

# **International Working Group on Economic Instruments For Environmental Policy**

## **Terms of Reference**

### **I. Mandate**

The role and importance of economic instruments as a means to integrate environmental and economic policies has been emphasized in a number of international instruments and meetings. The 1992 United Nations Conference on Environment and Development reiterated the importance of expanding the use of economic instruments in order to help correct market failures and to encourage sustainable management of scarce resources. The Commission on Sustainable Development invited UNEP and UNCTAD to continue joint efforts to help build capacity to internalise costs, to ensure that international trade and environment policies are mutually supportive, to strengthen efforts to improve market access, and to help finance access to and transfer of technology, particularly in developing countries and countries with economies in transition.

Similarly, UNEP's Governing Council, at its 21st Session, mandated the Executive Director to pursue further actions, in close cooperation with the WTO and the UNCTAD, to, *inter alia*: a) develop national capacities to assess the environmental effects of trade; b) study the effectiveness of market-based incentives in achieving the objectives of multilateral environmental agreements including those agreements for which the United Nations Environment Programme provides the secretariat; and c) continue to promote understanding, dialogue and dissemination of information about multilateral environmental agreements, including any trade measures, *inter alia*, to develop capacity to ensure that trade and environmental policies are mutually supportive.

More recently, the High-Level Meeting on Environment, Sustainable Development and Trade proposed that UNEP establish a Working Group on economic instruments under the UNEP/UNCTAD Capacity Building Task Force, to, *inter alia*, a) provide technical support on integrated assessment; b) assist in the definition of economic instruments; c) promote awareness and understanding of the use of economic instruments to achieve sustainable development objectives, and the identification and design of specific economic instruments appropriate for specific sectors; and d) address the constraints and impediments to introducing economic instruments at the national level.

Given UNEP's mandate in the field of Economics and Trade, priority should be given to assisting governments to make appropriate use of economic instruments to achieve national policy objectives, particularly in developing countries and countries with economies in transition. UNEP, in collaboration with UNCTAD and in consultation with other intergovernmental organizations, could play an important role in promoting the design and implementation of economic instruments to achieve environmental and sustainable development objectives.

### **II. Background**

Appropriately designed and implemented, economic instruments can be a powerful tool to achieve both economic efficiency, and environmental and sustainable development objectives. To date, however, a number of constraints have prevented a wider use of economic instruments to achieve sustainable development objectives. These constraints include:

- Concerns about the potential effects of such instruments on competitiveness and market access;

- Lack of legislative and institutional capacity, particularly in developing countries and economies in transition, to design and implement economic instruments;
- Strategic or rent-seeking behaviour and other political barriers;
- Inadequate information about the costs and uncertainty about the benefits of economic instruments;
- Lack of understanding of the actual and potential role of economic instruments in achieving environmental and sustainable development objectives.

Promoting the use of economic instruments to support command and control measures will require an enhanced understanding of their use and effects as well as increased institutional and human capacities for their design and implementation. International cooperation is required in order to achieve this.

There is a need to facilitate an open debate on issues relating to the optimal design, implementation and monitoring of economic instruments, and the identification of entry points and possible scenarios within the current political economy for their introduction, through specific activities, including an on going exchange of information and experiences, the provision of technical assistance to countries and capacity building.

The 2002 World Summit on Sustainable Development provides an opportunity to increase cooperation and to reinforce commitment to making appropriate use of economic instruments.

### **III. Objectives**

Against this background, the Working Group established by UNEP, in collaboration with UNCTAD, will provide a platform to help define modalities for the use of economic instruments for environmental management and sustainable development. A key aim is to enhance policy coordination at the national level related to the design and use of economic instruments, including maximizing the net development gains from trade liberalization. More specifically, the objectives of the Working Group include:

- a) Enhancing awareness of the national and international context in which economic instruments function, particularly from the perspective of developing countries and countries with economies in transition;
- b) Improving understanding of the reasons why economic instruments are not being more widely used, and ways to make them more acceptable;
- c) Assisting governments in identifying circumstances and opportunities for the use of economic instruments, and in introducing measures to lower their transaction costs and thereby make these instruments more acceptable and viable at the local, national and international levels; and
- d) Assisting governments in making the appropriate use of economic instruments to achieve national environmental objectives and to promote mutually supportive trade and environmental policies.

The Working Group is also meant to facilitate discussion among governments, private entities, international organizations, relevant Secretariats of MEAs, the WTO, FAO, OECD, the World Bank and others. Particular attention will be given to how work under this initiative can contribute to the work undertaken under MEAs on the use of economic instruments to achieve their objectives.

#### **IV. Activities**

**Stocktaking** to identify impediments to the use of economic instruments, and ways to remove these impediments. Activities will include, but not necessarily be limited to:

- a) Carrying out a review and synthesis of relevant literature;
- b) Illustrating the use of economic instruments through existing case studies; and
- c) Validating findings of the review through policy dialogues and interviews with stakeholders.

Possible sectors to be examined as part of this stocktaking exercise include agriculture, forestry, water-use and energy.

**Facilitating the use of Economic Instruments** to assist policy makers in making better use of economic instruments through the following activities:

- a) Illustrating best practices in, and constraints to, the use of economic instruments, by drawing on activities conducted as part of the stocktaking exercise;
- b) Developing a framework and tools, including potentially the development of a manual and/or guidelines, to address impediments and opportunities for the effective implementation of economic instruments. In particular, measures to increase transparency, and illustration by existing case studies will be sought; and
- c) Undertaking peer reviews of the Working Group's outputs, as well as policy dialogues with and workshops for representatives of governments, intergovernmental organizations, the private sector, academia, and non-governmental organizations.

#### **V. Working Arrangements**

The working arrangements for undertaking these activities will include:

- a) Biannual meetings;
- b) Consider as may be required breaking into smaller groups for conducting surveys and reviews, drafting a manual or guidelines, compiling case studies and undertaking other activities, as necessary;
- c) Making recommendations to UNEP on engaging consultants to assist the Working Group in carrying out its activities;
- d) Other arrangements to fulfil its objectives and to undertake its activities, as required.