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TOWARD AN ENVIRONMENT STRATEGY FOR THE WORLD BANK GROUP

PROGRESS REPORT

(Prepared by the World Bank)

Recommended Council Decision

The Council, having reviewed document GEF/C.15/12, *Toward an Environment Strategy for the World Bank Group*, takes note of the steps that have been taken by the World Bank Group in developing a corporate environment strategy and requests the World Bank to submit to the Council meeting in November 2000 its final strategy. The Council also requests the World Bank to prepare for Council's consideration in November 2000 a separate report drawn from the strategy and setting out specific elements of the strategy that will have a direct bearing on integrating global environment concerns into Bank policies and programs.

Toward an Environment Strategy for the World Bank Group

Progress Report/Discussion Draft

April 2000

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Introduction / Executive Summary

The World Bank Group has embarked on a comprehensive effort to develop a corporate environment strategy. This report provides an update on progress and describes emerging issues for discussion. It is intended as a vehicle to inform clients and development partners of the proposed broad strategy framework, key issues, and principles; describe the strategy preparation process; and stimulate further dialogue with the Bank's partners, client countries, and interested stakeholders. The report also responds to a request during the 1999 Fall meeting of the Council of the Global Environment Facility (GEF) to provide a detailed update on the strategy preparation.

As part of the consultation and feedback process, the World Bank Group will be particularly interested in getting reactions to the discussion in Chapter III regarding objectives, strategic approaches, and implementation. We would like to encourage broad discussion of these issues. To begin and stimulate the discussion, several questions are raised in Chapter IV. Comments will be encouraged through dedicated consultations, as well as through a Web site to be launched during the Spring of 2000.

The new strategy will recognize an evolution in thinking about the dimensions of poverty; the Comprehensive Development Framework's emphasis on a holistic approach, ownership, partnerships, and results on the ground; and the need for a fresh look at the Bank's policies on environmental safeguards, guidelines, regional environmental strategies, environmental sector work, and specific sector strategies.

The WBG recognizes that there is an urgent need to integrate environmental concerns into poverty alleviation and economic development strategies. Current local air- and water-quality conditions in many client countries result in millions of premature deaths, especially among women and children. Long-term poverty reduction and sustainable economic growth are being undermined by the continuing degradation of soils; the increasing scarcity of freshwater; the over-exploitation of coastal ecosystems and fisheries; the loss of forest cover; the loss of biological diversity at the genetic, species, and ecosystem level; and long-term changes in the Earth's climate. Real, lasting poverty reduction is only possible if the environment is able to provide the services people depend on, and if natural resources are used in a manner that does not undermine long-term development. Therefore, a key challenge is to identify the synergies and trade-offs that exist among local, regional, and global environmental issues and between short- and long-term environmental issues.

In the past, the World Bank Group's environmental policies and operations have focused on safeguards; on project-based delivery of a mix of policy- and institution-strengthening measures; and on output-oriented investments such as water and effluent treatment or reforestation. The Bank can point to significant achievements on some environmental issues. But the *impact* of WBG programs on broad environmental trends in the developing world has been limited, and the achievements of various programs have been mixed. The pursuit of self-standing environmental projects and reactive environmental policies has reinforced the view of the environment as an *add-on*, or separate sector. This approach has limited the true integration of environmental concerns into long-term policy dialogue, country assistance strategies, and sectoral investments and programs. Institutional boundaries and incentives—both inside the WBG and in client countries—have often worked against the cross-sectoral approaches that are necessary for addressing complex environmental challenges and focusing on desirable outcomes.

In the late 1990s, there were numerous signs of a strategic shift away from viewing the environment as a separate sector and toward considering environment as part of development. The effort to integrate environmental concerns into sector strategies and operations is evident in

several areas, including other sector strategies and Country Assistance Strategies. The quality of the analytical work supporting environmental safeguards has gradually improved. In many cases, environmental assessments have led to better project design; and environmental management plans have introduced improvements in project implementation, which has resulted in greater attention to environmental issues in Bank-financed projects. As a development institution concerned with fighting poverty and interested in long-term sustainable development and the improvement of people's well-being, the WBG needs to continue this strategic shift in its approach from viewing environment as an externality and a separate sector toward considering it as an integral part of development. The environment strategy aims to build sustainability into the expected outcomes of the Bank's operations. Increased attention to evaluating environmental activities in the context of their links to *development outcomes* will encourage that shift.

The design and implementation of development assistance services need to take place through a process, involving country partners and stakeholders, that uses a framework to systematically evaluate options in terms of their environmental sustainability and their impact on poverty. The World Bank Group's environment strategy will establish the objectives and means for developing that process and for monitoring its implementation.

Progress to Date and the Road Ahead

The first phase of the preparation of the environment strategy has mobilized a large number of World Bank Group staff who work in all Regions and a wide range of sectors. This phase included the preparation of a draft initiating memorandum and background analytical papers on key issues; development of the basic framework and principles of the strategy; presentations and workshops with regional and sector staff; initiation of the preparation of regional environmental strategies which explicitly recognize cross-sectoral linkages; and a limited number of informal discussions with clients and development partners. In parallel to these activities, the independent Operations Evaluation Department (OED) has completed phase I of their review of environmental activities within the Bank, which focused on selected country case studies in India, Mexico, Morocco, Madagascar, Nigeria, and Poland, and an online discussion in the World Bank's Development Forum.

The second phase, which is now under way, focuses on consulting broadly with client countries and a range of partners on the framework and the draft regional strategies. In parallel, OED will be concluding phase II of its review of selected thematic areas (safeguards, poverty and environment linkages, the environmental impacts of adjustment, combating desertification, and biodiversity conservation) and hold four Regional Consultative Workshops in Asia, Africa, Latin America, and Mediterranean-North Africa. The development of the Environment strategy will build upon the OED phase I and II findings, and be closely coordinated with the ongoing forest, water, rural, and urban transport policy reviews and strategy development. This will ensure that the strategy builds upon lessons learned from earlier work and that important linkages with the water, forestry, urban transport, and rural sectors will be explicitly incorporated into the environment strategy.

An important element of the strategy process will be to explore the linkages between the public and private sector aspects of the WBG strategy. As part of this effort, the International Finance Corporation (IFC) has taken the lead in developing a framework sustainable development strategy for the private sector in developing countries to guide IFC's strategy development. The draft IFC strategy will be completed by June 2000, followed by extensive internal and external review and consultation and integration into the WGB environment strategy.

In the third and final phase, which will be completed by the end of this year, feedback from the OED environment review and consultations, from the sustainable development strategy for the

private sector, and from several reviews and strategy development processes will be integrated into the strategy. The strategy will be completed and presented to senior management and the World Bank Board.

Thus, while a lot has been accomplished, a great deal remains to be done. At this stage in the process, this report is necessarily limited by the many significant inputs that are not yet available. The report stops short of actual strategy recommendations, but does provide a review of work and thinking to date. Chapter III of the report outlines the emerging strategic framework and is inevitably less developed than previous chapters describing the background.

The Emerging Framework

The linkages between environmental conditions and human welfare are extraordinarily complex. Human development depends on the ability of the environment to provide a variety of goods and services and to sustain these into the future. Environmental degradation and bad environmental conditions disproportionately affect poor people: their health, livelihood, and security. The degradation of global commons, such as climate change, impose a large threat to poor countries and poor people in the longer term. Poverty and the environment are linked in several critical areas, which are described in Chapter I.

A sound strategy to ensure environmental sustainability must, therefore, be an important element of the poverty-focused development strategy of the WBG. As outlined in Chapter III, the objective of the environment strategy is to help contribute to the Bank's mission of fighting poverty by improving people's livelihoods, health, and security today and in the future. The World Bank Group will do this by helping to enhance environmental quality and natural resource management and to maintain global ecosystems.

Specifically, recognizing the close links between environment interventions and poverty reduction outcomes, the WBG will aim to:

- **Improve people's health** by reducing their exposure to environmental factors such as indoor and urban air pollution, water-borne and vector-borne diseases, and toxic substances
- **Enhance the livelihoods** of poor people who depend on land, water, forests, and biodiversity by helping them secure access to resources and creating circumstances in which they can manage those resources sustainably
- **Reduce people's vulnerability** to environmental risks such as natural disasters, severe weather fluctuations, and the impacts of climate change by getting information to governments, the private sector, and poor communities, and empowering them to adapt.

To fulfill these objectives, the Bank must utilize its comparative advantage. As a development institution with a global mandate and long-term relationship with developing countries, the WBG plays an important role in shaping development paths and policies, and backing that role by financing specific projects and programs. It has a unique opportunity to promote sustainable private sector development by utilizing the synergies between the roles of the Bank, the IFC, and MIGA, as well as using its convening power to partner with a range of stakeholders in the public and private sectors and civil society. It has a role in helping to address regional and global environmental problems through its global reach, financial strength, its role as implementing agency for the financing mechanisms serving global environmental conventions, and its potential to integrate additional financing mechanisms into its own operations.

The WBG can most effectively work toward the above objectives and employ its strengths by focusing its interventions in the following three areas:

- **Integrating environmental considerations into strategies and actions for poverty reduction**. This will require environmental inputs into key elements of the country policy dialogue, stronger integration of environmental considerations into country dialogue; and sectoral policies, strategies, and operations.
- **Establishing public policies that enable sustainable private-sector-led economic growth.** Policy frameworks for the use of natural resources, for the provision of environmental services and environmental performance, for safeguarding against pollution and other harmful impacts on people and ecosystems need to be implemented through credible regulation, incentive policies, and monitoring and enforcement, backed by strong institutional capacity. The WBG can assist its clients to build such policies and institutions, facilitate investment in sustainable private sector development, and encourage constructive public-private partnerships.
- **Addressing regional and global environmental challenges**. The WBG can play the role of an honest broker and financier in addressing international environmental issues. Bank assistance to countries to address local environmental issues also generates regional and global environmental benefits. Additionally, the WBG also has a mandate to channel financing for poor countries' efforts to meet global environmental goals under the GEF and the Montreal Protocol.

In implementing the strategy, the World Bank Group will aim to adhere to the following principles: (i) listen to and work with the people and their representatives in client countries; (ii) focus on environmental interventions benefiting the poor; (iii) identify and work toward measurable outcomes; (iv) take a cross-sectoral and long-term perspective on development; (v) facilitate regional and global policy dialogue; (vi) harness the role of markets and the private sector to promote sustainable environmental management and investment; (vii) promote cost-effective solutions to environmental problems; and (viii) be selective and work with partners for better results.

The environment strategy will encompass actions across the World Bank Group. The Environment Family has an important role in ensuring that environmental considerations are integrated into the full range of development activities carried out by the World Bank Group. The key roles include: (i) analytical and policy support; (ii) operational support; and (iii) capacity building, knowledge transfer, and partnerships.

I

The Development Challenge

The Key Development Challenge: Poverty Reduction

Dramatic progress has been made in overall living standards in a significant number of developing nations. During the past 40 years, child mortality rates in developing countries have more than halved and malnutrition rates declined by almost a third. Yet despite these positive trends, poverty persists in most of the developing world.

Both the share of the population and the number of people living on less than a dollar a day increased in the early 1990s, declined substantially in the mid-1990s, but then rose again in the aftermath of the global financial crisis. Using 1993 Purchasing Power Parities, it is estimated that in 1998 there were approximately 1.2 billion people living on less than a dollar a day and 2.8 billion people living on less than $2 per day. In terms of regions, there are several important trends:

- The decline in the aggregate numbers (from about 1.3 billion people in 1993 to about 1.2 billion people in 1998) are almost exclusively due to a reduction in the number of poor people in East Asia, notably China.
- In South Asia, the share of the population living in poverty declined moderately in the 1990s, but the actual number of poor people has been rising steadily since 1987.
- In Africa, the share declined and the numbers increased. Africa is now the region with the largest share of people living below $1 per day.
- In Latin America, the share of poor people remained roughly constant but the numbers increased.
- In the countries of the former Soviet bloc, poverty rose markedly—both the share and the numbers increased.

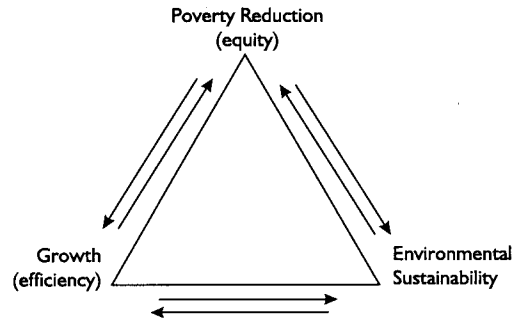
These numbers have had a sobering effect on development agencies and led to a renewed effort to identify ways to effectively reduce poverty in developing nations.

