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May 9-11, 2001

**MAKING SUSTAINABLE COMMITMENTS:  
AN ENVIRONMENT STRATEGY FOR THE  
WORLD BANK**

(Prepared by the World Bank)

# OFFICE MEMORANDUM

DATE: May 4, 2001

TO: Mohamed El-Ashry, CEO/Chairman, GEF

FROM: Lars Vidaeus, GEF Executive Coordinator



EXTENSION: 34188

SUBJECT: Making Sustainable Commitments: An Environment Strategy for the World Bank

Please find enclosed the draft document "Making Sustainable Commitments: An Environment Strategy for the World Bank" for circulation to the GEF Council. The document is the result of a multi-year effort including broad consultations with a wide range of stakeholders. It has been approved by Bank Management and is currently under review by the Bank's Committee on Development Effectiveness (CODE). It is scheduled for discussion by the Board on July 12.

We look forward to presenting the Strategy at the luncheon for GEF Council Members on May 9 and receiving their feedback on the document.

**Making Sustainable  
Commitments**

**An Environment Strategy  
for the World Bank**

**April 17, 2001**

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## Preface

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This Environment Strategy outlines how the World Bank will help its client countries address environmental challenges and ensure that its projects and programs integrate principles of environmental sustainability over the next five years. It is the product of a multi-year effort, including numerous workshops in client countries and ongoing consultations with client governments, civil society, academia, multilateral and bilateral development agencies, and representatives of the private sector (see annex J for details on the process). These consultations have played an important role in shaping the final document. We are profoundly grateful to all those who have taken the time and trouble to contribute to the process. Strategy making does not end with the publication of the document. Continuous communication and collaboration with clients, partners, and World Bank staff in diverse sector and country units, as well as systematic monitoring and assessment of the Strategy's effectiveness, are essential to its updating, improvement, and successful implementation.

At the same time, we recognize that one size does not fit all. The countries served by the World Bank differ enormously in their stage of development and in the nature of their economic, social, and environmental concerns. It would be both presumptuous and futile to define a small set of specific problems that we would tackle in all or most of our client countries. A central theme of the Strategy, therefore, is the importance of working in collaboration with our clients and partners to identify the critical environmental issues that should be addressed in specific circumstances. The implementation of the Strategy will be a matter for detailed country assessments. This Strategy, together with other sectoral strategies, outlines broad regional and corporate priorities and, together with country-specific assessments, informs the Bank's Country Assistance Strategies.

The Environment Strategy also must work in a complementary fashion with other Bank strategies and action plans. For example, in 1999 the Bank's Board of Directors approved Fuel for Thought, an environmental strategy for the energy sector. The Environment Strategy builds on the analysis undertaken for Fuel for Thought and incorporates that strategy's objectives and actions. The Bank is also preparing strategies for its activities in a number of other fields, including forestry, water resources, rural development, and social development. These strategies have implications for issues that are important concerns for the Environment Strategy, in particular in natural resource management. The concerns and conclusions of these strategies have been reflected here, though they are not discussed in detail. The 2002 *World Development Report: Sustainable Development with a Dynamic Economy* will provide an opportunity to take a comprehensive look at the various dimensions of sustainable development.

This Strategy does not attempt to provide a detailed assessment of the state of the environment, natural resources, and ecosystems in our client countries or in the world. It draws on work undertaken by the World Bank and many others, including the World Resources Institute's *World Resources* series, the Worldwatch Institute's *State of the World* series, the United Nations Environment Programme's *Global Environmental Outlook 2000*, and the Bank's *World Development Indicators* series. It also builds on a rich storehouse of analytical work that spells out a broader vision of development and its environmental linkages, and maps out options for broadening the benefits of economic development while reducing its adverse environmental effects. The results of such assessments—including assessments prepared for the Intergovernmental Panel on Climate Change, the Organization for Economic Co-operation and Development (OECD), the United Nations, and the U.K. Department for International Development (DFID)—are widely available.

The World Bank Group (WBG) includes four closely associated but distinct institutions that support development in low- and middle-income client countries. The International Bank for Reconstruction and

1 Development (IBRD) and the International Development Association (IDA) have a mandate to lend to  
2 sovereign governments. They are often referred to as the World Bank (WB). The WB, through its  
3 ongoing dialogue with client governments on a wide range of issues and its financial support to the public  
4 sector, is in a position to influence government policy directly on a wide range of issues. The  
5 International Finance Corporation (IFC) promotes sustainable private sector investment as a way of  
6 enhancing economic growth and improving peoples' lives. It operates principally through direct or  
7 indirect support of private sector projects. The Multilateral Investment Guarantee Agency (MIGA)  
8 provides guarantees against certain non-commercial risks (primarily political risk insurance) to foreign  
9 investors for qualified investments in developing countries. The four WBG institutions are aligned to the  
10 core mission of poverty reduction—and therefore the overall vision, strategic framework and objectives  
11 of this Strategy, as described on Chapters 1 and 3, are shared by the entire WBG. Members of the WBG,  
12 however, are legally and financially independent and have different sets of owners and clients, structures  
13 and mandates, staff and toolkits, and therefore the specific operational and institutional implications  
14 differ and need to be spelled out separately. The lessons learned and specific operational and institutional  
15 details described in Chapters 2, 3 and 4 of this document apply specifically to the World Bank.  
16 References are made throughout the Strategy to linkages among members of the WBG, and annexes G  
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## Executive Summary

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Economic development has led to dramatic improvements in the quality of life in developing countries, producing striking gains unparalleled in human history. But the picture is far from entirely positive. Gains have been unevenly distributed, and a large part of the world's population remains desperately poor. At the same time, an alarming rate of environmental degradation has occurred and in some cases is accelerating.

This Environment Strategy sets a direction for the World Bank's actions on environmental issues. It is based on an understanding that addressing environmental problems and sustainably managing natural resources is fundamental to the Bank's core objective of poverty alleviation—a link that has been recognized in the International Development Goals. The rationale for this Environment Strategy is threefold:

- *Learning and applying lessons.* The Strategy builds on the lessons learned in the past decade both from our own efforts and from those of others. It seeks to more effectively internalize these lessons, and accelerate progress toward integrating environment and development.
- *Adapting to a changing world.* A number of trends—globalization, the increased role of the private sector and of civil society, rapid technological advances—have been reshaping the world. The Bank has also been changing. It has reaffirmed its commitment to poverty reduction, adopted a bottom-up, client-focused approach to development, and is moving toward new lending approaches. Our work on the environment must also adapt to these changing conditions.
- *Deepening our commitment.* To date, environmental issues have too often been the concern of a small, specialized group. This is clearly insufficient. To make a substantial and lasting difference, we must ensure that environmental concerns are fully internalized—“mainstreamed”—into all the Bank's activities.

### Key Environmental Challenges of Development

Many view concern over environmental issues as a rich-country luxury. It is not. Across the developing world, environmental problems are imposing severe human, economic, and social costs and threatening the foundation on which growth and, ultimately, survival depend. The economic costs of environmental degradation have been estimated at 4 to 8 percent of GDP annually in many developing countries.

Environmental problems threaten the quality of life of the millions of people who depend directly on environmental and natural resources for their livelihoods—farmers who face depleted soils and insufficient water for irrigation, fishers who confront collapsing fisheries, women who walk for hours to collect fuelwood. Environmental problems also threaten the health of millions. Every year in developing countries, an estimated 3 million people die prematurely from water-related diseases, nearly 2 million women and children die from exposure to indoor air pollution, and another million people die from urban air pollution. Environmental degradation also vastly increases the vulnerability of people to natural disasters—deforestation increases the incidence of flooding, for example, while damage to mangroves and coral reefs reduces protection from storms. In most cases, it is the poor who suffer the most consequences, as they are often forced to live in vulnerable areas such as floodplains and drought-prone areas, and have limited capacity to cope when disasters occur.

The impact of environmental degradation reaches far beyond its effects today and threatens the basis for growth and livelihoods in the future. The quality of growth is critical—growth based on depletion and degradation of the resource base on which economic activities depend will be short-lived. Environmental degradation also reaches across borders, affecting the quality of the regional and global commons. Many pollutants travel long distances and affect people's health and environment in neighboring countries and

regions. Shared resources such as water, fisheries, and grazing lands are hard to manage and a frequent source of conflict. In most cases, the poorest countries are most threatened the degradation of the global commons such as climate change, being most exposed to the potential effects of changes in rainfall patterns on agriculture, the incidence of vector-borne diseases, and the impacts of rising sea levels.

These problems are complex, interlinked, and daunting. They are a fundamental part of the development challenge. This Strategy discusses how we will work with our clients and partners to face them.

## **Our Record So Far**

What has the World Bank been doing to address the environmental challenges of development? During the past decades, we have developed safeguard policies that set standards for the social and environmental performance of our projects and are widely accepted as international models of good practice. We have helped client countries develop National Environmental Action Plans and strengthen their systems of environmental regulation through institutional development projects. We have built up a portfolio of investments devoted to environmental issues and have started to “mainstream” environmental objectives into our sectoral lending programs. We have also assumed a key role in dealing with threats to the global environmental commons, such as climate change, desertification, biodiversity loss, and the degradation of international waters, especially as an implementing agency for the Global Environment Facility (GEF) and the Montreal Protocol. In the process, we have learned many lessons about complying with safeguard policies, preparing and implementing investment projects, and undertaking policy dialogue, and we constantly apply these lessons to our ongoing efforts.

Nevertheless, our achievements overall have fallen short of our own high expectations and those of others, even bearing in mind that by itself, the Bank can never stem the tide of global environmental change. Several broad factors have constrained the Bank’s effectiveness in promoting sustainable development:

- Our commitments have sometimes outpaced our capacity to deliver. We were overoptimistic in setting environmental objectives, designing complex interventions, and targeting tight deadlines, without giving sufficient attention to the practicalities of implementation and to competing pressures in our client countries.
- The environment has yet to be fully “mainstreamed” into the Bank’s operations. Although Bank professionals are aware of the importance of environmental issues, some have not yet been able to ensure linking them to their core task of supporting development and poverty reduction.
- Similarly, awareness of the importance of environmental issues is still evolving in many of our client countries. While they increasingly recognize that environmental concerns are important to make development sustainable, our clients face difficult choices in allocating scarce resources among pressing development needs, and environment often has a hard time competing with other goals.

## **The Strategic Framework**

Addressing environmental issues is crucial for development and for achieving the Bank’s goal of poverty reduction. In keeping with the World Bank’s fundamental goal of reducing poverty within a framework of economic development, the Environment Strategy gives priority to issues where the links between poverty and the environment are particularly strong. The Strategy’s overall framework, and the necessary adjustments in Bank instruments and actions, are outlined in matrix form in table 1 at the end of this summary.

## ***Our objectives***

The Strategy sets three interrelated objectives: improving people's quality of life; improving the prospects for and quality of growth; and protecting the global commons.

*Improving the quality of life.* Our first goal is to improve the quality of people's lives by:

- *Enhancing livelihoods.* Because poor people often depend heavily on the productivity and environmental services of natural resources such as land, water, and forests, the World Bank must help protect the long-term productivity and resilience of natural resources and ecosystems. This includes helping communities strengthen or reform incentive systems that influence how resources are used, and building the analytical base and institutional capacity to improve natural resource management.
- *Reducing environmental health risks.* Environmental factors, such as unsafe water and air pollution, are major contributors to the total burden of disease and impose significant economic costs, particularly for poorer people. Our interventions will focus on cost-effective measures to reduce environmental health risks, including reducing people's exposure to indoor and urban air pollution, waterborne diseases, and toxic chemicals.
- *Reducing vulnerability to environmental hazards.* Millions of poor people are vulnerable to natural disasters and environmental hazards, a threat that is expected to increase as a result of climate change. Our interventions will aim to reduce this vulnerability and the vast cost of natural disasters by supporting upland resource management and payments for environmental services; assessing the impacts of natural disasters; improving weather forecasting and the dissemination of weather-related information; providing information to communities about the risks they face; and stabilizing hillsides and coastal zones.

*Improving the quality of growth.* It is not enough to improve the quality of people's life today. Sustainable management of environmental and natural resources—forests, land, and water—is an essential condition for long-term economic growth and lasting improvements in people's well-being. Our interventions will focus on promoting better policy, regulatory, and institutional frameworks, which are essential to sustainable economic growth. Evidence shows that addressing environmental concerns—far from being a burden—can increase international competitiveness. We will also help strengthen environmental management systems and practices in client countries to promote environmentally and socially sustainable development including support to sustainable private sector development.

*Protecting the quality of the regional and global commons.* The search for solutions needs to go beyond individual countries. The deteriorating quality of the regional and global commons threatens many developing countries. They face potential conflicts over shared resources, such as scarce water supplies, and are expected to suffer most of the worst effects of climate change. A poverty-focused environmental agenda will require interventions to protect the global environmental commons that are carefully targeted to benefit developing countries and local communities. The Bank has taken a leadership role in addressing global issues. When it is appropriate, we will seek to engage the GEF and other special financing mechanisms to compensate countries for the incremental costs they incur to protect the global commons.

## ***Our toolkit***

The Environment Strategy emphasizes the importance of integrating, or “mainstreaming,” environment into country development programs, sector strategies, and investments. This will translate into actions throughout the Bank. The Strategy stresses improvements in three key areas:

- *Strengthening analytical and advisory activities.* Analytical work is the foundation for defining strategic priorities and integrating environmental concerns into projects and programs. A systematic approach is needed to ensure that environmental considerations enter the development planning



process at an early stage by taking a multisectoral and long-term view of development. Country environmental strategy papers will complement the Bank's panoply of diagnostic tools and sustainability and macro environmental indicators will help monitor trends, providing key inputs to our country dialogue. Strategic—sectoral, regional, and policy-focused—environmental assessments (SEAs) will be phased in as an analytical tool at an early stage in the decisionmaking process to help evaluate the environmental implications of broad policies and programs and to identify cost-effective interventions in complex cross-sectoral environmental problems. Other priorities for targeted analytical and advisory assistance include poverty-environment linkages, particularly in relation to the preparation of Poverty Reduction Strategy Papers, and economic assessment of environmental resources and the consequences of their degradation. We will exploit our comparative advantage in working throughout the world through cross-country transfer of good practices and guidelines.

- *Integrating environment into project and program design.* Investment projects remain an important vehicle for achieving results on the ground, although policy-based and programmatic lending has become increasingly important in recent years. Some environmental problems are best addressed by dedicated projects, others by combining environmental activities into sectoral projects. We will work on both fronts. Our experience is that these projects work best when they are based on a good understanding of the causes of the problem; can be expected to have a major impact; and have committed local stakeholders, so that project outcomes are sustainable after the project is over. We will continue to ensure that the lessons from our growing experience in environmental projects are disseminated and applied to new projects. The gradual transition towards greater use of programmatic lending instruments in many countries provides both challenges and opportunities. We will develop and apply a systematic review system, new analytical tools (including SEAs), guidelines for good practice, and indicators to ensure that environmental concerns are appropriately integrated into the changing lending profile.
- *Improving the safeguard system.* The Bank's safeguard system is an essential tool for integrating environmental and social concerns into development policies, programs, and projects by providing a minimum standard that all Bank-supported operations must meet. The Bank is improving the quality and consistency of application of its safeguard policies. This implies strengthening the Bank's internal review system; integrating all its environmental, social, and legal policies into a unified risk management system; and increasing our attention to compliance on the ground, where many issues are intertwined. It also means adapting to a changing lending profile. A monitoring system is already in place to assess progress and make corrections, if needed. We also are directing more attention to clients' own capacity for good environmental management.

## **Institutional Realignment**

Implementing the Strategy requires aligning institutional incentives, resource allocation, and the Bank's skills mix to accelerate the shift from viewing the environment as a separate, freestanding concern to considering it an integral part of our development assistance, and then putting this understanding into practice in our analytical work, policy dialogue, and project design. In order to strengthen Bank staff's ability to manage this shift, those working on environment issues have to be articulate advisors on the many linkages between poverty alleviation and environment and play an active supportive role in the formulation of country and sectoral programs. Table 2, at the end of this summary, outlines the actions of an institutional nature that would accompany the implementation of the Strategy.

*Accountability and incentives.* The Bank is reviewing its accountability framework to clearly establish lines of responsibility, and incentives throughout the institution. This framework has to be client-centered, acknowledging that our core responsibility is to support sustainable development of our clients. Regional Environment Strategies and the annual business plans will drive the implementation of the Strategy. Consistent with its mandate, the Environment Board will be responsible for guiding and overseeing this process.

1 *Training and skills mix.* The increasing focus on cross-sectoral work and shift in emphasis from project-  
2 level safeguards toward integrated portfolio-level risk assessment and quality enhancement will require a  
3 gradual shift in staff skills. Environmental staff will be trained to enhance their ability to influence  
4 sectoral and country programs and will be assessed on their effectiveness in this area. At the same time, a  
5 shift toward improved environmental skills among non-environmental specialist staff will take place  
6 through more systematic training in safeguard policies and in integrating environmental issues into  
7 programs and projects. In the assessment of the performance of environmental staff, particular attention  
8 will be paid to addressing complex environmental challenges and the implementing the safeguard  
9 policies.

10 *Budget.* Better integration of environmental concerns into the Bank's work program is expected to bring  
11 strong benefits in relation to all three objectives of this Strategy, anchored as they are in the Bank's  
12 mission of poverty alleviation. Achieving these objectives, however, will require that resources be  
13 dedicated to the task. Such resource allocations are premised on the principles of exercising selectivity at  
14 all levels, and of the need to guide a transition toward new ways of delivering development assistance,  
15 including programmatic lending. Wherever possible, existing resources will be realigned within existing  
16 work programs. For the Bank to meaningfully address the objectives of the proposed Strategy, Bank  
17 budget funding would need to increase over the next five years. Key elements of this incremental funding  
18 would be for:

- 19 (1) *Improving the safeguards and compliance system* including the strengthening of compliance with  
20 policies, and a comprehensive review of the safeguards policy framework to fit the needs of a  
21 changing Bank.
- 22 (2) *Mainstreaming support* with special emphasis on environmental mainstreaming in IDA countries in  
23 accordance with IDA requirements; linking corporate environmental priorities and global public  
24 goods with country programs, with an emphasis on upfront work on CAS preparation; facilitating  
25 cross-sectoral and cross-institutional approaches and work programs to addressing environmental  
26 issues; and addressing sub-regional and regional environmental challenges.

27 The Bank will work with interested partners in bringing about the successful implementation of the  
28 Strategy, and avail itself of trust funds from bilateral partners and others. On the other hand, the  
29 comprehensive actions needed to address the environmental challenges of economic development in  
30 client countries described in the Strategy will require adequate deployment of Bank resources.

31 *Partnerships.* Partnerships with other development institutions, civil society, and the private sector can  
32 effectively leverage scarce Bank resources. Applying the principles of the Comprehensive Development  
33 Framework (CDF), partnerships at the country level are aimed at increasing development effectiveness  
34 and reducing transaction costs through coordination led by the countries and the harmonization of  
35 operational policies and practices of development partners. With respect to global environmental issues,  
36 partnerships are more programmatic in nature, for the purpose of supplying global public goods.  
37 Generally, the Bank will engage in partnerships in areas where strong international consensus exists for  
38 global action, which have close links to the Bank's country assistance programs and can catalyze  
39 significant other resources. Where other institutions have a clear comparative advantage, the Bank will  
40 step back. The Strategy provides a set of criteria for managing and evaluating partnerships, and we will  
41 apply these rigorously.

42 *Monitoring progress.* To ensure accountability and the capacity to learn from experience, we will  
43 introduce a performance monitoring and reporting system that will track the Bank's performance on the  
44 environment, monitor implementation of the Strategy, and support regular reporting on progress,  
45 constraints, and steps taken to overcome them. It will use the internet and other means of communication  
46 with key stakeholders to make available reports and information about the Bank's environmental

1 performance. The core categories of institutional reporting will include (a) safeguard compliance; (b)  
2 policy integration; (c) the portfolio of environmental projects and programs; and (d) training. ENV and  
3 WBI will report on progress in delivering management, staff, and client-training programs. Tracking of  
4 training delivery will be improved to better target and customize both mandatory safeguards training, and  
5 training on cutting-edge issues of sustainability, environmental policy, and poverty and environment.

## 6 **Conclusion**

7 The Environment Strategy is clearly—and deliberately—a long-term strategy, and it will take some time  
8 before all its elements are fully in place. This does not imply a lack of action in the meantime. We don't  
9 begin from a standing start, but build on a well established work program. In implementing the Strategy,  
10 we will give priority to certain aspects that are particularly urgent, such as integrating environmental  
11 considerations into the new Poverty Reduction Strategy Papers (PRSPs). Other aspects, such as the  
12 Strategic Environmental Assessments (SEAs), will be introduced gradually, after a trial period.

13 For the Environment Strategy to succeed, a great many things must happen over which the World Bank  
14 has limited control. For example, the Bank can be a persuasive advocate for building a strong political  
15 commitment to environmental and resource issues in client countries, but in the end such a commitment is  
16 in the hands of political leaders in those countries. In some areas, the Bank can play a more decisive role.  
17 Internally, for example, we can strengthen our institutional commitment to the Strategy's objectives. We  
18 can also play a leadership role in more precisely measuring the impact of environmental interventions.



