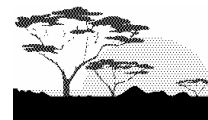




UNITED NATIONS Convention to Combat Desertification



Background paper for the OECD workshop on multilateral environmental agreements and private investments

Promoting business contribution to addressing global environmental problems

**Ministry of the Environment, Finland
Helsinki, 16-17 June 2005**

1. Introduction

Despite the climatic characteristics and productivity of drylands, they can support significant commodity production, including food crops, variety of nuts, fruits and vegetables, resins, waxes and oils, and livestock. They also have strong potential for environmentally and economically cost-effective production of renewable energies and tourism. Hence, there are considerable gains to be made by strengthening the development of dryland areas. Furthermore, drylands are home to one fifth of the world's population, and improvements in their livelihoods will have global importance through declining poverty, hunger, migration, social tensions and conflicts.

The private sector can be broadly defined as any sector that is not "public", including semi-public entities and individuals.

To help defining the various strategies to engage the private sector, a distinction can be made between the private sector of the "north" (i.e. headquarters established in an OECD country, such as multinationals) and the private sector of the "south" (i.e. headquarters established in a developing country or in an economy in transition). For the same purpose, another distinction can be made between profit and non-profit private sector. Special attention should also be given to the "scale" of the private businesses, keeping in mind the prevailing micro and small dimensions in the south.

Entry points for partnership building with the private sector:

- company's core business;
- company's corporate social and environmental responsibility;
- policy and directives (e.g. Kyoto protocol, EU emission trading scheme (ETS), EU biofuel Directive);
- targeted fund-raising campaigns.



2. UNCCD and its subsidiary bodies

The United Nations Convention to Combat Desertification (UNCCD) was established in the wake of the 1992 Earth Summit in Rio de Janeiro, Brasil, and adopted in Paris, France, on 17 June 1994, coming into force in December 1996. To date, 190 countries and the European Community have acceded the convention as a legally binding framework that helps to provide a comprehensive answer to problems relating to the environment and sustainable livelihoods. Recognizing the links between poverty and land degradation, in September 2002 the World Summit on Sustainable Development identified the UNCCD as a key contributor to achieving poverty reduction targets in the context of the Millennium Development Goals.

The ultimate objective of the UNCCD is to reduce poverty through improved living conditions and the achievement of sustainable development in areas affected by desertification. Desertification is defined as land degradation in arid, semi-arid and dry sub-humid areas, and these 'drylands' cover approximately 47% of the Earth's surface, excluding polar and sub-polar areas.

The UNCCD interprets the fight against desertification as a multidimensional process that requires action in the fields of policy-making, management of natural resources and social and economic development. In the national action programme to combat desertification (NAPs), each affected country defines the priority activities to be undertaken and the roles of various national actors in the implementation of the Convention. Through the national action programme process, the UNCCD places the affected countries in the drivers' seat, while requesting the developed countries, intergovernmental and non-governmental organisations and other relevant stakeholders such as the scientific community and the private sector to actively support the implementation of the programmes. It therefore establishes a system of shared responsibility, in which the Parties to the Convention agree to a set of specific obligations.

The supreme body of the Convention is the Conference of the Parties (COP). One of the main functions of the COP is to review reports submitted by the Parties detailing how they are carrying out their commitments; the COP makes recommendations on the basis of these reports. The COP is assisted in its tasks by two subsidiary bodies, the Committee on Science and Technology and the Committee for the Review of the Implementation of the Convention. The COP meets biennially and held six sessions up to the year 2005, the last of which was held in September 2003 in Havana, Cuba. The seventh session of the Conference of the Parties (COP.7) will take place in October 2005 in Nairobi, Kenya.

The Conference of the Parties to the UNCCD, at its sixth session in August-September 2003, took note of the importance of promoting private sector and economic opportunities in drylands. By decision 1/COP.6, it calls on the Parties to, *inter alia*, link private sector initiatives with dryland production, increase the competitiveness of dryland production through the development of appropriate technologies, and enhance policy measures and incentive schemes to encourage private sector support for technological and scientific cooperation benefiting the drylands.