Poverty, Growth, and the Environment

At the core of the World Bank's mission is a commitment to fighting poverty for lasting results. Achieving economic growth, particularly poverty-focused growth, as well as ensuring long-term environmental sustainability are essential parts of this mission.

A useful way of thinking about how to link the Bank's environmental strategy to development outcomes is in terms of *the "critical triangle" of development outcomes: growth (efficiency), poverty (equity), and environmental sustainability* (See *Figure 1).* Under this framework, various combinations of development outcomes can be achieved. Achieving economic growth in the poor nations of the world is an essential element in reducing poverty and improving welfare. Historically, therefore, much attention was paid to economic growth. Although major progress has been achieved (for example, through the Green Revolution) and the quality of life of millions of poor people improved—equity, and more recently environmental sustainability, emerged as major constraints in the simple growth-based outcomes model.

Figure 1. Critical triangle of development outcomes



Growth may create new stresses on the environment as the demand for natural resources rises and the damaging by-products of economic activity accumulate. An essential element of the Bank's poverty mission, therefore, must be to ensure that growth today does not come at the price of harm to the well-being of future generations. A key challenge is to find an appropriate mix of policies, institutions, and technologies to make the three goals compatible. Nations follow sustainable development paths only if due weight is given to each goal and a long-term balance is achieved.

The linkages between environmental conditions and human welfare are extraordinarily complex. Human development depends on the ability of the environment to provide a variety of goods and services and to sustain these into the future. People rely on their environment for food, drinking water, shelter, energy, and medicine. Ecological processes maintain soil productivity, nutrient cycling, the cleansing of air and water, and climatic cycles. Air and water quality are key determinants of human health. Healthy soils are fundamental for food production, while genetic diversity supports the breeding programs that are vital for the growth of food supplies.

A sound strategy to ensure environmental sustainability must therefore be an important element of the poverty-focused development strategy of the World Bank Group. As the World Bank assists its clients to reduce poverty and improve people's welfare, an essential challenge is to ensure that the capacity of the environment to generate income and well-being, now and in the future, is maintained. Economic growth implies environmental change in a changing social context. A key challenge of development is to find the right balance between the environmental, social, and economic aspects of development. A lasting reduction in poverty, therefore, is not possible without ensuring that:

- The environment continues to provide fundamental ecological services for the benefit of current and future generations.

- Human health is protected from the adverse effects of pollution.
- Environmental services such as the provision of water, sanitation, and waste collection and disposal, benefit all segments of society—especially the poor.
- Natural resources are used in a manner that does not compromise long-term development.
- Environmental risks are managed and mitigated.

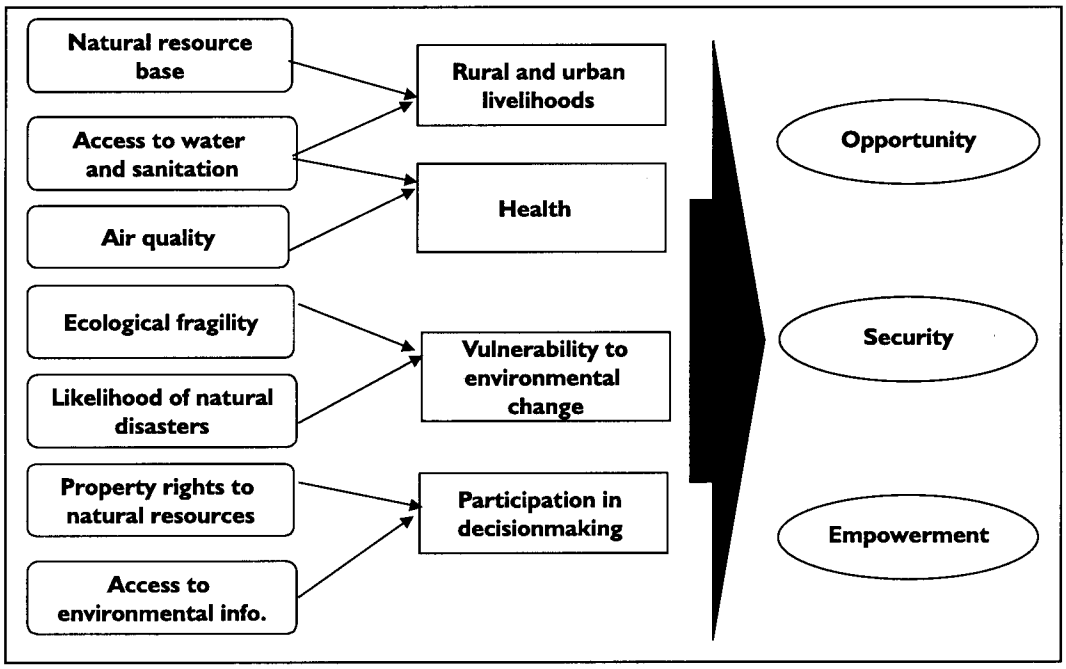
Environment-Poverty Links: Priority Issues

The roughly 2.8 billion poor and near-poor people in the world—those living on less than $2 per day—are disproportionately affected by bad environmental conditions. They are particularly vulnerable to shocks from environmental change and natural catastrophes. Every year, between 5 and 6 million people die in developing countries from water-borne diseases and air pollution. The livelihoods of more than 1 billion rural people are at risk because of desertification and dryland degradation. By 2025 water scarcity will require hard decisions about the allocation of water, which is vital to the life and livelihoods of up to two-thirds of the world's population. The poor are affected most by environmental challenges of this type. *Real, lasting poverty reduction is only possible if the environment is able to provide the services people depend on, and if natural resources are used in a manner that does not undermine long-term development.*

Given the Bank's focus on poverty reduction, an important part of the effort to develop an environment strategy has been devoted to exploring the linkages between environmental degradation and poverty. As defined by the draft World Development Report (WDR) 2000/2001, poverty is multi-dimensional, encompassing not only the lack of income but also the lack of access to assets, health status, vulnerability to economic and natural shocks, and voice in decisionmaking. Preliminary suggestions emerging from the draft WDR to reduce poverty fall under the headings of opportunity, security, and empowerment. As the figure below indicates, the environment can contribute to many aspects of poverty, including rural and urban livelihoods, health, and vulnerability to natural disasters. (See *Figure 2.*)

Several important linkages are described below, including human health, natural resource management and livelihoods, vulnerability to natural disasters, and regional/global dimensions. The question of the empowerment of poor people has particular relevance with regard to the environment in all these dimensions. In many cases the poorest members of society have the least voice in institutions which control access and management of local natural resources. In regions of India, for instance, access to common property resources provides up to 23 percent of the income of the poor, yet decisions about enclosure typically ignore the interests of the poor. Conversely, environmental activism is often the first means by which poor communities gain a say in the management of natural resources, as the examples of indigenous groups and the struggle over access to forest resources have highlighted.

Figure 2. Environmental determinants of poverty outcomes

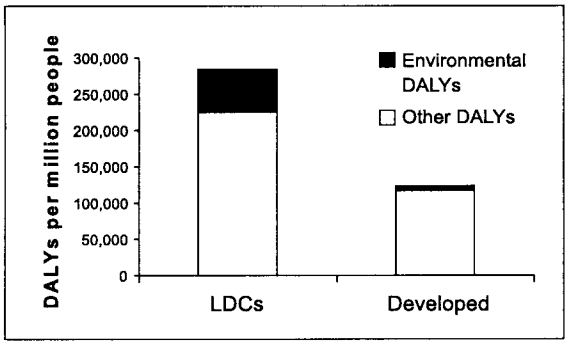


Poverty, Health, and the Environment

> "Sometimes. . .the water is brown. We call it tea, but we drink it anyway."
> *Southwest Province, Cameroon—from Voices of the Poor: Can Anyone Hear Us?*

Premature death and illness caused by environmental health risks account for one-fifth of the total burden of disease in the developing world, which is comparable to that of nutrition (15 percent) and larger than all the other preventable risk factors and groups of disease causes. (See *Figure 3.*)

Figure 3. Burden of disease and environmental risks: Developing vs. developed countries



Data: DALYs (disability-adjusted life years) are a standard measure of the burden of disease. The concept of DALYs combines life years lost due to premature death and fractions of years of healthy life lost as a result of illness or disability.

Source: Murray and Lopez 1996.

Diseases associated with environmental factors are highly concentrated among the poor. Sixty percent of all malaria deaths, for example, occur among the poorest 20 percent of the world's population. Half of all deaths from diarrhea are among the poorest 20 percent. (Gwatkin and others 1999.)

Developing countries are most seriously affected by traditional environmental health hazards which include:

- *Water-related diseases,* such as cholera and diarrhoeal diseases, claim an estimated 3 million lives in developing countries each year; the majority are children under 5 years of age. Water-

related diseases impose an especially large health burden in the Africa and the Asia and Pacific Regions. In India alone, nearly 1 million people die annually due to water-borne diseases.

- *Indoor air pollution* is principally caused by the burning of dirty fuels such as traditional biomass in inefficient stoves without proper ventilation. More than half of the world's households use unprocessed solid fuels for cooking and heating, exposing people—mainly poor women and children in rural areas and urban slums—to high levels of suspended particulates and other pollutants. It is estimated that nearly 2 million women and children die annually in developing countries from exposure to indoor air pollution, including about 500,000 deaths in India and about 700,000 in China.
- *Vector-borne diseases,* such as malaria, which are affected by a range of environmental conditions, are responsible for about 800,000 deaths annually in Africa alone.

In addition to traditional environmental health risks, people in developing countries are increasingly exposed to emerging environmental health hazards:

- *Urban air pollution* from a variety of sources, including households burning coal, power plants, and vehicles. Close to a million premature deaths can be attributed to urban air pollution, primarily through inhalation of fine particles that affect respiratory health.
- *Agro-industrial chemicals and waste*, including occupational exposure to hazardous chemicals and heavy metals.

Overall, the environmental health burden as a percentage of the total disease burden is highest in the regions that house the majority of the world's poor—27 percent in Africa and 18 percent in Asia. (See *Table 1.*)

Table 1. Burden of disease from major environmental risks

	Percent of all DALYs in each country group								
Environmental Health Group	**SSA**	**India**	**Asia & Pacific**	**China**	**MNA**	**LCR**	**FSE**	**EME**	**All LDCs**
Water supply and sanitation	10	9	8	3.5	8	5.5	1.5	1	7
Vector diseases (malaria)	9	0.5	1.5	0	0.3	0	0	0	3
Indoor air pollution	5.5	6	5	3.5	1.7	0.5	0	0	4
Urban air pollution	1	2	2	4.5	3	3	3	1	2
Agro-industrial waste	1	1	1	1.5	1	2	2	2.5	1
All causes	26.5	18.5	17.5	13	14	11	6.5	4.5	18

Note: SSA—Sub-Saharan Africa, MNA—Middle East and North Africa, LCR—Latin America, FSE—Former Socialist Economies of Europe (does not include Central Asia), EME—Established Market Economies, LDCs (Less Developed Countries) comprise all regions/countries in the first six columns. Regions slightly differ from World Bank Regions. See a definition in WDR 1993 and Murray and Lopez 1996. Note that Asia and Pacific includes countries from East and South Asia, except for China, India, and Pakistan.
Source: Murray and Lopez 1996; Smith 1993, 1998, 1999; WHO, 1997; WDI, 1999; Lvovsky and others 2000.

The majority of those suffering from high levels of indoor air pollution, lack of sanitation, scarce water supply, and malaria live in rural areas. However, rapid urbanization and the uncontrolled growth of urban slums also create a "double burden" for the urban and semi-urban poor: half of the environmental health risks are attributed to dirty cooking fuels, primitive stoves, crowding, and poor access to water and sanitation; the other half to transport and industrial

pollution. In some parts of the world malaria is becoming an urban issue due to faulty infrastructure. Urbanization is a major factor in Africa, Asia, and Latin America that is changing the landscape of environmental health concerns and posing new challenges of an unprecendeted scale. Addressing critical environmental health issues will be a key condition of improving urban livability.

Improving people's health requires a holistic, multisectoral approach to mitigate major health risks, including environmental health hazards. A holistic approach is particularly important for improving the health of the poor, who are most vulnerable to both major environmental hazards and deficiencies in health service provision.

Environmental health risks can be prevented or mitigated through a variety of activities in several sectors including infrastructure, energy, education, and agriculture. Better infrastructure and energy services for households and communities, together with improved housing and vector control interventions, are key measures for mitigating traditional environmental health risks.