# Table 1. Strategic Framework Matrix

Strategic focus		Adjustments in Bank instruments and actions		
Development objectives	Intermediate goals	Analytical work, technical assistance	Policy integration	Project design and lending
<i>Improve the quality of life</i>				
<p>Enhance livelihoods of the poor through improved natural resources management.</p> <ul style="list-style-type: none"> <li>• Increase incomes</li> <li>• Enhance long-term productivity</li> <li>• Improve poor people's access to natural resources</li> </ul> <p><u>Key Partners:</u> Department for International Development (DFID), Food and Agricultural Organization (FAO), World Wide Fund for Nature (WWF) – World Bank Alliance, PROFOR, Collaborative Partnership on Forests (CPF)</p>	<ul style="list-style-type: none"> <li>• Reduce land degradation and restore degraded landscapes</li> <li>• Promote sustainable forest management</li> <li>• Reduce rates of biodiversity loss (genes, species, and ecosystems)</li> <li>• Improve land tenure systems and property rights</li> <li>• Support communal natural resource management</li> <li>• Establish pilot systems of payments for environmental services</li> </ul>	<ul style="list-style-type: none"> <li>• Develop practical tools for measuring the value of environmental services</li> <li>• Undertake studies on access and use of natural resources as impacted by macro policy and political frameworks</li> <li>• Undertake studies on resource degradation and productivity and their linkages to poverty</li> <li>• Help assess the state of ecosystems and their links to livelihoods in client countries</li> <li>• Develop good practice in integrating economic and social factors into ecosystem management</li> </ul>	<ul style="list-style-type: none"> <li>• Integrate environment-related indicators into PRSPs in pilot countries</li> <li>• Help establish incentive frameworks that promote sustainable NRM, including (a) removing policy-induced distortions that undermine sound NRM; and (b) using economic instruments to address externality problems</li> <li>• Promote institutional reform focused on user organizations and cost recovery</li> </ul>	<ul style="list-style-type: none"> <li>• Reflect economic, social, and ecological benefits in project design</li> <li>• Adopt a long-term perspective on NRM by using long-term lending instruments, e.g. APLs</li> <li>• Integrate sustainable ecosystem management objectives into infrastructure and rural development projects</li> <li>• Support participatory tenure and property right reform projects</li> </ul>
<p>Protect people's health from environmental risks and pollution to reduce the disease burden.</p> <p>Reduce:</p> <ul style="list-style-type: none"> <li>• Child mortality</li> <li>• Respiratory diseases</li> <li>• Blood lead levels</li> <li>• Deaths due to malaria</li> <li>• Exposure to toxic substances</li> </ul> <p><u>Key Partners:</u> World Health Organization (WHO), Pan-American Health Organization (PAHO), Center for Disease Control (CDC)</p>	<ul style="list-style-type: none"> <li>• Improve air quality (particularly concentrations of fine particulates and lead) in cities</li> <li>• Increase the share of cleaner commercial fuels and improved cooking/heating systems in households to reduce indoor air pollution</li> <li>• Phase out leaded gasoline</li> <li>• Increase the coverage of water supply and sanitation and facilitate hygiene and behavioral change</li> <li>• Improve drainage in irrigation projects</li> <li>• Reduce the generation and impacts of industrial wastes and toxic materials</li> </ul>	<ul style="list-style-type: none"> <li>• Undertake cross-sectoral assessments of the key sources of environmental health problems</li> <li>• Identify cost-effective measures to reduce environmental health risks in sectors, e.g. water, energy, transport, agriculture</li> <li>• Undertake studies of policies and options to reduce the health impacts of indoor air pollution</li> <li>• Support lead phaseout initiatives and actions, clean fuel studies, Clean Air Initiatives and programs, and information dissemination and learning programs</li> </ul>	<ul style="list-style-type: none"> <li>• Promote market-based solutions to environmental health problems relevant for poverty reduction and growth</li> <li>• Integrate health and environmental linkages into the implementation of CASs and PRSPs</li> <li>• Facilitate dialogue on policy reforms and investments programs that lead to least cost solutions to air quality problems including the coordination of transport, environment and energy policies</li> <li>• Raise awareness among various stakeholders of environmental health issues and cost-effective solutions</li> </ul>	<ul style="list-style-type: none"> <li>• Design projects based on integrated air quality assessment in the urban, transport, and energy sectors</li> <li>• Support the switch to cleaner fuels (e.g. biomass to LPG conversion in rural households, coal-to-gas in urban households)</li> <li>• Support water supply and sanitation, energy, and irrigation projects that have specific environmental health outcomes based on integrated water resource management</li> </ul>

<i>Strategic focus</i>		<i>Adjustments in Bank instruments and actions</i>		
<i>Development objectives</i>	<i>Intermediate goals</i>	<i>Analytical work, technical assistance</i>	<i>Policy integration</i>	<i>Project design and lending</i>
<p>Reduce people's vulnerability to environmental risks, including moderate and extreme natural events.</p> <p>Minimize:</p> <ul style="list-style-type: none"> <li>• Loss of life and livelihood</li> <li>• Injuries and disabilities</li> <li>• Temporary and permanent dislocation</li> <li>• Destruction of social, physical, and natural capital</li> </ul> <p><u>Key Partners:</u> ProVention Consortium, UNDP, UNEP, World Meteorological Organization (WMO)</p>	<ul style="list-style-type: none"> <li>• Raise awareness of the potentially high economic and social returns that investments in vulnerability reduction can yield</li> <li>• Strengthen regional institutions to improve weather forecasting, dissemination, and verifications systems</li> <li>• Enable adoption and encourage enforcement of building codes and land use policies</li> <li>• Promote resilience through better management and protection of the natural resource base</li> </ul>	<ul style="list-style-type: none"> <li>• Study social and economic impacts of natural disasters and assess the vulnerability in countries/sub-regions with a history of natural disasters</li> <li>• Develop a framework for vulnerability assessments, disaster preparedness, and early warning systems</li> <li>• Support the preparation of building codes, siting, and land use guidelines</li> <li>• Develop learning programs on planning, predicting, and adapting to climate change</li> </ul>	<ul style="list-style-type: none"> <li>• Include disaster management in policy dialogue</li> <li>• Promote integration of vulnerability reduction policy in sectoral planning and regulatory reforms</li> <li>• Support integration of disaster management into regional, national, and local land use and development plans and water resources management policies, strategies, and planning</li> </ul>	<ul style="list-style-type: none"> <li>• Support community-based ecosystem service initiatives to reduce the impacts of flooding (reforestation, conservation, and restoration of wetlands)</li> <li>• Build and strengthen early warning systems, including community-based systems for effective dissemination of information</li> <li>• Support vulnerability reduction investments, including adaptation investments to climate change</li> </ul>
<i>Improve the quality of growth</i>				
<p>Promote policy, regulatory and institutional frameworks for environmentally sustainable growth.</p> <ul style="list-style-type: none"> <li>• Improve the effectiveness of environmental regulatory frameworks in client countries</li> <li>• Enhance the integration of environmental concerns in sectors that affect the environment, e.g. energy, agriculture, transport</li> <li>• Promote sustainable financing of environmental services</li> <li>• Promote good environmental practices in the private sector development</li> <li>• Encourage the private sector's participation in markets for environmental goods and services</li> </ul>	<ul style="list-style-type: none"> <li>• Promote the introduction and enforcement of efficient environmental and NRM institutions, policies, and regulations</li> <li>• Increase national and local capacity to adopt and implement environmental regulations and EA systems</li> <li>• Help integrate environmental concerns in projects and programs</li> <li>• Promote the adoption of independently verifiable good environmental management and natural resource use practices in the private sector</li> <li>• Increase the flow of private sector investments to environmental projects</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance analytical work to strengthen the application of safeguards in client countries.</li> <li>• Undertake regional initiatives to strengthen and develop EA capacity</li> <li>• Strengthen local environment capacities by providing TA and training programs.</li> <li>• Identify good practices and promote environmentally and socially sound private sector development</li> <li>• Develop benchmarks for good environment management</li> <li>• Review lessons from Bank practices on environmental issues in privatization</li> <li>• Develop learning programs on environmental compliance and enforcement</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen integration of environmental aspects into CASS, CDFs, and PRSPs</li> <li>• Emphasize the linkages between public expenditure, poverty reduction, and environmental quality</li> <li>• Emphasize sectoral reform projects that promote environmentally appropriate policies and instruments (e.g. water and energy sectors)</li> <li>• Promote policies that support private sector participation in service provision (e.g. energy, transport, and water) consistent with sound regulatory frameworks for managing the resource</li> <li>• Address environmental issues systematically in privatization programs</li> </ul>	<ul style="list-style-type: none"> <li>• Increase support to priority countries, identified in Regional Environment Strategies and business plans, to establish appropriate environmental management framework</li> <li>• Use policy-based lending to address key environmental and NRM issues</li> <li>• Through IFC and MIGA, promote environmental responsibility and good environmental management practices in the private sector through investments and guarantees</li> <li>• Support the establishment of markets for ecosystem services and adoption of independent certification of sustainable natural resource use</li> </ul>

<i>Strategic focus</i>		<i>Adjustments in Bank instruments and actions</i>		
<i>Development objectives</i>	<i>Intermediate goals</i>	<i>Analytical work, technical assistance</i>	<i>Policy integration</i>	<i>Project design and lending</i>
<p><u>Key Partners:</u> UNEP, UNDP, Business Council for Sustainable Development, OECD, EU</p>				
<i>Protect the quality of regional and global commons</i>				
<p>Address transboundary, regional and global environmental problems.</p> <ul style="list-style-type: none"> <li>• Reduce the impacts of transboundary and regional environmental problems</li> <li>• Promote equitable solutions to global environmental problems</li> <li>• Improve countries' capacity to adapt to changing global environments.</li> </ul> <p><u>Key Partners:</u> Global Environment Facility (GEF), Multilateral Fund for the Montreal Protocol (MFMP), Prototype Carbon Fund (PCF), World Wide Fund for Nature (WWF), World Conservation Union (IUCN), Conservation International, UNDP</p>	<ul style="list-style-type: none"> <li>• Help client countries benefit from global public goods</li> <li>• Help countries to address local, national, and regional environmental priorities in a manner that also results in global benefits</li> <li>• Enhance countries' capacity to participate in global environmental conventions</li> <li>• Enhance capacity in countries to reduce vulnerability to natural disasters and impacts of climate change.</li> <li>• Help client countries to access markets for global public goods (e.g. trade in greenhouse gas emissions)</li> </ul>	<ul style="list-style-type: none"> <li>• Build capacity among client country institutions to address regional and global environmental dimensions of national sustainable development</li> <li>• Support assessment of the vulnerability of client countries' agriculture, forest, water resources, coastal zones, and urban infrastructure to climate change as part of a broader poverty reduction strategy</li> <li>• Support efforts by riparians and littoral communities to diagnose, analyze, and plan actions to address degradation of shared ecosystems</li> <li>• Support client capabilities to address Persistent Organic Pollutants (POPs) and other toxic pollutants</li> <li>• Support client-learning programs on understanding the implications and responsibilities under global environmental conventions</li> </ul>	<ul style="list-style-type: none"> <li>• Help understand linkages between global public goods and national development strategies</li> <li>• Help integrate global environmental concerns into sectoral strategies for forestry, water, energy and rural development</li> <li>• Link local and global environmental issues to development and poverty reduction strategies</li> <li>• Link conservation and sustainable use of biodiversity with NRM and poverty dialogue</li> <li>• Mainstream energy efficiency, renewable energy, vulnerability–reduction, and climate adaptation activities in the relevant sectors</li> <li>• Facilitate the phaseout of the consumption and production of ODS and POPs through national programs and use of market-based instruments</li> </ul>	<ul style="list-style-type: none"> <li>• Focus interventions on improving local environmental quality and management that also provide regional and global benefits</li> <li>• Promote lending for biodiversity through NRM projects that address sustainable use of ecosystems and their services</li> <li>• Support efforts to build capacity and invest in international waters, and pilot river basin approaches to water resources management</li> <li>• Use GEF funds strategically to better blend with and catalyze other funding to help enhance the livelihood of the poor and reduce vulnerability</li> <li>• Support clients' participation in and benefit from trade in environmental goods and services through the Prototype Carbon Fund and to better prepare for the CDM.</li> </ul>

**Table 2. Strategy Implementation and Monitoring Matrix**<sup>1</sup>

<i>Action</i>	<i>Medium-term target (5-year)</i>	<i>Fiscal 2002 target: Realignment with the Strategy</i>
<i>Strengthen analytical and advisory activities</i>		
<ul style="list-style-type: none"> <li>• Prepare country diagnostic studies identifying key environmental priorities and evaluating environmental assessment and management capacity</li> <li>• Improve methodologies and indicators for the economic assessment of environmental resources and services</li> <li>• Develop good practice case studies and guidance notes on environmental policy and regulatory issues</li> </ul>	<ul style="list-style-type: none"> <li>• Complete about 5-15 country diagnostic studies annually</li> <li>• Improve environmental sustainability indicators and mainstream them into country indicators</li> <li>• Refine methodologies and mainstream economic assessment into project analysis including the assessment of climate change impacts</li> <li>• Publish regularly and disseminate good practice and guidance notes</li> </ul>	<ul style="list-style-type: none"> <li>• Review good practice in country environment diagnostic work and refine methodology for preparing country diagnostic studies, such as Country Environmental Strategy Papers (CESPs)</li> <li>• Prepare country diagnostic and strategy studies according to Regional Environment Strategies and business plans</li> <li>• Prepare good practice and guidance notes for a number of key issues</li> </ul>
<ul style="list-style-type: none"> <li>• Phase in the systematic use of Strategic Environmental Assessments (SEAs)</li> </ul>	<ul style="list-style-type: none"> <li>• Develop and disseminate good practice based on about 10-20 SEAs</li> <li>• Use SEAs regularly as a tool for upstreaming of environment into policy dialogue and improvement in the quality of sector operations</li> <li>• Integrate the findings of Energy-Environment Reviews into project and program design</li> </ul>	<ul style="list-style-type: none"> <li>• Develop methodologies and procedures for SEA application</li> <li>• Disseminate guidance on SEAs</li> <li>• Commence a series of priority SEA studies</li> <li>• Undertake Energy-Environment Reviews as part of implementing <i>Fuel for Thought</i></li> </ul>
<ul style="list-style-type: none"> <li>• Strengthen analytical work on poverty-environment linkages and inputs to PRSPs</li> </ul>	<ul style="list-style-type: none"> <li>• Improve the understanding of poverty-health-vulnerability linkages and improve assessment methodologies in countries where household survey data are available</li> <li>• Provide support on demand to about 5-15 PRSP processes annually in addressing environmental sustainability</li> <li>• Systematically share knowledge with decision makers in PRSP countries on poverty-environment issues and effective interventions to address them</li> </ul>	<ul style="list-style-type: none"> <li>• Continue analytical work and development of methodology, including enhanced use of household survey data and develop a typology of country-environment links</li> <li>• Develop a system to share knowledge with decision makers in PRSP countries on poverty-environment issues and effective interventions to address them</li> <li>• Support with upstream environmental work in at least 5 countries preparing PRSPs</li> <li>• Undertake an ex-post review of environmental aspects of PRSPs</li> </ul>
<i>Improve project and program design</i>		
<ul style="list-style-type: none"> <li>• Mainstream environment into CASs</li> </ul>	<ul style="list-style-type: none"> <li>• Establish clear process for identifying priority CASs and supporting CAS preparation</li> <li>• Achieve satisfactory coverage of environmental issues in CASs where environmental issues are strongly linked to country priorities</li> </ul>	<ul style="list-style-type: none"> <li>• Undertake in collaboration with OPCS an assessment of environmental coverage in CASs</li> </ul>
<ul style="list-style-type: none"> <li>• Improve the performance and development</li> </ul>	<ul style="list-style-type: none"> <li>• Achieve satisfactory or better QAG ratings for</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain QAG quality at entry and supervision</li> </ul>

<sup>1</sup> The implementation of the Strategy depends on many factors including a successful institutional realignment described in *chapter 4*, adequate resources, effective collaboration with the Bank's client countries and development partners on environmental programs and measures.



<i>Action</i>	<i>Medium-term target (5-year)</i>	<i>Fiscal 2002 target: Realignment with the Strategy</i>
effectiveness of environment projects and programs	<ul style="list-style-type: none"> <li>quality at entry and supervision for at least 90 percent of the environment portfolio</li> <li>Improve corporate portfolio tracking, quality assessment, and enhancement system</li> <li>Reduce the number of environment projects at risk</li> <li>Review and improve the alignment of the environment portfolio with strategic priorities</li> </ul>	<ul style="list-style-type: none"> <li>performance ratings</li> <li>Establish a portfolio quality enhancement mechanism</li> </ul>
<ul style="list-style-type: none"> <li>Mainstream environment into sector lending and use policy lending more proactively to integrate environmental issues</li> </ul>	<ul style="list-style-type: none"> <li>Increase the extent of measurable mainstreaming over current levels in selected sectors</li> <li>Improve the integration of GEF resources into project and program lending</li> <li>Review environmental activities in other sectors and their alignment with the Strategy</li> <li>Implement joint work-programs with other sectors and networks to address priority environmental objectives</li> </ul>	<ul style="list-style-type: none"> <li>Establish cross-sectoral work programs</li> <li>Establish monitoring, review, and feedback mechanism for environment mainstreaming in other sectors</li> </ul>
<i>Improve the environmental safeguard system</i>		
<ul style="list-style-type: none"> <li>Strengthen the implementation of safeguard policies, including the use of a tracking system for safeguard compliance, by policy</li> <li>Establish an integrated risk management framework</li> </ul>	<ul style="list-style-type: none"> <li>Integrate safeguard tracking and reports on safeguard policy compliance into project management system</li> <li>Adopt and use compliance indicators on a routine basis for the entire portfolio</li> <li>Implement a risk management framework</li> <li>Establish and meet targets for safeguard performance during quality at entry and supervision in QAG reviews</li> </ul>	<ul style="list-style-type: none"> <li>Establish and operationalize corporate safeguard compliance tracking and monitoring system</li> <li>Launch the Integrated Safeguard Data Sheet (ISDS)</li> <li>Achieve target ratings for the environmental aspects of quality at entry and supervision for the Bank's portfolio</li> <li>Review all projects at risk and take measures to reduce risk</li> </ul>
<ul style="list-style-type: none"> <li>Review the current safeguard policies and evaluate their application to new lending instruments and changing approaches to development assistance</li> </ul>	<ul style="list-style-type: none"> <li>Develop a work plan for the preparation of an integrated safeguard policy</li> <li>Address safeguard policy issues in a consistent manner by undertaking regular reviews to identify lessons</li> </ul>	<ul style="list-style-type: none"> <li>Identify good practice for addressing safeguard policy issues in sector adjustment lending and new lending instruments such as CDD projects</li> </ul>
<ul style="list-style-type: none"> <li>Assess client capacity and provide support to strengthen country EA systems</li> </ul>	<ul style="list-style-type: none"> <li>Engage with at least ten countries in reviewing and strengthening their EA systems</li> </ul>	<ul style="list-style-type: none"> <li>Continue EA capacity development programs</li> <li>Engage with at least two countries in discussions on EA capacity assessment and strengthening</li> </ul>
<i>Support institutional realignment</i>		
<ul style="list-style-type: none"> <li>Improve incentives for work on cross-sectoral activities and country policy work.</li> </ul>	<ul style="list-style-type: none"> <li>Establish comprehensive performance evaluation, incentive and reward system for cross-sectoral work</li> </ul>	<ul style="list-style-type: none"> <li>Define needs in cross-sectoral skills</li> <li>Give specific attention to cross-sectoral work in annual results agreements for all environmental staff</li> <li>Launch Green awards</li> </ul>
<ul style="list-style-type: none"> <li>Achieve shift in skill mix through training, strategic hiring and joint appointments</li> </ul>	<ul style="list-style-type: none"> <li>Achieve a shift in skills mix by targeted recruiting and training</li> <li>Provide safeguard training to all managers of A and B rated projects and to others on demand</li> </ul>	<ul style="list-style-type: none"> <li>Develop targeted pilot training programs for environmental mainstreaming in selected sectors</li> <li>Continue to refine safeguard policies training program and launch safeguard policy training for managers</li> </ul>

<i>Action</i>	<i>Medium-term target (5-year)</i>	<i>Fiscal 2002 target: Realignment with the Strategy</i>
	<ul style="list-style-type: none"> <li>• Train ninety percent of all operational staff, including managers, in safeguards policies</li> <li>• Provide environmental training for staff in other sectors on demand on development-environment issues</li> </ul>	<ul style="list-style-type: none"> <li>• Provide training on demand</li> </ul>
<ul style="list-style-type: none"> <li>• Improve funding mechanism for environmental activities in the Bank</li> </ul>	<ul style="list-style-type: none"> <li>• Operationalize the Mainstreaming Fund with regular reporting and feedback</li> <li>• Undertake an evaluation of the Mainstreaming Fund to assess its effectiveness</li> <li>• Align the use of trust funds with strategic priorities</li> </ul>	<ul style="list-style-type: none"> <li>• Set up Mainstreaming Fund and develop procedures</li> <li>• Review the use of trust funds and their alignment with the strategy</li> </ul>
<ul style="list-style-type: none"> <li>• Leverage the role of institutional engagements and partnerships to support the implementation of the Strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Realign partnerships with strategic objectives</li> <li>• Improve governance, management, and reporting on partnerships</li> </ul>	<ul style="list-style-type: none"> <li>• Update and evaluate the partnership portfolio</li> <li>• Set guidelines for improving governance, management, and reporting on partnerships</li> </ul>
<ul style="list-style-type: none"> <li>• Undertake systematic monitoring and reporting on performance</li> </ul>	<ul style="list-style-type: none"> <li>• Establish a performance monitoring and reporting unit</li> <li>• Operationalize the comprehensive performance monitoring and reporting framework</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a plan for establishing a systematic performance and monitoring framework</li> </ul>

# Introduction

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Economic development has led to dramatic improvements in the quality of life in developing countries. Higher incomes, better infrastructure, access to cleaner fuels, and improved access to health services have significantly reduced the toll on infant mortality and adult disease linked to exposure to indoor air pollution, contaminated water, human waste, and vector-borne diseases. Education, improvements in human skills and technical knowledge, and capital investments have permitted farmers and other rural communities to obtain much greater incomes from their land, water, and other natural resources.

The striking gains in development in the past decades have been unparalleled in human history. But the picture is far from entirely positive. Gains have been unevenly distributed, and an unacceptably large portion of the world's population remains desperately poor. Approximately 1.2 billion people live on less than a dollar a day, and the gap between the richest and poorest countries has doubled in the past 40 years (World Bank 2000a). Growth has also been accompanied by an alarming rate of environmental degradation, which has reduced its benefits and in some cases threatens the very foundations of economic activity.

Many view concern over environmental issues as a rich-country luxury. It is not. Across the developing world, environmental problems are imposing severe human, economic, and social costs. Environmental problems threaten the quality of life of the millions of people who depend directly on environmental and natural resources for their livelihoods—farmers who face depleted soils and insufficient water for irrigation; fishers who confront collapsing fisheries; and women who walk for hours to collect fuelwood and fresh water. Environmental problems also threaten the health of millions. Every year in developing countries, an estimated 3 million people die prematurely from water-related diseases; nearly 2 million women and children die from exposure to indoor air pollution; and another million people die from urban air pollution. Moreover, environmental problems vastly increase the vulnerability of people to natural disasters such as flooding. In every case, it is the poor who suffer the worst consequences, as they are least able to protect themselves from the effects of environmental degradation and natural disasters. The economic costs of environmental degradation have been estimated at 4 to 8 percent of Gross Domestic Product (GDP) annually in many developing countries—and this does not take into account all the social and human costs.

The impact of environmental degradation reaches far beyond its effects today and threatens the basis for development and livelihoods in the future. As the world's population continues to increase, both its demand for resources and the pressures it places upon them will grow as well. The quality of growth, therefore, is critical. Growth based on depletion and degradation of the resource base on which economic activities depend will be short-lived. Environmental degradation also reaches across borders, affecting the regional and global commons. Many pollutants travel long distances and affect people's health and environment in neighboring countries and regions. Shared resources such as water and airsheds are hard to manage and a frequent source of conflict. The poorest countries are most threatened by the degradation of the global commons, being most exposed to the potential effects of changes in rainfall patterns on agriculture and the incidence of vector-borne diseases, and to the impacts of rising sea levels.

These problems are complex, interlinked and daunting. They are a fundamental part of the development challenge.