The Secretariat for the Convention was established through Article 23 of the UNCCD to service the COP and its subsidiary bodies, facilitate assistance to affected country Parties in the compilation and communication of information required under the Convention, and



coordinate with relevant conventions and organisations, among other tasks. In line with the regional implementation annexes to the Convention and decisions by the Conference of the Parties, the secretariat also facilitates Parties' consultations and coordination on matters such as negotiation of partnership agreements and regional cooperation, liaises with institutions which are exploring measures to facilitate opportunities for dryland products to access international markets, promotes the development of thematic programme networks at the regional level and supports technology transfer to developing countries.

Based on Article 21 of the UNCCD, the Global Mechanism (GM) was established in 1997 under the authority of the Conference of the Parties and became operational in 1998 with the objective "to increase the effectiveness and efficiency of existing financial mechanisms" through promoting "actions leading to the mobilisation and channelling of substantial financial resources, including for the transfer of technology, on a grant, and/or on concessional or other terms, to affected developing country Parties". In line with Objective 2 of the GM's 2003-2006 business plan and the recommendations of the independent evaluations, the COP 6 specifically requested the GM to expand the supply side of the UNCCD financing equation, particularly through the mobilization of "new sources of financing such as private capital, foreign direct investment, funding from multilateral institutions, and grants from private foundations" (decision 5/COP.6). It also urged the GM to promote resource mobilization for the NAP implementation as a matter of the highest priority (decision 1/COP.6).

Therefore GM is designed to rationalize the allocation of existing aid to combat land degradation and mobilize additional funding for UNCCD implementation. In response to the multisectoral dimensions of the UNCCD, the GM acts as a broker and a catalyst, drawing on and adding value to the interventions of development partners by performing the following key functions:

- Promoting cooperation and coordination;
- Providing technical assistance and analysis upon request;
- Mobilizing and channelling financial resources;
- Collecting and disseminating information.

3. Rationale for private sector engagement

The UNCCD perspective

Meeting the objectives of UNCCD would benefit from the involvement of the private sector. Developed country Parties are therefore requested by the Convention to "encourage the mobilization of funding from the private sector". Support is also needed, and explicitly expressed, in the context of joint research of organisations in both the public and private sectors in order to develop new technologies, as well as for the exploration of innovative means (methods and incentives) with the goal to increase financing for the combat against desertification. Article 21.3 of the Convention also highlights the importance of the private sector's participation in raising funds, as well as elaborating and implementing programs thus contributing to the objectives of the UNCCD.

Although the UNCCD encourages the involvement of the private sector in achieving its objectives, the link between combating desertification and business opportunities in



developing countries is not easy to establish. The dryland areas in these countries tend to be characterised by limited physical and socio-economic infrastructure that does not attract private investors. Also, the risks associated with drylands production, deriving from the fragile ecosystems and climatic variability combined with fluctuating commodity prices, have hindered the involvement of profit-seeking private companies. Compared to developing countries that do not often dispose of appropriate investment environment (e.g. sufficient level of infrastructure, stability, etc.), developed countries or countries with economies in transition are able to attract much higher amounts of private investments for desertification-related projects. Despite the comparative “disadvantage” of the drylands, concrete expressions of interest from the private sector and foundations have been recorded. Private sector involvement in dryland projects can facilitate the provision of supporting measures called for in the UNCCD and provide direct investments for relevant activities with win-win dimension for soil conservation and income generation.

Ideally, private sector involvement in dryland projects results in the application of innovative land use and other production methods that protect the fragile natural environment while creating new jobs, upgrading national human capital, generating export revenues and triggering new investments. Developing countries are increasingly acknowledging private sector investments, particularly those of foreign companies, as a potentially powerful instrument for boosting economic growth through improved access to international markets and strengthened technological and organizational capabilities to produce and export goods and services.

