

## Introduction to the Exploratory Dialogue on

### **"Building an Enabling Environment for Increasing Investment in SLM through Market Access and Trade"**

This note is to provide additional background information to the forthcoming exploratory dialogue to be held in Geneva on 31 January and 1 February 2007. It is meant to assist in framing and guiding the discussion by contextualising the agenda. Comments and feedback are expected during the exploratory dialogue so as to develop a positive agenda for the promotion of sustainable land management (SLM) through market access and trade which will contribute to strengthen the implementation of the United Nations Convention to Combat Desertification (UNCCD).

#### **I. THE ORGANISERS**

##### **The Global Mechanism of the UNCCD**

###### *What is the Global Mechanism?*

The Global Mechanism (GM) of the UNCCD is one of the subsidiary bodies of the UNCCD mandated "to increase the effectiveness and efficiency of existing financial mechanisms...[and]...to promote actions leading to the mobilisation and channelling of substantial financial resources to affected developing country Parties". The general broker and match-maker functions of the GM have evolved over its first ten years of operations in the wake of the changing international financial architecture, new modalities for resource allocation and the increasing importance of domestic budgeting processes in developing countries responding directly to the Paris Declaration and to the Monterrey Consensus. As a consequence, the GM is increasingly specialising in providing a range of financial advisory services to the country Parties to the Convention in close cooperation with International Finance Institutions (IFIs) to tackle the problems surrounding the degradation of natural resources.

The GM is an innovative entity supporting country Parties to the UNCCD in mobilising financial resources within financial resource allocation frameworks to address the nexus between land and natural resource degradation, rural development and poverty reduction. The GM's approach aims to be comprehensive: balancing poverty reduction and sustainable development with the sustainable use of natural resources. The GM promotes the positioning of the UNCCD in the broader context of development programming which includes a variety of policy processes and thematic areas that influence SLM and rural development.

The GM does not intend to simplify the complexity of the changing international financial architecture and domestic budget allocation processes, but rather to facilitate understanding of this new context, the opportunities it offers, and the ability of focal point institutions of the UNCCD to work with it, so as to increase investments in rural livelihoods and to safeguard natural resources availability for future generations. The GM therefore works to generate enabling conditions for UNCCD country Parties and assists in capacity building to ensure that rural communities living in drylands receive adequate recognition in development programming processes.

### Resource mobilisation through Market Access and Trade

As a response to the changing international environment and in order to optimise its resource mobilisation capacity as well as to sharpen its focus at country level, the GM is developing the new concept “national financing strategy” (NFS). NFSs aim to pool and subsequently coordinate different financial sources, instruments and mechanisms to secure sustainable, timely and predictable investments for UNCCD implementation. NFS will provide country partners with tools to align UNCCD priorities with those of other sectors and to compete for the allocation of resources in order to raise financial resources in a systematic, coherent and predictable manner. This includes ensuring adequate translation of UNCCD related development policies into resource allocation in public budgets and expenditure frameworks, broadening the scope of planning processes beyond specific sectors and increased interaction with sectors with resource mobilisation potential that have traditionally not been part of the UNCCD agenda, including *inter alia* market access and trade.

The text of the UNCCD explicitly acknowledges the relevance of trade in pursuing the objectives of the convention. Under the “General obligations”– Art. 4 Par. 2(b) – the Parties are required to *give due attention, within the relevant international and regional bodies, to the situation of affected developing country Parties with regard to international trade, marketing arrangements and debt with a view to establishing an enabling international economic environment conducive to the promotion of sustainable development*. Building on this explicit mandate, there is a real opportunity to explore the potential of market access and trade to increase investment in degraded areas and mobilise additional resources for SLM.

On-the-ground activities are providing increasing evidence of how trade and markets can play a driving role in the socio-economic development of drylands and degraded areas. Research has also begun to use these arguments to reverse the negative image of drylands as hopeless extensions of arid and degraded land whose vulnerability to natural calamities represent a risk factor that is far too high to make them attractive for investments. With the realisation that there are several products and services from drylands offering investment opportunities with positive returns, trade and markets are emerging as crucial factors for improving livelihoods and enhancing SLM in vulnerable ecosystems. Nonetheless, these cases still remain isolated from policy making, resource allocation and budgeting processes and therefore from broader development plans, thus leaving potential resources untapped.