To reduce modern environmental health risks, pollution prevention and abatement measures are required, which in turn call for setting and enforcing environmental standards, developing the culture of environmental compliance, and creating effective incentives for changing industrial and consumer behavior. In Sub-Saharan Africa, remedial measures such as improved water and sanitation, household energy, housing, vector control, and pollution management are estimated to reduce the total burden of disease by 23 to 29 percent. Health care interventions aimed at the same cluster of diseases that are affected by environmental factors (such as diarrhea, respiratory symptoms, eye diseases, and malaria) can reduce the disease burden a further 23 to 28 percent.

Poverty, Natural Resources, and Livelihoods

In most regions, the majority of poor people live in rural areas and depend directly or indirectly on terrestrial and marine natural systems for income generation. The very poor are often landless laborers, small farmers, or agricultural workers. They depend on natural resources such as water, soil, and fishing for subsistence and income.

> "During the dry season, from August to January when the springs become dry, we have to walk 2 kilometers to Kishimbo to get water. When we reach there, we find that there are so many people lined up for water, it takes six hours to get one bucket of water."
> *Oldadai, Arusha, Tanzania—from Voices of the Poor: Can Anyone Hear Us?*

- *Land and soils.* Soils are the foundation of agriculture. The maintenance of their fertility is the result of natural processes in healthy ecosystems, including preserving vegetative cover and soil biodiversity. Most agricultural land area in developing countries, however, has soils that are of lower quality or degradation-prone. The results of a 1990 Global Assessment of Soil Degradation (GLASOD) show that 1.2 billion hectares—almost 11 percent of the earth's vegetated surface—have undergone moderate or worse soil degradation over the past 45 years, and an estimated 5 to 12 million hectares are being lost annually to severe degradation in developing countries. Degradation of cropland appears to be most extensive in Africa, where it affects 65 percent of cropland area, compared to 51 percent in Latin America and 38 percent in Asia. Food requirements, which are expected to double by 2050, have to be met mainly through intensification. In such a scenario, sustainable use of land becomes critically important.
- *Freshwater resources.* Water is a scarce resource in many arid and semiarid parts of the world, including the Middle East; Eastern, Western, and Southern Africa; and parts of South Asia, Latin America, and the Caribbean. In 1990, 20 countries with a total population of 130

million people were classified as "water scarce" with average water available per capita of less than 1,000 cubic meters per year. Eight countries with a total population of 205 million were defined as "water stressed" with average water available per capita of less than 1,700 cubic meters per year. Many countries, including Yemen, Jordan, and Algeria are consuming abut 100 percent of their renewable water resources. Local scarcity also exists in countries with an overall abundance of water resources such as Brazil, China, Mexico, and Trinidad and Tobago. Water scarcity has a disproportionate impact on low income groups, residing largely in rural areas and in slums, where access to potable supplies is generally more limited than in middle- and higher-income areas. The poor also have a higher propensity to be located in marginal or less desirable areas, such as along polluted waterways, in degraded watersheds, and in the vicinity of sewage treatment facilities and wastewater disposal sites. Over-extraction and over-regulation (such as channeling) of surface waters reduce in-stream environmental uses and downstream consumptive uses, exacerbates saltwater intrusion, affects the productivity of riparian lands, and reduces the capacity of water bodies to assimilate wastes. Water pollution caused by poor sanitation and uncontrolled waste discharges from urban, agricultural, mining, and industrial development increases costs for downstream users and affects public health.

- *Coastal ecosystems and fisheries.* Coastal ecosystems provide shoreline protection, water quality maintenance, biodiversity, food production (fisheries), recreation, tourism, and other services. Some 90 percent of the world fish catch stems from coastal ecosystems, and local and commercial fisheries are a significant source of employment and nutrition (18 percent of the world protein supply). The main constraints on the ability of coastal ecosystems to provide these goods and services include habitat loss or conversion (such as coastal urbanization); over-exploitation (due to huge over-capacity fishing in commercial fishing fleets, and damaging extraction methods); pollution from land-based activities (toxic effluents, nutrient loading, and sediments); and, on a longer time-scale, climate change. Globally, the state of exploitation of commercial fish stocks for which assessment information is available has remained more or less unchanged since the early 1990s. Recent reviews indicate that about 44 percent of stocks are fully exploited, with no room for expansion, and about 16 percent are over-exploited and require remedial action to recover. A shift is occurring toward exploiting inland fisheries resources, although the outlook for inland aquatic resources is not encouraging. The average annual increase is about 130,000 tons (about 2 percent per year). Exploitation is most intensive in Asia and Africa. More effective policy interventions will be required to sustain or enhance the productivity of both inland and coastal resources and the services they provide.

- *Forest resources management.* Four-fifths of wood harvested in developing countries is consumed as fuel. For nearly 3 billion people, wood is the main energy source for household heating and cooking. Many countries, however, face a widening gap between their fuelwood needs and sustainable supplies. Countries with large populations such as China, India, Sri Lanka, Thailand, and Vietnam could face critical fuelwood shortages within the next 20 years. Women and children bear the greatest burden of this scarcity. Considerable energy must be spent walking ever-growing distances to obtain fuel and agricultural inputs to meet household needs, detracting from other activities such as education and micro-enterprise. Despite the recognized value of forests and their associated functions, they are often converted to land uses with a higher financial yield but less total economic value, and they continue to degrade and disappear. Global rates of forest loss increased from about 12 million hectares per year in the 1970s to over 15 million hectares (0.8 percent of total natural forest cover) per year in the 1980s. Deforestation rates in the upland forests of Central America, South East Asia, East and Central Africa, and the Andes are among the world's highest, with significant impacts on regional water regimes.

- *Biodiversity.* Natural habitats and their component species and genes provide both goods for consumption and ecological services to maintain healthy environments and economies. It is the poorest rural people who are most dependent on biodiversity and natural resources for their livelihoods, and it is they who suffer first and most when those habitats are simplified, degraded, or otherwise impoverished. Biodiversity protection, however, presents two special challenges for sustainable natural resource management: (i) most of its benefits continue to be considered economic externalities; and (ii) many of these benefits tend to accrue over the long term. The benefits of maintaining biodiversity also have cumulative significance at the global level and accrue to mankind as a whole over time—such as the protection of biodiversity "refugia" and development of new medicines from unique genetic resources. Most of the costs result from biodiversity degradation and are associated with biodiversity conservation at the local and national levels, however. The percentage of species threatened with extinction is dramatic. For example, 12 percent of all mammal species and 11 percent of all bird species are threatened with extinction; for freshwater fish, 52 percent of species are declining, 38 percent are stable, and only 11 percent are increasing. Habitats are also severely degraded: 58 percent of all coral reefs are degraded, over 80 percent of the world's mangroves have disappeared, 50 percent of all wetlands have been lost.

Often, poor people have developed complex and effective mechanisms for managing natural resources, even over long time periods. In some circumstances, however, these mechanisms can break down and lead to a deterioration in natural resources so severe that people can no longer support themselves. What causes these mechanisms to break down varies from place to place and depends on complex interactions of social, economic, and natural factors. Natural resource management issues vary among regions and locations, but there are some common concerns, specifically related to:

- Property rights
- Incentives and institutions
- Empowerment.

Inequity in land ownership often consigns the poor to marginal and hilly lands, which are prone to erosion and flood damage. In addition, government policies often constrain opportunities for the poor. Inequity in irrigated land, for example, which is largely determined by government irrigation policy, is greater than inequity in the distribution of land. Combined with nonmarket-based water pricing, these policies appear to jointly foster inequity and unsustainable use.

In the area of incentives and institutions, the Bank pays increasing attention to leveraging change in the institutional and regulatory frameworks that govern the ways in which natural resources are used. For example, some governments subsidize water, promoting overutilization and leading to rapidly emerging scarcity. These interventions are well intentioned, but they generally miss their target and do not benefit the poor.

In many instances communities lack control over local natural resources - the central government owns the forest, for instance, or prohibits the harvest of wildlife. Under these circumstances the local community has no incentive to manage natural resources sustainably and the result is illegal logging and poaching. Empowering local communities by granting secure usage rights to natural resources can pay dividends in terms of better and more sustainable resource management. Programs such as CAMPFIRE in Zimbabwe, where communities were granted rights to harvest and to manage wildlife as a tourism resource, have been notable successes both in terms of poverty and environmental outcomes.

Poverty and Vulnerability

> "...the consumption level of a poor household drops by 50 percent in the wake of droughts...The women are expected to take their meals only after others in the household have finished eating. More often than not ... women are left with practically nothing to eat ..."
> *Bolangir, India—from Voices of the Poor: Can Anyone Hear Us?*

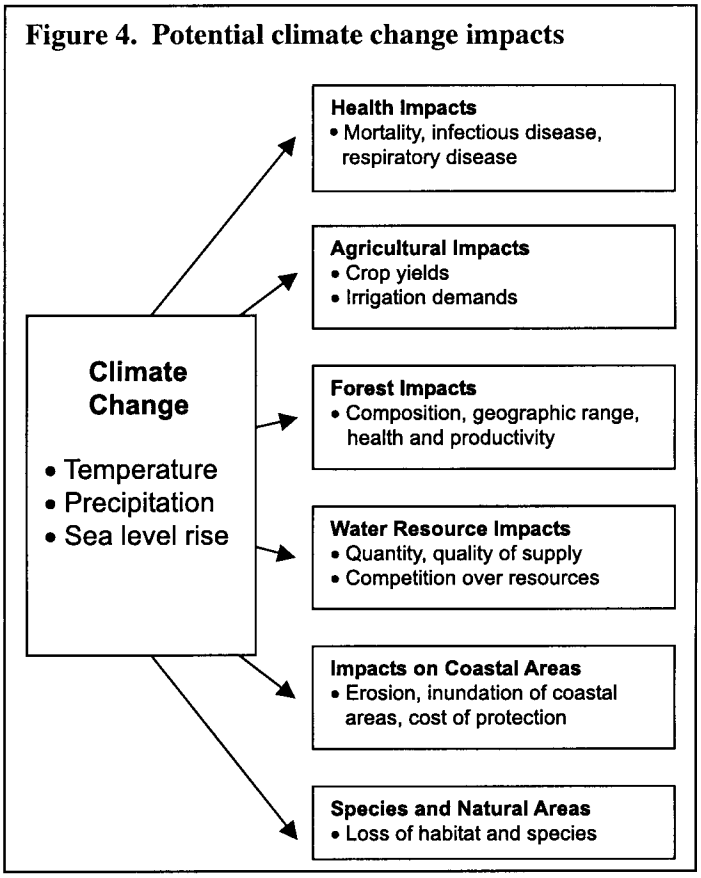
Poor countries, and in particular poor people, are particularly vulnerable to both natural disasters and changes in environmental conditions. Natural disasters—such as floods, storms, droughts, and landslides—have a disproportionate affect on poor people. They tend to live in precarious housing, which is often located in environmentally vulnerable areas such as flood plains or steep slopes. As a result, they are at greater risk from natural disasters and severe weather. More important, the poor have less capacity to cope when disasters occur. Access to credit is scarcer than for better-off households, and they have fewer assets to sell or consume in times of hardship. Natural disasters, therefore, often have catastrophic effects on the poor.

Climate and weather are primary concerns for natural disaster and risk management. Over the past three decades, disasters triggered by cyclones, droughts, and floods occurred five times as frequently, killed or affected 70 times as many people, and caused twice as much damage worldwide as did earthquakes and volcanoes. The largest and best understood variation in seasonal climate is El Ñino and the Southern Oscillation (ENSO). The 1997–98 ENSO event was directly responsible for 22 disaster declarations that required international assistance, with total costs estimated at $25–36 billion. Whether the frequent and strong ENSO events of the 1990s signal the arrival of a new climate regime remains to be seen.

Capacity to predict and mitigate the impacts of natural disasters is typically low in poor countries. In 1992, Hurricane Andrew hit the southeastern coast of the United States and caused 32 deaths. In the same year, a cyclone of similar intensity hit Bangladesh and caused 100,000 deaths.

Long-term, human-induced changes in climate and associated increases in sea level are predicted to adversely affect human health (particularly vector-borne diseases such as malaria and dengue), ecological systems (particularly forests and coral reefs), and socioeconomic sectors (including water resources, agriculture, forestry, fisheries, and human settlements). (See *Figure 4.*)

Figure 4. Potential climate change impacts



Regional and Global Dimensions

Environmental problems don't stop at national boundaries. Conflicts over shared resources such as water may threaten national and regional security, while pollution in one country may affect human health and the quality of the natural resource base in neighboring countries and whole regions. Decisions taken in individual countries about natural resource management issues such as forestry, land, and water management, and the use of nonrenewable energy resources may have far-reaching implications—short- and longer-term—for whole regions and the world. The large-scale degradation of natural resources, such as desertification and deforestation are of global importance and undermine efforts to reduce poverty and ensure long-term sustainable growth. (See *Table 2*).

