poland	8	0.8	2	0.25	1	0.823	4.12	38	4		7.0	149.0	51.9
Thailand	4.2	0.8	2	0.23	1	0.745	0.89	63	4		2.5	53.7	18.7
Saudi Ar	13.6	9	3	0	1	0.844	8.10	24	4		8.7	185.3	64.5

115. In both cases 2 and 3 – despite adjustments – wealthy countries with the highest CO_2 emissions bear the brunt of the redistribution effect. This raises the question if the indicators need to be weighted differently. Shall per capita emissions be used 1 to 1 – as in this example - or should they be weighted less, by standardizing them to a different narrower scale, and if so by how much? How exactly should e.g. a country's forest cover, terrestrial expanse and other environmental pressures and services be taken into account?

116. Applying the key to developing countries, produces negative results for most low-carbon countries but brings a number of emerging economies into the net donor category. It would turn

particularly China, Saudi Arabia and Mexico among the countries considered here into significant contributors to the GEF trust fund. Argentina and Brazil profit from the significant adjustment for forest cover or land area per person. The model demonstrates to no one's surprise that there are significant differences among developing countries that should eventually be taken into account also for replenishing the GEF.

Considerations

117. Conceptually the idea to base GEF burden-sharing for replenishment on ecological and economic indicators is compelling. However, developing and agreeing to a fairer burden-sharing arrangement based on a combination of indicators that need be selected and then weighted could open a Pandora box of political and practical complications.

118. The re-distributional effects on current levels of donor commitments would be considerable and reframing the old burden-sharing argument provides no guarantee that countries will be in a better position to increase their share to the GEF, unless such efforts are linked with some of the other innovative fund raising ideas, particularly the use of earmarked eco-taxes.

119. The immediate danger on the other hand is that embarking on negotiations on such a distribution key would absorb much effort and time that might be more productively spent on other options, while the outcome may lead to an even lower common denominator for determining relative contributions.

120. For the purpose of the fifth GEF replenishment, one way to proceed might be to work out a pilot eco-indicator distribution key for calculating small contributions to a fund supplemental to the GEF Trust Fund.

121. This would set a precedent that could eventually lead to a broader acceptance of a new burden-sharing arrangement according to an environmental footprint approach. Down the road this might open the possibility for a more automatic transfer of donor funds and lessen the need for regular replenishment negotiations.

122. A shift to an indicator-based burden-sharing arrangement should be pursued with a longer time-frame in mind.

Replenishment Guidance

123. The Parties to the GEF Replenishment should explore the feasibility and expedience of adjusting the burden-sharing arrangement both in light of possible other alternatives that could increase funding right away but also with a long term view.

Option 6: GEF Postal Stamps

124. Participating country governments could issue special GEF stamps for sale both as collector items and as postage stamps. Many countries sell special postage stamp series at slightly higher prices than the postage charge itself and make the extra proceeds available for charitable purposes.

125. The revenue generating potential of this option is not likely be very large, particularly if implemented as a voluntary scheme. Just to give an idea of the market size for postage stamps, the U.S. postal service had operating revenues of $75 billion in 2008 (p. 29) and delivered 91 billion pieces of first class mail.[28] If one percent of this volume were mailed with a GEF stamp that had a surcharge of 5 cents, this would generate some $45 million.

126. Stamps could possibly be a viable revenue generating mechanism particularly if tailored to specific GEF focal areas.

Replenishment Guidance

127. The contributing participants in the GEF replenishment are invited to consider the introduction of GEF designated stamps in their country or of a international GEF stamp to be marketed in participating countries.