With the aim at drawing on these resources, the GM has established a Strategic Programme for Market Access and Trade in the conviction that by forging stronger links between the Convention and trade and markets related issues, new stakeholders can be engaged in the UNCCD implementation, innovative sources for SLM financing leveraged and links established with overarching development plans and budgeting processes. The programme is conceived as a corporate tool to support the regional programmes of the GM to integrate this strategic area in the development of national financing strategies for SLM financing. This requires a coherent and integrated approach linking trade, markets and SLM and the engagement of stakeholders from various communities, particularly the trade and environment community, to define and move forward a common agenda for promoting SLM through market access and trade.

### **The International Centre for Trade and Sustainable Development (ICTSD)**

#### What is ICTSD?

The International Centre for Trade and Sustainable Development (ICTSD) was established in Geneva in September 1996 to contribute to a better understanding of development and environment concerns in the context of international trade. As an independent non-profit and non-governmental organisation, ICTSD engages a broad range of actors in ongoing dialogue about trade and sustainable development. With a wide network of governmental, non-governmental and intergovernmental partners, ICTSD plays a unique systemic role as a

provider of original, non-partisan reporting and facilitation services at the intersection of international trade and sustainable development.

ICTSD facilitates interaction between policy-makers and those outside the system to help trade policy become more supportive of sustainable development. By helping parties increase capacity and become better informed about each other, ICTSD builds bridges between groups with seemingly disparate agendas. It seeks to enable these actors to discover the many places where their interests and priorities coincide, since sustainable development is ultimately their common objective. With its finger on the pulse of the trade and sustainable development interface, ICTSD is well placed to keep track of emerging issues and changing dynamics within the international, bilateral and regional trade negotiations.

In recent years, ICTSD has brought to the table key trade and development issues such as special and differential treatment, dispute settlement, aid for trade, climate change and the evolving energy trade scenario. ICTSD has also raised the profile of development concerns related to intellectual property rights and trade in services and agriculture. Through its research, dialogue and information programmes, ICTSD can give these issues a boost, always with the aim of fostering constructive, solutions-focused debates.

#### *Bridging the gaps between trade and SLM*

International trade has the potential to affect the livelihoods of communities dependent on degraded land in arid regions. While trade flows can act as an incentive to foster economic growth and SLM, they can also lead to changes in land ownership and use with systemic results on both the fertility of land and the communities who live on it. In addition, drylands, in particular, are among the most vulnerable ecosystems to human activities such as unsustainable land use.

In collaboration with the GM, ICTSD is seeking to explore how international trade could provide a valuable avenue for fostering investment, improving livelihoods and promoting SLM in dryland regions. More specifically, ICTSD aims to undertake strategic actions which will:

- (a) Examine how the current international agricultural trade patterns and related production systems influence land degradation in dryland regions, and analyse the influence of current international trade policies and rules in that regard.
- (b) Identify opportunities for adding value to traditional commodities from drylands such as Gum Arabic, cotton, groundnuts, for which production and trade could bring socioeconomic benefits to populations living in degraded areas and be environmentally-friendly.
- (c) Contribute to the creation of an enabling environment for the communities living in degraded areas to increase investments in SLM by facilitating their access to markets and engagement in trade activities in particular at local and regional level;
- (d) Bridge knowledge and promote understanding of relevant policies, institutions and mechanisms for mitigating the environmental impacts of current agricultural international trade patterns and associated production systems on land; and for turning trade opportunities into concrete market access and economic gains;
- (e) Identify risks that multilateral, regional and national trade liberalisation might pose to the economies, ecosystems, societies and livelihoods of communities living in drylands and degraded areas, and suggest changes to rules that might mitigate these impacts.

## II. THE EXPLORATORY DIALOGUE

### Background

The engagement of the GM in the new strategic area of market access and trade has in a very short time led to the identification of a number of opportunities for promoting SLM and to the establishment of innovative initiatives and collaborations with a wide range of partners. The exploratory dialogue draws on all these experiences, and especially on the collaboration of the GM with the International Centre for Trade and Sustainable Development (ICTSD) and with the UNCTAD Biotrade Initiative.