Opportunities for the private sector

Drylands can support numerous economically competitive activities that simultaneously succeed in preventing desertification and reclaiming degraded land, such as the production of high-price winter cash crops, commodities of increasing demand such as various gums, oils and resins, products for the pharmaceutical sector, tourism and solar energy. Major opportunities have also emerged for other types of renewable energy sources (e.g. bio-fuels, hydro, solar and wind energy) and fossil fuels (e.g. natural gas). Energy companies are moving toward developing a longer term strategy for investing in biomass technologies due to changing corporate climate, political conditions and incentive frameworks that increase the economic viability of such technologies. Recent analysis have revealed that energy companies are exploring possibilities to develop biodiesel projects that would provide food, income and energy. The private sector could participate through investments in economic activities in drylands and may benefit from high level of competitiveness, deriving from low labour and operational costs which will ultimately create favourable development conditions. Furthermore, advancing growth and sustainable economies in developing countries provides opportunities for expanding markets.

To further encourage the private investments, the private sector could become more engaged with the UNCCD for the creation of more favourable business environment in drylands. For example, the UNCCD can promote private-public partnerships and the involvement of national governments and international financial institutions for the establishment of more effective policies and legal frameworks that will address structural adjustments and macro-economic reform. This will improve trade and economic prospects in drylands, while rehabilitating affected lands and improve the livelihood of people living in drylands.



From a corporate point of view, private sector companies' involvement in projects that support the implementation of the UNCCD can enhance their public relations and reputation by creating a socially and environmentally responsible image. Such investments can also result in better eco-efficiency of operations and lead to increased profitability. This type of win-win situation can be further underpinned by launching voluntary approaches that go beyond compliance with governmental regulatory requirements. In fact, the GM of the UNCCD has identified possible donors due to their strong commitment to the promotion of environmental sustainability, socio-economic development of affected livelihoods, and/or involvement in the European Union emission trading scheme/Kyoto Protocol.

In general, combating desertification is good business in itself. It creates opportunities for suppliers and developers of environmentally sound tools, technologies and practices as well as for companies that invest in environmentally, socially and economically sustainable development by strengthening these companies' competitive advantage. Globalization of the world economy and market saturation for certain categories of products in developed countries and economies in transition also create opportunities for the private sector in drylands.

4. Risks

UNCCD perspective

Attracting private investments that contribute to combating desertification requires allowing the private sector to pursue its economic goals. The business sector seeks investment opportunities with a predictable business risk in terms of cost and viability, a high potential for sales and replication, while maximising returns on investment. Since investment decisions are usually driven by concerns for profit, turnover, market share, cost savings, competitiveness, and efficiency, but also for image as well as job preservation and creation, certain private companies are not likely to support policies for the implementation of the UNCCD that would counteract the pursuit of these objectives. On the other hand, policies already exist at national and international levels to enforce private sector involvement (e.g. Kyoto protocol, EU ETS, etc.)

There is a growing concern on the impacts of foreign private sector investments in the socio-economic and environmental conditions of developing countries – the investments aimed to maximise economic profits may not serve the objectives of the developing host countries such as full employment, GNP growth, environmental protection, cultural identity and appropriate distribution of wealth and income. This concern is of particularly importance to the dryland regions in developing countries, due to the widespread poverty and vulnerability of ecosystems in these areas. Sound measures to involve the local private sector are therefore crucial to establish solid bases for the sustainable growth of the drylands.

The above concern is relevant also for private sector involvement in drylands vis-à-vis the intergovernmental UNCCD process. The Convention and the decisions of the UNCCD Conference of the Parties represent the international consensus framework on the goals, means and measures to implement the Convention, and any intervention in this context should respect that framework. The objectives of powerful companies' investments in drylands may challenge those of the UNCCD process, or private sector involvement in the



implementation of the Convention may be based on companies' expectations that cannot be met, such as receiving a UNCCD endorsement ('greenwashing') for the company involved. Avoiding these risks, a win-win situation could be identified in which beneficial investments for the UNCCD are identified using a due diligence approach.

Possible risks for the private sector

Drylands in developing countries are often characterized by lack of infrastructure and social services. Consequently, launching of economic activities in these areas may require considerable investments in the creation of an environment that allows for successful business, including also capacity building for acquiring skilled labour.