Option 7: Proceeds from Auctioning Carbon Allowances

128. The European Union has established the first mandatory emissions trading system in the world that entered its second allocation period in 2008. So far, emission rights have been distributed for free to entities that fall under the system (stationary industry and power utilities). But some countries have auctioned off a small percentage of emission rights. As part of the German International Climate Initiative, Germany will provide up to $40 million annually to support adaptation generated through auctioning of some of Germany's allowances from the European Union emissions trading scheme (EU ETS) for the period 2008–2012.[29]

129. The European Commission's Global Climate Change Alliance (GCCA) also draws on proceeds from the EU ETS, which is expected to provide $84 million from 2008 to 2010 to help the developing countries that are most vulnerable to climate change to increase their capabilities to cope with the effects of climate change.[30]

130. It is expected that the auctioning of EU/ETS emission rights will gradually grow from 2013 onwards, starting with the power companies. Auctioning off 1% or 2% of emission rights could result in proceeds of many billions € for mitigation and adaptation activities in developing countries.

131. Norway has tabled a proposal at the UNFCCC of withholding a small portion of permits from national quota allocations and auctioning it by an appropriate international institution. The proposal estimates that a two percent auctioning of the asset could generate annual resources of up to $25 billion.

[28] United States Postal Service Annual Report, 2008, p. 2.
[29] Footnote 8, p. 41 – 42.
[30] European Commission and the World Bank. Global Climate Financing Mechanism (GCFM) International Finance Facility for Climate Change. Draft Issues Paper. April 15th, 2008.

Considerations

132. Carbon auctioning is being discussed within the UNFCCC as resource mobilization strategies that could result in significant amounts for adaptation and mitigation. Some of the revenues could be earmarked for the GEF Trust Fund.

Replenishment Guidance

133. Replenishment participants are invited to coordinate with their colleagues involved in the UNFCCC process to make sure that synergies can be exploited were they exist by channeling some of the revenues resulting from either carbon auctioning or carbon taxes through the GEF Trust Fund.

OPTIONS REQUIRING BROADER MULTI-INSTITUTIONAL COORDINATION

Option 8: Air and Maritime Transportation Tax

134. Air travel is not included in the Kyoto process and because of competitiveness issues aviation fuels are largely exempt from domestic taxation. It is generally recognized that this is an undesirable situation that unfairly exempts a fast growing economic sector that contributes to greenhouse gas emissions. An international tax scheme could help remedy this by generating large revenues that could be earmarked for carbon offset activities and other global public goods provision.

The Air Travel Solidarity Levy

135. While there is no international air traffic tax, a voluntary solidarity levy has been introduced successfully in 2006 based on a French initiative launched in 2004. In 2006 a group of countries - Brazil, Chile, France, Norway and the United Kingdom – launched UNITAID, an international drug purchase facility funded primarily by a voluntary levy on air travel tickets.[31] As of today, 19 of the now 44 participating countries have taken steps to introduce an air-ticket solidarity levy. In the case of France, the levy ranges from Euro 1 per national economy class ticket and to Euro 40 for a first class international ticket. The levy is applied to all airlines departing from countries that have imposed it and does not distort competition between different airlines. Passengers pay the levy as part of the purchasing price of the air fare, which is often added to existing airport taxes. Airlines are responsible for declaring and collecting the levy. In less than two years of operation, UNITAID has disbursed US$ 280 million and committed US$ 200 million more for the purchase of health commodities for the poorest countries.

136. The great success of the solidarity levy has led to other initiatives that seek to expand the solidarity levy to raise resources for other public goods objectives. In December 2008 the Maldives on behalf of the Group of Least Developed Countries proposed the establishment of an "International Air Passenger Adaptation Levy" to be added to the existing solidarity levy for the

[31] http://www.unaids.org/en/KnowledgeCentre/Resources/FeatureStories/archive/2006/20060920-unitaid.asp

fight against AIDS.[32] The levy should be differentiated according to class and raise between $8 and $10 billion a year.