ICTSD is playing a crucial role in conceptualising the linkages between trade, markets and SLM and to frame them in the context of the multilateral trade regime. Drawing on its knowledge and experience in promoting the linkages between trade and sustainable development, including those between trade and environment, ICTSD is working with the GM to identify potential trade instruments and tools to promote SLM under the present multilateral and regional trade regimes and to build the communication gap between the trade and environment communities. The linkages between trade rules, the environment and sustainable development are being increasingly recognised, including in the WTO. Nonetheless, the trade and environment communities are still working in isolation. Efforts to make trade and environment mutually supportive have so far produced meagre results. The main attempt to provide a formal space for advancing these discussions, the Committee on Trade and Environment (CTE) of the WTO, has virtually arrived at a standstill. However, an urgent need for advancing these discussions is felt and increasingly shared by a number of MEAs and other trade and environment stakeholders, including the private sector.

The UNCTAD Biotrade Initiative has accumulated considerable experience in promoting sustainable use of natural resources through trade and market development. This experience demonstrates that integrating environmental sustainability in value chain development can bring value addition and increase business profitability and economic returns. It also shows that trade can actually improve livelihoods of marginal communities and encourage sustainable use of natural resources provided that an enabling policy environment and adequate incentive measures are put in place. The programme was established to support the Convention on Biological Diversity (CBD) and other biodiversity related Conventions. However, a large scope has been identified to promote sustainable use of natural resources, including land, by leveraging synergies between different MEAs. This would substantially add value to the work of the UNCCD and of the different MEAs by optimising resource allocation and return on investments.

### Rationale

In consideration of the number of common areas of interest and the potential synergies among the different MEAs, UNCTAD Biotrade organised a workshop in November 2006 to explore the opportunities for streamlining the approaches of different environmental agreements on market access and trade. The GM participated in these discussions together with ICTSD, the trade and economics branch of UNEP and other MEAs, including the Secretariats of the Convention on Biological Diversity (CBD), the Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES) and the Ramsar Convention on Wetlands (Ramsar).

In an effort to finding a common agenda for promoting sustainable use and management of land and natural resources through market access and trade, the following areas were identified: i) international trade, ii) incentive measures and iii) private sector engagement. These three areas were regarded as a package for integrated and coherent interventions. The exploratory dialogue on "building an enabling environment for increasing investment in SLM" builds on this previous experience and on the outcomes of related discussions. In addition, the workshop will try to frame the discussion on trade, markets and sustainable use of natural resources in the context of the new financial architecture for ODA. This could lead to

the identification of potential opportunities for establishing systematic links between incentive frameworks for enhancing sustainable use of natural resources, policy making and resource allocation and budgeting processes at the national level.

### **Objectives**

The meeting will discuss ways of promoting investment in SLM (SLM) through market access and trade in the context of the new financial architecture and resource allocation patterns for development and poverty reduction.

The specific objectives are:

- i) to generate knowledge for a better understanding of the types of direct and indirect linkages which exist between trade and land management in dryland regions and degraded areas;
- ii) to engage stakeholders from various communities in moving forward a positive agenda for promoting SLM through trade and markets; and
- iii) to set in motion processes of further engagement in the mobilisation of knowledge, and political and financial resources to enhance trade and market opportunities that could support SLM.

### **The Agenda**

The discussions will be organised around four main areas looking respectively at i) the trade regimes and their impact on agricultural production patterns, ii) emerging opportunities for promoting sustainable use of natural resources through market access and trade, iii) incentive frameworks for attracting investments in sustainable use and iv) private sector and community engagement. The assumption behind the dialogue is that in order to create an enabling environment for increasing investment in SLM these four areas should be addressed simultaneously through integrated and coherent actions.

### **Session 1 – Agricultural production, trade and SLM**

Trade rules set the parameters of trade liberalisation policies adopted by national governments, which in turn affect the trade flows that filter down to rural communities in drylands and degraded areas. Trade liberalisation could open up new opportunities for rural communities, for example by enabling them to capture value-added processing of basic commodities or the development of high-value "niche" exports, or by linking producers to environmentally-conscious consumers through product differentiation tools such as eco-labelling initiatives. At the same time, such trade promotion initiatives, if not managed well and if not supported by a conducive policy environment, could have detrimental impacts on vulnerable degraded areas - for instance by encouraging land conversion and unsustainable levels of harvesting.