Table 2. Global ecological degradation and implications for poverty

Areas of ecological degradation	*Implications for sustainability and poverty alleviation*
Land and soils degradation and desertification have accelerated, with 11 percent of the planet's vegetated surface degraded, and 66 percent of the 1.5 billion ha of cropland experiencing some degree of degradation.	Loss in agricultural productivity and increased vulnerability to natural disasters with disproportionately higher impacts on the poor.
Over 70 percent of *freshwater sources* are seriously contaminated or degraded, and overpumping of groudnwater exceeds natural recharge rates by 160 billion cubic meters.	Freshwater ecosystems cover less than 1 percent of the earth's surface but are the source of water for drinking, agriculture, and industry, and a source of as much as 75 percent of protein in come poor countries.
Nearly 70 percent of *marine fish stocks* are either depleted or overexploited.	Collapse of major marine fisheries is occurring, with consequent loss of food, jobs, and ecological integrity.
Forest loss has increased from 12 million ha per year in 1970 to 15 million hectares per year in 1990.	Shortages of fuelwood and building materials on which the poorest of the poor depend (275 million in India alone).
Loss of ecosystems, habitats, and species (*biodiversity*) has accelerated exponentially. Today's rate of species extinction of between 2 to 5 known species per hour is between 100 and 1,000 times the natural rate.	Loss of ecological services including water capture, erosion control, carbon sequestration, genetic diversity and others. Natural pollination alone has a value of $54 billion per year to agriculture.

The poorest countries are often those most threatened by the degradation of the global commons. Climate change is projected to cause significant increases in famine and hunger in many of the world's poorest areas, which, especially in the tropics and sub-tropics, depend on isolated agricultural systems. Climate change is also expected to lead to the displacement of millions of people from small island states such as the Maldives and low-lying delta areas of Bangladesh, China, and Egypt; to decreasing precipitation in many arid and semiarid areas, especially in Sub-Saharan Africa (for example, in Chad and Mali); to increasing incidence of vector-borne diseases such as malaria and dengue in the tropics and subtropics; and to rapid shifts in the distribution and productivity of terrestrial and aquatic ecosystems resulting in the loss of biodiversity.

There are many reasons why developing countries and poor people are more severely affected by the impacts of climate change: (i) they have more drought- and flood-prone areas than other parts of the world; (ii) their economic structure has a higher share of climate-sensitive sectors such as agriculture; and (iii) their capacity and ability to predict, prevent, and respond to adverse impacts is limited. Assessing and addressing the vulnerability of developing countries to the impacts of climate change and their capability to adapt to those impacts is an important part of poverty reduction strategies.

There is a need to recognize the policy, institutional, and scientific linkages between poverty reduction, the sustainable use of natural resources, and regional and global environmental issues, as well as the linkages among various environmental issues.

II
The Context for the Environment Strategy

The development of the strategy recognizes and builds on:

- The Bank's *de facto* strategy and lessons from its implementation in the past decade.
- The Bank's increasing effort to respond to its clients' interest in poverty reduction, tangible outcomes, and lasting results.
- Significant changes in global economic, political, and social trends.

Taking Stock

The World Bank Group's views and strategic directions on environmental sustainability were most comprehensively expressed in the *1992 World Development Report,* which provided a framework for integrating environment and economic development. The de facto environment strategy of the Bank is also embedded in policies on environmental safeguards, guidelines, regional environmental strategies, environmental sector work, and specific sector strategies (for example, rural, energy, and urban).

An important component of the environment strategy has been a "stocktaking" review of the Bank's current environmental safeguards, guidelines, and strategies. A full stocktaking is awaiting completion of the OED review.

Safeguards–"Do No Harm"

A number of World Bank operational directives, policies, guidelines, and procedures are intended as "safeguards" against any potential harm to the environment stemming from Bank investments. The 1975 Bank guidelines on the environmental dimensions of projects, which contained checklists of actions and outcomes to avoid in different kinds of projects, were the first set of Bank policies designed to protect those who might be adversely affected by Bank-funded operations.

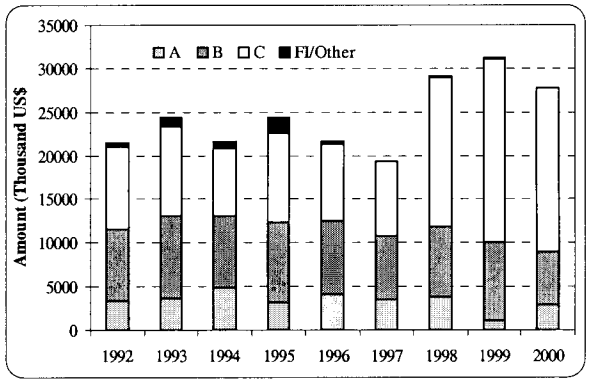
The first Operational Manual Statement (OMS 2.36, 1984) on the environmental implications of the Bank's work coincided with the establishment of the Environment Division. The policy required that (a) environmental impacts be reviewed during project design; and (b) the

results be reported in "Project Completion Reports." The first Operational Directive on Environmental Assessment, issued in October 1989, mandated a systematic screening of the IBRD portfolio and the preparation of an environmental assessment (EA) for all projects that might have significant negative impacts on the environment. Since then, a number of policies have been added to protect the environment and vulnerable populations. Currently, 10 environmental and social policies[1] are considered safeguard policies. The entire portfolio of the Bank, IFC and MIGA is subject to systematic screening.

Environmental Assessment has been a key instrument to help the Bank and its borrowers decide what actions need to be taken to ensure the environmental soundness and sustainability of a project. From FY90 to FY99, 186 projects—about 12 percent of the Bank's lending portfolio by lending amount—were classified as category A, which requires a full environmental assessment. Another 931 projects—nearly 33 percent of Bank lending—were classified as Category B, requiring a more targeted or limited environmental analysis. About 55 percent of the portfolio was deemed to have no environmental impact and required no environmental analysis (Category C).

Since 1991, the share of Bank lending subject to full environmental assessment or environmental analysis has varied between 32 and 64 percent. (See *Figure 5.*)

Figure 5. IBRD/IDA commitments by EA category, FY92–2000



Note: "A"- lending subject to full environmental assessment; "B"- lending subject to environmental analysis; "C" lending not subject to environmental assessment. FY2000 are preliminary numbers.

The quality of the analytical work supporting environmental safeguards has gradually improved. In many cases, environmental assessments have led to better project design, and environmental management plans have introduced improvements in project implementation, which has resulted in greater attention to environmental issues in Bank-financed projects. (See *Box 1*).

Information on the environmental aspects of projects has been made available for public review, and mechanisms for public participation in environmental reviews and assessments have been established in client countries. The WBG's safeguard policies have been instrumental in the development of national environmental assessment systems, and they became internationally recognized references

Box 1. Environmental Assessments Lead to Better Project Design and Environmental Performance

The EA for the **IV Uganda Power Project** (FY'00) assessed the environmental and social impacts of the proposed expansion of the Owens Falls power station, particularly the impacts of the water hyacinth and potential health impacts on the surrounding population. This work was done to ensure that power sector reforms, increased private sector participation in power supply and improved basic infrastructure, are handled in an environmentally sustainable manner. In addition, an environmental management system was proposed to improve ongoing environmental performance.

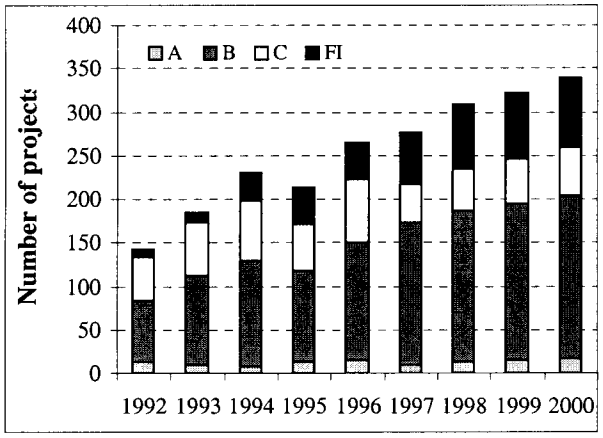
[1] Environmental Assessment (OP4.01), Natural Habitats (OP 4.04), Forestry (OP4.36), Pest Management (OP4.09), Involuntary Resettlement (OP 4.30), Indigenous Peoples (OP4.20), Cultural Property (OP11.03), Safety of Dams (OP4.37), Projects in International Waterways (OP 7.50), and Projects in Disputed Areas (OP7.60).

Recent evaluations have concluded that Bank projects are normally well designed to avoid environmental damage, and they have good environmental management action plans. However, there is significant room for improvement during the implementation phase and there is a need to work further upstream through sectoral and regional environmental assessments.

Still, environmental safeguard policies have not yet achieved maximum effectiveness. A 1996 OED review found that many of the EAs of Category A projects had failed to seriously consider alternative designs and technologies, and that environmental safeguards were often applied too late in the decisionmaking process. Additionally, environmental assessment is a tool for addressing project-specific environmental concerns. Broad macroeconomic and sector policies, however, may have much more significant and lasting environmental implications than individual projects. As the Bank's focus is shifting toward programmatic policy-based lending, the understanding of policy-environmental linkages and tools for integrating environmental considerations into upstream policy work will need to receive increased attention to complement the role of safeguards.

IFC's Environmental assessment is similar to the Bank's. It is guided by the *Environmental and Social Review Procedure* (ESRP), which turns the principles of Operation Policy on Environmental Assessment (OP 4.01) into specific requirements during IFC's project cycle. Within IFC, the term environment is taken to include environmental, health, safety, human, social, labor, and cultural issues. Environmental assessments must address any significant impact within this broad range of issues. Due to the nature of investments in IFC, the share of projects subject to environmental assessment and review is higher than in the Bank. (See *Figure 6.*)

Figure 6. IFC portfolio by environmental categories, FY92–2000



Note: FY99 and FY2000 are estimates.

According to IFC's Operations Evaluation Group (OEG), in 1999, 74 percent of a total of 119 evaluated projects scored satisfactorily on the application safeguards. One factor contributing to this relatively positive outcome is the simplicity of many IFC investments—project finance for a green-field development. The 26 percent rated unsatisfactory were dominated by more complex investment vehicles—such as intermediary finance. Given that IFC's use of financial intermediaries (FIs), equity, fund and project development facilities is likely to grow, addressing shortfalls in this area is a priority.

MIGA has the same environmental and social safeguard policies developed by IFC for Natural Habitats, Forestry, Indigenous Peoples, Safeguarding Cultural Property, Involuntary Resettlement, Pest Management, Safety of Dams, and Projects on International Waters. MIGA's Environmental Assessment and Disclosure policies, as well as its Environmental and Social Review Procedures were approved by the Board in May, 1999.

From "Do No Harm" to "Do More Good"

Apart from safeguards, by the late 1980s it was clear that the Bank needed to take a more proactive approach if it was to effectively address the world's pressing environmental challenges.

This meant a shift in emphasis from the "Do No Harm" approach exemplified by safeguards to the "Do Good" approach exemplified by a wide variety of bank policies. This approach was intended to look for complementarities between development and environment objectives and encourage stronger policies and institutions targeted at specific environmental problems.

The emphasis initially was on National Environmental Action Plans (NEAPs), which described a country's major environmental concerns, identified the principal causes of problems, and formulated policies and actions to deal with the problems. It also included a variety of technical assistance programs to prepare and implement lending operations or strengthen human and institutional capacity for policy reform and sustainable development.

An important part of this pro-active strategy in the 1990s was the development of a portfolio of Bank projects with relatively clear environmental objectives and benefits. Environmental lending has encompassed such broad areas as pollution and urban environmental management, sustainable natural resource management, environmental capacity and institution building, and responding to global environmental challenges:

- *Pollution management and urban environmental improvements* include household, industrial, and transport-related pollution abatement; the provision and improvement of environmental services; and pollution management to improve environmental quality, protect human health, and ecosystems. Traditionally, the Bank approached urban environmental issues in a sectoral context, typically with stand-alone projects focusing on physical investments in water, sanitation, solid and hazardous waste management, and industrial pollution control. It has been increasingly recognized, however, that sectoral interventions are most effective if they are guided by a consistent environmental policy framework that focuses on identifying the most critical environmental problems; determining the key sources and causes of problems; identifying cost-effective interventions based on a range of alternatives across sectors; setting achievable outcome objectives; and introducing appropriate policy tools. The Bank's approach to industrial pollution management has also undergone significant changes since the 1970s. The first industrial pollution abatement projects focused on financing the installation of pollution control equipment, often in public enterprises through financial intermediaries. More recent projects are aimed at establishing an incentive framework for the private sector to improve environmental performance. (See *Box 2.*)

Box 2. Environmental Adjustment Lending

The Bulgaria Environmental and Privatization Support Adjustment Loan (EPSAL) (approved by the World Bank Board in 2000), is one of the few Bank loans for environmental adjustment lending. The loan provides budgetary support to the government to cover the costs of integrating environmental issues into the large-scale privatization of enterprises (supported by a parallel financial sector adjustment loan). Specifically, EPSAL supports the introduction of an environmental policy, regulatory, and institutional framework; strengthens mechanisms for ensuring that privatized industries will comply with environmental regulations; and introduces a framework for integrating environmental concerns into privatization contracts. It also addresses environmental liabilities, including remediation for past damages.