Fund Raising Potential of a Generic Air Traffic Levy

137. Proposals for levies on aviation and maritime bunker fuel have been advanced, which could produce $15 billion in 2020 according to one calculation.[33]

138. In the year of 2007 an estimated of 2.25 billion passengers traveled by airline flights all over the world.[34] In 2007, U.S. airlines alone serviced 769.2 million passengers and shipped nearly 19.5 million tons of cargo in scheduled and nonscheduled services using more than 7,800 aircraft.[35] The future increase in global air traffic, however, will be shaped by the fast-growing economies of China and India. As the average incomes in the region increase and more people travel, intra-Asia air traffic is forecast to expand by 8.4 percent annually through 2021.

139. Given the estimated 2.25 billion passengers traveling in 2007 and the rapid growth rate particularly in regional air traffic it is clear that large and continuously growing revenues could be generated with a very small levy that would not be felt by either consumer or the industry. For example, a $5 average charge per passenger ticket imposed in the US alone could raise $3.8 billion. A $50 charge per ton of cargo shipped would add another $1 billion in revenue streams.

140. A tax on air travel – particularly a mandatory charge – constitutes one of the best translations of both the polluter pays and the equity principles. As fuels for international air travel are not taxed, this is a large loophole in the Kyoto Protocol. An aviation fuel tax could both lead to fuel efficiency improvements and also raise significant resources. The pressure to introduce aviation taxes for fiscal reasons may have increased with the economic crisis.

141. Air travel is also an activity that only the better off can afford and in comparison to other modes of transportation is rarely essential for covering basic needs, even if it is recognized that air travel is often critical for businesses and for expanding tourism and trade opportunities.

142. Experience with the small solidarity levy shows that it is too small to have any noticeable effect on consumer behavior and the industry and there would be room to raise the levy within the elasticity of demand.

Maritime Transportation Charge

143. As is the case with air traffic, bunker fuels for maritime transportation are not taxed. Compared to air traffic, maritime transportation however is environmentally friendly and causes only about one per cent of the CO_2 emissions per ton of freight of that which is required by an airplane. Nevertheless, maritime shipments are accountable for approximately 7% of the carbon

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[32] http://unfccc.int/files/kyoto_protocol/application/pdf/maldivesadaptation131208.pdf

[33] Muller, Benito. 2008. International Adaptation Finance*:* The Need for an Innovative and Strategic Approach. EV 42. Oxford: Oxford Institute for Energy Studies.

[34] http://www.oesfo.at/static/mediendatenbank/root03/04%20Presse/2007/pk%20Flugticketabgabe/contribution%20de%20solidarite_eng.pdf

[35] http://www.airlines.org/economics/traffic/

emissions of the transport sector and negotiations have been ongoing to reduce emissions through a tax.

144. Proposals to tax maritime transportation have been around for a while and are being discussed within the International Maritime Organization and the UNFCCC as a revenue source for adaptation financing. One recent study has calculated that establishing emission limits for aviation and shipping departing from developed countries, and auctioning off emission allowances in those sectors could generate more than $12 billion and $16.6 billion respectively (OXFAM 2008).

145. A strong argument can be made that some of the proceeds from a maritime tax or charge should be reserved for the GEF Trust Fund or a specialized GEF focal area fund to protect international waters.

Considerations

146. The solidarity levy is already established and earmarked for providing human health benefits to some of the poorest countries. There is considerable demand for increasing the levy to fund a scaling up of health related initiatives in poor developing countries. Attempts to add to the solidarity levy for other reasons than scaling up such activities may be perceived as unwanted competition that ultimately undermines efforts to provide direct and critical human health benefits.

147. It seems however that a good argument can be made for using an increase in the air travel solidarity levy to fund adaptation costs, particularly if the increased revenues can target least developed countries, as the initiative tabled in the UNFCCC by the Maldives suggests. It is conceivable that many measures to be undertaken under adaptation measures would also help address health risks resulting from climate change, such as strengthen and "climate-proof" sanitation infrastructure and access to fresh water.

Replenishment Guidance

148. The contributing participants in the replenishment could endorse the proposal to add an adaptation levy to the existing air travel solidarity levy initiated in the UNFCCC. They could furthermore support initiatives within the respective international organizations to tax aviation and maritime transportation based on the greenhouse gas emissions from these transportation sectors. They could call attention in these forums to the comparative advantage of the GEF to administer funds effectively for global environmental benefits.