Commodity production in drylands faces particular challenges deriving from the fragile ecosystems and climatic variability. Furthermore, the profitability of many traditional drylands export commodities is confronted by fluctuating world market prices, partly due to irregularities of supply and varying quality and processing degrees. While significant amount of information on species adapted to drylands and appropriate technologies and techniques for production and processing exists, the private sector actors may need to invest in additional research and development activities in order to maximise the stability, economic potential and environmental sustainability of commodity production in drylands. The establishment of partnerships and other forms of collaboration with the host governments, national and international research institutions, local and international NGOs and intergovernmental or UN organizations will be important in this context. Such collaboration could for example lead to pre-investment feasibility studies, environmental impact assessment analyses, etc.

Supply chain management is also going to play a key role. Current changes in the international supply chains are also causing shifts in the power balance. The exposure of poor environmental and social conditions could seriously harm the corporate image of a company, particularly of the well-known brands. Sourcing and outsourcing of previously in house functions may offer new opportunities to the drylands producers and increase the dependence on the supply-end side of the chain. Nonetheless, the high cost pressure put on the delivery of multiple services and value-added products may lead to the exclusion of the small suppliers.

National policy and regulatory frameworks relating to production and trade, such as controls on price and transport, quotas and taxes, may also pose risks to private investors in dryland countries. Structural adjustments and macro-economic reforms should reflect the needs identified and the interventions required at the micro-level in order to enhance the socio-economic development of drylands areas.

5. Potential mechanisms for engagement

The focus of the implementation of the UNCCD is to provide for the basic environmental, social and economic conditions necessary for self-sustained livelihoods in drylands. This approach implies that while private sector involvement can significantly contribute to sustainable development in drylands, it cannot substitute public sector support. Furthermore, as referred to in the section above, private sector investments may have harmful effects to drylands and their populations, unless the interests of these populations are duly safeguarded.



A combination of public sector assistance and other support measures, including those of the private sector, seems to be the most suitable approach in fostering private sector involvement in the implementation of the UNCCD. A viable alternative for direct private sector investments to drylands is the establishment of public-private partnerships, whereby foreign or domestic private capital is leveraged for projects that have long-term business and development potential but cannot get sufficient financing or technical expertise through market channels. Public sector support – national budget allocations or contributions from development partners – to the project can be directed to the creation of the necessary infrastructure, capacity building, risk management and insurances, among other issues. Public-private partnerships will serve in ensuring that the socio-economic and environmental objectives of the participating developing country are duly taken into account in business actions. The UN can play a key role in this context. The Global Compact initiative is an example of a successful promotion of various forms of private sector engagement through an appeal originating from the UN Secretary General. So far, all initiatives have been promoted on a voluntary basis. Increased efforts should be made to institutionalize and systematize private sector engagement through public-private partnerships.

Another potential form of private sector participation in the implementation of the UNCCD is sponsorships. These activities may include financial contributions such as grants to projects and support to research, product donations and provision of expertise, scholarships and technical advisory services.

In particular, the GM can channel direct private sector investments to the UNCCD implementation.

The GM, given its mandate, has a key role to:

- promote private investments to combat land degradation and poverty;
- foster global participation & collaboration and build partnerships between public and private sector entities;
- act as a broker between public/private entities in industrialized and affected countries.

The GM is uniquely placed being the conduit, or *trait d'union*, between affected developing countries and all available sources of funding. With the experience gained and lessons learned until now, the GM confirms widespread interest from the private sector of the north and south. Globalisation trends are pushing large multinationals of the north to increasingly consider alternative sources of supplies, lower production costs, new & emerging markets while taking care of the environment and their communities.

The Global Environment Facility (GEF) is designated as a financial mechanism to the UNCCD. It emphasizes the importance of involving the private sector in its projects, and several private sector companies, ranging from large corporations to small-scale local entrepreneurs, are currently participating in the GEF projects. Their respective roles vary from co-financing and provision of technology to strategic and technical advisory services, and also to recipients of the GEF funding. Thus, one potential channel for strengthening the involvement of private sector in the implementation of the UNCCD could be through corresponding GEF initiatives under its focal area on land degradation (desertification and deforestation).