The EPSAL is a good example of mainstreaming environmental issues, optimizing the environmental benefits of privatization, and harnessing the role of the private sector in pursuing sustainable development.

- *Sustainable natural resource management* has focused on improved land and pest management, soil conservation, sustainable forest management, and watershed rehabilitation and management. Some of the challenges faced by the natural resource management portfolio came from the multi-sectoral, cross-media, and inter-jurisdictional nature of the programs.

Forest management has received increasing attention due to the strong interlinkages between forests, livelihoods, economic development, and global environmental concerns. Bank-financed forestry projects have contributed to poverty reduction and sustainable development in several countries, including Cambodia, China, India, Indonesia, and Russia. In general, however, Bank interventions have not reduced the rate of deforestation significantly, and the Bank could not maintain its presence in some countries with important forest sectors, such as Brazil and Indonesia. Governance problems—a key underlying cause of unsustainable forest management in many forest-rich countries—could be rarely addressed effectively by the World Bank. While lending for forest management has stagnated, water resources management has been a growing area in Bank operations. Lending has increased by 109 percent during the last five years. (Total commitments in the water sector amount to about US$20 billion for projects costing a total of about US$50 billion.) The bulk of the investments are in water supply and sanitation, irrigation, and irrigation drainage. Bank experience in addressing environmental aspects of freshwater, coastal, and marine resources management indicate the need for: (i) a shared vision, sustained political commitment, and public support of water resource management objectives; (ii) balanced support for preventive and curative measures; and (iii) the importance of partnerships between a diverse range of parties. Supporting sustainable land management has been a challenge in the Bank. A large portfolio of projects (US$9 billion lending leveraging about another US$9 billion) has targeted drylands.[2] Together with UNDP, UNEP, IFAD, FAO and many other agencies, the Bank has made large efforts in this area; however, it is clear that many of the current approaches have not worked effectively, and that people living in dryland regions have not improved their economic situation over the last 10 to 20 years. Projects and programs aimed at combating desertification and land degradation will have to be better coordinated based on a common framework. (See *Box 3.*)

Box 3. Community-Based Natural Resources Management

Natural resource management projects increasingly try to provide a role for communities in the design and implementation of NRM projects. For example, the *Mauritania Rainfed Natural Resource Management Project* (FY97) is financing the first five years of a 20-year long-term program to activate a process of natural regeneration of land fertility, rangeland vegetation, and livestock and forest production by encouraging the emergence of better adapted and more sustainable approaches to resource use. This will likely result in greater biodiversity conservation, while generating more income and a better quality of life for the local people. The project will provide rural communities with effective empowerment in the management of their natural resources. It is active in 47 villages in three regions of the country. A number of micro-projects (dikes, small dams, wells, women's vegetable gardens, and nurseries of indigenous tree species) are under way with the active participation of local communities.

- *Environmental capacity building*, to strengthen environmental institutions, legal and regulatory frameworks, and local and disadvantaged groups and NGOs. The Bank launched environmental institutional development (ID) projects as one of the first steps in its assistance to countries concerned with environmental management. Environmental ID projects have had a wide range of components, including the development of policy, legal, and regulatory frameworks, promotion of strategic planning, introduction of environmental management instruments, establishment of and technical assistance to environmental institutions, and public awareness building. (See *Box 4.*) A recent review indicated that environmental ID projects tended to focus on the process of creating or strengthening environmental institutions rather than on improvements in environmental policies or innovative programs for

[2] The majority of projects are in Sub-Saharan Africa (40 percent), about 18 percent in Latin America and the Caribbean, 13 percent in the Middle East and North Africa, 13 percent in South Asia, 9 percent in East Asia, and 7 percent in Europe and Central Asia.

environmental management. They were often designed to do too much too quickly, and were not tailored to specific local needs and conditions.

- *Global environmental issues*, including the protection of international waters and biodiversity, mitigation of greenhouse gas emissions, and phaseout of ozone-depleting substances. The global agenda was developed in response to international conventions and commitments such as the Montreal Protocol. The World Commission on Environment and Development in 1987 emphasized the need for donors and development organizations to focus on special funding to address international and global environmental concerns. In response, the World Bank, together with other UN agencies, assumed the role as an implementing agency for two global financing mechanisms: the Multilateral Fund for the Montreal Protocol for The Phase out of Ozone Depleting Substances (MFMP), which began in 1989; and the Global Environment Facility (GEF), which began as a pilot program in 1991 and graduated to a permanent facility in 1994/95 following the Rio Earth Summit. As implementing agency of the GEF, the Bank is supporting projects in four key areas: biodiversity conservation, phase out of ozone-depleting substances, addressing climate change, and the protection of international waters. As an implementing agency for the Montreal Protocol, the Bank supports programs in 20 countries. Bank-implemented closure projects currently underway would eliminate 70 percent of global CFC production. While the financial commitments of GEF are small relative to the magnitude of the problems, the Bank has demonstrated that it can leverage action that generates global environmental benefits by mobilizing resources, building capacity, promoting the transfer of techniques and cleaner technologies, and strengthening partnerships, including those with NGOs and the private sector, especially through the IFC. (See *Box 5.*)

Box 4. Environmental Capacity Building

Weak institutional capacity is one of the major bottlenecks to the implementation of government policies and programs in the environmental field. The World Bank has been heavily involved in institutional strengthening and in providing technical assistance for environmental institutional development (ID).

Several environmental ID projects are based on the recognition that institutional development is a long-term process and that capacity should develop gradually through programs and building-block projects. For example, Madagascar's 15-year Environment Program is based on a NEAP prepared in 1988 as a collaborative effort between the government, the Bank, NGOs, and other donors aiming to strengthen the country's management of natural resources in 3 five-year stages. The first phase focused on creating a proper policy, regulatory, and institutional framework. The second, now being implemented, will consolidate programs started under the first phase, and the third will strive to mainstream environmental concerns into macroeconomic management and sector programs.

Defining the environment portfolio, however, has always been somewhat arbitrary. Since environment is not a traditional sector, most "environmental projects" are implemented in a sectoral context (rural and urban development, water and sanitation, transport, energy, and so forth). Indeed, there have been serious overlaps in scope and objectives among projects labeled as environmental and those undertaken as sectoral projects. Distinguishing between local and global environmental projects has been equally difficult due to the strong overlaps between local and global benefits of many environmental interventions. From a sustainable development perspective, environment enters as one of several conditions for sustainability. Hence, in a broader sense, it is more meaningful to strive to hold all projects to a test of environmentally sustainable outcomes rather than perpetuate the notion of a portfolio of environmental projects.

Cross-Sectoral Linkages

The policies and operations of the WBG in the 1990s focused on safeguards and on project-based policy and institutional strengthening measures and investments. Relatively little attention was paid to the linkages between environmental and development objectives, in part because it was difficult to measure the development outcomes of environmental interventions. The interest in stand-alone environmental projects tended to reinforce the view that the environment was a separate sector within the Bank.

Box 5. IFC – GEF Cooperation

The IFC, with support from the GEF in some cases, has helped create a series of innovative investment funds that support various environmental objectives, including: (i) the Terra Capital Fund, which invests in private ventures that can sustainably utilize or conserve biodiversity; (ii) the global Renewable Energy and Energy Efficiency Fund (REEF), which is designed to mobilize equity and debt as well as to support smaller and riskier projects; (iii) the Solar Development Group (SDG), which builds on important lessons learned from IFC's SME investment and project development facilities as well as Bank/IFC experiences in solar PV business finance; and (iv) the Middle East and North Africa Environmental Fund (MEF), which is targeting interventions across the entire environment sector in one region. With access to GEF and other donor resources, IFC has also been able to stimulate additional private sector activity and/or NGO partnerships in such areas as energy efficient lighting, advanced renewable energy technologies or applications, ESCO financing, sustainable forestry, ecotourism, organic agriculture, and carbon finance.

This approach limited the integration of environmental concerns into long-term policy dialogue, country assistance strategies, and sectoral investments and programs. Institutional boundaries and incentives—both inside the WBG and in client countries–have often worked against cross-sectoral approaches that effectively addressed environmental challenges in combination with the Bank's poverty reduction mandate.

In the late 1990s, there were numerous signs of a strategic shift away from viewing the environment as a separate sector and toward considering environment as part of development. The effort to integrate environmental concerns into sector strategies and operations is evident in several areas, including other sector strategies and Country Assistance Strategies.

- In the 1997 rural development strategy–*Rural Development: From Vision to Action*–reversing environmental degradation and fostering sustainable natural resource management are two key objectives. At the project level, the strategy has translated to "greener" projects, including an increasing number of lending initiatives for better agricultural land management, efficient resource use, and sustainable farming practices.
- The Bank's new urban strategy includes objectives such as (a) the protection of human health from environmental threats; (b) the provision of basic environmental services, especially for the poor; and (c) taking an integrated approach to traditional and emerging urban environmental problems.
- In 1999, the Bank's Board endorsed *Fuel for Thought*, an environmental strategy for the energy sector. The strategy emphasized the need to (a) protect human health from the adverse effects of indoor and urban air pollution; (b) protect natural resources from the adverse impacts of water and air pollution; (c) promote environmentally sustainable production and use of energy resources; and (d) mitigate the potential impacts of energy use on global climate change.
- The Forest Policy Implementation Review and Strategy, which is currently under way in a joint effort between OED and operations, is addressing broad, cross-sectoral issues and soliciting input and advice from a range of stakeholders.

- A Water Resources Sector Strategy, also underway in a joint effort with OED, looks at the linkages between water resources and environmental management in the context of water sector investments supported by the Bank.

All of these efforts will include discussions of linkages with environmental considerations. As these sectoral strategies are implemented the distinction between environmental projects and well-prepared sectoral projects will become even less relevant.

Environmental Issues in Country Assistance Strategies

There is an ongoing effort to better integrate environmental considerations into the Bank's Country Assistance Strategies, the key document that guides Bank assistance for IDA and IBRD borrowers.

To date, the effort to integrate environmental considerations into Country Assistance Strategies has been uneven. The environmental component of a typical CAS is often isolated from the rest of the document—little attempt is made to link environmental issues to the core issues being discussed in the CAS. Many CASs therefore treat environment as a sector (with separate funding, objectives, activities, and so on), and not as a cross-sectoral issue. Data and indicators relating to the environment and natural resources are generally lacking. Analysis of environment and natural resource issues and their linkage to the development process is often weak or missing.

The current program on Country Assistance Strategies and the Environment (CASE) has helped to address the above shortcomings and produced several lessons on dealing with the environment and natural resources in the CAS: (i) integrating the environment into the CAS is most successful when there is a strong connection to economic outcomes; (ii) environmental indicators (with regional and income-level comparators) are effective in raising the profile of environmental issues with both country teams and national officials; and (iii) identifying linkages between environment and natural resource issues and other sectors such as agriculture, infrastructure, tourism, and even macro issues such as the trade regime, is essential in mainstreaming the environment. (See *Box 6.*)

An inherent limitation of the Country Assistance Strategy is that it is a short-term document, setting priorities for Bank development assistance for the next 3–5 years in individual countries. New Bank processes such as the Comprehensive Development Framework attempt to take a longer-term view of the development process. In so doing, the CDF explicitly treats the environment as part of the physical basis for national development.

Box 6. The FY99 Lesotho Country Assistance Strategy

The Lesotho CAS builds on the premise that rural poverty is linked to the serious environmental problems confronting Lesotho. The CAS makes a clear distinction between the impact of environmental degradation on the urban and rural poor. Urban problems are linked to health problems, while rural environmental degradation is linked to a decline in income levels. Urban environmental degradation is managed through government programs that upgrade the basic infrastructure of the poor: potable water, sewerage and solid waste disposal. Rural environmental degradation is viewed as a formidable challenge to poverty reduction in Lesotho, and is manifested in severe soil erosion, resulting in diminished soil fertility and crop yields; deforestation; and rangeland overgrazing. The government, with support from the Bank, EU, and other donors, is developing a comprehensive agricultural sector investment program (ASIP) to address these issues.