Option 9: International Financing Facilities

149. An innovative financing mechanism that has recently been implemented with success to frontload funding for immunization programs in poor countries is based on the idea of establishing International Financing Facilities (IFF) funded by long-term legally binding commitments by governments.

150. The GAVI Alliance provides funds to purchase and deliver vaccines and strengthen health services in 72 of the world's poorest countries. The International Finance Facility for

Immunisation (IFFIm), was set up in conjunction with GAVI. IFFIm has received US$ 5.3 billion in long-term funding commitments from seven governments enabling it to raise funds through the issue of "Vaccine Bonds" on the capital markets.

151. The same basic idea is currently being pursued within the Climate Convention framework and it could also be a model for front loading the GEF Trust Fund. The European Commission has proposed the establishment of the Global Climate Financing Mechanism (GCFM) modeled after the IFFIm to be administered by the Global Climate Alliance. A EC/World Bank issues paper explains the International Finance Facility concept as follows:[36]

152. "The IFF concept is driven by two basic ideas: frontloading aid (spending money *now* for critical development investments); and using future annual donor commitments for repayment (in response to fiscal constraints facing donors wanting to quickly increase ODA or other development spending). It is an innovative approach, using the capital markets to increase the speed and efficiency of development spending. An IFF is a legal entity that raises funds from international capital markets by issuing bonds. The bonds are ultimately paid back from the IFF's assets: long-term, legally binding payment commitments from donors. The effect is to "frontload" future aid streams for effective, near-term development disbursements."

Considerations

153. A significant advantage of the IFF idea can be seen in the fact that the successful implementation of this approach for immunization sets precedent and it may be relatively easy for governments to expand this approach to other areas. Global environmental protection objectives qualify as a high priority area for a front-loading mechanism that borrows from capital markets against future long-term commitments by governments.

154. It appears that the main advantage of the IFF approach is to overcome the present budgetary constraints of governments, and can help tackle challenges in which early action (climate change mitigation, biodiversity conservation) can help avoid larger costs in the future.

Replenishment Guidance

155. The participants in the replenishment should give guidance on how to pursue the IFF option for the GEF trust fund.

Option 10: Issuing Government Bonds

156. An alternative to the IFF option would be for governments to issue global environmental bonds directly to the private sector and private citizens. They could be issued as earmarked treasury bills or government obligations and provide long-term fixed yields.

[36] See Footnote 29.

Considerations

157. Compared to establishing IFFs, government debt would increase immediately with the issuance of the bonds. Interest payments over time, however, would be smaller than with the IFF option, where capital has to be raised in the commercial market.

158. Conceptually, the direct issuance of government bonds to fund global environmental activities would seem to be the more preferable approach then raise such capital on the commercial capital market.

Replenishment Guidance

The participants in the replenishment should give guidance on how to pursue the government bond option for the GEF trust fund.

Option 11: Scaling up Levy on CDM and other Flexibility Mechanisms

159. The CDM levy of 2% that is currently flowing into the Adaptation Fund is not generating revenues close to cover the needs that have been identified and proposals have been tabled to increase this levy to 3 or 5 % and to subject other emissions trading mechanism to the same fee.

160. As of 31 October 2008, some 4 million CERs had been issued in the Adaptation Fund account from the CDM registry equaling about $91 million.[37] Assuming annual sales of 300–450 million certified emission reductions (CERs) and a market price ranging between EUR 10–25, the Adaptation Fund could receive USD 80–300 million per year in 2008–2012. A scaling up of the levy on CDM activities to 5% would – based on above numbers - result in $200 million to $750 million per year. Additional revenues can be raised by expanding the levy to proceeds from JI and emissions trading.