## The Role of the Environment Strategy

This Environment Strategy discusses how we will work with our clients and partners to help them address environmental problems as an integral part of their sustainable development strategies. The close

relationships among poverty, environment, and development are increasingly understood. The links between poverty and environment are particularly close when poverty is viewed as a multidimensional phenomenon rather than simply a matter of income. This is reflected in the UN Millennium Declaration's International Development Goals for 2015, which closely associate the goals of poverty reduction, health improvements, and environmental protection.

The world's environmental problems are vast. We at the World Bank can best contribute to their solution by focusing on those areas where we can achieve the greatest results. The Strategy is intended to be realistic about what has to be done; about our strengths and weaknesses; about how to utilize the resources available to improve our performance; and about the potential for our assistance to have positive development outcomes. To help achieve its goals, the Strategy adopts a threefold approach:

- *Learning and applying lessons.* The Strategy builds on the achievements and lessons of both our own past efforts and those of others. It does not seek to change the direction set at the Earth Summit in 1992 and articulated in the 1992 *World Development Report*, but to internalize lessons learned in the last decade, bolster commitments, and accelerate progress toward integrating environment and development.
- *Adapting to a changing world.* A number of trends—often referred to under the common label of “globalization”—have been reshaping the world. In response to these trends and to continued learning from our past efforts, the Bank has also been changing. It has reaffirmed its commitment to poverty reduction and committed to a bottom-up, client-focused development, and it is moving toward new lending approaches. Our work on the environment must also adapt to these changing conditions.
- *Deepening our commitment.* To date, the environment has been the concern of a small, specialized group. This is clearly insufficient. To make a substantial and lasting difference, we must ensure that environmental concerns are fully internalized throughout the Bank.

If we are to help improve people's lives, development opportunities, and prospects for a sustainable future, it is critical for the Bank to steer this course successfully. The Environment Strategy emphasizes the importance of integrating—or “mainstreaming”—environment into country development programs, sector strategies, and investments.

## **Organization of this Report**

Chapter 1 begins by tracing the connections between development, poverty, and the environment. A clear understanding of the problems being faced and of their causes is essential to any effort to address them. Chapter 2 then reviews the Bank's record to date in helping its client countries address environmental problems. The last decade has seen some notable achievements, but there are also areas in which we have fallen short of our own expectations and those of others. It is important to carefully examine these past efforts, and to incorporate the lessons from them into our future activities. On this basis, chapter 3 sets out the Bank's Environment Strategy. Of course, given the enormous diversity of conditions and priorities among our client countries, country-specific strategies will differ substantially. Several common themes emerge, however. Chapter 4 discusses the measures we plan to take within the World Bank to ensure that this strategy is implemented and how we plan to monitor our progress.

# Chapter 1

## Development, Poverty, and the Environment: Tracing the Connections

Helping our client countries face the environmental challenges of development requires a clear understanding of the links between development, poverty, and the environment. This chapter reviews our understanding of these connections.

### The Evolution of Thinking about Sustainable Development

The 1980s witnessed a growing recognition that a growth-based development model, by itself, was not sufficient to ensure long-term sustainability and an equitable sharing of economic progress. *Our Common Future*, the 1987 report of the World Commission on Environment and Development chaired by Norwegian Prime Minister Gro Harlem Brundtland, suggested that sound development required concerted efforts to protect the environment. Sustainable development, the Commission noted, “is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED 1987).

The 1992 United Nations Conference on Environment and Development (UNCED) took *Our Common Future* several steps further by formally endorsing the concept of sustainable development through the Rio Declaration on Environment and Development. According to the definition in Principle 3 of the Declaration sustainable development would “equitably meet development and environmental needs of present and future generations.” The sustainable development concept clearly calls for a more comprehensive, integrated, systemic approach that takes a long-term view of development and balances its different dimensions—economic growth, social equity, and long-term environmental sustainability. Stating the goal is easy; putting it into practice is not. Reaching it often implies difficult choices among competing development paths. A critical challenge for the world is to find an appropriate mix of policies, institutions, and technologies that will make these multiple dimensions of development compatible.

In September 2000, these themes were reiterated at the United Nations Millennium Summit. The Millennium Declaration adopted at this summit by 150 heads of state or government included a series of explicit international development goals to be achieved by 2015 (see box 1.1). These goals have been widely accepted as key indicators of sustainable development. They are interdependent, and together they represent a formidable challenge for countries and the development community. Achieving them requires a concerted effort by governments, civil society, and a diverse range of development partners. The World Bank is developing its corporate strategy around these

#### Box 1.1

##### Seven goals for international development

The IMF, the OECD, the United Nations, and the World Bank Group have jointly adopted the following goals for international development. For each goal, there are indicators that will track progress toward the targeted outcome.

- Reduce the proportion of people living in extreme poverty by half between 1990 and 2015
- Enroll all children in primary school by 2015
- Make progress toward gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2015
- Reduce infant and child mortality by two thirds between 1990 and 2015
- Reduce maternal mortality rates by three quarters between 1990 and 2015
- Provide access for all who need reproductive health services by 2015
- Implement national strategies for sustainable development by 2005, so as to reverse the loss of environmental resources by 2015.

international development goals as a frame of reference for its mission of fighting poverty with lasting results.

### Tradeoffs, Choices, and Priorities

Sustainability is a long-term concept, but one that is directly affected by short-term financial and political considerations. Finding a uniform indicator to measure it has been a serious challenge (see box 1.2). Distorted policies, governance structures, institutional frameworks, and incentives, and pressures to export natural resources may favor a short-term focus, making programs with a long-term horizon difficult to implement. The “grow now, clean up later” approach to development has imposed very high costs—costs that could be avoided by adopting policies and programs that prevent serious environmental damage.

It may be rational to draw down stocks of natural resources in order to finance *investments* in education, skills, infrastructure, and other productive assets. That, however, is different from mining stocks of natural resources to support *consumption* without regard to long-term productivity—a practice that cannot be sustained. Moreover, resource extraction is often undertaken in ways that yield significantly lower benefits than are possible; indeed, at times the benefits are lower than the costs of extraction. In these cases, it is essential to increase the productivity of natural resource stocks by better management, since incomes cannot be increased or even maintained by current patterns of use. Especially for the rural poor, achieving the international development goal of halving extreme poverty by 2015 will depend heavily on improving resource management.

There are many “win-win” opportunities to simultaneously achieve economic and environmental objectives. At times, however, there can be tradeoffs between sustainable resource use and environmental protection. Conserving natural habitats, for example, may constrain their present use, which may deprive resource-dependent people of their livelihoods. In a long-term perspective, this apparent tradeoff sometimes disappears. Overfishing, for example, may temporarily improve people’s income, making conservation seem costly. But if overfishing causes the collapse of fisheries, as has happened time and again, these same people will soon be deprived of both nutrition and income.

Balancing the various objectives and tradeoffs requires value judgments. The relative weights given to the various forms of wealth through everyday decisions are political, social, and cultural choices, but they have to be informed choices, made with the participation of affected stakeholders.

#### Box 1.2

##### Indicators of sustainable development

Measuring sustainability is fundamental to achieving it. Selected examples of indicators of sustainable development include:

- *Genuine Savings* (World Bank). Change in total wealth, accounting for resource depletion and environmental damage.
- *Genuine Progress Indicator* (Redefining Progress), and *Index of Sustainable Economic Welfare* (United Kingdom and other countries). An adjusted GDP figure, reflecting welfare losses from environmental and social factors.
- *Living Planet Index* (WWF). An assessment of the populations of animal species in forest, freshwater, and marine environments.
- *Environmental Sustainability Index* (World Economic Forum). An aggregate index spanning 22 major factors that contribute to environmental sustainability.
- *Ecological Footprint* (Redefining Progress, WWF, and others). A measure of the land area required to produce, in renewable form, the energy consumed by individual countries.
- *Resource Flows* (World Resources Institute). Total material flows underpinning economic processes.
- *Environmental Pressure Indices* (Netherlands, EU). A set of aggregate indices for specific environmental pressures such as acidification or emissions of greenhouse gases.
- *UN System of Environmental and Economic Accounts*. A framework for environmental accounting.
- *UN Commission for Sustainable Development*. Prototype sustainable development indicator sets for individual countries.

Regardless of the specific environmental issue, there are three broad factors underlying many decisions and strategies concerning environmental problems. All three factors relate to equity and fairness in the use of environmental resources over space and time.

- *First*, there is a tradeoff between present and future generations. Exactly what and how much the present generation leaves for the future are important questions underlying many decisions about resource use and consumption.
- *Second*, there is the issue of equitable access to resources and the impacts of resource use and the differing impacts of degradation between rich and poor, both within a country and among countries.
- *Third*, there is a perceived lack of overlap between actions that address local and global environmental concerns.

These three issues have created tensions in the environmental analysis and management arena and in the minds of decisionmakers. They influence what different people see as sustainable development, and have shaped key concepts about environmental protection and conservation (see box 1.3). The challenge facing the World Bank and other institutions concerned with economic development is to work with their clients to develop and implement policies and investment programs that not only support continued economic development, but also:

- Distribute the gains of development in a more equitable manner, with a particular focus on reducing poverty
- Avoid sacrificing the interests of future generations to meet the needs of the current generation
- Build on the emerging global consensus that natural resources and other valuable environmental assets must be managed sustainably.

Many of the easiest gains from introducing better water management, providing clean water and sanitation, encouraging the use of cleaner fuels, and reducing the impact of floods and droughts have already been captured. Yet millions of children still die each year, and many families lose their assets and sources of income, as a result of diseases and disasters that are linked to the quality of their environment. There are indications that progress in the 1990s has been much slower than in previous decades. In some countries, the situation is clearly getting worse, particularly in Sub-Saharan Africa, where the effects of the AIDS epidemic and civil wars are undermining past progress in reducing the burden of disease and promoting better management of natural resources.

## Key Environmental Concerns

The key environmental concerns are associated with three broad but interrelated aspects of development:

- *Quality of life—especially with respect to the livelihoods, health, and vulnerability of the poor*
- *Quality of growth*
- *Quality of the regional and global commons.*

### Box 1.3

#### From protectionism to sustainable ecosystem management

Conservation approaches have slowly evolved from a focus on species and strict protection to a focus on the sustainable use of biological resources and sustainable ecosystem management.

According to the Convention on Biological Diversity, “ecosystem management seeks to meet human requirements to use natural resources, whilst maintaining the biological richness and ecological processes necessary to sustain the composition, structure, and function of the habitats or ecosystems concerned.”

Ecosystem management is the ecological pillar of sustainability, but its application in practical terms requires management approaches with varying degrees of intensity. Modern conservation approaches include protected areas, which themselves have been categorized by the World Conservation Union (IUCN) along a continuum from strict protection to intensive sustainable use; biological corridors; agrobiodiversity and pastoral systems; and heavily modified landscapes, as long as their configuration and impact are compatible with broader ecosystem management goals.

## *The quality of life*

Falling rates of infant mortality and increasing life expectancy are important indicators of the substantial progress made over the past four decades in reducing the burden of disease associated with poor environmental conditions. Even so, environmental factors have major effects on people, often falling disproportionately on the poor (see annex B for more detail about poverty-environment linkages). The effects of environmental conditions on poor people can be grouped into three categories: livelihoods, health, and vulnerability.

*Threats to livelihoods.* Nearly a billion rural households rely directly on the services of natural capital stocks and intricately interdependent ecosystems—water resources, land and soils, forests, and fisheries—for their daily livelihood (see annex D for more detail on natural resources management). As the availability of these resources decline and their quality deteriorates, these livelihoods are threatened (see box 1.4). Collapsing ecosystems can undermine the social fabric of societies and pose threats to security. The major threats to the livelihoods of rural households, especially poor households that often depend on natural resource services for as much as 30 to 50 percent of their total income, are posed by:

- *Overuse, mismanagement, and contamination of freshwater resources.* Almost one third of the world's population faces water scarcity or water stress, especially in Africa, the Middle East, Latin America and the Caribbean, and large parts of South Asia. Rapid degradation of wetlands and coastal zones is a major environmental management problem in all regions, in part exacerbated by over-abstraction of water and by pollution.
- *Degradation of soil,* caused by erosion, the buildup of salts, and compaction brought about by poor irrigation and cultivation practices or overgrazing, especially in areas with highly variable rainfall. Erosion, salinization, compaction, and other forms of degradation affect 30 percent of the world's irrigated lands, 40 percent of rainfed agricultural lands, and 70 percent of rangelands.
- *Rapid depletion of forests, fisheries, and biodiversity,* often as a consequence of unclear property rights and perverse economic incentives. About 70 percent of the world's fisheries are either depleted, overexploited, or fully exploited. Global rates of forest loss have reached alarmingly high levels, especially in the upland forests of the Andes, Central America, East and Central Africa, and Southeast Asia. More than one fifth of the world's tropical forests have been cleared since 1960.

*Threats to health.* Environmental degradation is an important contributing factor to the burden of disease, influencing the quality of life and economic opportunities for many people (see annex C for more detail on environmental health issues). Premature death and illness caused by environmental factors account for one fifth of the total burden of disease in developing countries, which is comparable to the toll from malnutrition (15 percent) and larger than any other preventable risk factors and groups of disease causes. Millions of children and adults die every year from diseases that could be avoided by improving environmental quality. The primary environmental hazards

### **Box 1.4**

#### **Environmental degradation and economic productivity**

The *Pilot Analysis of Global Ecosystems (PAGE): Agro-ecosystems* is the first comprehensive assessment of the ability of the world's agriculture to provide sufficient food, goods, and services, which are vital for sustaining human life. The report notes that soil degradation, including nutrient depletion, erosion, and salinization, is widespread and has dramatically reduced crop productivity, with severe consequences likely for poor, heavily populated countries. Irrigation is draining more water than is being replenished, causing water tables to fall and threatening future water availability for irrigation and other uses. Moreover, many water sources are being polluted by excessive use of agrochemicals.

The PAGE report sets the stage for the Millennium Ecosystem Assessment (MEA), to be launched by the World Resources Institute (WRI), the United Nations Environment Programme (UNEP), the World Bank, and the Global Environment Facility.

*Source:* IFPRI, CGIAR, WRI, and World Bank 2000.



of concern in developing countries are:

- *Water-related diseases*, caused by lack of access to clean water and adequate sanitation, which claim an estimated 3 million lives each year—mostly children under 5 years of age—and exacerbate exposure to vector-borne diseases.
- *Exposure to indoor air pollution*, caused by burning dirty fuels in inefficient stoves without proper ventilation, which results in nearly 2 million deaths of women and children annually, including about 500,000 deaths in India and about 300,000 in China.
- *Exposure to urban air pollution*, primarily due to fine particles emitted by households that burn coal and other dirty fuels for heating and by two-stroke motorcycles and poorly maintained diesel vehicles. Air Pollution causes close to a million premature deaths and severe respiratory problems.
- *Exposure to agricultural and industrial chemicals and waste*, which represent modern environmental health risks and exacerbate the impacts of traditional environmental health risks in many developing countries.

The burden of disease associated with limited access to clean water and sanitation and with indoor air pollution falls disproportionately on the poorest 20 to 40 percent of households. In both rural and urban areas, the poor are less likely to be served by water and sanitation infrastructure and are more likely to rely on dirty fuels for cooking. Urban air pollution affects all urban inhabitants, but the poor tend to suffer more severely because its effects are worse for those in poor health and because poor people have limited opportunities to protect themselves or to move to less polluted areas. Reducing these environmental hazards would make a major contribution toward meeting the International Development Goal of reducing infant and child mortality by two-thirds and maternal mortality rates by three-quarters by 2015.

*Vulnerability.* 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. Poor people are particularly vulnerable to both natural disasters and changes in environmental conditions. Changing patterns of resource use have often undermined traditional arrangements for managing and sharing such natural risks as droughts, floods, fires, and earthquakes. Pressures on resource stocks have prompted many poor households to live and work in vulnerable zones such as floodplains, drought-prone areas, or earthquake faults. Vulnerability is increased by specialization in the use of particular natural resources, so that households have few alternatives when disaster strikes. Furthermore, the poor have less capacity to cope when disasters occur. Access to credit is more difficult than for better-off households, and the poor have fewer assets to sell or consume in times of hardship. Natural disasters, therefore, often have catastrophic effects on the poor.

### ***The quality of growth***

Economic growth is essential if poverty is to be reduced and welfare is to be improved. But it is a mistake to imagine that there is a simple dichotomy between “growth” and “no growth.” Growth can take a variety of forms, and, as several recent studies have shown, the *quality of growth* matters (World Bank 2000b). A focus on maximizing growth—narrowly defined in GDP terms to the exclusion of all other considerations—often imposes substantial costs and proves unsustainable.

Improving the quality of growth is far from simple. In the case of environmental issues, improving incentives for the sustainable use of environmental and natural resources is a key issue. When markets work well, economic theory and experience both tell us that resource use will be “efficient.” But in practice, markets do not always work well. This is particularly true in the case of environmental goods and services, which have special characteristics (see box 1.5). Environmental problems are usually caused by market failures, policy failures, or both.

- 1 ■ *Market failures.* Markets for many  
2 environmental services often function  
3 poorly or not at all. As a result, the  
4 observed “prices” for environmental  
5 goods or services often do not reflect  
6 their value to society. In many cases,  
7 there is no observed price at all, making  
8 these goods and services appear to be  
9 either free, so that they tend to be  
10 overconsumed, or worthless, so that they  
11 tend to be underprovided. Environmental  
12 regulations that correct such failures—  
13 for example, by making pollution  
14 costly—are necessary. Often, market  
15 failures are due to incomplete *property*  
16 *rights*, where resources are not assigned  
17 to an identified owner, as in the case of  
18 fish in international waters; nonexclusive  
19 property rights, where many owners  
20 have rights to the same resource, such as  
21 communal grazing lands; unenforced  
22 property rights, where, if resources are  
23 stolen or damaged, there are no  
24 consequences; and nontransferable  
25 property rights, which cannot be sold or  
26 leased, as is common for land.
- 27 ■ *Policy failures.* An important reason that  
28 prices of environmental goods and  
29 services may fail to reflect their value to  
30 society is that government interventions often distort these prices. Subsidized prices, for example,  
31 encourage the inefficient and excessive use of resources. Such subsidies are common for energy or  
32 irrigation water. In many countries, especially in Africa, government regulations such as export  
33 quotas, overvalued exchange rates, and artificially low prices set for agricultural products by state  
34 marketing boards have created strong disincentives for long-term investment in the productivity of  
35 resources; when the value of an output is low, the value of natural resources used as inputs to their  
36 production is also low.

#### Box 1.5

##### What makes environmental problems different?

Environmental problems have several unique characteristics:

- *Delayed impacts.* Many potential environmental changes have significantly delayed impacts. This argues for long lead times in implementing appropriate prevention or mitigation actions.
- *Spatial impacts.* Sources and environmental impacts are often separated in space (for example upstream/downstream or hills/valleys), making it necessary to have a framework that can address diverse stakeholder interests.
- *Cumulative impacts.* Individual actions often have little effect on the environment, but the cumulative effect of many such actions can be substantial.
- *Irreversible damages.* A significant number of environmental outcomes are fundamentally irreversible, and the implications of such changes are hard to predict.
- *Need for government intervention.* Environmental problems are often a consequence of market failures. Without government intervention to introduce regulations and create markets where they do not exist, the private sector alone cannot achieve optimal environmental outcomes.
- *Multisectoral links.* Environmental problems reverberate across a range of sectors through many pathways, calling for coordinated policies and concerted efforts.
- *Regional and global implications.* Many environmental impacts have broad cross-boundary and global effects that require international frameworks and agreements to deal with them.

37 Addressing these market and policy failures is important for improving the quality of growth. If such  
38 failures persist, environmental goods and services will continue to be overconsumed and underprovided,  
39 imposing costs on those who depend on such goods, now and in the future. But the effects will also  
40 extend much further: infrastructure investments will be different when water and energy uses are  
41 subsidized, for example, and the decisions made on such investments will have long-lasting effects on  
42 patterns of development. Distorted prices will also direct research efforts to focus on certain crops and  
43 agricultural practices and neglect others, limiting the technical options available to future decisionmakers.

44  
45 Improving incentives in the use of environmental goods and services will have different implications in  
46 different cases. In particular, there is an important distinction between cases dominated by on-site effects  
47 and those dominated by off-site effects:  
48

- In the case of *on-site effects*, resource users already have powerful incentives to address any resulting problems, since they are affected directly. Farmers, for example, tend to have strong incentives to manage the soil of their farms sustainably, as the condition of the soil affects their current and future harvests and hence their livelihoods. The main need in this case is to remove obstacles to the proper functioning of existing incentives. This often includes the introduction of exclusive-use rights.
- Conversely, in the case of *off-site effects*, decisionmakers usually have little or no incentive to address environmental problems, since the consequences do not affect them. Farmers, for example, have no incentive to help protect hydrological flows because others, often far downstream, will enjoy the benefits in improved water availability. In such situations, appropriate incentives need to be created to (a) remove policy-induced distortions that undermine sound resource use; (b) complement market signals with taxes/fees that reflect social opportunity costs, or payments that reflect social benefits; and (c) selectively regulate the remaining externalities.

Establishing an appropriate incentive and regulatory framework requires good governance structures. At least three barriers stand in the way. First, difficult tradeoffs have to be evaluated and choices made. In the high-income market economies, it has taken nearly five decades to agree on and implement policies that dramatically improved local environmental conditions. Even now, many environmental issues remain highly contentious. Second, achieving a more efficient use of environmental goods and services will inevitably impose costs on some members of society. Often, politically influential groups stand to benefit heavily from inefficient use of resources, and they are likely to strongly resist moves to improve efficiency. Powerful elites can manipulate resource use to their own advantage and exclude the powerless and voiceless parts of society from its benefits. Third, “efficiency” is not the only objective. There are many other important social objectives—for example, social equity—and cultural and religious values which may influence the way decisions and choices are made by societies.

One of the ingredients for good governance is increased public awareness. People are frequently unaware of the value and importance of healthy and sustainable ecosystems, or of the causes and consequences of environmental damage, including the impacts of pollution on their health. Information about the impacts of unsustainable natural resource use is often in the hands of central agencies, not of the users themselves. Building on indigenous knowledge and empowering local communities to use such knowledge are invaluable in promoting good resource management practices. Women, for example, play an important role in resource management, but have little voice or access to information. Thus meeting the International Development Goal of empowering women is also likely to help improve natural resource management.

Contrary to common belief, it is not necessary to sacrifice the interests of future generations in order to improve the incomes and welfare of those living today. Avoiding such conflicts should be the primary objective of the work to devise and implement better policies and more effective regulatory arrangements. Much has already been achieved, especially in middle-income countries, and progress can be accelerated in all countries as people become more concerned about their environment (see box 1.6). Our efforts must be focused on issues and in places where it is possible to play a catalytic role in supporting positive change.

### ***The quality of the regional and global commons***

Many environmental services are global public goods, and their degradation affects people across the world (see box 1.7). Ecosystems and the environmental impacts of development do not respect administrative boundaries. Many pollutants travel long distances and affect people’s health and the environment in neighboring countries and regions. The successful pursuit by individual countries of environmentally sustainable development, including poverty alleviation, will ultimately depend on the protection of the global commons, such as climate, the diversity of life, and shared water resources. These commons are being degraded at disturbing rates indicated by the rapid deterioration of global ecosystems.