Partnerships

In the environment and natural resources areas, the WBG has established a wide range of partnerships. In the area of forestry, the Bank and World Wildlife Fund are the managing partners in the *Alliance for Forest Conservation and Sustainable Use* (originally the WWF-World Bank Alliance), which pursues measurable targets for forest conservation and management worldwide. In the water sector, several partnerships include the *Global Water Partnership*, *Regional Seas Programs* in the Baltic, Red Sea, and Gulf of Aden; and the *Africa Water Resources Management Initiative*. The Bank-UNDP-UNEP-GEF partnership on *Land-Water Degradation in Africa* seeks to address the degradation of land and water resources in Africa and the associated adverse impact on global environmental values.

The objectives of partnerships can vary significantly. Some (such as the CEO's Forum on Forests) emphasize primarily relationship building and promoting a policy dialogue. Others focus on joint implementation of development-oriented programs and projects. For example, the *Multilateral Fund for Implementation of the Montreal Protocol* (MFMP) has supported project-type interventions to phase out ozone-depleting substances. Another example is the *River-Blindness Control Program for Africa* (APOC), which aims to eliminate this vector-borne disease in 19 countries through projects establishing community-directed drug treatment systems. The World Bank, IFC, and GEF and a number of charitable foundations have jointly agreed to help form the Solar Development Group (SDG), a new financing and technical assistance entity designed to accelerate the development of viable private sector solar PV businesses that can help mitigate climate change and contribute to alleviating poverty in remote rural areas not serviced by the electrical grid.

It is clear that appropriate use of partnerships is a critical factor in improving development outcomes. In many areas, however, there is room for improvement. For example, even those partnerships with structured agreements that set out responsibilities and a division of tasks between the partners rarely provide details on the strategy required to achieve the objectives. For outcome-oriented partnerships, there have to be practical mechanisms for the partners to operate together, but the details of such mechanisms are rarely considered in the early stages of partnership building. In addition, few partnerships have clearly quantifiable objectives or have identified indicators to monitor and assess achievements. As partnership activities increasingly become apart of the Bank's operations, it will be important to bring in some measures of success.

A new Partnership Council will refine recent draft guidelines on "Principles, Risks, and Approval of Partnerships." Three broad categories of partnerships are envisaged for the Bank: (i) on-going relationships with specific institutions and partners (the UN system, the EU, major NGOs, international business organizations, for example); (ii) global or thematic initiatives and partnerships targeting specific issues; and (iii) operational partnerships at the country or local level. The environment strategy will develop an approach to partnerships based on these guidelines.

The Evolving Bank Context

Important changes are underway in thinking about how the WBG can improve its impact in client countries. This rethinking process is primarily a result of two things: disappointing progress in the fight against poverty, which is discussed in the previous chapter, and evolutionary thinking about effective approaches to development assistance and aid effectiveness. The results of this rethinking effort are synthesized in the Comprehensive Development Framework, which builds on lessons of development aid effectiveness such as the need for social inclusion, better

governance, and understanding the cooperative roles of civil institutions, the private sector, and donors.

Development Effectiveness

In *Assessing Aid*, which was published in 1998, a WBG research team found several elements to an effective development aid strategy:

- *Financial aid works in a good policy environment.* Financial aid leads to substantially faster growth and greater poverty reduction in nations with sound economic management.
- *Improvements in economic institutions and policies in the developing world are the key to a quantum leap in poverty reduction.* Where there is no movement for reform, efforts to "buy" policy improvements have typically failed.
- *Effective aid complements private investment.* In countries with sound economic management, aid increases the confidence of the private sector and acts as a magnet for foreign investment.
- *The value of development projects is to strengthen institutions and policies so that services can be effectively delivered.*
- *An active civil society improves public services.* A participatory approach to service delivery often results in huge improvements.
- *Aid can nurture reform in even the most distorted environments, but it requires patience and a focus on ideas, not money.*
- *Analytical work has a systematically positive effect on the quality of the lending.*

Assessing Aid proposed five policy reforms: (i) targeting financial assistance more effectively to low-income countries with sound economic management; (ii) providing policy-based aid to nurture reform in countries with a credible reform movement; (iii) tailoring aid activities to country and sector conditions; (iv) focusing projects on creating and transmitting knowledge and capacity; and (v) finding alternative approaches to helping highly distorted economies.

In its *1999 Annual Review of Development Effectiveness*, the Operations Evaluation Department identified several promising approaches, including: the use of adaptive experimentation and sustainable learning through programs such as Adaptable Program Loans; sequencing a series of projects within a long-term strategy that builds on past learning; the use of participatory approaches such as the sustainable livelihood approach, which provides an analytical structure to help understand the factors that influence poverty; moving from single projects to a sectorwide approach; increased use of conditionality as part of a mutual commitment process; allowing time for interventions to take effect on a socially appropriate scale; broadening participation across interest groups; developing a results-oriented public sector; increasing country responsibility for aid coordination; and increasing efforts to identify areas where international programs are needed to supplement national efforts.(OED 2000).

The Comprehensive Development Framework

The new focus on poverty reduction and improving aid and development effectiveness is exemplified in the Comprehensive Development Framework (CDF).

The CDF has four overarching themes:

- *A holistic approach.* An effective development strategy has to incorporate governance, human, and social development objectives. Development projects targeted to a single sector may fail to get results. Improvements in the health sector, for example, may require considering other factors such as transport, pollution, communications, the environment, and education.
- *Ownership.* Project success depends on solid in-country support on the part of the government, the private sector, and civil society. Decentralized systems broaden the scope for partnerships among local government institutions, civil society, and grassroots communities.
- *Partnership.* The Bank's effectiveness could be improved by harmonizing its programs with other donors and multilateral institutions, concentrating on areas of comparative advantage, and working with country partners.
- *Results-orientation.* Success has to be judged by progress on the ground toward equitable and sustainable growth. (OED 2000).

The CDF implies continued change in the Bank. It is certain to increase the demand for nonlending tools and services, to engender ownership, partnership, and long-term holistic thinking. Donor-led economic work and policy prescriptions—the hallmarks of the adjustment era—should give way to country-led approaches that build on local processes and experiences and develop a strong commitment to policy reforms.

These changes in thinking, new approaches, and priorities within the Bank are important elements in the design of a new environment strategy.

The Changing Global Context

Worldwide trends pose new challenges and opportunities for environmental stewardship:

The changing role of governments. Governments and the public sector are being transformed from owners and managers of economic and infrastructure operations to enablers and regulators. Nevertheless, their roles in regulating environmental externalities, in the provision of public goods such as clean air and water, and in creating markets where they do not exist–for example, for ecological services such as biodiversity–remain important at both the national and local levels.

Decentralization. Decentralization of political and economic decisionmaking to the subnational level opens opportunities for broader institutional change, increased democratization, more participation, and a greater voice for civil society. Its desired effects, however, may be constrained by lack of capacity to cope with an increasing set of responsibilities and the existence of unequal power structures at local levels.

The widening scope of private sector activities. The private sector is an increasingly decisive factor in the implementation of national goals for environmental performance and long-term environmental sustainability. International flows of private resources to developing countries, which were more than five times greater than official development assistance (ODA) during the 1990s, have contributed to this process, notably in the Asian TIGER economies.[3] Within parts of

[3] Private sector flows to developing countries, however, have remained highly concentrated (more than 70 percent go to the top 10 recipients among developing countries), and they have not become an essential part of external financing in many of the poorest countries.

the private sector (especially on the part of multinational corporations), there is a strategic shift from the traditional reactive approach to environmental protection ("do no harm") toward the concept of sustainable development and corporate citizenship ("do most good").

Democratization. The spread of democratization, the increasing role of civil society, and increased access to information in the developing world provide channels and mechanisms in which environmental issues can more easily reach decisionmakers and influence economic and sectoral policies.

Population growth. The world's population is currently estimated at slightly more than 6 billion. Global population is increasing annually by about 78 million people. The latest UN "medium" projection estimates that world population will reach 7 billion in about 2013, 8 billion in 2028, and 9 billion in 2054. Africa's population is projected to increase to about 1.7 billion by 2050, or nearly a billion more people than the current population of 750 million. Asia's population is expected to grow from the current 3.6 billion to nearly 5.3 billion. The latest UN figures are projecting nearly a billion less people in 2050 than the 1994 projections, largely based on evidence of declining fertility in many countries.

Urbanization. The urban population, which has more than tripled in the past 50 years, is projected to double in the next 25 years, with more than 90 percent of the growth occurring in developing countries. By 2030, urban populations will be twice the size of rural populations. Environmental services, institutions, and policies have been failing to keep pace with this rapid urbanization. Today, 30 to 60 percent of city dwellers in low-income countries lack adequate sanitation and safe drinking water, and growing air pollution causes severe health damage and economic hardship.

Economic Growth. Poverty will not be reduced without a significant increase in demand for biological resources and energy in the coming decades. In the case of energy, for example, the World Energy Council forecasts that world energy use will grow at 1.4 percent annually until 2020, with growth in OECD countries of 0.7 percent and growth in developing countries of 2.6 percent. Dealing with the implications of rapid growth in energy demand presents a tremendous challenge for the Bank, since the provision of energy services has significant environmental effects.

III
The Emerging Framework

This chapter represents a first effort to describe the possible objectives, strategic approaches, and working principles of a WBG environment strategy. It is very much a work in progress. As outlined in Chapter IV, the preparation of the strategy itself awaits numerous other inputs, external consultations, and responses to the questions and framework in this document.

In support of the mission of the World Bank Group—"fighting poverty with passion and professionalism for lasting results"—sectoral, thematic, and regional strategies as well as country assistance programs are being reviewed to sharpen their focus on poverty reduction. An important part of this effort is to explore the linkages between environment and poverty, and to realign the WBG's environmental assistance toward contributing to the Bank's mission.

The goal of the World Bank Group's environment strategy is to help contribute to the Bank's poverty-reduction mission by improving people's livelihoods, health, and security—today and in the future. The World Bank Group will do this by helping to enhance environmental quality and natural resource management and to maintain global ecosystems.

Specifically, recognizing the close and complex links between environmental conditions and poverty, the WBG will aim to:

- Improve people's **health** by reducing their exposure to environmental factors such as indoor and urban air pollution, water-borne and vector-borne diseases, and toxic substances.
- Enhance the **livelihoods** of poor people who depend on land, water, forests, and biodiversity by helping them secure access to resources and creating circumstances in which they can manage those resources sustainably.
- Reduce people's **vulnerability** to environmental risks such as natural disasters, severe weather fluctuations, and the impacts of climate change through getting information to poor communities and empowering them to adapt.

What are the Strategic Approaches?

The WBG's strategy has to be defined on the basis of its own strengths and limitations. Through its convening power and capacity to mobilize support and resources from a variety of

sources, it can work with many development partners and institutions toward common objectives. It is active in policy dialogue, lending and non-lending services, and private sector financing through IFC and MIGA. The WBG, however, cannot control the actions and agendas of its client countries. What it can do is mobilize intellectual and financial support for those clients who recognize the need for and wish to pursue environmentally sustainable development, help countries better understand the linkages of environment and development, and advocate policies that contribute to equitable, environmentally-sound growth. Considering these strengths and limitations, the WBG can play a stronger role toward the above goals in the following three strategic areas:

1. Integrating Environmental Considerations into Strategies and Actions for Poverty Reduction

The Bank is involved in an enormous variety of development activities, many of which have or can have direct links to the environment and natural resources. As a development institution with a global mandate and long-term relationship with developing countries, the WBG plays an essential role in shaping development paths and policies, and backing that by financing specific projects and programs.

The poverty reduction goal is becoming increasingly explicit both in the country dialogue and in lending and non-lending services. Therefore, environmental considerations can be most effectively integrated into macroeconomic and sectoral strategies and actions by emphasizing the link between poverty and the environment. Growth is not distributed equally within countries, and the poverty focus of the World Bank may favor investments that target the most deprived groups and regions, as well as policies, such as instituting property rights and the rule of law, that are particularly pro-poor.

The environment strategy therefore aims to create the environmental conditions that will lead to poverty reduction by influencing country dialogue and strategies (such as Country Assistance Strategy, the Comprehensive Development Framework, Poverty Reduction Strategy Papers, and sectoral strategies) and refocusing its lending and non-lending services in sectors such as energy, transport, rural and urban development, and in thematic areas. (See *Box 7.*)

This requires improvement in the capacity within the Bank and in client countries to understand the linkages between environmental degradation and poverty reduction, and incentives to empower people, civil society, and public institutions to support positive change. Empowerment includes several categories of actions, including a pro-poor

Box 7. Integrating Environment Into Poverty Reduction Strategies

Poverty Reduction Strategy Papers (PRSPs) are new tools to guide poverty reduction efforts in the context of renewed growth-oriented strategies in low-income developing countries. All countries receiving Highly Indebted Poor Countries (HIPC) Initiative debt relief and funds through the IMF's Poverty Reduction and Growth Facility (PRGF) are required to prepare PRSPSs; the same expectation applies to IDA and IDA-blend countries. About 70 countries will be working on PRSPs over the next two years. PRSPs emphasize the need to take a broader definition of poverty to include dimensions such as health, education, security, and empowerment.