161. There are also ongoing discussions in the context of the UNFCCC regarding introducing levies on Emission Reduction Units (ERU) certified by the Joint Implementation (JI) project's host country and on Assigned Amount Units (AAU) of the EU ETS.

Replenishment Guidance

162. Negotiations related to increasing the levy on CDM and expanding it onto emissions trading from Joint Implementation (JI) and Assigned Amount Units (AAUs) are taking place among the parties to the Kyoto Protocol. Replenishment participants are invited to follow the debate about the merits of the various proposals that are before the AWG of the Parties to the Kyoto Protocol with the GEF's comparative advantage as the financial mechanism of the UNFCCC in mind.

[37] Footnote 8, p. 38.

OPTIONS REQUIRING HIGHEST POLITICAL INITIATIVE AND SUPPORT

Option 12: GEF Eco-charges

163. As discussed in the introductory section, a considerable willingness to pay for GEF focal area type activities can be assumed among the general public around the world that far exceeds the current per capita contributions to the GEF. This fact needs to be exploited systematically for raising more funds for global environmental protection, which should be linked to a broad-based effort to educate the public about the accomplishments of the GEF.

164. Both the latent willingness-to-pay more for GEF-type activities found by many surveys and the relatively small levy that would be required for raising significant resources make options that try to capitalize on this fact particularly promising.

165. There are many conceivable entry points for charges, levies, taxes or fees on economic activities. The decision on which options to explore further will depend on a range of design features, which were discussed earlier.

Car Registration Fee

166. An annual car registration renewal fee dedicated to the GEF could be a particularly promising target for a small global environment levy.[38] Such a charge would be easy to administer and collect, and motor vehicle departments could provide the institutional venues for a related outreach and awareness raising champagne tied to the fund raising effort.

167. The number of cars in the EU 25 has increased by nearly 40% between 1990 and 2004 and reached 216 million passenger cars in 2004. In Japan there were 45 million cars in 2008 and the United States has some 250 million registered passenger cars. A $10 mandatory average car registration charge dedicated to GEF type activities would raise $5 billion. A voluntary system designed around the idea that individuals would need to opt out to avoid having to pay the charge could still result in support from 25% of people (probably higher if WTP survey results are any indication). This would result in $1.3 billion, more than two times the amount the GEF currently has available annually. The level of support that can be expected from the general public can be debated, but even if only 1 car owner in 10 decides to support the GEF with $10 annually this would still generate $500 million annually for this group of countries.[39]

168. Actual figures will differ by country and circumstances, and are likely to critically depend on how well the GEF and its activities can be promoted. Standard marketing strategies can help, such as the possibility to win trips or sustainably produced merchandise from around the world. One can think of various lottery wins that could entice people to opt for the additional charge, including meeting celebrities, and high ranking politicians and being able to visit locations that may otherwise not be accessible to the public.

[38] First proposed by Clémençon, Raymond. 2000. *Financing Protection of the Global Commons. The Case for a Green Planet Contribution.* GEF Working Paper No. 17. Washington D.C.
[39] Many households in OECD countries own multiple cars and might only opt to pay a GEF levy once.

169. Developing countries with fast growing auto markets should also be asked to consider implementing such a charge, based on the premise that people who can afford a car, can also afford a small additional charge that flows into environmental programs.

170. A small earmarked environment charge could be imposed with probably minimal impact on sales activity. China added 10 million new cars in 2008 according to the car manufacturing association, and now has some 42 million cars. Car prices have declined significantly in the last two years, making cars ever more affordable for a larger number of Chinese. Early in 2009, China has also cut the sales tax from 10% to 5% to spur growth.[40]

171. A one-time $10 dollar registration charge on new cars would raise $100 million a year from first time car buyers in China and a $3 surcharge on annual car registration renewal on older 40 million cars would raise another $120 million for a total of $220 million a year.

172. China and other middle-income developing countries should consider using environmental taxes to raise revenues for their own environmental policy priorities. A small fraction of such revenues should, however, go to the GEF in light of these countries growing foreign assistance commitments and solidarity with lowest income developing countries.