1 The poorest countries are often those that are  
2 most threatened by the degradation of the global  
3 environmental commons. Climate change is  
4 projected to cause significant increases in  
5 famine and hunger in many of the world's  
6 poorest areas, in part because of decreasing  
7 precipitation in many arid and semi-arid areas,  
8 especially in Sub-Saharan Africa. It could also  
9 displace millions of people from small island  
10 states such as the Maldives, and from low-lying  
11 delta areas of Bangladesh, China, and Egypt;  
12 increase the incidence of vector-borne diseases  
13 such as malaria and dengue; and lead to rapid  
14 shifts in the distribution and productivity of  
15 terrestrial and aquatic ecosystems, resulting in  
16 loss of biodiversity and livelihoods.

17 Loss of biodiversity also poses severe threats for  
18 developing countries. Many genes, species, and  
19 communities have critical uses as food, sources  
20 of new crop varieties, commodities, medicines,  
21 pollinators, soil formers, draws for tourists, and  
22 as moderators of climate and hydrology. Loss of  
23 biodiversity can thus undermine agricultural  
24 productivity both now and in the future, reduce  
25 water quantity and quality, and compromise economic benefits from recreation opportunities. In addition,  
26 many people consider biodiversity as having intrinsic value, for moral, religious, or cultural reasons.  
27 These various values have been recognized in the Convention on Biological Diversity, as well as the more  
28 targeted Ramsar Convention on Wetlands.  
29 Despite these benefits, the planet is losing  
30 species at a rate higher than at any time in its  
31 history—an extinction spasm that undermines  
32 future options.

34 These outcomes occur because—in the absence  
35 of enforceable international regulatory and  
36 incentive systems—individual countries are  
37 unable to capture the economic value of  
38 conservation and environmental protection  
39 measures that generate regional or global  
40 benefits. While the benefits of measures to  
41 reduce carbon dioxide (CO<sub>2</sub>) emissions and  
42 protect genetic resources accrue to mankind, the  
43 costs of these measures have to be borne locally.  
44 Similarly, riparian or littoral countries linked to  
45 transboundary aquatic and terrestrial ecosystems  
46 are unable to capture the full value of national  
47 measures to address resource degradation.

48 Arresting global and regional environmental  
49 degradation therefore depends squarely on

### **Box 1.6** **Industrial and developing countries have different perspectives on environmental challenges**

The fourth annual *International Monitor* sponsored by Environics International, Ltd. outlines the results of the largest environmental public opinion survey ever conducted, including interviews with some 35,000 people in 34 countries. The survey found that the environmental divide is widening in the world. In industrial countries, most people rate the quality of their local environment as good; in poorer countries, most people rate it as poor.

As this and previous surveys indicate, in wealthier countries people tend to take a longer-term global view of environmental problems, while in poorer countries environmental concerns are more focused on local issues. In half the countries surveyed, particularly in the poorer ones, the majority of people believe that environmental problems affect their personal health a great deal. People are most concerned about the quality of their water and air, and there is growing concern globally about the depletion of natural resources. Majorities of people in nearly all countries, however, think that environmental protection laws, as currently applied, are inadequate.

*Source:* Environics International, Ltd. 2000.

### **Box 1.7** **Global environmental issues**

Global environmental issues fall into one of two categories:

1. *Global commons issues*, which are directly related to the maintenance of major components of Earth's systems, include:

- *Climate change*
- *Ozone depletion*
- *Accumulation of persistent organic pollutants (POPs)*
- *Loss of certain biodiversity elements*, such as migratory species that cross national borders and globally important generic resources.

To address these issues effectively, all countries need to take coordinated action.

2. *Natural resource degradation at the global scale*, including

- *Most biodiversity issues not listed above*
- *Degradation of international waters*
- *Land degradation and desertification*
- *Degradation and loss of forest resources.*

Although these issues are largely national or regional in nature, the severity of the problem often requires coordinated international action.

international cooperation. Following the UNCED Conference in Rio, now almost 10 years ago, several international conventions were created to promote such collaboration. These agreements cover climate change, stratospheric ozone depletion, loss of biodiversity, desertification and, most recently, persistent organic pollutants. With the notable exception of the convention to phase out ozone-depleting substances (ODS), progress in the implementation of these conventions and their resource protocols has been slow. The political, scientific, and technical complexities of the challenge are at the root of this failure.

The great majority of the Bank's client countries, being parties to the global conventions, have committed themselves to addressing the degradation of the global commons. They believe they will suffer, along with others, if insidious trends in global environmental deterioration continue. They face, however, difficult decisions in defining the appropriate level of effort they should devote to global environmental management. In particular, developing country partners perceive real and critical tradeoffs (a) between meeting short-term needs for food, water supply, and sanitation services for the poor and investing in environmental management for the medium and long term; and (b) in deciding between allocating expenditures for local and regional pollution abatement or for taking action on global environmental change and its local impacts. Action is also impeded by a lack of adequate institutional, policy, and management capacity to address either short- or long-term environmental concerns. Finally, there is the realization that the contribution of developing countries to global environmental problems—for example, to the accumulation of greenhouse gases (GHGs)—has been limited compared with that of the industrial world.

Involving developing countries in solutions to global problems is critical. The Bank needs to be ready to assist client countries in their preparations for effective participation in the global conventions and implementation of national programs in support of the conventions' objectives. Bank support for national sustainable development can generate important complementary regional and global benefits. Beyond that, special resource transfer mechanisms have been established in connection with international conventions to help developing countries finance the costs of generating global environmental benefits that are not matched by domestic benefits. The World Bank Group is one of the implementing agencies for two such global financing mechanisms: since 1989, the Multilateral Fund for the Montreal Protocol for the Phaseout of Ozone Depleting Substances (MFMP), and, since 1991, the Global Environment Facility (GEF).

## **Changing Global Context**

Our strategy is tailored to reflect a rapidly changing global context. A number of trends—often referred to under the common label of “globalization”—have been reshaping the world. These trends pose new challenges and opportunities for environmental stewardship. Trade and private capital flows have increased dramatically, bringing substantial gains but also making countries vulnerable to events far beyond their shores. The cross-boundary and international character of many environmental issues further accentuates the growing interlinkages between countries. Decisions about such natural resource management matters as forestry, water resources, and the use of nonrenewable energy resources in a single country have far-reaching medium- and long-term implications for whole regions and for the world.

### ***Increased private sector role***

The relative roles of the public and private sectors are changing, with the private sector taking over many functions that were previously the domain of the public sector. The private sector is becoming a decisive factor in influencing environmental performance and long-term environmental sustainability (see box 1.8). External 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—especially in the middle-income countries, where these flows have been concentrated.

Partnerships between public and private sectors, particularly for large infrastructure projects, are likely to increase in many client countries, given the availability of private capital and governments' need to reduce their expenditures. As a result of these trends, the investment climate has become a crucial dimension of development. In turn, accountable and effective public sector governance is critical to establishing a favorable investment climate.

### ***Political changes***

Decentralization of political and economic decisionmaking to sub-national levels opens opportunities for broader institutional change, increased democratization, and 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 spread of democratization, the increasing role of civil society, and increased access to information in the developing world provide channels and mechanisms whereby environmental issues can more easily reach decisionmakers and influence economic and sectoral policies.

### ***Technological change***

Rapid progress in science and technology has created opportunities for more efficient and cleaner production, safer and healthier products and processes, the exploration of new resources, and easier access to information and knowledge. A challenge for developing countries is to build the human, policy, and institutional capacity to use these opportunities for harnessing their development efforts.

### ***Population growth***

In parallel with these relatively new trends are others of long duration. Global population continues to grow rapidly, despite recent reductions in fertility, and is expected to reach 7 billion in 2013, 8 billion in 2028, and 9 billion in 2054. The bulk of this growth will occur in developing countries. Africa alone will grow from 0.8 billion currently to 1.8 billion in 2050, and Asia from 3.6 billion to 5.3 billion. This growth will inevitably increase the pressures on, and the demand for, environmental resources (see box 1.9).

#### **Box 1.8**

##### **Corporate responsibility: The triple bottom line**

Many corporate leaders now recognize that social development, environment, and growth are not always in conflict. For a variety of reasons—reducing costs, creating new market development opportunities, protecting and gaining consumers, and managing risks—companies are adopting sustainable development as a management framework to build long-term value in line with shareholders' and society's expectations. Commitment to corporate social responsibility moves companies to a triple bottom line of financial excellence, social justice, and environmental superiority. Public information and comparative benchmarking influence consumers, investors, public interest groups, and governments to put pressure on company performance in meeting environmental and social standards.

- ***Socially Responsible Investing (SRI)***. Institutional and individual investors are increasingly selecting investments that meet minimum standards for environmental and social criteria. In the United States alone, assets in SRI funds have grown to over \$1.3 trillion. In Europe, enabling legislation, such as the UK requirement that pension funds disclose the social and environmental performance of their bond portfolios, provides a fruitful ground for SRI. As a group, Socially Responsible Investors are active and vocal, frequently organizing internet-based public information campaigns to encourage investors to boycott companies whose actions or investments conflict with the principles advocated by the particular SRI group.
- ***The Global Reporting Initiative (GRI)***, sponsored by the Coalition for Environmentally Responsible Economies and UNEP, seeks to make sustainability reporting as routine and credible as financial reporting in terms of comparability, rigor, and verifiability. Specifically, the GRI's goals are to (a) elevate sustainability reporting practices worldwide to a level equivalent to financial reporting; (b) design, disseminate, and promote standardized reporting practices, core measurements, and customized, sector-specific measurements; and (c) ensure a permanent and effective institutional host to support such reporting practices worldwide.
- ***Product certification***. Product certification efforts aim to create standards and use public information to harness consumer awareness and preferences in support of products produced in accordance with environmental and social standards. Certification standards are now under development or dissemination for forest products, shade-grown coffee, marine fisheries, tropical aquarium fish, and dolphin free tuna, among others.

Source: WBCSD 2000.

1 The challenge this growth poses is  
2 enormous: agricultural production will  
3 need to nearly double in the next 30 years,  
4 while land is becoming increasingly scarce,  
5 and new land taken into cultivation is often  
6 marginal compared with that removed by  
7 degradation or urbanization. Water use  
8 grew at more than twice the rate of  
9 population increase during the twentieth  
10 century, and already many regions are  
11 chronically short of water. About one third  
12 of the world's population lives in countries  
13 experiencing moderate to high water stress,  
14 partly resulting from increasing demands  
15 from a growing population and human  
16 activities. By 2025, as much as two thirds  
17 of the world's population is expected to be  
18 under water stress.

#### **Box 1.9**

##### **Poverty, population, and environment links**

Population growth rates are often highest in the world's most sensitive ecosystems, including drylands and tropical forests. The complex linkages between poverty, population, and environmental degradation tend to be most pronounced in regions with the following characteristics:

- High dependence on natural resources for subsistence
- Scarcity of renewable resources such as water
- Vulnerability of soils to rapid degradation
- Inadequate human and social development
- Inequitable access to natural resources
- Limited role of women in social and economic decisionmaking.

Understanding these linkages has to be part of poverty reduction strategies.

*Source: UNFPA, UNEP, and IUCN 1998.*

19 In terms of economic and environmental sustainability, recent analysis emphasizes the challenge posed by  
20 high population growth (Hamilton 2000). It is estimated that in some 50 countries, the rate of growth of  
21 total wealth is less than the growth rate of population—a clear indication of unsustainable development.

22 Population, poverty, and environmental degradation are inextricably linked. A significant proportion of  
23 high infant and child mortality (especially under-5 mortality) is caused by environmental factors, which,  
24 in turn, are linked to higher fertility: mothers bear more children to ensure that at least some will survive.  
25 With many children, however, poor families have difficulty investing in education and proper nutrition. In  
26 developing countries that have implemented effective family planning programs and increased child  
27 survival rates and educational levels, fertility rates have declined. Lower fertility rates and smaller  
28 families, in turn, can free women to take part in other activities.

### **Rationale for Public Action**

30 In today's world, so strongly characterized by globalization and the widening reach of the private sector,  
31 the rationale for public action is stronger than ever. The public sector has traditionally played an  
32 important role as a steward of the environment and natural resources. This role is closely linked with the  
33 special properties of environmental issues, especially the existence of extensive market failures arising  
34 from the public goods nature of many environmental benefits and services; from externalities such as  
35 pollution; and from the cross-sectoral, cross-boundary, and global nature of many environmental issues.

36 Traditionally, the public sector has controlled the exploitation of natural resources—forestlands, subsoil  
37 minerals, and oceanic resources in coastal areas—as the owner of such resources and has provided  
38 environmental infrastructure services through state-owned utilities. Recognizing the opportunities for  
39 improved efficiency and financial sustainability through the private provision of environmental services  
40 and private management of resources, governments recently have been moving away from a role as owner  
41 and provider to one of regulator and enabler.

42 The role of governments, however, remains especially important in establishing a policy, regulatory, and  
43 institutional framework for sustainable resource management and environmental performance.  
44 Governments play a key role in introducing mechanisms for addressing off-site, cross-sectoral, and cross-  
45 boundary environmental issues. They can regulate the exploitation of open-access resources such as  
46 fisheries by, for example, issuing individually tradable quotas. The protection of downstream users

1 through better upstream management of a watershed involves large transaction costs and can be managed  
2 best by public authorities; for example, public authorities could develop systems of payments for  
3 environmental services to compensate upstream users for providing these services. Governments can also  
4 facilitate public access to environmental information and participation in decisions affecting the  
5 environment. An emerging area for public authorities involves creating markets for environmental  
6 services through regulation and the development of new mechanisms, such as carbon sink funds, green  
7 certification, and ecotourism.

8  
9 Traditional command-and-control regulations and enforcement are often expensive and institutionally  
10 unfeasible. Therefore, a wider range of policy tools is needed to complement traditional regulatory  
11 instruments; examples include methods that encourage self-regulation and greater environmental  
12 responsibility in the private sector, such as increased disclosure requirements and assurance-based  
13 compliance programs. Market mechanisms often encourage the private sector to achieve the same goals  
14 as regulation, and often in a shorter time.

15  
16 Even with improved incentive structures, there will always be a need for regulation and enforcement. The  
17 private sector typically responds fastest to regulatory measures that threaten its license to operate. Empty  
18 threats in the form of regulations that cannot be adequately enforced send a counterproductive message.  
19 Enforcement has to be consistent to create a level playing field; it has to promote good operating practice;  
20 and it has to provide a predictable environment for investment. The so-called “80:20 rule of  
21 environmental regulation” holds true even in the best-governed countries. This rule suggests that if it is  
22 possible to get 80 percent voluntary compliance with environmental laws and standards, then an effective  
23 regulatory agency can take action against the 20 percent who do not comply. An active civil society and a  
24 changing culture of corporate responsibility in the private sector have been important in improving  
25 compliance and contributing to positive environmental change. The Bank’s Environment Strategy will  
26 reinforce these positive developments.



## Chapter 2

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### Lessons from World Bank Experience

The World Bank's environmental agenda has evolved gradually. The main focus in the 1970s and 1980s was on safeguards—on mitigating the potential environmental damage associated with projects, especially those that financed physical investments in infrastructure, energy, and agriculture. Gradually, a more comprehensive and positive agenda has developed. The Bank's views on environmental sustainability were comprehensively expressed in the 1992 *World Development Report*, which highlighted key environmental challenges and provided a framework for the integration of environment and economic development. Our environmental agenda has also been influenced by our mandate of helping to implement global environmental agreements and special financing mechanisms. This chapter describes our experience in these three key areas—safeguards, the integration of environment into development assistance, and global environmental issues—summarizes lessons learned, and outlines how we can best assist countries in meeting their environmental goals.

#### Safeguard Policies and Procedures

The Bank has 10 key safeguard policies, and the entire project pipeline is subject to systematic screening as a standard requirement of the project preparation and approval process.<sup>1</sup> The overarching objective of the safeguard system is to support the development efforts of our client countries in a manner that is environmentally and socially sustainable. The World Bank's environmental and social safeguard policies and procedures provide guidelines for staff in identifying and preparing programs and projects. They serve as an important tool for integrating environmental and social concerns into the design and implementation of Bank-supported activities and promoting sustainable development objectives.

Our safeguard policies complement international and regional environmental agreements signed by client countries; national and local laws and procedures concerning environmental and social issues; and national requirements for environmental assessment. The safeguard policies were not developed as an integrated set of procedures to promote due diligence, and this can present a challenge for interpretation and application. Nevertheless, they share complementary objectives, and their underlying principles provide a sound basis for supporting development activities. They have become internationally recognized references and are often used as benchmarks for the development of national environmental assessment systems in developing countries. In addition, many other development organizations and client countries make use of the Bank's *Environmental Assessment Sourcebook* and the *Pollution Prevention and Abatement Handbook* as key references in undertaking their environmental work.

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<sup>1</sup> The 10 safeguard policies are: Environmental Assessment (Operational Policy/Bank Procedures (OP/BP) 4.01), Natural Habitats (OP/BP 4.04), Forestry (OP/BP 4.36), Pest Management (OP/BP 4.09), Involuntary Resettlement (OD 4.30), Indigenous Peoples (Operational Directive (OD) 4.20), Cultural Property (OP/BP 11.03), Safety of Dams (OP/BP 4.37), Projects in International Waterways (OP/BP 7.50), and Projects in Disputed Areas (OP/BP 7.60). These policies are complemented by OP/BP 17.50, on Disclosure of Operational Information. Nine out of the 10 safeguard policies also apply to IFC and MIGA. Because of the private sector orientation of these institutions, OP/BP 7.60 does not apply to them. IFC and MIGA policies also include a Policy Statement (dated March 1998) on Child and Forced Labor. Environmental assessment in IFC and MIGA is guided by their respective Environmental and Social Review Procedures which turn the principles of OP/BP 4.01 into specific requirements. For further details on IFC and MIGA see Annexes G and H.

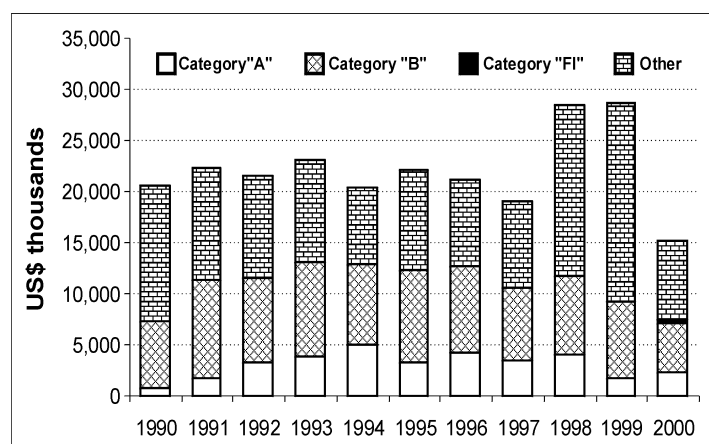
## Progress made in applying environmental assessment

Environmental Assessment (EA) has been a key instrument in helping the Bank and our clients to incorporate environmental and social aspects of proposed investments into the decisionmaking process. EA provides a mechanism for evaluating the overall environmental and social soundness of proposed projects; assisting in the evaluation of alternatives to the proposed project; and setting out mitigation and monitoring actions to ensure project sustainability. The Operational Directive on Environmental Assessment (OD 4.01), issued in October 1989, mandated a systematic screening of all proposed projects and preparation of an environmental assessment for projects that might have significant negative impacts on the environment.<sup>2</sup> Subsequently, Operational Directives were updated and converted into Operational Policy/Bank Procedures format, and a number of additional policies were added to further protect specific aspects of the environment, potentially vulnerable populations, and physical cultural property. These new policies reflect the continually broadening scope of the safeguard approach, from an evaluation of potential physical, biological, and socioeconomic impacts using the environmental assessment process, to inclusion of complementary instruments such as resettlement plans, indigenous peoples' development plans, and pest management plans.

With the exception of occasional project-specific problems, the scope of coverage and the quality of application of the safeguard policies at the project level have gradually improved over the past two decades. Between 1990 and 2000, 210 projects required full environmental assessment (category A), and another 1,006 required less comprehensive environmental reviews (category B). The share of category A projects varied between 4 and 24 percent of the total annual lending volume, and that of category B projects, between 26 and 43 percent (see figure 2.1). More than 80 percent of lending commitments in six sectors—oil and gas; electric power and energy; transport; water supply and sanitation; mining; and urban development—required environmental assessment or analysis.

Recent evaluations have concluded that Bank projects are usually well designed to avoid environmental damage and have good environmental management action plans (see for example, Goodland and Mercier 1999; World Bank 1997a). According to the quality-at-entry assessment in calendar year 1999 by the Quality Assurance Group (QAG), the EA process for investment lending is now largely mainstreamed, and 90 percent of projects receive satisfactory quality ratings. In many cases, EAs have led to better project design, and environmental management plans

**Figure 2.1**  
IBRD/IDA commitments by EA category, fiscal 1990–2000



Note: A—lending subject to full environmental assessment; B—lending subject to environmental analysis; FI—lending subject to environmental screening and assessments by financial intermediaries. Other—lending not subject to environmental assessment or analysis.

<sup>2</sup> Several safeguard policies, however, existed even before: Operational Manual Statements (OMS) 2.32 on Projects on International Waterways (1977); OMS 2.33 on Social Issues Associated with Involuntary Resettlement in Bank-financed Projects (1980); OMS 2.34 on Tribal People in Bank-financed Projects (1982); OMS 2.35 on Projects in Disputed Areas (1983); and OMS 2.36 on Environmental Aspects of Bank Work (1984).

1 have introduced improvements in project implementation, resulting in greater attention to environmental  
2 issues in Bank-financed projects. For example, before 1989, 60 percent of Bank-financed urban water  
3 supply projects did not consider how the increased use would affect water resources. Today, water supply  
4 projects routinely consider sanitation and water pollution problems and look for innovative ways to  
5 address them (World Bank 1997a).

6 In part, improved performance reflects the increased skill of our clients and staff in identifying—through  
7 the use of EA and related safeguard-mandated studies—investments that might have significant adverse  
8 environmental and social impacts, in advance of project approval and implementation. Equally important,  
9 our clients, staff, and partners have acquired experience in using EA as a tool for considering alternatives,  
10 consulting with affected stakeholders, and modifying the design of projects to avoid or mitigate harmful  
11 environmental effects. In this respect, the experience of working on Bank projects has contributed to  
12 strengthening local capacity to carry out EAs and to implement environmental management plans in many  
13 countries.

14 The public consultation and disclosure mechanisms of the EA process have become useful tools for  
15 societies to debate about alternative development options and impacts from proposed programs and for  
16 helping communities and individuals benefit more fully from development activities. The Bank's  
17 performance in following its disclosure requirements has improved significantly over time.