A systemic examination of the impact of the international trade regime on agricultural production patterns and on its implications for SLM is necessary to avoid generalisations, capture hidden opportunities and make clear exactly how trade can really affect the environment upon which some of the world's poorest people depend. Constraints and opportunities for enhancing SLM and sustainable use of natural resources could be found through a more systematic analysis of the multilateral trade regime and of the related tools and instruments such as special products and environmental goods and services among others. Increased attention should also be given to Aid for Trade related processes and to regional and bilateral trade agreements.

In order to increase investment in SLM, improve livelihoods and reduce poverty in dryland regions, it is important to mitigate the impacts of trade liberalisation on the environment. A "conflict of interest" exists considering that the greater implications for the environment and for land degradation are those induced by internationally traded commodities such as cotton

and livestock. While trade in these commodities represent substantial export earnings for dryland countries, their production can cause environmental impacts on the land by encouraging unsustainable agricultural practices by farmers. Trade in these commodities is often heavily regulated and subsidised as well as characterised by consolidated economic and political interests. Despite the continuous efforts of developing country governments and civil society groups, the capacity of influencing these markets and to make this trade more sustainable is still very limited. A formal arena for negotiating trade and environment issues is still missing and even when the impact of trade on the environment is minimised, the problem remains of ensuring an equitable sharing of benefits and a positive return on livelihoods of local communities.

## **Session 2 – Emerging opportunities**

If we shift attention from the political and legal framework regulating international trade and commercial transactions and look at the market dynamics in terms of supply and demand, new opportunities emerge for using trade as an instrument for promoting sustainable use of land and natural resources. Dry, arid and sub-humid ecosystems are complex ecosystems rich in natural products which are sometimes unique because of the peculiar environment in which they grow. For example, they develop features that enable them to perform environmental services which are extremely precious for the conservation of land, water and biodiversity and therefore touch simultaneously on the interest of different MEAs. They are also endowed with natural properties which provide valuable substitutes for chemical components and processes in a number of sectors, such as the pharmaceutical, and thus give them a natural comparative advantage. Additionally, these products are often the only natural resources available in these areas and therefore play a crucial role in the livelihoods of local communities. Socio-economic assessments also demonstrate that vulnerable groups, such as women, are often major stakeholders in these markets.

In the last few years, market demand for natural products has been constantly growing in northern markets, particularly those of the EU, US and Japan. This new trend is increasingly seen as an opportunity to foster market differentiations in sectors such as food, cosmetics, and pharmaceuticals among others. Despite the favourable momentum, natural products are still relegated to “niche” markets. In many cases the reason for this is not so much supply constraints but rather that these markets are not structured. For example, the lack of support institutions to enhance research and development and to help production comply with international standards and regulation and/or to create *ad hoc* ones is severely limiting the market access capacity of these products. There are already a number of cases where companies interested in purchasing some of these products and even in investing in the production and value chain development by abiding with criteria of social and environmental sustainability cannot actually do so because regulations in the destination markets do not allow the use of such natural components. In addition, of course, infrastructure should also be made available in these areas which are often isolated or remote from the main markets.

Natural products are only one example of how alternative livelihoods can play a crucial role in the socio-economic development of vulnerable ecosystems by providing market differentiators and/or reducing the pressure on land such as in the case of eco-tourism and handicraft production. These are sometimes overlooked as compared with agricultural production they are quantitatively less important in terms of trade flows. However, in terms of value added and capacity to improve the livelihoods of disadvantaged communities in marginal areas, such as dryland areas, they may have a much stronger impact. Moreover, as the market for these products is still less structured, there might be more space for influencing policy making processes and for creating regulations and building institutions able to enhance sustainable use through trade development. Likewise, there might be also more room for engaging the private sector in the development of sustainable value chains integrating grassroots communities and ensuring more equitable sharing of benefits. Therefore, it is important that the impact of trade on land management be assessed not only for its implications for agricultural production patterns but also for those regarding the development of alternative markets which could benefit livelihoods and SLM.