Tropical Wood Trade Surcharge

173. Global trade in wood products might be another entry point for an environmental fee. Consumption of forest products can conceptually be linked to environmental services and the conservation of fauna and flora around the world, particularly in tropical countries.

174. For example, consumer imports of ITTO countries of secondary processed wood products (SPWP) reached $71.4 billion.[41] The US was the largest single country importer with $25 billion in 2006, while the aggregate imports of EU countries (EU-15) were $32 billion. A 1% surcharge on the value of SPWP trade could raise $700 million annually, with arguably negligent impact on consumer end prices and demand, approximately four times the resources that are currently available to the GEF for the biodiversity focal area.

Exotic Tourism Tax

175. Selected segments of the global tourism industry could present a further entry point for a global environment contribution at the consumer level, and – if well designed - provide an opportunity to tap into a willingness-to-pay of the general public. Leisure travel packages to tropical countries sold in developed countries, for example, could be targeted for an additional fee, based on the value of the trip.

Considerations

176. A car registration charge would fulfill several criteria that make it a promising venue to pursue. It combines the polluter-pays principle with economic ability to pay, provides

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[40] Gasgoo, Global Auto Source. January 21, 2008. http://www.gasgoo.com/auto-news/1009141/New-car-registration-doubles-on-Day-1-of-tax-cut.html, accessed January 31, 2009.
[41] ITTO, 2007. *Annual Review and Assessment of the World Timber Situation 2006*. P. 32.

additionality and a venue for advertising the value of GEF type support in developing countries, which could help capitalize on a presumed willingness to pay by individual citizens. Few if any other options seem to offer a venue for raising awareness for what the GEF is doing in the general population, while holding the potential of raising large amounts. Collecting the charge would furthermore be administratively easy.

177. While this is a compelling option, it may however face significant institutional hurdles in many countries where transportation, fiscal and environmental policy responsibilities are with different agencies and ministries.

178. Putting a charge on wood consumption would seem to present administrative challenges. Should a charge be levied at the point of import or consumption? What type of wood products and from which countries should be covered, and should all types of woods be treated equally? These questions suggest that a charge on wood products may not present the best venue for generating resources for general GEF purposes, however, targeted charges could supplement resources specifically for the biodiversity focal area.

179. The tourism industry is a highly diversified industry, which makes an across-the-board approach based on a conceptual linkage between conservation objectives and travel expenditures difficult. Singling out tourism packages to exotic destinations for a levy furthermore may be perceived as discriminatory, unless perhaps funds raised this way are earmarked for activities in the destination country only.

180. A broader approach focusing in the travel industry based for example on distance travelled or cost of accommodation would result in similar impacts as would an energy tax or hotel tax but would be more complicated to design and implement.

Replenishment guidance

181. The GEF replenishment process could be the catalyst for a discussion among key donor country agencies on how to best tap into a potentially significant willingness-to-pay by the general public for global environmental protection. The GEF is arguably the most appropriate multilateral forum to pursue such ideas, given its broad cross-sectoral emphasis, long-term strategic outlook and the divers institutional backgrounds of GEF Council members.

182. The participants in the replenishment could consider the value of pursuing various types of eco-tax approaches at the consumer level in donor countries and advice the Secretariat on how to pursue this further. Individual participants could also consider adopting such earmarked charges like a car registration fee unilaterally to raise funds for their contribution to the GEF trust fund.