18 EA is only one element of a larger environmental management system used by the Bank and its borrowers  
19 to both “do no harm” and promote good environmental management. The implementation of safeguard  
20 policies depends on the regulatory and incentive framework established by environmental legislation in  
21 countries where projects are planned, implemented, and operated. In this respect, we have assisted many  
22 countries over the past decade in introducing environmental policies and procedures, including the  
23 introduction and strengthening of national EA capacity. In the framework of the Environmental  
24 Management Capacity Building Project in India, for example, we are working with the Ministry of  
25 Environment and Forests to strengthen implementation of India's Environmental Impact Assessment  
26 (EIA) policies. Similar actions are under way in the Mediterranean region as part of the Mediterranean  
27 Environmental Technical Assistance Program (METAP) (see box 3.3 in chapter 3), which is jointly  
28 funded by the World Bank, the European Commission (EC), the European Investment Bank (EIB), and  
29 the United Nations Development Programme (UNDP).

30 Notwithstanding the improved implementation and capacity building, the increasing costs of adhering to  
31 these safeguard policies during project preparation and implementation have become a concern for both  
32 the Bank and our clients. Experience has demonstrated that the most effective way to reduce the costs and  
33 the time required for the preparation of EAs and other related safeguard studies is to identify these issues  
34 at the earliest phase of program or project development and to fully integrate the studies into the overall  
35 planning, review, and decisionmaking process. This approach also reduces implementation costs for  
36 compliance, since concerns are directly factored into the decisionmaking and design process rather than  
37 being added on. The main challenge in this area is introducing at the earliest possible stage of the project  
38 the safeguard policies and related national requirements used both by the Bank and cooperating countries.  
39 Measures to support more cost-effective and timely preparation of safeguard-policy-related studies and  
40 their implementation within projects is an area that should continue to be a focus of attention for the Bank  
41 and our clients.

## 42 ***Areas for further improvement***

43 *Early attention to environmental issues.* EAs are now routinely used at the project level by the Bank, its  
44 clients, and its partners. It has been much more difficult to address environmental and social concerns  
45 when strategic decisions are being made at the sectoral and program levels. EA is often narrowly viewed  
46 as something to be carried out only after a development option has been selected and a project is under

1 preparation. A 1996 OED review found that many of the EAs prepared for Category A projects did not  
2 adequately consider alternative designs and technologies and that the EA process was often started too  
3 late to have sufficient influence on the decisionmaking process. This problem is not unique to the Bank or  
4 its clients. Recognition that better environmental outcomes can be achieved at lower cost by integrating  
5 such concerns at the planning and design stages has spread slowly throughout the world. This recognition  
6 has led to an increased use of EAs at the strategic level (strategy, program, region, and sector, for  
7 example), complemented by project-specific EAs or related types of environmental planning and  
8 management actions, so that decisionmakers can evaluate development options and alternatives in a more  
9 comprehensive manner. A recent review revealed that during fiscal 1997-2001, more than 20 Strategic  
10 Environmental Assessments (SEAs) have been completed in connection with Bank projects in the  
11 transport, water, urban, and energy sectors (Kjorven and Lindhjem 2001). The application of SEAs in  
12 client countries is also evolving, with encouraging examples, such as experience in South Africa and  
13 Central Europe.

14 *Increased emphasis on supervision during project implementation.* Implementation of safeguard policies  
15 during supervision is generally weaker than compliance during preparation. In fiscal 1999-00, 86 percent  
16 of projects received at least a satisfactory rating for supervision (compared with 90 percent for  
17 preparation). Problems during project implementation are usually due to inadequate performance in  
18 undertaking agreed mitigation, monitoring, and institution-strengthening actions. Problems also arise  
19 when project designs are adjusted in the course of implementation and safeguard policy issues are not  
20 adequately reexamined. The relative weaknesses in implementation of environmental action plans and  
21 delays in addressing the environmental and social aspects of project implementation have been attributed  
22 to weak borrower commitment and capacity, as well as to inadequate resource allocation to supervision.  
23 Addressing this problem also requires careful evaluation of client countries' commitment, access to  
24 resources, and skills needed to undertake the agreed environmental and social actions during the project  
25 implementation process.

26 *Consistency in the application of safeguard policies.* Assessments by the Quality Assurance Group have  
27 highlighted weaknesses in the systematic application of the safeguard policies. Problems in the  
28 implementation of policies have also been linked to perceived ambiguities in the scope, intent, and  
29 requirements of the policies among staff and management (World Bank 2000c). Management is  
30 addressing these issues through a number of mechanisms, including the conversion and clarification of  
31 policies, as well as management accountabilities. A major implication of new lending instruments will be  
32 an expanded need to increase country capacity and to develop new types of monitoring approaches for  
33 Bank supervision of the application of safeguard policies.

### 34 ***Emerging challenges***

35 *Developing an integrated safeguard system.* Within the Bank, the application of the various  
36 environmental, social, and legal safeguard policies as an integrated suite of measures for promoting  
37 project quality and ensuring compliance is still evolving. The challenge of developing an integrated  
38 safeguard system has been recognized by the Bank and its clients. Staff from the Bank's Environment,  
39 Rural, and Social Development Networks and its Legal Department are working together in the Quality  
40 Assurance and Compliance Unit (QACU) of ESSD to provide critically needed bridges between their  
41 respective types of safeguard expertise.

42 *Responding to a changing lending profile.* The ongoing shift in the Bank's lending operations to include  
43 an increased emphasis on policy and programmatic lending, use of innovative instruments, and the  
44 expansion of Community Driven Development (CDD) poses new challenges and opportunities for  
45 safeguard policies (see box 2.1).

1 *Expanding coordination with partners on*  
2 *safeguard policies.* Use of EA and other  
3 safeguard policies and instruments can be  
4 enhanced by expanding coordination and  
5 cooperation with our development  
6 partners from other international financial  
7 institutions, donor organizations, export  
8 credit agencies, and the private sector. The  
9 IFC is coordinating an effort to map the  
10 environmental and social safeguard  
11 procedures and practices of international  
12 finance institutions, and the Bank  
13 continues to be engaged in regular  
14 meetings of multilateral development  
15 banks with the aim of better harmonizing  
16 their environmental assessment practices.  
17 Measures that support the use of common  
18 approaches to EA and other types of  
19 studies enhance their utility in  
20 decisionmaking, improve their quality,  
21 increase the efficiency of consultants and  
22 other specialists, and reduce the cost and  
23 time of studies. Development of  
24 coordinated approaches to safeguard  
25 policies at the institutional and/or project  
26 level avoids conflicts over the nature and  
27 extent of analysis, proposed mitigation  
28 measures, procedures for consultation, and  
29 disclosure of information.

## 30 **Integration of Environmental** 31 **Concerns and Economic** 32 **Development**

33 Beginning in the late 1980s, the Bank saw the need for a more proactive approach to address the pressing  
34 environmental challenges of development. Such an approach required a focus on identifying key  
35 environment-development linkages and environmental priorities; building capacity in client countries to  
36 develop strategies, policies, institutions, and a regulatory framework for environmental management; and  
37 providing assistance to improve environmental conditions and management practices in a range of areas.

### 38 ***Setting environmental priorities***

39 *Analytical work.* Country-specific, thematic, and regional environmental studies and strategies have been  
40 prepared in many areas (see the bibliography for a selected list) and have been essential in shaping the  
41 Bank's portfolio and policy dialogue. A recent management review of analytical work, however, notes an  
42 overall decline of such work in the Bank and points to particularly disturbing statistics in the environment  
43 area. According to the report, environment is one of the two areas in which analytical work is most  
44 outdated. During 1995–99, analytical work less than five years old was available for only 14 percent of  
45 countries (World Bank 2000d).

### **Box 2.1**

#### **Community Driven Development: The challenges of acting locally**

The World Bank has increasingly been working with communities, empowering them and assisting them to steer their own course of development by defining their own priorities and managing their own resources. This Community Driven Development (CDD) approach creates new challenges and opportunities for mainstreaming the environment. It provides the opportunity for those most affected by environmental degradation to take charge of reversing it for their own benefit. Given that most resource management decisions are ultimately made at the local level, CDD is likely to play an important role. Working at this level poses many challenges, however, including the complexities of establishing or assisting local institutions. Capacity building is important but must take different forms than in the more traditional case of strengthening institutions such as ministries.

CDD is most likely to play a useful role in addressing environmental issues when both their causes and their effects are found within the communities involved, as may be the case, for example, with management of communal forests or pastures. CDD is less likely to be useful where the consequences of degradation are felt elsewhere—for example, land use change within the community that affects waterflows downstream—although the institutions created for CDD could help in broader efforts to address these problems.

CDD should not be seen as a panacea. An important question is how safeguard principles are to be applied under this approach. Under CDD, environmental issues must compete directly with the many urgent short-term needs and priorities identified by communities. Thus, we need to develop an approach that builds on the positive linkages between empowering communities to manage their resources, and practicing due diligence in protecting the environment from undue harm.

Focus-group discussions with environmental experts reviewing past experience indicate that analytical work can have a significant impact on client countries' policies and investment decisions when:

- Environmental issues are part of a major national priority and the costs of inaction are recognized, as was the case with projects to reduce salinization in irrigation schemes in Central Asia and to improve water resource management in China, the Middle East, and North Africa
- Environmental issues are a key part of a larger Bank intervention with strong country interest, as was the case with environmental issues in the EU accession countries
- The Bank team and key counterparts in the country have a shared view of and interest in the objectives of the study
- Local counterparts collaborate in the study, have a high capacity to absorb, internalize, and disseminate its findings, and are able to influence public awareness and policymaking.

Experience has also shown that analytical work funded by external sources has a serious impact only if sufficient Bank resources are allocated for managing, discussing, and vetting the work and linking the results with policy dialogue and lending operations.

*National Environmental Action Plans.* The Bank has supported the preparation of environmental strategies and National Environmental Action Plans (NEAPs) to identify countries' major environmental concerns and the principal causes of problems, and to formulate policies and actions to deal with the problems. The preparation and implementation of NEAPs also included a variety of technical assistance programs to strengthen human and institutional capacity for policy reform in support of sustainable development.

NEAPs have been successful in raising general environmental awareness among important stakeholders and in creating a framework for discussing the environmental aspects of economic development. In some instances, NEAPs have guided the allocation of domestic and donor financing for environmental purposes. The impact of NEAPs on environmental management capacity, however, has been uneven (see, for example, box A.8 in annex A). The later generation of NEAPs have often benefited from a broad participatory approach. Lessons from Ghana, Madagascar, Mauritius, the Gambia and other countries suggest that environmental strategies have a better chance for successful implementation when a range of stakeholders participate in their preparation. According to the OED, however, NEAPs have often been supply-driven, without substantial local ownership (OED 1997), and they did not succeed in stimulating the integration of environmental considerations into economic and social decisionmaking and policy reforms (OED 1996). Many governments initiated NEAPs primarily to comply with the requirements of the IDA and of donor countries. NEAPs have generally been considered a product rather than a process that needs to be nurtured and integrated into development strategies. Pressure to accelerate the preparation of NEAPs often reduced local participation and ownership, and the lack of systematic attention to follow-up and implementation constrained their role.

*Country Assistance Strategies.* To date, the recognition of environmental aspects has been uneven in Country Assistance Strategies (CASs), which form the central instrument for the Bank's development assistance dialogue. The environmental component of a typical CAS is often isolated from the rest of the document, and little attempt is made to link environmental concerns to the core issues being discussed in the CAS. Many CASs treat environment as a distinct sector—with separate funding, objectives, activities, and so on—rather than as a cross-sectoral theme. Data and indicators relating to the environment and natural resources are generally lacking, as is any analysis of environment and natural resource issues and their linkage to the development process. Reviews of how CASs treated the environment in 1997 and 1999 reveal that there has been little improvement over this period. There are several good examples, however (see, for example, box 2.2)

1 A pilot program on Country Assistance  
2 Strategies and the Environment (CASE) has  
3 produced several lessons on dealing with the  
4 environment and natural resources in the  
5 CAS:

- 6 ■ Integrating the environment into the  
7 CAS is most successful when there is a  
8 strong connection to economic  
9 outcomes.
- 10 ■ Environmental indicators are effective  
11 in raising the profile of environmental  
12 issues with both country teams and  
13 national officials.
- 14 ■ In selecting environmental priorities, it  
15 is essential to identify linkages between  
16 environment and natural resource issues  
17 and other sectors—such as agriculture,  
18 infrastructure, and tourism, as well as  
19 macro issues such as trade.

20 An inherent limitation of the CAS is that it is a medium-term document, setting priorities for Bank  
21 development assistance for the next three years in individual countries. More recently, the Comprehensive  
22 Development Framework (CDF) has provided an opportunity to expand the time horizon of the Bank's  
23 and clients' strategy work in coordination with the broader development community.

### 24 ***Lending for environmental activities***

25 Since the late 1980s, the Bank has complemented the application of safeguard policies by supporting  
26 projects dedicated to improving environmental conditions and management. The primary focus of these  
27 environmental projects has been institutional capacity development, sustainable natural resource  
28 management, and pollution management. In addition, as described in greater detail in the next section, the  
29 World Bank Group acts as implementing agency for the majority of projects funded by the GEF and the  
30 Montreal Protocol (see annexes D, E, F, and I for a more detailed discussion of natural resource  
31 management, urban environmental priorities, climate change issues, and links with the GEF program). In  
32 mid-2000, the core environment portfolio consisted of 97 active projects with combined lending of nearly  
33 \$5.2 billion. This constituted 3.4 percent of the Bank's active projects and 2.1 percent of total Bank  
34 lending.

35 *Evaluating the quality of lending.* OED ratings of the performance of completed projects indicate that the  
36 outcome, sustainability, and institutional impact of environmental projects have improved over time.  
37 During 1995-98, 58 percent of closed projects had "satisfactory" outcomes; 50 percent were judged  
38 "likely" to be sustainable, or better; and 25 percent had "substantial" institutional development impact.  
39 These ratings were lower than the Bankwide average ratings for the period, which were 71, 48, and 34  
40 percent, respectively. By 1999-2000, the OED ratings had improved substantially. Seventy-five percent of  
41 closed projects received "satisfactory" ratings on outcome (compared with 73 percent Bankwide); 50  
42 percent were rated "likely" or better on sustainability (compared with 57 percent Bankwide); and 50  
43 percent had a "substantial" or better institutional development impact (compared with 43 percent  
44 Bankwide).

45 The Quality Assurance Group has completed three assessments of the quality-at-entry of active Bank  
46 projects. The second assessment (QAE2) evaluated nine environment projects, while the third (QAE3)

#### **Box 2.2**

##### **The FY99 Lesotho Country Assistance Strategy**

The Lesotho CAS recognizes that rural poverty is linked to the serious environmental problems confronting Lesotho. The CAS makes a clear distinction between the impacts 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 supply, and 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, the EU, and other donors, is developing a comprehensive agricultural sector investment program to address these issues.

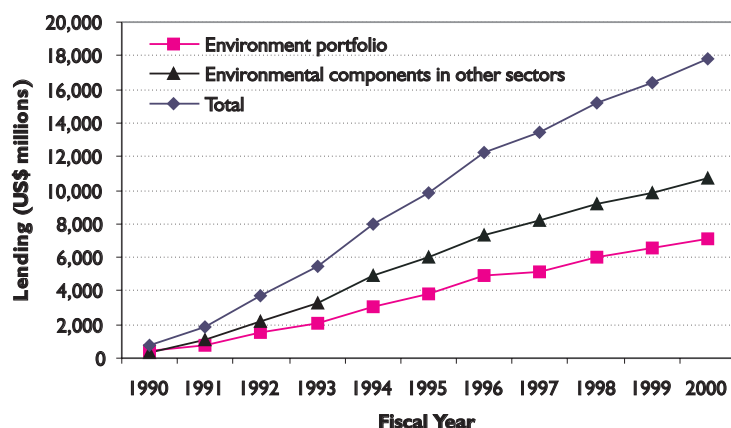
assessed five projects. In these reviews, the quality-at-entry rating for environment projects was 94 percent, second only after the urban sector. Three rapid supervision assessments, however, indicated that supervision quality was lower than the Bank average, with a declining trend.

The core environment portfolio, however, represents only part of Bank lending with environmental objectives. Because 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). Since 1992, lending through self-standing environmental projects has gradually shifted toward environmental lending as a component of sectoral projects. Environmental components are increasing in many sectors, such as agriculture, energy, urban development, and water and sanitation (see figure 2.2).

*Responding to the changing role of the private sector.* In the past decade, our portfolio has gradually shifted away from sectors where the role of the private sector has increased. This has had important implications for our approach to environmental issues. For example, in the 1970s and 1980s we supported several industrial pollution control projects, often implemented by public enterprises. As our involvement in the industrial sector declined, our approach to industrial pollution abatement has changed from financing investments to facilitating good industrial practices and helping establish the regulatory framework and incentives for improved environmental performance of the private sector. The Bulgaria Environmental and Privatization Support Adjustment Loan, for example, supports the government’s efforts to integrate environmental issues into the large-scale privatization of enterprises (see box 2.3).

*Involving stakeholders and local communities.* Involving key stakeholders in setting priorities and implementing projects has been time-consuming but rewarding in terms of strengthened local ownership and commitment to project objectives. In the natural resource management area, local communities are increasingly involved in the design and implementation of projects (see box 2.4). In Egypt, the Matruh Natural Resources Project helped tribes improve the management of water resources. In Colombia, the Natural Resources Management Program assisted indigenous and Afro-Colombian

**Figure 2.2**  
World Bank environmental lending, fiscal 1990–2000



Note: Environment components in other sectors include environmental components in the agriculture, energy, urban development, and water and sanitation sectors.

### Box 2.3 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.



1 communities on the Pacific Coast to  
2 prepare natural resource management  
3 plans and financed the collective titling  
4 of over 3 million hectares of land  
5 (nearly a third of the land area of the  
6 Pacific Coast). The participation and  
7 vast cultural knowledge of these local  
8 communities made possible the  
9 protection of the region's fragile  
10 riverine ecosystems and biodiversity.  
11 Consensus-building efforts have also  
12 been successful in setting urban  
13 environmental strategies and action  
14 plans; examples include the  
15 Metropolitan Environmental  
16 Improvement Program (MEIP) and the  
17 URBAIR programs. The Mauritania  
18 Rainfed Natural Resource Management  
19 Project, for example, is financing the  
20 first 5 years of a 20-year program to  
21 activate a process of natural  
22 regeneration of land fertility, rangeland  
23 vegetation, and livestock and forest  
24 production by encouraging sustainable  
25 approaches to resource use (see box D.1  
26 in annex D). This lesson is also  
27 supported by work on the water and  
28 sanitation sector, which now often  
29 includes hygiene education and  
30 community involvement.

**Box 2.4**  
**Improving livelihoods by better natural resource management in Nepal**

Rural livelihood systems in Nepal depend heavily on forest resources for fodder, fuelwood, food, building materials, medicinal plants, and fertilizers. Non-timber forest products also provide a direct source of income and account for up to 50 percent of rural household income in certain areas. Improving the management of forest resources is thus critical for rural welfare.

The *Hill Community Forestry Project* aimed to establish community-based forest management systems to conserve and expand forest resources. It is one of the most successful community forestry efforts in the world. The strategy involved turning over responsibility for management of forest resources to local communities through a program of transfer of rights and benefit sharing, supported by a sound policy and legal framework. The program has already established almost 9,000 forest user groups (FUGs), representing over 40 percent of rural households in the hills of Nepal. To date, usufruct rights over 400,000 ha of forest have been transferred in perpetuity to local communities, and are now sustainably managed by the Nepali rural poor. Forest regeneration and community investments have improved, and have generated significant income increases through higher production of non-timber forest products, fuelwood, fodder, and timber. The program has also helped improve agricultural production by reducing soil erosion, improving water availability, improving access to credit through user group revolving funds, and micro-enterprise development. The synergies with environmental conservation are also evident: large areas of formally degraded forests have been regenerated, with forest cover increasing by as much as 11 percent in some districts.

31 *Supporting capacity development.* The lack of effective institutions for environmental management is  
32 often an important constraint on achieving better environmental outcomes. Support for the development  
33 of environmental institutions has therefore been a key area in environmental assistance. Environmental  
34 institutional development (ID) projects have been implemented in nearly 30 countries. Successes have  
35 been recorded in, for example, the Poland Environment Management Project and the Chile Environmental  
36 Institutions Development Project. In many projects, however, practical improvements in the functioning  
37 of the institutions concerned have been elusive. The reasons may be traced to familiar weaknesses with  
38 technical assistance activities in many sectors. One lesson is that ID projects often lacked a clear focus,  
39 and encompassed disparate components implemented by a variety of agencies without a common goal  
40 and effective coordination. ID projects have traditionally approached capacity development as  
41 organizational engineering, focusing on improvements in formal organization and physical improvements.  
42 Such projects have relied heavily on consultants, who may be able to provide good technical advice and  
43 support but who are outsiders and lack the political clout required to surmount the hurdles that keep  
44 environmental agencies weak and ineffectual. All too often, such projects have sought to build capacity  
45 without commitment and to do too much too quickly. As a result, projects may not be implemented  
46 adequately, or gains made during the project may be rapidly reversed once the project ends.

1 In recent years, our focus on capacity development has shifted from self-standing technical assistance to  
2 government agencies toward fostering a constructive relationship between the public and private sectors  
3 and civil society, as well as improved collaboration among the members of the development community.  
4 We have supported projects aimed at establishing an incentive framework to improve the environmental  
5 performance of private companies. In Guadalajara, Mexico, for example, a pilot project tested how large  
6 private companies can help their suppliers improve their environmental performance. In the framework of  
7 the Chief Executive Officer's Initiative, enterprises holding timber concession over several million  
8 hectares in the Congo Basin have set up a structured framework for collaboration with Governments and  
9 International NGOs to adopt a code of conduct that would hold them accountable for environmental  
10 performance. It is likely that this effort will lead to placing over 10 million hectares of Congo Basin's  
11 production forests under independent certifiable sustainable logging within the coming five years. We  
12 have supported innovative environmental policy and regulatory approaches in several countries (see, for  
13 example, box 2.5).

14 Through our research and technical assistance activities, we have helped promote the establishment and  
15 dissemination of environmental information disclosure programs such as PROPER—Program for  
16 Pollution Control, Evaluation, and Rating—in Indonesia. Based on the positive results in Indonesia, a  
17 PROPER-type program (ECOWATCH) was established in the Philippines in 1997, and additional  
18 programs are under development in China and Vietnam, also with World Bank support. The Ghana  
19 Environmental Resource Management Project developed a strategy for increasing public awareness of  
20 environmental issues with the help of government and NGOs, including the Green Forum for  
21 Development, the Wildlife Clubs of Ghana, and the Ghana Wildlife Society. The Madagascar  
22 Environment Project supported the  
23 training of environmental specialists and  
24 the promotion of environmental awareness  
25 and education at all levels of Malagasy  
26 society. We have also been working on  
27 making information on environmental  
28 conditions easily accessible. The annual  
29 *World Development Indicators* report  
30 includes a large number of environmental  
31 indicators, which are also available  
32 separately in the *Little Green Data Book*.  
33 In Thailand and the Philippines, we have  
34 produced *Environment Monitors*, which  
35 summarize trends in local environmental  
36 conditions and make them available to  
37 civil society.