A **PRSP Sourcebook** provides guidelines and core techniques to developing countries for preparing PRSPs. The **Environment Chapter of the PRSP Sourcebook** offers guidance to consider environmental issues in preparing PRSPs emphasizing the need to (1) integrate the environment upstream at the strategy formulation and policy dialogue stage; (2) examine environmental interventions through a poverty lens, (3) evaluate the effectiveness of interventions across sectors such as environment, water and sanitation, and health to choose the best interventions. *The application of the Environment Chapter of the Sourcebook offers a unique opportunity for mainstreaming the environment into development strategies.*

attitude on the part of state institutions, using laws and government institutions to foster accountability, and mobilizing the poor through their own organizations. The WBG can contribute to this effort through maximizing participation in the design and implementation of projects, providing greater access to information to the poor, and building client ownership into WBG projects and policies. In addition, as discussed in the section on natural resources, opportunities to empower the poor are clearly linked to equity issues such as property rights. Implicit in the framework's emphasis on health, livelihoods, and vulnerability is the importance of local participation, information access, and client ownership.

2. Help Establish Public Policies to Enable Sustainable Private-Sector-Led Economic Growth

The private sector is becoming the primary driver of development in many developing countries. In the coming decades, it is essential to ensure that it becomes the driver of *sustainable development*. The public sector has a key role to play in establishing policies, incentives, and an effective regulatory and institutional framework should encourage sustainable use of resources, eliminate market distortions, and create markets for environmental services. In order to be effective, regulatory or policy development programs have to promote good practice, be predictable, and be backed by credible enforcement. A wide range of policy tools is needed to complement traditional environmental regulatory instruments, to encourage greater environmental responsibility in the private sector, and to utilize market mechanisms (See *Box 8*). The public sector is essential in establishing such a framework, as are civil society and local communities. The availability of environmental information to monitor performance is also key. When these conditions are met, the private sector can not only mitigate environmental risk (do no harm) but can adopt policies that actively pursue constant improvements in integrating environmental and social considerations into strategies and operations (do most good).

Box 8. Encouraging Better Environmental Management

The Bank supported a project in Guadalajara, Mexico, which tested whether small and medium enterprises (SMEs) could successfully adopt environmental management systems. Eleven large companies, many of them multi-nationals, agreed to provide assistance to 22 small- and medium-scale suppliers who were interested in improving their environmental performance. The project, which enlisted the private sector, local academic institutions, the Mexican Government, and the World Bank, entailed several two-month cycles of intensive training, implementation, and review sessions. Within one year, on a 20-point scale, scores increased from zero to around 16 points for environmental planning and 11 points for EMS implementation. About 80 percent of the plants reported lower pollution, and nearly 50 percent reported improved compliance and waste handling. Many also reported improved work environments, more efficient use of materials, and better overall economic performance.

The WBG has a unique opportunity to promote sustainable private sector development. It can utilize the synergies between the roles of the Bank, the IFC, and MIGA, as well as use its convening power to partner with a range of stakeholders in the public and private sectors and civil society. The Bank's role—in helping countries develop a capacity to introduce and enforce environmental policies, reform public sector management and institutions, and implement clear and consistent rules and guidelines for assessing the environmental impacts of development projects and programs—is essential to establish the conditions for environmentally sustainable economic growth. Through their investment and guarantee operations in the private sector, IFC and MIGA can play a catalytic role in the promotion of good environmental management and the development of local capacity in providing environmental goods and services. Effective partnering between public and private sectors and other stakeholders can contribute to positive outcomes.

3. Addressing Regional and Global Environmental Challenges

The WBG has a natural role in helping to address regional and global environmental problems through its global reach, interaction with both the public and private sectors, financial strength and potential to integrate additional financing mechanisms into its own operations, and its convening power and role as an honest broker. Considering these strengths, the WBG was authorized to be one of the implementing agencies for the Multilateral Fund for the Montreal Protocol for the Phase Out of Ozone Depleting Substances (MFMP) in 1989 and the Global Environment Facility (GEF) in 1991. In addition, the WBG plays an important role in facilitating solutions to regional environmental problems.

The major global environmental issues can be divided into two categories: degradation of the global commons, including climate change and ozone depletion, and environmental concerns of global importance, including the loss and degradation of forests, biodiversity, and land and water resources. These losses undermine both the short- and long-term sustainability of national development and of poverty reduction at the national level. When such degradation occurs on a large scale, it becomes an environmental concern of global significance. Since many national- and local-level priorities coincide with priorities for addressing problems of global importance, helping improve capacity to address pressing local and national environmental challenges at the same time contributes to reversing natural resource degradation at the regional and global level.

Programs that address local environmental problems also offer some "win-win" opportunities for client countries to reduce their contributions to the degradation of the global commons.[4] The Bank Group can help its clients identify and capture such opportunities and also recognize where tradeoffs do exist. There will be cases, however, where the cost of acting to slow down global environmental degradation is not in the national interest of developing countries, either because they contribute only little to the problem (for example, a small country's contribution to climate change), are not the primary beneficiaries (for example, phasing out ozone-depleting substances), or put different values on certain environmental benefits (for example, certain aspects of biodiversity protection). In such cases, the Bank can help countries access financial compensation through global financial mechanisms (GEF and MFMP) or through markets for global public goods.

What Principles Will We Follow ?

In implementing the strategy, carrying out analytical work, and developing interventions, the WBG will aim to adhere to the following principles: (i) listen to and work with the ***people*** and their representatives in client countries; (ii) focus on environmental interventions benefiting the ***poor***; (iii) identify and work toward tangible ***outcomes***; (iv) take a ***cross-sectoral*** and ***long-term*** perspective on development; (v) facilitate regional and global ***policy dialogue;*** (vi) harness the role of ***markets*** and the ***private sector*** to promote sustainable environmental management and investment; (vii) promote ***cost-effective*** solutions to environmental problems; and (viii) be ***selective*** and work with partners for better results.

[4] For example, better management of forest resources can preserve genetic diversity, and local pollution abatement measures also reduce emissions of green house gases (GHGs).

What is the Role of the Environment Family?

The environment strategy will encompass policies and actions throughout the WBG's country, regional, and sectoral assistance programs. Its implementation ultimately depends on the integration of environmental considerations to these programs. In order to facilitate such integration and the implementation of the strategy, the Environment Family of the WBG has an important role to play in the following areas:

Analytical and Policy Support

The Environment Family will undertake targeted analytical work and formulate the lessons from operational experience. Building knowledge in this manner will contribute to stronger operational work at the World Bank and better integration of environment and natural resource concerns into this work.

The Environment Family will participate actively in strategic planning processes at the country level, a role that will be bolstered by analytical work. A key element of this process will be demonstrating how public actions on the environment and natural resources can contribute concretely to reducing poverty in all its dimensions (health, livelihood, and vulnerability). The Family will also provide the long-term perspective needed in planning processes, to ensure that efforts to reduce poverty in the short term do not entail excessive long-term costs. These include the costs of foregone development options and the imposition of damages on future generations.

Operational Support

Adequate protection of the environment and disadvantaged groups in the WBG's development operations can be ensured through the implementation of safeguard policies. The strategy aims to ensure that safeguards enhance development objectives. This includes (i) strengthening local capacity in client countries to adopt and implement their own safeguard systems; (ii) expanding the emphasis from narrow, project-level impact assessments to broader portfolio, regional, or sectoral risk assessment; (iii) placing more emphasis on achieving and monitoring outcomes on the ground; (iv) harnessing the private sector's role in the broad application of core environmental values and good environmental management; and (v) greater emphasis on public consultation and participation.

The aim of the strategy is to increase the operational impact of environmental staff in integrating environment and natural resources into the full range of sectoral operations and poverty-reducing instruments. In terms of lending services, this implies less focus on stand-alone environmental projects and more attention to dealing with the environmental aspects of programmatic and adjustment lending, as well as the more traditional problem of integrating environment into rural development, water and sewage, and other key lending programs. The poverty focus of the strategy can assist in identifying opportunities for such action. Non-lending services are an important focus of the strategy as well, particularly analytical work that can elucidate poverty-environment linkages, and capacity-building for our clients to enable them to carry out this analysis for their own purposes.

Capacity Building, Knowledge Transfer, and Partnerships

All of these activities require capacity in client countries, particularly in the poorest ones. In the future, the WBG aims to link their efforts far more with outcome-focused sectoral operations

and public sector reform. Recognizing that environment ministries alone cannot achieve desirable environmental outcomes, the WBG will aim to build capacity both inside and outside the public sector, through public awareness; education and information in client countries on the links between environmental, social, and economic development; and stronger emphasis on harnessing the role of the private sector in promoting sustainability.

At the local level, the WBG can work to help set environmental standards, enhance the ability of local communities to participate in decisionmaking that can help them maintain their livelihoods, gain access to resources on an equitable basis, and use those resources sustainably.

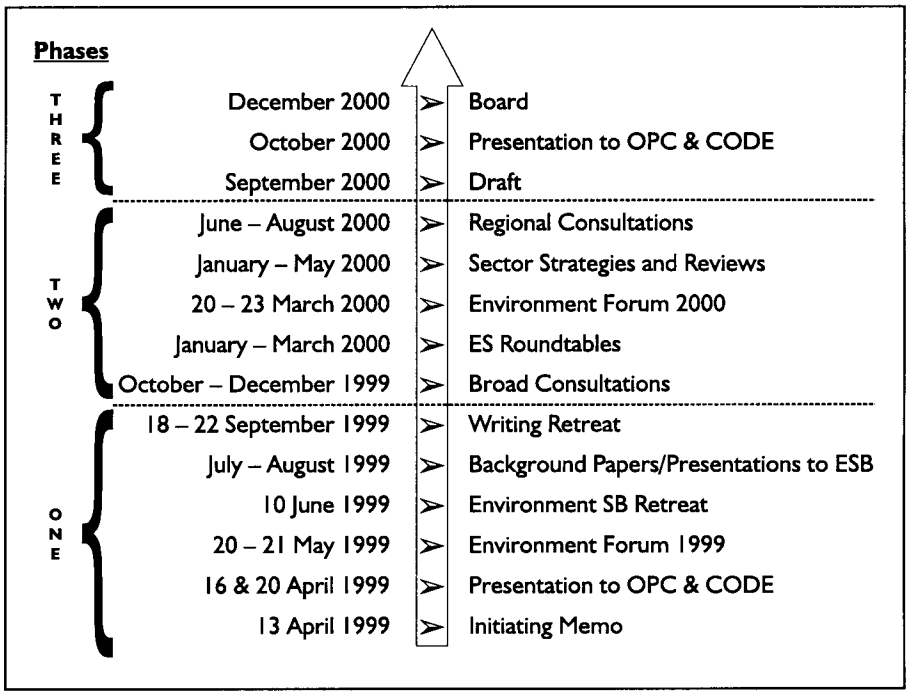
To achieve this, the policy, research, and training activities of the WBG have to become mutually reinforcing to support implementation of the strategy. Partnerships can help in facilitating (i) agreement on global public policy issues and setting guidelines (for example, guidelines on an approach to large dams); (ii) the financing, production, or delivery of international public goods (such as GEF); and (iii) knowledge transfer (for example, Managing Environment Locally in Sub-Saharan Africa). The CDF approach can be utilized to encourage partners to take the lead in activities in which they have a comparative advantage.

IV
Strategy Preparation to Date and Tasks Ahead

In 1999, the World Bank Group (WBG) embarked—for the first time in its history—on the process of formulating a corporate environment strategy. This complex process, which is organized in three phases, draws on the expertise of the WBG management, environmental staff, and specialists from other sectors, as well as a variety of external stakeholders, including client countries, international donors, civil and scientific organizations. The broad objective is to identify priorities and assess the implications of various options that would guide the Bank in the environmental arena.