Option 13: Use Economic Bailout Packages to Front-load Global Environment Support

183. The current global economic crisis has led many governments to pass large bailout packages based on the Keynesian idea that in times of economic crisis the government needs to step in as the lender of last resort and stimulate economic activity by providing an influx of capital. Various packages contemplated or passed in the last months by GEF donor countries include a range of different activities ranging from job-creation investments into infrastructure to

tax incentives for businesses and increasingly include activities with environmental objectives. Some have suggested to link stimulus packages with a "Global Green New Deal."[42]

184. Replenishment negotiations could advance and explore the basic idea that a small part of approved or future stimulus packages should go towards strengthening multilateral public goods efforts and the GEF. The most promising approach would likely be to pursue such an idea by partnering with the development cooperation community to build a broad political coalition in favor of using stimulus packages to front-load international assistance. World Bank president Robert Zoellick, in an op-ed article in the New York Times January 23 suggested that governments set aside 0.7 % of stimulus package money to create a vulnerability fund to assist developing countries in the economic crisis.[43]

Considerations

185. Opposition to adding components to stimulus packages that do not promise immediate short term benefits to national economies are likely to be large. However, as the additional amounts would be comparatively small, and many governments have made global environmental issues a key concern, such opposition could conceivably be overcome. Particularly European countries may be inclined to consider this a realistic option to provide resources quickly.

Replenishment Guidance

186. The contributing participants in the replenishment are invited to consider the value of pursuing this option in the context of the current GEF replenishment. They are encouraged to follow the political debate in their respective countries on economic stimulus packages and pursue opportunities for GEF fund raising that this may provide.

Option 14: Add Environment Charge to National Tax Returns

187. The implementation of a global environmental tax as part of a general fiscal policy reform would arguably be the most future oriented approach that is built on the recognition of changing realities of a globalizing world. It would be the simplest idea both conceptually and in terms of implementation, but the most difficult idea to turn into reality politically.

188. In many countries, a small global tax could be collected together with federal, state and community taxes. It could be designed both as a voluntary or mandatory system.

189. There are several competing ideas for global taxes to fund development cooperation, whether or not linked to environmental services and pollution. A global environment tax or charge could be levied at many points of consumption or production.

190. Because there are so many different possible options that one could think of, it would be useful to have guidance on if the Council thinks this should be pursued further.

[42] UNEP. 2009. A Global Green New Deal.
[43] New York Times. January 23, 2009. A Stimulus Package for the World.

Replenishment Guidance

191. The participants in the replenishment are invited to consider adding a voluntary or mandatory global environment charge to the national tax return forms.

Option 15: Introducing a Global Tax System

192. The idea that an international tax should be adopted to fund global common goods objectives as been around for decades. The most famous such proposal is the Tobin tax on short-term speculative currency exchange transactions, named after the economist James Tobin who launched the idea in 1971 as an instrument to discourage short-term speculative currency trading which would not only help stabilize volatile currency markets, but also raise resources that could be used for economic development.

193. The volume in currency trading has grown rapidly in recent years because of electronic online trading and hedge fund activities.[44] Traditional daily turnover was reported to be over US$ 3.2 trillion in April 2007 by the Bank for International Settlements, which publishes these figures every three years. Even a tiny tax on the volume of each transaction or on the proceeds of them could yield large sums without influencing market activity.

194. Even though this idea has been around for decades, it has never been implemented. But in recent years the debate around some refined version of the Tobin tax has resurfaced in several forums, also in domestic contexts, as a superficial Internet search shows. Opposition to taxing the volume of currency transaction however has been strong among many economists and currency traders.

195. A global carbon tax could also raise large amounts of money even with a small charge. The idea has been around for decades and Switzerland has recently proposed it in the UNFCCC as a funding mechanism. But with the introduction of the EU ETS in recent years and the expectation that more countries including the United States might introduce a cap and trade system and join the international emissions trading system, the proposal for a coordinated global carbon tax does not currently appear to have much momentum. This may change, however, as the new U.S. administration is examining its options on mitigating GHG emissions and many countries have already introduced carbon taxes in addition to emissions trading as part of their policy mix.

Replenishment Guidance

196. The participants in the replenishment should lend support in principle to the idea of an international tax scheme built around a refined Tobin tax, carbon tax, etc., and encourage this debate across relevant government agencies and at the highest political levels possible.

[44] e-forex, January 2008