### 38 ***Lessons from environmental lending***

39 The lessons from environmental lending,  
40 whether in the form of self-standing  
41 projects or components in sector projects  
42 and programs, are broadly consistent with  
43 the lessons of aid effectiveness (see box  
44 2.6 for a summary of OED's environment  
45 review).

46 *The importance of ownership and*  
47 *commitment.* Lack of government  
48 commitment and “ownership” is often

#### **Box 2.5**

##### **Assistance to support payments for environmental services**

Many of the themes and actions discussed in the Environment Strategy come together in specific work plans, such as that on payments for environmental services. The services provided by many ecosystems, such as the regulation of waterflows provided by forests, are a key dimension of the link between environment and the livelihoods, health, and vulnerability to natural disasters of the poor. Because of market failures, these valuable services are often lost. The World Bank is working with several clients to develop systems of payments for environmental services that would help substitute for these missing markets. A system is already in place in Costa Rica, and work is under way in El Salvador.

This effort is a good example of the complexity of addressing many environmental problems and of the Bank's comparative advantage in helping address them. Establishing a system of payments for environmental services requires both analytical work (to identify and quantify services such as regulation of hydrological flows) and investment projects (to assist client countries in establishing the system of payments). The work is cross-sectoral, touching especially on land management and water issues. It requires close attention to economic incentives and to local social and institutional dynamics, and close participation with a wide range of stakeholders, ranging from large municipalities to small farmers eking out a subsistence living on the steep slopes of upper watersheds. It involves a mix of site-specific characteristics and lessons that are applicable in a range of countries.

1 cited as the greatest obstacle to improving  
2 environmental management and achieving  
3 sustainable natural resource use. While the  
4 Bank and other donors often advocate  
5 environmentally related reforms and have  
6 sometimes linked major budget support  
7 operations to them, experience shows that  
8 external forces rarely have a real and lasting  
9 impact at the policy level. The infusion of  
10 external funds may lead countries to follow  
11 institutional models that are neither  
12 realistically sustainable nor particularly  
13 efficient, may cause difficult decisions to be  
14 deferred, and may undermine rather than  
15 strengthen government ownership and  
16 accountability. National environmental  
17 institutions become dependent on erratic  
18 donor financing rather than sustained public  
19 expenditure in support of national policy  
20 objectives. Transforming public concern  
21 about the environment into political action has been most successful when it has been part of a larger  
22 reform and social change process. In the two particularly successful cases of environmental management  
23 projects, in Chile and Poland, the catalyst was a broad economic and social reform process.

#### **Box 2.6**

#### **Evaluation of the Bank's past environmental performance**

In 1999-2001, the World Bank's independent Operations Evaluation Department (OED) carried out a comprehensive assessment of the Bank's past environmental performance. The assessment concluded that the Bank had made significant progress in safeguarding investments financed by the Bank and in helping developing countries address their environmental challenges. It pointed out, however, that significant challenges remain on both fronts. The report recommended emphasis on three key areas:

- Linking environmental protection with the development agenda, especially poverty reduction
- Improving the Bank's environmental safe-guard policies and their implementation
- Making a shift in the approach to global issues by focusing on local-global overlaps.

Source: OED 2001.

24 *Focus on the policy framework.* Weak environmental management is often a symptom of poor incentives.  
25 Efforts to tackle the symptom will be rapidly undermined if little is done to alter the underlying  
26 constraints. Thus, for example, projects to introduce improved water management practices in irrigation  
27 cannot be successful on their own. They must be part of broader reforms, such as revising the structure of  
28 output and input prices and changing other incentives that tend to reward and reinforce the wasteful use of  
29 natural resources. Careful thought must be given to how best to sequence policy reforms and investments.  
30 A recurring temptation has been to incorporate policy reform efforts into investment projects, but  
31 experience has shown that investment projects often make poor vehicles for policy reform. Projects that  
32 have focused on either policy reform or specific investments have tended to do better than projects that  
33 attempted to do both. On the other hand, environmental projects often lead to policy dialogue and changes  
34 in the policy and institutional framework affecting environmental outcomes. Through lending for  
35 sanitation in China, for example, dialogue with the central government helped establish nationwide tariffs  
36 for wastewater collection and treatment. The example of the Bank's advocacy for the phaseout of leaded  
37 gasoline demonstrated that positive environmental outcomes can sometimes be achieved without Bank  
38 financing by changing policies and building a consensus among stakeholders (see Box E.1 in annex E).

39 *The importance of linking environment and development objectives.* Environmental interventions that are  
40 closely linked with development objectives and local concerns tend to be more successful than those that  
41 attempt to pursue pure conservation objectives. A recent OED review showed, for example, that Bank-  
42 financed forest projects contributed to poverty reduction and sustainable development in several  
43 countries, including Cambodia, China, and India. The same review noted that the conservation-oriented  
44 1991 Forest Strategy was only partially implemented because the Bank was unable to maintain its  
45 presence in the forest sectors in countries such as Brazil and Indonesia. The review called on the Bank to  
46 integrate forests more closely into its overall mission of reducing poverty and to bring forest strategies  
47 into rural development programs.

*The benefits of fostering integrated, cross-sectoral analysis and coordination.* Environmental interventions have been more successful when they were guided by a cross-sectoral strategic assessment of the most critical environmental problems, their key causes, and cost-effective remedies. Our role in fostering cross-sectoral coordination and involving environmental regulatory agencies in macroeconomic and sectoral policy dialogue is often more effective than self-standing technical assistance loans designed to strengthen environmental management capacity. Lending operations in infrastructure, rural development, forest management, transport, and other sectors have included capacity development components as part of Environmental Management Plans. Because these project components are closely linked with project performance, they generally have more specific performance measures than generic capacity development projects.

### ***Environmental aspects of adjustment lending***

The environmental implications of adjustment lending have received increasing attention since the late 1980s. Measures aimed at restoring macroeconomic stability and implementing structural reforms, such as the removal of price distortions and the promotion of market incentives, often produce simultaneous economic, social, and environmental gains. Adverse effects may occur, however, when such reforms fail to take into account market or institutional failures. Trade liberalization, for example, encourages timber exports, but unsustainable deforestation may be an undesirable outcome where policy failures leave forested lands as effectively open-access resources.

Policy reforms may have additional—and often unpredictable—long-term environmental effects through changes in employment and income distribution. Adjustment-induced changes often generate new economic opportunities, thereby alleviating poverty and reducing pressures on the environment caused by over-exploitation of fragile resources by communities living on marginal lands. However, while growth is an essential element of sustainable development, without an effective environmental regulatory and institutional framework it may intensify pressures on environmental resources. As structural changes take place, a mechanism to assess and strengthen the environmental regulatory and management capacity of client countries is essential.

*Conditionality in adjustment lending.* Since the mid-1980s, environmental components have been explicitly included in adjustment lending operations, particularly in the energy, forestry, infrastructure and industrial sectors. According to a recent review, the share of structural adjustment operations with environmental conditionality averaged 23 percent in the 1990s. The energy, forestry, and water sectors had adjustment operations with the highest share of conditions with environmental focus (World Bank, 2001a). In the particular case of the forestry sector, a review by the World Resources Institute (WRI) of selected adjustment operations incorporating forest sector reforms indicates that in a few cases—for example, in the forest sector in Papua New Guinea—the Bank successfully influenced resource management practices. The review concludes, however, that environmental conditionality in that sector often resulted in easily reversible measures, and it has rarely succeeded in addressing the institutional challenges that constrain the implementation of systemic reform. (Seymour and Dubash 2000).

A 1999 review of quality-at-entry by the Quality Assurance Group (QAG) showed an increase in the coverage of environmental dimensions, with the share of operations rated “satisfactory” rising in that aspect from 50 percent in 1998 to 77 percent in 1999. Only a small share of adjustment loans, however, included environmental indicators as integral components of their monitoring and evaluation systems. In a few cases, sector adjustment loans were able to draw on previous environmental analytical work to define specific conditionality aimed at improving the environmental performance of the sector. In the case of the Russia and Poland Coal Sector Adjustment Loans, for example, extensive sectoral environmental assessments and parallel technical assistance activities addressed environmental issues. In Indonesia, previous analytical work on environmental issues in the water sector informed the Water Sector Adjustment Loan.

*New trends in adjustment lending.* Adjustment lending support has broadened over the last two decades from an exclusive focus on short-term macro issues and economic distortions in the 1980s to a wider development approach in the 1990s. This approach includes a complex institutional reform agenda that requires a longer time horizon, greater adaptability, and support for programs owned by the countries. Programmatic structural adjustment loans and credits, introduced in 1998, apply a more comprehensive approach to adjustment operations, including support to a sustained medium-term program of parallel advisory work, capacity building, institutional reform, and integrated Bank and donor support of a single government program. On the one hand, this trend presents opportunities for environmental improvement by strengthening the linkages between public expenditure, poverty reduction, and environmental quality and focusing on environmental policy and institutional improvements. It also provides a longer time horizon and greater focus on institutional aspects. On the other hand, good practice suggests a systematic assessment of the environmental aspects of adjustment operations and an increased focus on environmental institutional capacity and interagency coordination.

In 1999, when the Operational Directive on environmental assessment was revised and converted into Operational Policy and Bank Procedure (OP/BP 4.01), sector adjustment loans became subject to its requirements. OP/BP 4.01 requires environmental screening followed by an environmental assessment, as appropriate. The policy applies to all sector adjustment operations for which a Public Information Document was first issued after March 1, 1999. The existing Operational Directive on adjustment lending, OD8.60, will also be updated and converted into an OP/BP format during fiscal 2002.

## **Addressing Regional and Global Environmental Challenges**

Ten years ago, at a time of rising worldwide concern over the state of the environment, we began to help our client countries address global environmental objectives. Our initial role was to act as an implementing agency for two global financing mechanisms, the Multilateral Fund for the Montreal Protocol (MFMP) and the Global Environment Facility (GEF). Since then, we have multiplied and diversified our initiatives, partnerships, projects, and funding sources in an effort to better help our client countries meet the objectives of the global conventions. Moreover, there has been a slow but growing realization that global environmental concerns, such as long-term climate change and loss of biodiversity, should be addressed as an extension of the local, national, and regional environmental issues that underpin sustainable development. The Environment Strategy offers the opportunity to implement this goal.

### ***Projects and programs for the global environment***

A sizable portfolio that directly addresses global environmental concerns has emerged over the last 10 years. It supports efforts by our client countries to contribute to global action to arrest the deterioration of the global commons, such as climate change and ozone-layer depletion, as well as the degradation or loss of biodiversity, forests, water, and land resources, proceeding on a scale that gives rise to global concern (World Bank 2000e).

Since 1991, the Bank has committed a total of more than \$1.5 billion dollars of combined GEF and MFMP funding, with associated funding of \$5.0 billion for climate change mitigation, biodiversity conservation, the phaseout of ozone-depleting substances (ODS), and protection of international waters (see figure 2.3).

The Bank's MFMP program has contributed to the phaseout of more than 70 percent of the total amount of ODS targeted by the MFMP. Success is due to the narrow program focus, the well-defined technical solutions, innovative financing mechanisms, and the streamlining of internal Bank approvals. The GEF program has catalyzed funding for local action in support of global environmental objectives, effectively engaged NGOs and other elements of civil society in the country dialogue on environmental management, and piloted innovative approaches to financing biodiversity conservation and renewable energy development (see annex I for more detail). With access to GEF resources, we have also been able to help

1 riparian countries and stakeholders agree  
 2 and act on regional environmental  
 3 priorities, supporting the development and  
 4 implementation of regional conventions or  
 5 agreements for the management of a  
 6 number of international river basins, shared  
 7 lakes, regional seas, and shared  
 8 groundwater aquifers. GEF resources have  
 9 also been successful in catalyzing private  
 10 sector financing for environmental  
 11 improvements (see box 2.7).

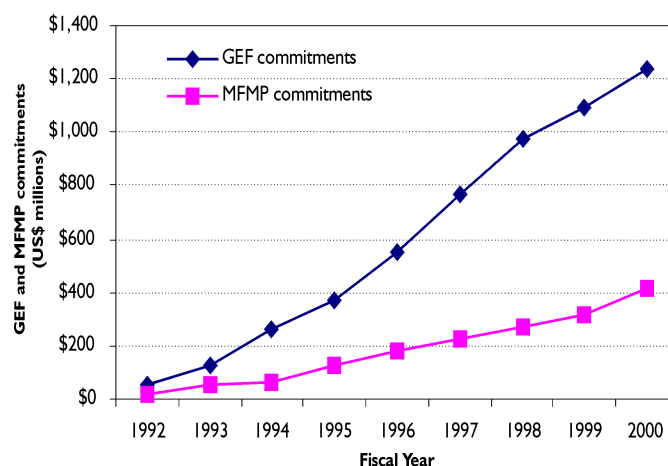
12 Because of its focus, the MFMP program  
 13 has been relatively independent from Bank  
 14 operations. There are, however, untapped  
 15 opportunities for GEF to be mainstreamed  
 16 with Bank operations in the rural (forestry  
 17 and agriculture), energy, transport, and  
 18 water sectors. The Bank and the GEF are  
 19 making progress in integrating GEF  
 20 resources with Bank lending. The proportion of Bank-GEF projects with directly associated IDA or IBRD  
 21 funding rose steadily from 23 percent in fiscal 1995 to 65 percent in fiscal 2000. The quality of  
 22 association, or blending of GEF resources with Bank funding, needs to be improved to better harmonize  
 23 global objectives with local environmental and developmental objectives (see annex I for a more detailed  
 24 discussion).

25 Beyond the GEF and MFMP programs, a significantly larger share of Bank lending is targeted toward the  
 26 conservation and sustainable use of biodiversity, the sustainable use of forests, the management of fresh  
 27 and marine water resources, and the halting of land degradation. The broader country and sector dialogue  
 28 and consequent lending indirectly support such concerns. For example, lending for energy pricing reform  
 29 creates incentives for adoption of climate-friendly technologies. Assistance for agricultural intensification  
 30 or rural nonfarm employment often serves  
 31 to reduce pressures on natural habitats and  
 32 biodiversity. Capacity building for  
 33 management of local environmental issues  
 34 will help overcome barriers to addressing  
 35 global concerns. These impacts need to be  
 36 better understood and evaluated.

### 37 ***Mainstreaming the global*** 38 ***environment in the country dialogue***

39 Continued progress in incorporating global  
 40 environmental objectives at the project  
 41 level depends on how well the  
 42 environment and its global dimension are  
 43 mainstreamed in the country dialogue.  
 44 Progress on this front has been mixed. The  
 45 analysis of CASs completed in fiscal 1999  
 46 showed that a limited number addressed  
 47 local environmental issues of global  
 48 concern and that GEF activities, although

**Figure 2.3**  
**GEF and MFMP commitments, fiscal 1992–2000**



*Note:* Commitment amounts are based on World Bank management approvals.

### Box 2.7 IFC–GEF cooperation

IFC, with support from the GEF in some cases, has helped create a series of innovative investment funds that support various environmental objectives, including: (a) the Terra Capital Fund, which invests in private ventures that can sustainably utilize or conserve biodiversity; (b) 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; (c) 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 (d) 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.

1 mostly identified, were only in part linked strategically to the CAS objectives. With a few notable  
2 exceptions, CASs did not acknowledge a role for the Bank in helping countries address their  
3 responsibilities under global environmental conventions.

4 Although operational policies and sectoral strategies are largely responsive to global environmental  
5 objectives, the analytical tools and skills for measuring global externalities and understanding their links  
6 to national sustainable development and poverty are not sufficiently available. Improved country sector  
7 work focused on the global environment and linkages with local priorities is needed to inform the country  
8 dialogue.

## 9 **Partnerships**

10 The Bank has entered into  
11 numerous formal and informal  
12 partnerships, which aim to address  
13 issues of regional and global  
14 importance that cannot be  
15 addressed at the country level.  
16 These partnerships have provided  
17 an important adjunct to the  
18 traditional Bank-government  
19 relationship by building on the  
20 emergence of a vocal civil society  
21 and the increasing importance of  
22 private sector investments.

23 In a number of these partnerships,  
24 we have played the role of a  
25 facilitator to forge consensus  
26 between stakeholders on standards  
27 of good practice designed to  
28 improve the environmental  
29 performance of the private sector.  
30 Through the CEO Forum on  
31 Forests, we have sought to apply  
32 the process of independent,  
33 transparent multi-stakeholder  
34 verification of compliance with  
35 forestry management standards  
36 that protect the livelihoods of the  
37 poor. Under the IUCN/World  
38 Bank-sponsored World  
39 Commission on Dams (WCD),  
40 government, NGO, and industry  
41 representatives have laid out key  
42 considerations governing the  
43 development of dams (see box  
44 2.8). We have also helped catalyze  
45 new market mechanisms, as in the  
46 case of the Prototype Carbon Fund  
47 (PCF), which demonstrates the  
48 feasibility of trading greenhouse

### **Box 2.8**

#### **World Commission on Dams**

The Report of the World Commission on Dams (WCD), issued as *Dams and Development: A New Framework for Decision-Making* (November 2000), was the product of an effort to bring governments, the private sector, and civil society together to break the impasse in the dams debate—to review the development effectiveness of large dams, develop a framework for options assessment, criteria, and guidelines to advise future decisionmaking. The Commission concluded that dams had contributed significantly to power and water supply, food production, and flood protection, but that shortfalls in technical, financial, and economic performance had occurred. These had been compounded by significant social and environmental impacts, the costs of which were disproportionately borne by poor people, indigenous peoples, and vulnerable groups—costs that could have been avoided, mitigated, or compensated through better decisionmaking and benefit sharing.

The Commission's proposed framework for decisionmaking is based on five core values—equity, efficiency, participation, sustainability and accountability. It proposes:

- A rights and risks approach for identifying stakeholders in negotiating development choices and agreements.
- Seven strategy priorities for water and energy resources development: (1) gaining public acceptance; (2) comprehensive options assessment; (3) addressing existing dams; (4) sustaining rivers and livelihoods; (5) recognizing entitlements and sharing benefits; (6) ensuring compliance and sharing rivers for peace; (7) development and security.
- A set of 26 guidelines for review and approval of projects at five stages of decisionmaking.

The Report provides invaluable reference material. It is an important benchmark point which the Bank can assess dams and discuss these issues with governments and other stakeholders. The Bank is developing and implementing an action program in response to promote good practices and support innovations that includes actions in the following areas: (a) work with borrowers in moving upstream, (b) support for institutional reform for more efficient use of water and energy, (c) effectively to implement the Bank's safeguard policies, (d) support for borrowers in improving the performance of existing dams, (e) adopting of a more proactive and development-oriented approach to international waters, and (f) support innovative approaches for dealing with complex water resources and energy management.

Source: WCD 2000.

gas emission reductions under the emerging regulatory framework of the Kyoto Protocol's Clean Development Mechanism (CDM). The World Bank/WWF Forest Alliance was formed in 1998 because of both organizations' deep concern about the continuing depletion of forests around the world and the effect of this depletion on many of the world's poorest people. The goal of the alliance is to significantly reduce the rate of loss and degradation of forests of all types (see annex K for a list of selected partnerships). Other partnerships have engaged civil society in implementing projects with significant global environmental benefits. The Critical Ecosystem Partnership Fund, for example, provides small grants to NGOs to manage ecosystem hotspots around the world.

Factors critical to successful partnering include selectivity based on alignment with sectoral strategies; support for the Bank's country programs; realistic expectations of success; and the complementarity of capacity, skills, knowledge, and competencies of partners. In addition, partnering arrangements need to be based on a time-bound commitment (including a budgetary one), evaluation, and an exit strategy. Finally, mainstreaming calls for transparency, communications, and feedback mechanisms to country programs.

## **The Changing Bank Context**

A changing global context has shaped the Bank and its approach to development. Globalization and the growing roles of the private sector and civil society have altered the role of our traditional main interlocutors—client-country governments—but have brought new approaches and new vitality. This shift has been evident during the past decade, in our changing lending profile and instruments for delivering development assistance, and in our increased involvement in partnerships with the private sector and civil society.

The renewed efforts to fight poverty, the need to respond to a rapidly changing global context, and emerging lessons on development aid effectiveness call for a reinforced effort to focus on the needs and aspirations of client countries by supporting broad-based growth, bottom-up initiatives, openness, and partnerships with stakeholders affected by development decisions. These principles are expressed in the Comprehensive Development Framework (CDF)—a new approach to development assistance outlined by the World Bank and endorsed by the development community (see box 2.9).

The CDF builds on lessons concerning development-aid effectiveness such as the need for social inclusion, better governance, and understanding of the cooperative roles of civil institutions, the private sector, and donors. It offers an opportunity to approach environmental challenges holistically, by catalyzing local initiatives, taking a long-term perspective on development, and focusing on coordinated strategies among development partners. These principles require new ways of delivering development assistance. Traditional investment projects remain important, but they are supplemented by new initiatives that can support long-term programmatic approaches, such as Poverty Reduction Strategy Credits (PRSCs), which support Poverty Reduction Strategies; Adaptable Program Loan (APL); and Programmatic Adjustment Loans (PALs).

### **Box 2.9**

#### **The Comprehensive Development Framework (CDF)**

The CDF favors a holistic approach to development. It seeks a better balance in policymaking and implementation by highlighting the interdependence of all elements of development—social, structural, human, governance, environmental, macroeconomic, and financial. This approach requires a transition from donor-led development assistance strategies to the development of a country strategy led by a country itself, with vigorous participation by civil society and the private sector and with the support of multilateral and bilateral organizations. The key principles of the CDF are:

- A long-term comprehensive vision
- Ownership by the country
- Partnership with internal and external actors
- A focus on development outcomes.

The CDF is meant to provide a compass—not a blueprint. How the principles are put into practice will vary from country to country, depending on economic and social needs and the priorities of the stakeholders involved.



The Bank's Strategic Framework Paper (SFP) identifies two main pillars of our assistance to clients in fighting poverty: (1) building a climate for investment, jobs, and sustainable growth, and (2) empowering poor people to participate in development. These pillars together embody key elements of sustainable development. The SFP also calls for selectivity (a) *within countries* based on the CDF principles; (b) *across countries*, guided by income, poverty, and performance—focusing on countries where the overall policy environment favors aid effectiveness; and (c) *at the global level*, based on clear linkages to our core institutional objective, our leveraging and catalytic effect, and a balancing of resources and risks.

Finally, this Strategy must reflect important changes in the character of the World Bank Group's activities. It is likely that programmatic and adjustment loans and/or credits and a more comprehensive cross-sectoral approach to development will account for a larger share of Bank lending in some client countries. The boundaries between the activities of the Bank and the IFC in promoting private sector development and financing investments in infrastructure are changing, as Bank projects focus more on supporting structural reforms while the IFC plays a larger role in financing specific investments. These shifts have important consequences for the nature and balance of the activities of the environment community within the World Bank Group.