### Session 3 – Incentive Frameworks

Once the trade environment and the market dynamics have been analysed, the third session will focus on the national level and on how to support governments to create enabling conditions for increasing investment in sustainable land and natural resource management. Resource allocation patterns in the international development community have evolved towards country leadership and country-driven identification of development priorities through *inter alia* Poverty Reduction Strategy Papers (PRSPs). As a result, resource allocation is increasingly subject to national-level negotiations within the government as well as between the government and the international community. In addition, there is a broad commitment to enhance coherence among donors. As donors are increasingly aligning their priorities with those of the recipient countries, the importance of domestic public budget allocations increases considerably through new approaches and aid delivery mechanisms such as basket funding, general budget support (GBS), sector budget support (SBS) and pooling fund arrangements under the Sector-Wide Approach (SWAp). Their appearance was a reaction to overcome the weaknesses of the existing aid modalities, typically 'stand-alone' projects and structural adjustment operations.

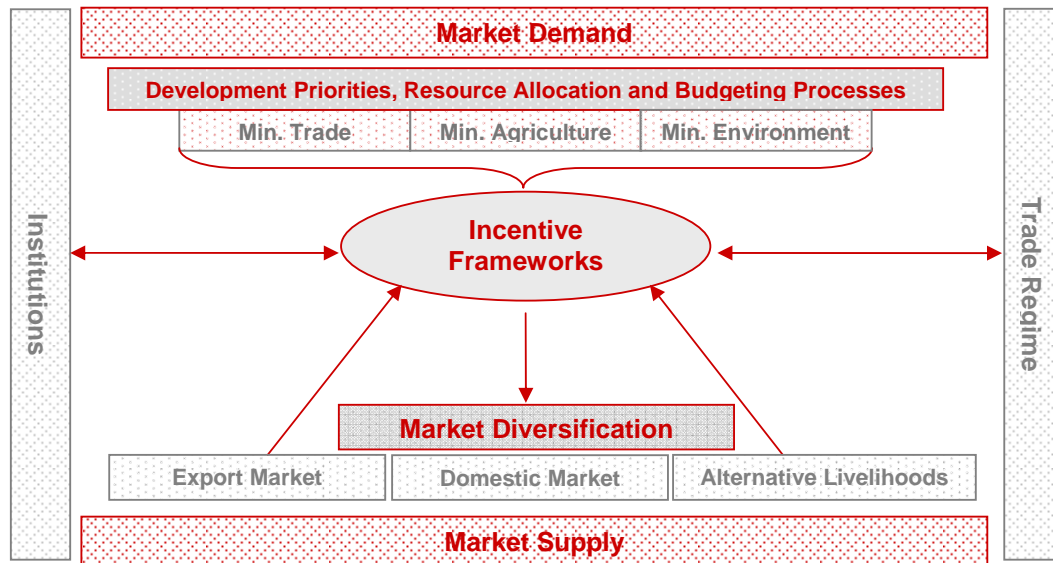
For cross-cutting issues like SLM, which is closely linked to poverty reduction, rural development and sustainable natural resource management, it is important to establish links with other sectors (for example trade, education and health among others) in order to become part of the broader development agenda. In the context of trade and SLM, establishing links with processes such as the Integrated Framework (IF) could be a way of doing this. The IF is a process which was established to help countries embed trade in their development agenda through mainstreaming into PRS processes. It includes a comprehensive diagnostic tool to identify trade related priorities and sectors with the highest potential to contribute to the growth of the country. Nonetheless, no attention is given to the impact of this trade on the environment. This may undermine its sustainability and effective contribution to growth and sustainable development and also exclude productive sectors with strong comparative advantage and added value for the environment and for the livelihoods of communities living in vulnerable ecosystems.

It is also important that these changes in the architecture of ODA are reflected in the elaboration of incentive frameworks. These refer to comprehensive and integrated packages of incentives of different types including economic, legal, institutional and market-based measures necessary for creating an enabling environment for increased investment. Some MEAs have been exploring incentive measures including positive, negative and indirect incentives able to enhance sustainable use. The design, development and effective implementation of trade and markets-related incentive frameworks will depend considerably on a stronger interaction between environment stakeholders, including UNCCD and other MEAs, and trade stakeholders. National trade and environment ministries and institutions are still working too much in isolation. Increased collaboration will not only help them to take advantage of their respective technical expertise but also contribute to harmonise processes for defining sustainable development priorities and increase coherence in resource allocations and budgeting processes at national level.