Further development of the synergistic implementation of the Rio Conventions can serve in attracting more private sector investments to drylands. The implementation of the UNCCD contributes to the objectives of the other Rio Conventions on biodiversity (CBD) and climate change (UNFCCC), and on the other hand the implementation of the CBD and the UNFCCC can have positive effects on the efforts to combat against desertification. Identification of activities that support the synergistic implementation of the Rio Conventions can be beneficial for attracting private sector investments for the implementation of the UNCCD.

Of particular interest in this regard are the numerous carbon finance initiatives and funds established in the context of the Clean Development Mechanism (CDM). The CDM allows the industrialized country Parties to the UNFCCC support the meeting of their national emission reduction targets by projects in developing countries. These projects are requested to create credible and measurable reductions of greenhouse gas emissions or their sequestration, which may include activities such as revegetating drylands, providing alternative sources of energy and making drought-prone areas more resilient to climate change. Several private sector companies, in cooperation with developed country governments and multilateral development finance institutions, are already investing in carbon funds, and the funding available for dryland projects through this channel may become a considerable supplement to the traditional ODA-based development funding. In addition to investing in carbon funds, private sector companies are also implementing CDM projects in drylands.

6. Conclusion and possible next steps

The UNCCD secretariat will continue to facilitate the dialogue at the COP with a view to establish policies and frameworks that will mainstream the convention within the bilaterals, multilaterals, private sector, NGOs, profit and non-profit entities, along with the populace.

The GM will promote private sector participation, collaboration and partnership through:

- Engaging the private sector of the north

GM's approach is to expand its resource mobilization efforts in the north, or OECD countries, to be integrated with the resources of the public and private sector of the south, or developing countries affected by land degradation. The GM has focused most of its efforts at detecting potential linkages between the core business, corporate social responsibility and environmental policies of private sector companies and the objectives of the UNCCD. This work has proven to be very promising because it triggered the interest of the private sector to collaborate on project-oriented initiatives in affected developing countries that could progressively develop into program-oriented partnerships. Therefore, the GM will pursue the strategy to mobilise resources in the "north" through continuing to focus on selected companies and foundations, energy companies, the most profitable large multinational companies who have a corporate socio-environmental policy and business operations in affected developing countries in which they have already invested on relevant activities, the largest European and US foundations and charities, fund-raising campaigns.

- Engaging the private sector of the south

GM will expand its resource mobilization efforts in the south through public partnerships, local private sector (i.e. farmers, herders, traders, suppliers, microfinance institutions, transporters, agro-processors, commodity brokers and



traders, construction companies, supermarkets, among others), local NGOs and associations, local foundations and charity organisations.

- *Public-Private Partnerships in the south and north*

GM will continue to assist governments and private sector in the south to develop more effective policies and strategies to attract funding opportunities from the north, through identifying Foreign Direct Investment, while developing local trade and markets that will create a viable local economy. Concrete recommendations to attract private capital will be case-specific and will be further articulated depending on the country and company involved.

- *Capacity building*

Institution strengthening to deliver services to local enterprises (i.e. information, technical assistance, financing) will be conducive to the development of a competitive private sector and to stimulating local entrepreneurship.

- *Markets and Trade*

GM will promote private sector participation through the development of markets and trade at a local, domestic and international level. In the south, GM will further expand and address the local private sector, households and non-profit-organisations, as successfully done in South Africa and Kenya.

- *Carbon financing*

After the Kyoto Protocol and the European Union Emission Trading Scheme came into force, carbon financing – carbon fund, renewable energy projects, CDM – became a reality. This could play an important role in the channelling of resources in the drylands of developing countries affected by desertification, hence facilitating north-south collaboration and partnership.

The potential of the private sector in the implementation of the UNCCD is yet to be fully developed. In particular, the awareness of the business community on the economic potential of drylands is still limited, therefore there is a need to deploy a strong, consistent and coherent communication effort aimed at measuring the potential, building the economic case and raising awareness in the private sector as defined above. Detecting potential linkages between the core business, corporate social responsibility and environmental policies of the private sector companies and the objectives of the UNCCD, could create a win-win situation for the private sector company and the UNCCD. Focusing on UNCCD-compliant initiatives which revolve around private company's core business could foster long-term activities, which would provide sustainable development benefits.