These changes in the context and the way in which we work must be recognized and incorporated into our Environment Strategy. Improving the environmental dimensions of investment projects—traditionally, the Bank's most important tool—is only part of the answer. New tools, such as strategic environment assessments, are needed to provide the knowledge base for moving environmental considerations upstream in country and sector programs. New approaches also mean that we need to adapt existing tools, such as our safeguard system, to ensure they continue to fulfill their functions. And these approaches must take advantage of the new opportunities created by the active participation of a much broader range of actors.

### ***The need for selectivity***

The Bank's environmental activities have to compete for staff and budget with sectors such as health, education, social welfare, and rural development, which more directly address issues of poverty. The expectations of clients, external groups, management, and operational staff are often at odds and greatly exceed what can reasonably be achieved by the Bank in assisting client countries in this area. The response has too often been to adopt overly ambitious plans, programs, and policies and to raise expectations, leading to disappointment with the outcome on all sides.

*What external assistance can and cannot do.* Part of the gap between expectations and actual performance arises from different assessments of what the Bank can realistically achieve. Much of the external and internal dissatisfaction reflects a belief that the Bank should help developing countries avoid what are now perceived as mistakes made by rich countries and the consequent environmental damage. This belief is reinforced by current knowledge and modern technologies that seem to offer the opportunity for a much less damaging path of development—the “leapfrogging” discussed with such enthusiasm in the literature. It is a mistake, however, to interpret what is happening in our client countries as a mere rerun of what has happened elsewhere in the past. Each country has to find its own balance between its many development goals and the constraints on development. The Bank and other development agencies may be able to help by providing advice and finance, but the role of outside agencies will always be small in relation to domestic concerns and the broad incentives provided by the external economic environment.

These considerations are important when designing interventions in any sector. Lessons on the development effectiveness of aid have shown that development interventions tend to be successful in circumstances where the client country has a reasonably good policy and institutional environment (Dollar and Pritchett 1998). These general lessons have been confirmed by the experience of development agencies in the area of environment (Ibrekk 2000). The environment is a relatively new concern for many developing countries, and is often seen as a particular concern of rich countries. Environmental

institutions within developing country governments are usually new and weak, and their weakness is compounded by the fact that they do not control significant financial resources. Environmental concerns sometimes seem to conflict with the goals of short-term economic growth, partly because the benefits of environmental protection often appear only over the long term and help groups that are different from those who bear the costs.

*Setting priorities for the World Bank.* The situation outlined above highlights the hard choices faced by the Bank in allocating its limited budgetary resources. If we get involved in too many issues or prepare too many projects in order to help as many clients as possible, resources become too thinly spread, to the detriment of advice and projects. Environmental programs have to be selective. Although it is important to adhere to the safeguard policies in implementing development projects and programs, environmental concerns cannot be an important element of every country assistance strategy.

Our primary commitment is, rightly, to our clients. In the case of Bank loans, clients are government agencies who are ultimately responsible for either repaying or guaranteeing repayment of project funds. In case of IFC financing and MIGA guarantees, clients are private sector entities. We can achieve our objectives only with our clients' active participation in designing projects and their commitment to implementing them in an effective manner. Our priorities and focus of assistance must therefore reflect our clients' concerns and capacity, as well as our understanding of the issues and of effective measures for addressing them.

IDA credits and programs are executed with donor funds. IDA Deputies have consistently emphasized the importance of environmental action, and successive replenishments have seen a growing focus on environmental issues, including the institutionalization of the EA process, the undertaking of NEAPs (initiated in IDA9), and follow-up activities to implement selected NEAP priorities. In the IDA12 replenishment, the Deputies emphasized the importance of greater mainstreaming of environmental sustainability and recognized the challenges of integrating the outcomes of NEAPs and other participatory environmental planning exercises into country dialogue and CASSs, and ultimately into lending operations. They recognized the need for continued capacity development over a sustained period of time in many poor IDA countries—through non-lending activities as well as lending operations, where possible—in order to build support for environmental measures and the institutional and regulatory infrastructure to ensure their implementation over time. Capacity development has been important to ensure that resources are effectively used for projects and programs that elicit the commitment of those who will ultimately be responsible for implementing them.

### ***The Bank's comparative advantage as a basis for selectivity***

The World Bank Group plays an important role in global development. It is active in policy dialogue, provides lending and nonlending services to its clients, and extends private sector financing and guarantees through the IFC and MIGA. Through its convening power and its capacity to mobilize support and resources from a variety of sources, it can work with many development partners and organizations toward common objectives.

The Bank's comparative advantage in the environment area lies in our ability to leverage policy dialogue, our comprehensive sectoral coverage, our extensive project development skills, and our convening power and global presence. We should use these strengths to:

- Encourage countries to adopt policies that create appropriate incentives for the proper management and efficient use of environmental and natural resources—for example, by reducing energy subsidies or adjusting taxes that encourage the use of dirty fuels, or by pricing water to reflect its scarcity
- Work across sectors to enhance the environmental benefits of projects and programs that provide access to infrastructure and basic services or promote rural development—for example, by combining

1 good management of water resources with the development of irrigation schemes, or adjusting the  
2 design of water and sanitation projects to increase their health benefits

- 3 ■ Help countries develop and implement projects that focus on critical environmental problems that can  
4 be substantially improved or resolved through specific investments and policy reforms—for example,  
5 by promoting the use of clean fuels for heating to improve urban air quality, or helping to establish  
6 schemes that give local populations both the incentive and the means to protect wildlife.
- 7 ■ Bring together groups of countries and stakeholders to tackle common problems and issues of global  
8 importance in a coordinated manner that draws on worldwide lessons of experience.

9 This approach is consistent with the view that we should focus increasingly on the broad goal of  
10 sustainable development. It emphasizes, however, a somewhat different perspective. Our strength lies in  
11 mobilizing expertise, financial resources, and government commitment to implement specific programs  
12 that are designed to achieve clear short- and medium-term goals—for example, improvements in urban air  
13 quality. Delivering concrete improvements that matter to local populations can provide a basis for  
14 developing a longer-term policy framework for sustainable development. This approach builds on the  
15 skills and role of the World Bank and draws lessons from the evolution of environmental policies in  
16 countries that industrialized earlier.

17 From the point of view of maximizing the impact of our involvement, we should link the level of our  
18 efforts to our clients' overall commitment to tackling environmental problems, and specifically to the  
19 effectiveness of the counterparts with whom we work. Applying these criteria would result in more Bank  
20 involvement in middle-income countries, where analytical and advisory work have established the basis  
21 for projects that reflect local priorities and capacity and where there is a strong commitment to address  
22 environmental issues as part of the development agenda.

23 To increase the impact of our activities, we must find ways of working effectively in countries where  
24 commitment and capacity are limited or almost nonexistent. In a few cases, this may be achieved by  
25 concentrating on very specific environmental concerns that can be addressed in stand-alone projects.  
26 Otherwise, the best approach is to work through interventions in other sectors—mainly rural  
27 development, infrastructure, urban development, and health—so that environmental concerns are  
28 addressed as an integral part of programs to reduce poverty and improve the quality of life.

### 29 ***The need for a cross-sectoral approach***

30 Our experience suggests that confining our approach to environmental issues within a traditional sectoral  
31 framework can hinder the adoption of effective solutions to many environmental problems. Projects and  
32 advisory services that focus exclusively on environmental institutions and policies will usually have only  
33 a minor impact on the key environmental concerns in most countries. Such activities can sometimes be  
34 very productive when dealing with narrowly defined concerns—for example, large point sources of  
35 pollution or threats to specific natural resources or habitats. But the causes of and solutions to the poor  
36 quality of the environment or the degradation of natural resources lie in a combination of incentives,  
37 policies, and institutions that arise out of broad economic and social factors. These can only be addressed  
38 by working across sectoral boundaries to focus on specific outcomes or goals. For example, improving  
39 water management requires an integrated approach, including pricing policies that reflect the social value  
40 and scarcity of water; coordination among the competing users of water (including agricultural, industrial,  
41 municipal, and recreational users); recognition of the value of the ecological functions of water that  
42 support livelihoods and long-term development; and mechanisms for stakeholder participation in  
43 decisions affecting the availability and quality of water. This has to be based on a clear set of criteria for  
44 environmental sustainability for the water sector, coordination among agencies that deal with urban and  
45 rural water supply and, when appropriate, public health interventions.

1 The difficulty of pursuing a cross-sectoral approach to environmental issues is compounded by the fact  
2 that our client countries are organized along traditional sectoral lines, and an integrated environmental  
3 management approach presents serious institutional challenges for them and for the Bank as well.  
4 Overcoming these difficulties is a long-term challenge.

### 5 ***The need for institutional realignment***

6 There is an ambiguity as to whether environment should be treated as a sector or a theme. The  
7 reorganization in 1996 positioned environment as a sector, and introduced country-based programming  
8 and budgeting. This organizational framework has provided few incentives for working across sectors and  
9 toward outcomes that are influenced by a multitude of interventions in a range of areas. As a result,  
10 environment units often pursue their own projects rather than influencing other sectors, and there are few  
11 incentives for task managers in other sectors to integrate environmental objectives into sectoral projects  
12 beyond the minimum safeguard requirements.

13 The current allocation of resources is largely determined by the size of new projects rather than by the  
14 complexity of issues and risks. This leads to risk aversion and to disincentives to prepare complex but  
15 small projects that may have significant environmental benefits. Country-based budgeting provides little  
16 opportunity to address complex trans-boundary environmental challenges in a systematic manner. In the  
17 next chapters, we describe how the Environment Strategy proposes to overcome these disincentives and  
18 problems.

19

20

# Chapter 3

## The Strategic Framework

Environmental issues must be addressed if development is to succeed and the Bank is to achieve its poverty reduction goal. This Environment Strategy outlines the priority actions the World Bank plans to take to help its clients address the environmental challenges of development. What is required is an approach that focuses on the ways the environment affects people's lives; that takes a long-term view of development and of the environmental factors that affect sustainability; and that considers the cross-sectoral and spatial dimensions of environmental challenges. Our approach builds on:

- *Learning and applying lessons.* The broad goals of sustainable development are well established. This Strategy is not about setting new directions, but about improving our effectiveness in making the journey. It builds on the achievements and lessons of our past efforts and those of others, and on feedback from our clients and development partners. It seeks to internalize these lessons, strengthen commitments, and accelerate progress toward integrating environment and development. Given the magnitude of the world's environmental problems, the Strategy focuses on areas where the greatest results can be realized. It is intended to be realistic about what has to be done; about our strengths and weaknesses; about how to utilize available resources to improve our performance; and about the potential for our assistance to have positive development outcomes.
- *Adapting to a changing world.* Globalization and other trends have been reshaping the world. The Bank has also been changing in response to these trends, and learning from our past efforts. It has reaffirmed its commitment to poverty reduction and support for a holistic, client-driven Comprehensive Development Framework (CDF). These same principles must be applied to the Environment Strategy. We should also be prepared to respond to and utilize more programmatic lending approaches and a changing Bank lending profile to promote environmental sustainability. The Strategy has to guide this transition.
- *Deepening our commitment.* To fight poverty through long-term sustainable development, we have to promote a strategic shift from viewing environment as a constraint on development, or as a separate sector, toward viewing it as an integral part of development. Environment can no longer be only the concern of a small, specialized group. To make a substantial and lasting difference, we must ensure that environmental concerns are fully internalized throughout the Bank.

This chapter focuses on the substantive actions we plan to take; Chapter 4 discusses the institutional realignment necessary to implement these actions.

There is an enormous diversity among the environmental challenges faced by the countries assisted by the World Bank. The specific actions required to assist each country will vary substantially because they will be tailored to national and local needs and priorities. Some of this diversity can be seen in annex A, which outlines the priorities for action in each region. Within this diversity, however, several common themes emerge. This chapter describes these common themes.

### Our Objectives

Our goal is to promote environmental improvement as a fundamental element of sustainable development and poverty reduction strategies and actions. As described in this section, the main objective must be to improve the quality of people's lives—their livelihoods, health, and security—through better environmental conditions. But it is not enough to improve the quality of people's lives today. It is also important to ensure that the use of natural resources today does not undermine the long-term prospects for development and improved welfare in the future. This requires attention to policies, economic incentives,

institutions, and social structure—the quality of growth. Finally, the search for solutions needs to go beyond individual countries, because the deterioration in the quality of the regional and global commons—including shared natural resources and climate change—threatens many developing countries and global ecological balances.

### ***Improving the quality of life***

Environmental quality is inextricably linked with the quality of people's lives. It plays a particularly important role in the lives of the poor. It is the poor whose health is most endangered by air and water pollution, whose livelihoods are most affected by the loss of forests and fisheries or by soil erosion, and who are most likely to be at risk from droughts, floods, and environmental catastrophes. Efforts to achieve concrete environmental improvements that make a difference to people's lives must be an integral part of economic development and poverty reduction programs. Our first goal, therefore, is to improve the quality of life by focusing on environmental improvements that affect livelihoods, health, and vulnerability, especially of the poor.

- *Enhance livelihoods by protecting the long-term productivity and resilience of natural resources and ecosystems.* Because poor people often depend heavily on the productivity and environmental services of natural resources such as land, water, and forests, we will help improve the management of these resources. This means, for example, helping communities form local organizations to manage forests; assisting farmers to invest in their land or in commonly held areas; and granting or clarifying property rights. Community Driven Development (CDD) projects and programs provide a framework for supporting such local initiatives. It also means encouraging and assisting the reform of incentive systems that influence how resources are used—strengthening or establishing property rights, removing government-induced distortions, and piloting new mechanisms, such as systems of payments for environmental services, to deal with market failures. Where our understanding of the linkages between resource degradation and livelihoods is inadequate, we will build the analytical base and institutional capacity to improve natural resource management, and we will help governments design appropriate policies and identify opportunities for interventions to stem degradation in particular areas (see box 3.1 and annexes B and D for more details).

- *Reduce environmental health risks.* Environmental factors such as unsafe water and pollution are key contributors to the total burden of disease and impose significant economic costs, particularly for the poor. Our interventions will focus on

#### **Box 3.1**

#### **Improving livelihoods through sound management of micro-watersheds**

In Nigeria, a project under development—the Micro-watershed and Environmental Management Project—would support community-managed investments in micro-watersheds in six states within three macro-watersheds: the Niger Trough, the Upper Benue Trough, and the Anambra/Imo Trough. The project would support direct investments at the community level, giving decisionmaking authority to community associations. The investments may include activities to mitigate gully erosion, promote reforestation, or provide basic water supply and sanitation and environmental education.

The project, which is a partnership with a Bank-financed Community Driven Development (CDD) project, would also provide support to the federal, state, and local levels of government to (a) develop an enabling environment; (b) reduce the potential for conflict among the stakeholders; (c) provide incentives for long-term investments; and (d) develop capacity at all levels for environmental assessments. The project would promote partnerships and collaborative arrangements in wildlife and biodiversity management, including incentives for promoting sustainable use of biodiversity. Direct program benefits are expected to include (a) decreased land degradation in upland areas; (b) reduction of downstream flooding; (c) increased production of fodder, fuelwood, and grasses; (d) increased agricultural productivity on arable lands; and (e) improved management and use of biodiversity and natural habitats. The project places special emphasis on improving the economic and social conditions of women and vulnerable groups.

cost-effective measures to reduce environmental health risks. Specifically, we will concentrate on reducing people's exposure to indoor and urban air pollution, waterborne diseases, and toxic chemicals (see box 3.2 and box B.2 in annex B). Our activities will include a cross-sectoral assessment of the key sources of environmental health problems; identification of cost-effective solutions in a range of sectors, including water and sanitation, energy, transport, health, and agriculture; and projects and programs designed to achieve specific health outcomes. While measuring the health outcome of individual interventions is often not feasible, it is important to establish the pathways of impacts and use proxies to measure progress. Because our main objective is to improve health outcomes, we will establish baselines and monitor trends in environmental health indicators when feasible. In addition to avoiding much human suffering, these measures will also reduce the high costs borne by many countries for expensive curative measures (see annex C for more details).

- *Reduce people's vulnerability to environmental hazards.* Millions of poor people are vulnerable to natural disasters and environmental hazards. Climate change, which is predicted to increase the frequency and severity of such events, may further increase the vulnerability of many poor countries and areas (see annex F for more detail). Our environmental interventions will aim to reduce this vulnerability by assessing the impacts of natural disasters; supporting upland resource management and payments for environmental services; improving weather forecasting and the dissemination of weather-related information; providing information to the poor about the risks they face; and stabilizing hillsides and coastal zones. As in the case of environmental health risks, these measures will also help lessen the vast burden imposed on developing countries to repair the damage caused by natural disasters.

### ***Improving the quality of growth***

The sustainable management of man-made environments and natural resources—forests, land, and water—is an essential condition for long-term economic growth and lasting improvements in people's well-being. Sustainable economic growth depends on the effectiveness of government policies, regulations, and institutional frameworks. The importance of an appropriate policy environment that creates a climate conducive to investment has become even greater as the role of the private sector has expanded. As discussed in the previous chapter, the World Bank has a substantial body of experience in this field. Drawing on the lessons of this experience, our interventions will focus on the following three areas:

- *Promote better policy, regulatory, and institutional frameworks for sustainable environmental management.* Our interventions in this category will (a) reinforce the environmental benefits of sectoral and macroeconomic reforms, such as those affecting energy or water prices, property rights, and incentives influencing resource management and allocation; (b) promote appropriate institutions, policies, and regulations to ensure that countries' or regions' natural resources are effectively managed and that people's health is protected from environmental factors; and (c) support better

#### **Box 3.2 The South Asia Urban Air Quality Management Initiative**

South Asia remains the only region in the world where extremely high levels of urban air pollution show no sign of stabilization or improvement. Regionwide, urban air pollution is estimated to cause over 250,000 deaths and billions of cases of respiratory illnesses every year. The urban poor are especially vulnerable to the health impacts of urban air pollution. The majority of policy interventions to date have focused on controlling emissions from road traffic, but the actual contribution from road traffic is not known with any degree of certainty. The South Asia Urban Air Quality Management Strategy is aimed at addressing these issues. Environment, energy, and infrastructure staff in the Bank are developing the strategy, in partnership with client countries and other donors. It is aimed at supporting the regionwide process of developing and adopting cost-effective and realistic policies and efficient enforcement mechanisms to reverse the deteriorating trend in urban air quality in South Asian countries, and particularly to reduce the ambient concentrations of fine particles—the most serious threat to public health in the region.

governance, increased transparency and access to environmental information, public participation in decisionmaking, and environmental education in client countries. The Bank has a strong comparative advantage in this area because of its long-term dialogue with client countries and involvement in investment programs and projects; its ability to transfer experience from other developing countries; and its work with development partners.

- *Help improve safeguard systems and practices.* We will support client countries in strengthening their environmental assessment (EA) systems and practices (see box 3.3). This will include continued assistance in technical and policy issues associated with introducing and implementing credible EA systems, using proper analytical tools, and moving environmental assessments to earlier stages of decisionmaking to improve their long-term development impacts. The Bank supports the participation of civil society through public consultations and public decisionmaking. We will take an active role in promoting good practices and harmonizing the environmental and social safeguard practices of international financial institutions.
- *Promote environmentally and socially sustainable private sector development.* The private sector is becoming a major player in many areas previously controlled by the public sector, including environmental issues. The Bank will play a key role in helping our clients improve the investment climate, so as to enhance investor confidence and stimulate private investment. As part of this effort, we will work to ensure that the private sector becomes a driving force in sustainable development. Increasingly, it is recognized that environmental sustainability improves competitiveness. As part of the World Bank Group, the IFC and MIGA will promote, through their investments and guarantees, environmental and social responsibility and good environmental management practices in the private sector. IFC will also invest in environmentally friendly private sector operations (see annex G for more details). The World Bank will take a strategic approach toward addressing the environmental aspects of programs supporting private sector development, such as environmental issues in privatization programs. We will facilitate partnerships between the public and private sectors and civil society to resolve environmentally sensitive issues and agree on benchmarks for good environmental management. A critical part of this agenda is to identify those areas in which a strong public sector role—for example, through regulation—remains indispensable.

### ***Protecting the quality of the regional and global commons***

The degradation of regional and global environmental resources can constrain economic development. It often disproportionately affects developing countries and poor people. Addressing such issues requires international policy dialogue and action to resolve conflicting views and interests.

As noted in the preceding chapters, the Bank has accepted the mandate to help client countries address the objectives of the international environmental conventions and their associated protocols, including the conventions on

#### **Box 3.3 Strengthening national EA capacity: The METAP experience**

To improve the business climate while achieving sustainable economic development, clear and transparent environmental rules, regulations, and legal liabilities are needed. In 1998, METAP initiated an Environmental Assessment (EA) Institutional Strengthening project, through the World Bank's Development Grant Facility (DGF), to assist Mediterranean basin countries in acquiring the necessary technical and policy tools to establish credible and operational EA systems. EA systems in Albania, Croatia, Egypt, Jordan, Tunisia, Turkey, and the West Bank and Gaza were assessed, and the results were used to define specific action plans to improve national EA systems and to increase their coherence with international norms and World Bank and EC environmental guidelines. A second phase, initiated in 2000, established an EA Center in Tunisia; extended the assessment of EA systems to Algeria, Morocco, Lebanon, Syria, and Yemen; undertook collaborative workshops; and established a network of EA directors. A third phase of the project is now envisaged to test the feasibility of establishing full compliance with World Bank EA procedures so that responsibility for overseeing the EA process can be shared with national governments in selected countries. This third phase would also build capacity to carry out strategic impact assessments and to assess the implications of international trade for the environment.



climate change, ozone, and biodiversity. It provides this assistance in its role as implementing agency for the financing mechanisms of these conventions, including the Global Environment Facility (GEF) and the Multilateral Fund for the Montreal Protocol (MFMP). In moving the Environment Strategy into implementation, we remain fully committed to these obligations. Similarly, through our continued work under the Prototype Carbon Fund (PCF) and other ongoing programs, we will be able to help client countries prepare for their effective participation in the Climate Change Convention, and in proposed carbon markets through instruments such as the Kyoto Protocol's Clean Development Mechanism and Joint Implementation Initiative.