With a view to sharpen the impact of incentive measures, all the trade and markets dynamics discussed in the first two sessions of the dialogue will have to be taken into consideration for the setting of clear targets. For example, one possibility could be to identify "product groups" or "sub-sectors", within the agricultural sector as well as alternative livelihoods that could drive investment in SLM and sustainable use of natural resources. A sector-based approach would help to make the design of incentive frameworks more systematic. On one side, it will look at the general trade environment and in particular at the impact of the trade regime on the specific sector as well as at the constraints and opportunities to use existing instruments and tools under the regime to promote the sectors. On the other side, it will allow competitive market analysis and maximise opportunities to take advantage of market differentiation by leveraging the comparative advantage of specific sectors/products. Finally, it could facilitate

the identification of needs and constraints for supporting the growth of the specific sector in terms of cross-sectoral policies (i.e. fiscal policies), institutional capacities and infrastructure and thus contribute to foster coordinated actions among different stakeholders and with trade related development processes such as the Integrated Framework (IF).

Figure 1: Building an enabling environment for promoting SLM through market access and trade



The graphic tries to provide a visual representation of the discussions in the four sessions

#### Session 4 – Private Sector and Community Engagement

To conclude, once the policy processes, the market dynamics and the institutional setting for building incentive frameworks have been analysed, the discussion will focus on stakeholders' engagement, in particular on private sector and local communities. On one side, private sector engagement is fundamental to develop infrastructure, support services and value addition to natural resources in dryland areas. On the other, communities are the ultimate users of natural resources and therefore their sustainable use will substantially depend on the participation and investment of these communities in conservation and rehabilitation activities and in the adoption of sustainable production and harvesting practices.

A thorough analysis of these two stakeholder groups will be especially relevant for the targeting of incentive frameworks. Mechanisms should be identified to mobilise private sector and community investment in SLM and sustainable use of natural resources and incentives should be used to create the enabling conditions for these mechanisms to work. A number of sustainable business models have already been developed and used to enhance the environmental and social sustainability of private ventures. Some of these models, like fair trade, have been focusing on increasing social benefits by exploiting market niches. Others like Biotrade have developed methodologies to integrate sustainable use of natural resources and equal sharing of benefits in the development of value chains. A number of programmes and institutions, including civil society groups, are trying to strengthen the integration of grassroots communities in market chains. Private companies are also trying to find their own solutions to enhance sustainability through Corporate Social Responsibility (CSR).

Despite these efforts, collaboration between private companies and development organisations hesitate to take off especially for long-term collaboration. Development partners should put increased effort to clarify their expectations from the private sector as well as roles and responsibilities. For example, while private companies see the potential benefits of drawing on the technical knowledge and expertise of sustainable development issues to

increase their business opportunities in developing countries, the political implications of working with development partners is not emphasised. In other words, business should be able to see the effective contribution and added value of working together with development partners. This means, for example, that SLM and sustainable use of natural resources should be translated in economics and financial benefits for their business. This value added might be generated through the knowledge and expertise of environment experts, but maybe even more through the capacity of development partners to promote policy dialogue and create an enabling environment for private stakeholders to increase their investments and positive returns.

### **III. NEXT STEPS**

The outcomes of the workshop will be used to finalise the GM-ICTSD background paper on “Promoting SLM through market Access and Trade - Examining the Linkages between Trade, Livelihoods and SLM” (to be distributed as part of the workshop background materials)

Depending on the interest and feedback received, with a view to stimulating further discussions and engage new stakeholders, similar initiatives will be organised in the future to cover the multiple aspect and implications of trade on SLM which have not been fully addressed during this exploratory dialogue.

In particular, the GM will consider the organisation of side events on market access and trade-related issues during the COP so as to promote an open dialogue with UNCCD constituencies.

These events might also be organised in collaboration with partners, such as ICTSD, UNCTAD Biotrade and other MEAs involved in the discussions, so as to enhance multi-stakeholder participation and coordination.

The workshop outcomes will be used to inform ongoing regional and country-based initiatives of the GM and other partners. It is also expected that during the dialogue new areas for future work will also be identified and that participants will follow up to design and develop related initiatives.

ICTSD and the GM will create an interactive knowledge management tool in order for the participants and for the broader audience to be regularly updated on follow up discussions and events, regional and country based activities, main publications and knowledge materials on the issue of trade, livelihoods and SLM.