This chapter summarizes accomplishments in the process to date and looks ahead to the consultations and strategy preparation that will take place this year. (See *Figure 7.*)

Figure 7. Environment strategy timeline



Process and Accomplishments

Phase I: Initial Preparations, Stocktaking, and Establishing a Framework (April–December, 1999)

Phase One was devoted to launching the strategy, seeking broad support from management, mobilizing staff, beginning a stocktaking process, and setting a broad framework and key principles for the strategy. Some of the key landmarks in this process:

- An *Initiating Memorandum (IM)* outlined the need for a WBG-wide environment strategy and the objectives of the preparation process. The memorandum was cleared by the Environment Sector Board on April 13, 1999, and reviewed by the Operational Policy Committee (OPC) on April 16, 1999. The Technical Committee of the Board of Directors, as well as the Committee of Development Effectiveness (CODE), were briefed on the preparation of the strategy on April 20, 1999, and July 7, 1999, respectively. The IM and its presentation to OPC and CODE marked the launch of the environment strategy process and facilitated early discussion with the Bank's senior management and the Board on the focus of the strategy as well as its scope, management, and organization.
- The *World Bank Group Environment Forum* (May 20-21, 1999) was devoted to discussing the strategy process. In addition to WBG environment staff, a number of guest speakers participated in brainstorming on how to focus the effort. The Forum was the first in a series of intensive consultations within the Bank environment family, as well as with representatives of other sectors. It solicited ideas from the Bank's environmental practitioners on the proposed focus and content of the strategy as well as the process that would lead to strategy formulation. The discussions emphasized the need to focus on environmental issues as they relate to poverty and the livelihoods of poor people. A number of other issues, including those later identified as the main strategic focus of the new strategy—health and security—emerged from these discussions.
- The *Environment Sector Board Retreat* (June 10, 1999) agreed on a governance structure and schedule for the strategy as well as the commissioning of background papers on several cross-cutting themes and strategic issues. The Bank established a participatory governance structure to manage the process. To manage and guide the strategy process, the ESSD Council accepted the responsibility for general oversight and asked representatives from other Networks to participate. To monitor and coordinate the implementation of the work plan, the Environment Sector Board established a Technical Committee. The concept notes and draft background papers were presented and discussed in a series of Environment Sector Board meetings during the Summer of 1999.

  The background papers elaborated on specific aspects and issues of the environment strategy—including the poverty–environment nexus, monitoring and indicators, health and environment, natural resources management, and future scenarios. Some papers, such as the one examining the link between poverty and environment, stirred a wide debate within the Bank on the balance between the traditional environmental agenda and poverty-driven environmental interventions. The papers were used as input for the first drafts of the strategy issue paper. (See *Box 9.*)
- *The Environment Sector Board Decision and Writing Retreat* (September 18–22, 1999) was devoted to discussing results of the draft background papers and agreeing on key principles and a strategic framework. Participants included members of the Sector Board, authors of background papers, and staff from across the Bank and various sectors. The Retreat produced a summary paper presenting the key issues and elements of the strategy. The issues paper

helped to focus the subsequent discussion on selected essential issues. The retreat also led to adjustments to the management and organization of the strategy process to make it more efficient and open to external views.

Box 9. Strategic Issues and Cross-Cutting Themes — Discussion Papers

Draft Papers

- **Poverty-Environment Links —** How should the WBG's environment agenda support the Bank's mission to fight poverty?
- **Health and Environment —** Key environmental factors influencing public health, cost-effective environmental interventions, implications for the WBG's environment strategy.
- **Natural Resource Management —** Interlinkages of Natural and Social Capital, Long-term Productivity.
- **PRSP Environment Chapter** —Guidelines for integrating environmental considerations into poverty reduction strategies.
- **Review of Environmental Issues in CASs** — Review of CASs to evaluate the integration of environmental concerns. Recommendations for improvement and implications for the strategy.
- **The World Bank Group and the Global Environment**— Experience with implementation; what worked, what did not; what are the constraints; how can objectives be integrated into the environmental agenda, strategic focus.

In preparation:

- **Moving from Outputs to Outcomes —** Shifting the focus from inputs and process to outcome and impacts.
- **Scanning the Future** — Plausible development options and environmental trends with global implications.
- **Safeguard Policies and Quality Enhancement** — Assessment of the effectiveness and implementation of the Bank's safeguard policies and practice, vision for the future, recommendations for improvement.
- **WB Portfolio Review** — How is the environment portfolio defined; performance by regions and project categories; evaluation of experience; recommendations for improvement.
- **Regional Environmental Strategies** — Key environmental issues, recent trends, stocktaking and lessons learned, strategic areas of focus, priority countries, desired development outcomes, short-and medium-term outcomes, key instruments and partnerships, organizational and staffing implications.
- **Partnerships** — Assessment of strength and weaknesses of partners; complementarities, opportunities for value-adding partnerships.
- **Integration of Environment into Sector Strategies and Operations** — Review of the environmental issues identified in sector strategies (rural, forest, transport, energy), and assessment of experience with implementation.
- **Vulnerability to Environmental Change and Shocks** — Adaptation to the impacts of long-term climate change, natural disasters and short-term weather events. Priority countries, feasible instruments, partnerships.
- **Water Resources and Environmental Management Interface** — Water resources management challenges; integrating environmental sustainability into Bank operations.
- **Urban Air Quality: Environment-Transport-Energy Nexus** — Cross-sectoral issues to be considered in addressing urban air quality.
- **Urban Environment Priorities** — Lessons of the urban portfolio and recommendations for the future.
- **Donor Experience with Environmental Aid Effectiveness** — Survey of the experience of bilateral and multilateral agencies with environmental aid effectiveness.

Note: Draft papers will be placed on the WBG Environment Strategy website, currently in preparation.

- *Broad discussions* on the framework and key principles. These consultations were held primarily internally and included the Environment Family, Environmentally and Socially Sustainable Development Network, other sectors, Regional Management Teams, and Country Directors. In addition, a few informal consultations were held with client and donor institutions, NGOs, and the GEF Council. The consultations generated feedback that helped to steer the later stages of the environment strategy preparation and a better understanding of external perspectives and priorities. The feedback from the consultations was incorporated into the draft strategy document.

Phase II: Regional Focus and Broad Consultations (January–August, 2000)

Phase II focuses on applying the agreed broad strategy framework and key principles to the regional context, establishing cross-sectoral linkages, and consulting broadly with client countries and partners. Coordination with other sectors and sectoral reviews ensure that important linkages with these sectors will be recognized and incorporated into the environment strategy. The consultation will focus primarily on the draft framework, the background papers, the draft regional strategies, and the questions listed at the end of this chapter. Some of the key landmarks in this process:

- *Environment Strategy Roundtables.* A series of roundtables have been organized to provide an informal forum for all interested staff to discuss ongoing work (on cross-cutting issues, regional strategies, cross-sectoral collaboration, consultations, and more) contributing to strategy work; and learning from lessons in various regions and other institutions, and to discuss operational implications of the strategy.
- The *World Bank Group Environment Forum* (March 20-23, 2000) was devoted to discussions with Bank staff and representatives of client and donor governments, NGOs, and academia about key areas of focus for the corporate strategy, regional environmental strategies, options, and operational implications.
- *Preparation of Regional Environment Strategies.* Regional Environment Strategy Coordinators have been appointed to coordinate the preparation of regional environment strategies based on consultations with client countries, Bank management, and external partners.

During the period from March through December 2000, three broad categories of consultations will take place:

- *Broad information dissemination* through ad-hoc and add-on meetings (formal and informal) and the distribution of materials through conventional and electronic media, including an external, interactive website with papers, email contacts, and targeted questions.
- *Dedicated, specially scheduled consultations* with the Bank's partners, such as client governments, multilateral and bilateral donors, other key institutions (such as the EU and OECD), and the private sector. These are ongoing and carried out by the senior management of the ESSD.
- *Regional meetings* with multiple stakeholders in all six regions to share information about the strategy and to provide a forum for broad feedback and dialogue. Significant analysis of the regions' priorities will be conducted by the Bank in preparation for the meetings; our bilateral partners will be invited to participate. Existing NGO networks will be tapped to organize NGO involvement. The schedule is being developed.

The regional consultations have several ambitious goals. They are designed to present the proposed strategy framework to client countries and solicit views on the strategy's approach. In addition, they are expected to provide the client country's views about the Bank's comparative advantage in implementing the various focal areas of the strategy. Finally, the regional consultations will be a crucial opportunity to compare the six regional strategies with the corporate framework and consider how to integrate regional and global priorities.

Phase III: Looking Ahead—Synthesis and Strategy Preparation (September–December, 2000)

During the summer and early fall, the Bank will be synthesizing this information and preparing a draft strategy, which will be presented to the Board of Directors by the end of the year.

Integrating the final OED Environment Review (*see below*), which will not be available until mid-year, will be a critical part of the effort to finalize the environment strategy.

OED Environment Review

In parallel with the environment strategy, OED is preparing an *Environment Review*, which will provide an important input into the drafting of the environment strategy. Particularly valuable are insights expected to result from the OED thematic reviews in areas such as: (i) safeguards, where not only short-term compliance but also long-term environmental sustainability of projects needs to be examined; (ii) synergies between poverty and environment; (iii) the impact of sectoral adjustment programs, where environmental sustainability objectives often need to be integrated; (iv) desertification, where the synergies between poverty and environment can be effectively utilized; and (v) biodiversity, where a greater degree of integration of global concerns into mainstream operations is necessary. In addition, lessons from country case studies concerning the Bank's environmental performance and broad regional stakeholder consultations will provide valuable inputs to the strategy.

OED has completed phase I of their review of environmental activities within the Bank, which focused on selected country case studies in India, Madagascar, Mexico, Morocco, Nigeria, and Poland, and an online discussion in the World Bank's Development Forum. In the coming months, OED will be concluding phase II of their review of selected thematic areas (safeguards, poverty and environment linkages, the environmental impacts of adjustment, combating desertification, and biodiversity conservation) and four Regional Consultative Workshops in Asia, Africa, Latin America, and Mediterranean-North Africa.

Other Sector Strategies

Several other sector strategies will be key inputs into the environment strategy, including:

- *Forest Policy*. The Forest Policy strategy is being developed simultaneously with an extensive effort aimed at reviewing the implementation of the WBG's 1991 *Forest Policy* and its implementation, and formulating a new forest strategy based on the lessons from experience and input from a broad range of stakeholders. The Forest Policy Implementation Review and Strategy is carried out by the Forest Team. As part of this process, OED launched an independent retrospective assessment of the Bank's experience with implementation of the 1991 Forest Policy. The OED assessment was timed to serve as an input into the Bank's proposed forest sector strategy. On December 23, 1999, the OED Forest Strategy Review team presented the findings of their preliminary report at an informal session of the Bank's Committee on Development Effectiveness (CODE). The report was discussed at a workshop for stakeholders on

January 27–28, 2000. Comments on the report will be considered during preparation of the final report, which is scheduled for presentation to CODE in June.

- *Water Resources.* Another process closely linked with the environment strategy is the OED review of the experience with implementing the Bank's 1993 *Water Resources Management Policy* and preparation of a Water Resources Sector Strategy by late 2000. The Water Resources Sector Strategy will also draw upon extensive stakeholder consultations and other important international initiatives in the water sector, including: the World Water Vision (March 2000), the World Commission on Dams Report (August 2000).
- *Rural Development.* The Bank is currently updating its 1997 rural development strategy. *Rural Development: From Vision to Action* emphasizes four equally important goals; poverty reduction, widely shared growth; household, national, and global food security; and sustainable natural resource management.
- *Urban Transport.* An ongoing review of the Bank's Urban Transport Policy is aimed at integrating environmental sustainability into transport policies.

IFC's Private Sector Strategy

The International Finance Corporation (IFC) is developing a private sector sustainable development strategy, which will be IFC's principal contribution to the WBG environment strategy. An important part of the strategy process will be to explore the linkages between the public sector and private sector aspects of the WBG strategy. A first draft of the IFC strategy is scheduled for completion by June 2000. This will be followed by extensive internal and then external review.

Key Issues for Discussion

As part of the consultation and feedback process, the Bank will be particularly interested in getting reactions to the discussion in Chapter III regarding objectives, strategic approaches, and implementation. In addition, it will encourage responses to a few key questions, including:

- How can we assist our clients better integrate environmental concerns into their development policies and programs?
- Do we and our clients have the necessary knowledge on poverty-environment links? How can it be improved? How can we ensure that poverty-reduction strategies consider environmental aspects?
- Do we have the necessary data and indicators to analyze, design, implement, and monitor environmental interventions aimed at poverty outcomes? How does the outcome focus translate to project-level monitorable indicators?
- How do we and our clients trade off the short term vs. the long term in our poverty alleviation programs? Would long-term considerations preclude certain interventions?
- How can the WBG broaden the discussion of environmental issues beyond our natural interlocutors, the ministries of natural resources and environment? How do we reach ministries of finance, planning, public works, health, and agriculture with the message that environmental management has an impact on growth and poverty?

- What can the WBG do to help its clients better understand and address linkages between local, regional, and global environmental issues?
- What should the World Bank Group do to better assist client countries in addressing immediate and projected negative impacts of global environmental degradation on national development?

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