Recognizing the potential synergy between local, regional, and global environmental management, we will seek ways to improve the quality of the regional and global commons, principally through interventions that simultaneously bring local benefits to developing countries (see box 3.4). Our experience has shown that interventions with global environmental objectives can only be effective if such programs take into account the development needs, local priorities, and constraints of countries and communities. Going beyond the complementarity between national and global benefits will require compensation from the global community and its financing mechanisms, GEF and MFMP. Accordingly, our global environmental interventions will build on the following five principles:

- *Focus on the positive linkages between poverty reduction and environmental protection.* Many interventions designed to reduce poverty by improving local environmental quality and sustainable natural resource management will also provide regional and global benefits. Our Strategy focuses on these areas of overlap. For example, community-based forest management projects can support sustainable livelihoods while reducing forest loss and preserving biodiversity and carbon sinks.
- *Focus first on local environmental benefits, and build on overlaps with global benefits.* There are many areas of potential overlap between local and global environmental benefits. For example, replacing low-quality biomass fuels with modern and renewable energy sources in rural and peri-urban households reduces indoor air pollution, mitigates respiratory diseases, and reduces greenhouse gas emissions. Similarly, switching from coal to gas heating for urban households yields both local and global benefits. Our Strategy focuses on these areas of overlap.
- *Address the vulnerability and adaptation needs of developing countries.* Poor countries suffer disproportionately from the degradation of the global commons and from its consequences, such as climate change. The Bank will help assess the long-term impacts of climate change on the vulnerability of people in client countries. These assessments will contribute to broader poverty reduction strategies.
- *Facilitate transfer of financial resources to client countries to help them meet the costs of generating global environmental benefits not matched by national benefits.* In cases where actions designed to address global concerns are not in the short- and medium-term interest of developing countries, the Bank will seek to engage the GEF (see

#### **Box 3.4**

##### **Linking local and global benefits: energy efficiency projects in China**

Local environmental benefits are a primary motivating factor for China in pursuing global climate change mitigation activities such as energy conservation, fuel switching, and renewable energy development. Industrial boilers, not including electric power boilers, account for some 30 percent of total coal consumption in China, and together with small furnaces are responsible for some 45 to 50 percent of local air pollution impacts. The *WB-GEF Fuel Efficiency Boilers Project* is transferring advanced, efficient, and cleaner international industrial boiler technology to China, which will dramatically lower the energy requirements of China's coal-fired boiler industry. For instance, the project is supporting "fluidized-bed combustion" boiler technology, which improves fuel efficiency and can lower sulfur emissions by 75 to 95 percent. The project also supported the transfer of advanced particulate control technologies to reduce particulate emissions and improve local air quality. Overall, the project is providing financial benefits by lowering the energy requirements of boilers, improving local air quality by reducing sulfur and particulate emissions, and lowering global CO<sub>2</sub> emissions in a cost-effective way.

annex I for details), the MFMP, or other special financing mechanisms to compensate countries for the incremental costs they incur to protect the global commons. In this regard, assistance with the phaseout of persistent organic pollutants (POPs) will be an important new area in which we can put the lessons learned under the MFMP program to work.

- *Stimulate markets for global public goods.* We will help our client countries develop and benefit from trade in environmentally credible goods and services, such as greenhouse gas emission reductions through the PCF, and from independently verified, sustainably harvested, natural resources.

## **Our Toolkit**

The Environment Strategy emphasizes the importance of integrating, or “mainstreaming,” the environment into development programs, policies, and actions implemented in a range of sectors. This emphasis will translate into actions throughout the Bank. A number of instruments—our “toolkit”—are available to the Bank in working toward its environmental objectives and mainstreaming environmental considerations into programs and projects.

This section outlines the main elements of an action plan for using this toolkit in implementing the Strategy. We begin with our analytical and advisory activities, which help identify and prioritize environmental problems and feed into the formulation of countries’ development strategies and our own assistance strategy. Once identified, key environmental problems can be addressed in a number of ways. The main tools are investment projects—stand-alone environmental projects, environmental components in sector projects, or improved project design—and policy-based lending. Finally, in addition to addressing environmental challenges through projects and programs, proper safeguards and good environmental management practices must be applied in all our lending. Improving the safeguard policies and their application, therefore, is another important pillar of the Strategy.

The actions described here are a mixture of short-term and long-term measures. Taken as a whole, the Environment Strategy is clearly—and deliberately—a long-term strategy, and it will take some time before all its elements are fully in place. This does not imply a lack of action in the meantime. We don’t begin from a standing start, but build on a well-established work program. In implementing the Strategy, we will give priority to certain aspects that are particularly urgent. For example, integrating environmental considerations into the new Poverty Reduction Strategy Papers (PRSPs) is an urgent task. Work on this is currently being piloted, giving us an opportunity to ensure that environmental issues are fully integrated from the beginning (see box B.3 in annex B). Other aspects, such as the Strategic Environmental Assessments (SEAs), will be introduced gradually after a trial period.

### ***Strengthening analytical and advisory activities***

Analytical work is the foundation for defining strategic priorities and integrating environmental concerns into projects and programs. A systematic approach is needed to ensure that environmental considerations enter the development planning process at an early stage by taking a multisectoral and long-term view of development. The country policy dialogue, as well as the quality of lending and policy related interventions, depends on a spectrum of information to influence decisionmaking. Some of the critical questions in the policy dialogue concern setting priorities for environmental interventions, managing the assets (including natural assets) on which development depends, and building up country capacity to implement, monitor, and enforce environmental legislation and regulations.

*Country-level analysis.* A good overview of conditions in a country is an indispensable first step toward designing an appropriate strategy to address the challenges it faces. The Bank regularly monitors and reports on many aspects of conditions in its client countries—through poverty assessments and public expenditure reviews, for example. Diagnostic work on environmental issues, in contrast, has tended to be sporadic and unsystematic. Country Environmental Strategy Papers (CESPs) have provided a broad tool

to built on and complement NEAPs and other country-led environmental work to deepen the Bank's country dialogue on key issues. With the enhanced role of programmatic lending instruments, it becomes essential to make country environmental diagnostic work more systematic, with particular attention to environmental policy, the regulatory framework, environmental assessment, and management capacity. In addition, monitoring of environmental trends is also important as part of country environmental diagnostic work. Macroeconomic sustainability indicators such as genuine savings are useful tools for monitoring trends in the way economies use their resources. We will make targeted efforts to ensure that key national environmental and sustainability indicators become an integral part of the core country indicator set (the "Country at a Glance" tables that appear in loan documents and other key publications) and that they are used routinely in CASSs. We will work to improve the coverage of the genuine savings indicator to include the impacts of air and water pollution, soil degradation, and depletion of subsoil water. We will continue to publish a range of macro environmental indicators (for example, rates of deforestation, emissions of CO<sub>2</sub>, access to safe water and sanitation) for all client countries, as part of the *World Development Indicators* series.

*Strategic Environmental Assessments (SEAs).* In order to mainstream environmental considerations into projects and programs effectively, we will rely more systematically on SEAs (see box 3.5). SEAs—sectoral, regional, and policy-focused—will be phased in as an analytical tool at an earlier stage in the decisionmaking process to help evaluate the environmental implications of broad policies and programs and to identify cost-effective interventions in complex cross-sectoral environmental problems. We will build on experience with SEAs in energy-environment linkages (Energy-Environment Reviews), urban air quality management, and river basin management, and will gradually expand their application to other areas (see box F.1 in annex F). The Bank will play a catalytic role in building and strengthening SEA capacity in client countries. Over time, a more systematic application of SEAs will reduce the costs of project-level safeguards, improve compliance, and help integrate environment into upstream policy dialogue and programmatic lending programs.

*Targeted analytical support.* In addition to the core inputs and the systematic assessments, a range of issue- and country-specific analytical work will be required to support the policy dialogue with countries. Analytical work will focus on areas with the greatest likelihood of having a significant impact on country policies or programs and in countries where our counterparts are committed and able to apply the results. The aim will be to build on indigenous

### **Box 3.5** **Strategic environmental assessments**

Environmental Assessment (EA) has proved to be a powerful tool for minimizing the possible adverse environmental impacts of specific projects. It is limited, however, by its narrow scope—by the time an EA is conducted, fundamental policy decisions have generally been made, often involving far more significant environmental tradeoffs than the specific investment itself. In addition, EA is essentially reactive, ignoring environmental problems that are not associated with planned projects.

Strategic Environmental Assessments (SEAs) can complement project-specific EA, providing a tool for proactively examining and prioritizing environmental problems at the national, regional, subregional, or sectoral level. They make possible an integrated approach to identifying the causes of environmental problems, applying an ecosystem approach, and suggesting areas in need of interventions—whether projects or policy changes—or targeted, in-depth analytical work.

By examining a broad range of environmental issues, SEAs can help in prioritizing, both among environmental problems and across sectors. And by moving environmental assessment upstream in the policymaking process, SEAs can ease the task of shifting from remedial to preventive approaches in dealing with environmental problems. SEAs can also enable the assessment of broad policies and programs that fall outside the scope of traditional project-level EA.

Unlike the formalized approach of project-level EAs, SEAs consist of sets of guiding principles and menus of analytical and consultative approaches that are applied flexibly and that are carefully tailored to the specific context of the country, including its political, socioeconomic, and cultural setting. By their nature, SEAs are intended to be consultative processes, involving stakeholders both at central policy levels (government ministries, national assemblies) and in civil society.

knowledge and in-country capacity and on work undertaken by others. This requires better collaboration with development partners and a mechanism for capturing and disseminating information and knowledge. Priorities for analytical and advisory assistance include areas where the Bank has an advantage compared with clients and development partners. The key themes to be covered include:

- *Poverty-environment linkages.* The linkages between environmental degradation and poverty are often location-specific. A better understanding of these linkages is essential for influencing poverty reduction strategies. Environmental issues need to be integrated into the analysis undertaken for PRSPs. Integrating environmental issues, particularly those related to natural resource management, into poverty reduction strategies and policy lending will require analysis of household data and the introduction into household surveys of new questions on the use of environmental resources. We will support pilot studies and programs to integrate environmental questions into household surveys and strengthen local capacity to understand poverty-environment linkages and design effective interventions. We will also support the analysis of environmental health linkages for poor households. Several environmental indicators should be regarded as minimum requirements in PRSPs. For example, in many countries lack of access to clean water and adequate sanitation and reliance on dirty fuels that cause indoor air pollution are major contributors to excess mortality and disease, especially for the poor.
- *Economic assessment of environmental resources and environmental degradation.* The costs of environmental degradation are considerable, but they need to be better quantified to be of use to economic decisionmakers. The Bank has developed methodologies to assess macroeconomic sustainability indicators, such as genuine saving rates (saving rates adjusted by changes in natural capital and by damage caused by pollution) and measures for economic valuation of health damages and environmental services. Further work is needed to refine methodologies, extend the scope of assessments—including methodologies for assessing climate change aspects—and to mainstream their use into Bank project assessment and client practice. Considerable efforts have also been devoted to capacity building in this area, in collaboration with the World Bank Institute and other organizations such as IUCN, OECD, and CEPAL. The Bank is supporting, together with WRI, UNEP, and the GEF the Millennium Ecosystem Assessment to improve our understanding the state of global ecosystems and links with development.

*Cross-country transfer of good practices and guidelines.* The World Bank is in a good position to apply relevant lessons from different countries and regions in environmental policy and management, and to identify and transfer experience and good practices among developing countries. We will publish and disseminate good practice notes, guidelines, and papers in key areas of environmental assessment, management, and policy, and will support this activity with appropriate training programs both for our clients and for our staff (see, for example, box 3.6).

### ***Integrating environment into project, adjustment, and program design***

Addressing environmental priorities that affect the long-term sustainability of development requires a proactive approach. Taking such a proactive approach means

#### **Box 3.6**

##### **Promoting good practice in environmental management**

The Bank Group's *Pollution Prevention and Abatement Handbook* (1998a) provides a comprehensive set of policy- and industry-specific guidelines for international good practice in pollution management. It emphasizes pollution prevention rather than control and underlines the role of good management, rather than relying solely on technical solutions.

The *Handbook* was prepared jointly by the Bank and the IFC, drawing on technical expertise and inputs from the UNEP and the UNDP.WHO, bilateral governments, industry specialists, private sector organizations, and civil society provided extensive comments.

The Bank Group is making a special effort to disseminate the lessons and guidelines summarized in the *Handbook* and to continue preparing, discussing, and disseminating policy and sector-specific guidance notes on emerging issues.

1 implementing cost-effective solutions to  
2 priority environmental concerns through  
3 investment projects, and addressing key  
4 policy issues through adjustment lending  
5 (see box 3.7 for the principles guiding our  
6 involvement).

7 Investment projects have traditionally  
8 been the Bank's main tool and remain an  
9 important vehicle for achieving results on  
10 the ground. All investment projects have  
11 to consider environmental aspects and  
12 adopt good environmental management  
13 principles according to the safeguard  
14 policies. In addition, priority  
15 environmental problems can be addressed  
16 by dedicated projects or by including  
17 environmental activities in sector  
18 projects. We will work on all fronts but will focus particularly on ensuring that sectoral investment  
19 projects take full advantage of opportunities to incorporate environmental considerations into their  
20 objectives and design. We will apply programmatic lending instruments to environmental issues when  
21 feasible.

22 The basic structure of incentives in an economy should promote the sustainable use of natural resources  
23 and encourage activities that mitigate pollution and other forms of environmental damage. The natural  
24 framework for pursuing this goal is through contributing to policy development and achieving  
25 environmental objectives through integrating environmental considerations into adjustment operations  
26 where possible and appropriate. In some countries, adjustment lending will be the most important lending  
27 instrument for the Bank. In low-income countries, Poverty Reduction Support Credits (PRSCs), which are  
28 based on PRSPs, are emerging as key lending instruments. We will apply these instruments selectively to  
29 achieve positive environmental outcomes.

30 *Improving the design and performance of environmental projects and components.* Our investment  
31 projects are most effective when they address specific aspects of a problem; when the problem can  
32 usefully be addressed by financing investments; and when the project can be expected to have a major  
33 impact on the problem. Thus, while analysis should be multisectoral, investments should be relatively  
34 simple and commensurate with the institutional capacity of clients, and the outcomes should be  
35 sustainable after the project is over. Environmental investments also perform best where the lack of  
36 finance is a clear barrier to improving environmental conditions. In addition, environmental projects or  
37 project components have been most successful when local political and economic stakeholders are  
38 committed to improved environmental management and when local officials are exceptionally capable of  
39 implementing the project. In designing environmental interventions, it is therefore important to measure  
40 them against four clear criteria (in addition to the criteria the Bank normally applies to any investments):

- 41 ■ Do we have a good understanding of the causes of the environmental problem? Is the analysis  
42 multisectoral? Does it take a long-term view?
- 43 ■ Have we identified implementable interventions that tackle the most important part of the problem?
- 44 ■ Is lack of finance a major reason the problem persists? Are we sure that money will make a  
45 difference? Is financing sustainable?
- 46 ■ Is the solution sustainable? Can we ensure that the problem will not return or that the situation will  
47 not revert once the project is over?

### **Box 3.7** **How we will work**

In preparing and implementing our environmental assistance, the World Bank will aim to adhere to the following guiding principles:

- We will be selective and will work on the highest-priority problems.
- We will promote cost-effective solutions.
- We will promote market-based solutions to environmental problems.
- We will consider the long term to promote environmental sustainability.
- We will take an ecosystem-focused and cross-sectoral approach.
- We will set realistic targets.
- We will listen to and work with people in our client countries and incorporate their views into our activities.

1 These criteria will help project designers to assess what they are trying to achieve and how they should go  
2 about it. Exceptions will always be possible, but using these criteria would put the onus on the team  
3 proposing the investment to show why the particular activity should be carried out. In addition, we will  
4 apply the criteria set out under “Protecting the quality of the regional and global commons” in this chapter  
5 to build on overlaps between local, regional and global environmental benefits, and to use grant financing  
6 through the GEF, MFMP, and other mechanisms to support interventions with global benefits.

7 *Improving the use of project-level indicators.* As mandated by BP 10.00, outcome indicators are intended  
8 to influence the design and implementation of projects. Guidelines for project indicators are currently  
9 available in a second-edition note on *Performance Indicators for Environmental Projects* (Segnestam  
10 1999). Methods for indicator design following the input-output-outcome-impact model are now well  
11 developed as part of the Logical Framework process. Improving the use of project-level indicators and  
12 extending them to instruments such as CDD will be a challenge in future work. Improving the design of  
13 these activities requires work on several fronts.

14 *Coordinating investments and policy reforms.* Experience clearly shows that investment projects should  
15 be considered not in isolation but in the context of a broader strategy. In particular, investment projects  
16 are unlikely to bring lasting results in a distorted policy environment. At the same time, experience also  
17 indicates that individual investment projects are often poor vehicles for policy reform—interventions tend  
18 to be most effective when they either attempt to change specific local environmental conditions in one  
19 geographic area or attempt to make broad policy or macro-level changes. Interventions that try to do  
20 both—that mix specific investments with broad policy changes—tend to be less successful. This Strategy,  
21 therefore, promotes interventions that are clearly in one category or another. The actions under each  
22 category are specific and are oriented, as much as feasible, toward concrete, measurable objectives. In  
23 each case, careful thought needs to be given to the proper sequencing of policy reform efforts and specific  
24 investments. Programmatic lending instruments may be applicable in support of long-term policy change  
25 (see, for example, box 3.8).

26 *Selective capacity development.* Improving  
27 country capacity to address environmental  
28 issues is a key challenge. Capacity  
29 development requires commitment to reform  
30 and positive change, and long-term  
31 involvement in policy dialogue and  
32 institutional reform. It cannot be effectively  
33 addressed by traditional short-term projects.  
34 The Bank’s comparative advantage lies in  
35 linking environmental capacity development  
36 with its ongoing sectoral operations and  
37 policy dialogue, rather than in self-standing  
38 technical assistance for general institutional  
39 development. Capacity-building efforts will  
40 be targeted, based on assessments of our  
41 client countries’ existing environmental  
42 regulatory and institutional framework,  
43 particularly their safeguard capacity and  
44 environmental assessment procedures,  
45 practices, and past records. The Bank will  
46 collaborate at the country level with other  
47 development partners involved in  
48 environmental assistance to improve overall

### **Box 3.8**

#### **Adaptable Program Loan for improving environmental management in Brazil**

The Brazil Second National Environmental Project (NEP II), approved in December 1999, allows eligible states to receive grants from the Ministry of Environment for the protection or sustainable use of high-priority environmental resources. Typically, grants are made available to *stakeholder coalitions* consisting of municipalities, state and/or federal government agencies, private sector corporations, and NGOs. To be eligible for grants, states must demonstrate that they have carried out environmental management policy reforms. As states attain higher levels of fulfillment, the grants are increased.

The NEP II is designed as an Adaptable Program Loan (APL) with three phases. A scoring system measures the aggregate level of fulfillment of policy reforms by all the states. When the aggregate score of all states participating in the system is reached, the next phase is triggered, and new loan funding can be released. States may apply for more than one grant, but only by progressing to a higher level on the reform matrix. The Ministry of Environment provides technical assistance to help states undertake the selected policy reforms.

development effectiveness (see box 3.9). In a few cases where strong commitment exists in the country to undertake environmental institutional reform, we will apply a programmatic approach and seek long-term involvement to support the process and monitor its results.

*Approaching adjustment lending systematically.* We are beginning the process of updating and converting the Operational Directive on adjustment lending (OD8.60) into an Operational Policy/Bank Procedure (OP/BP) format. The broad issues to be addressed during the conversion include both positive actions with regard to the environment in adjustment loans and the mitigation of negative consequences. Initial considerations for good practice and, possibly, operational policy, include:

- *Upstream reviews.* One issue for consideration is how Regional environment units may carry out upstream reviews of adjustment loans in order to improve the design of any environmentally sensitive components.
- *Country diagnostic studies and assessments.* Country diagnostic studies and assessments including SEAs may be a useful tool in countries undergoing significant structural change to identify resources at risk, define strategic environmental priorities, and design a monitoring system for key resources.
- *Monitoring.* It is being proposed that resources identified as being at risk be monitored during structural adjustment programs.

*Applying a location-specific focus.* Because the linkages between natural resource management and poverty are complex and location-specific, the details of efforts to integrate environmental considerations into investment projects, adjustment lending, and programs will clearly vary from country to country. In some cases, the links between environment, poverty reduction, and economic growth are already reasonably well understood, thanks to data availability and prior analysis. Such countries will provide opportunities for early interventions, and the lessons could then be applied elsewhere. In some cases, the lack of adequate data and analysis may mean that we can only raise questions and outline what would be necessary to provide reasonable answers. Nonetheless, it is important to recognize the limits of our knowledge and understanding.

### ***Improving the safeguard system***

The Bank's safeguard system is an essential tool for integrating environmental and social concerns into development policies, programs, and projects. It has to reflect evolving international good practice in environmental assessments and management, respond to changing development contexts, and adapt to new lending approaches. Reforming the safeguard system is a dynamic and incremental process that

#### **Box 3.9**

##### **Capacity development activities by other international organizations**

**United Nations Environment Programme (UNEP).** Capacity building is an integral part of UNEP's programs. Recently, UNEP and UNCTAD established a Task Force on Trade, Environment and Development to assist developing countries in better integrating their policies in these areas.

**United Nations Development Programme (UNDP).** UNDP's flagship activity is the Capacity 21 Program, launched at the 1992 UNCED Conference, which supports capacity-building programs and public-private partnerships in developing countries.

**Organisation for Economic Co-operation and Development (OECD).** A Task Force established following the 1992 UNCED Conference has published guidelines on Capacity Development in Environment.

**Asian Development Bank (ADB).** The ADB has substantially increased its capacity-building portfolio in environment in the last five years. Priority is given to environmental management and institutional strengthening.

**Inter-American Development Bank (IDB):** The IDB has a substantial portfolio of operations in strengthening national environmental management. Under the auspices of the Forum of Environment Ministers of Latin America and the Caribbean, the World Bank and the IDB have been engaged in promoting a south-south dialogue on experience with institutional development projects.

involves both the Bank and its clients in a series of actions designed to create better linkages between policies and their application to projects and programs.

*Short-term priorities.* In the short term, our priority is to focus on improving compliance with the safeguard policies, establishing an integrated compliance system, and improving results on the ground, as follows:

- *Strengthen compliance with safeguard policies.* We are placing increased emphasis on the implementation of safeguard policies, primarily through greater attention to the consistency of application across the Bank, stronger central oversight, and greater transparency in monitoring and reporting. We will improve supervision, particularly the implementation of environmental management plans and other commitments related to project-level safeguards.
- *Building an integrated safeguard compliance system.* We will complete the process of integrating the implementation of the safeguard policies both at the regional and central level. A major focus of ongoing work by the Quality Assurance and Compliance Unit (QACU) and the Regional Environment Units has been the elaboration of an enhanced compliance system that includes the use of a new instrument, the Integrated Safeguard Data Sheet (ISDS), as part of the project identification, preparation, and appraisal process. The ISDS will provide for the comprehensive review of the application of all 10 safeguard policies, and will better capture potential cumulative impacts. This approach will allow the safeguard policies to be viewed in relationship to each other, reduce the risk of individual policies being overlooked in the project process, and provide for more effective disclosure of information. Following the adoption of the ISDS, priority will be given to improving coordination between environmental and social analysis of project impacts and risks.
- *Improving results on the ground.* Our ultimate objective is to improve project performance on the ground. To this end, the participation of local communities and independent organizations in monitoring activities will be increased. A comprehensive set of environmental indicators, which has been developed by the Bank over the years, will be incorporated into operational work. Fuller integration of safeguard principles within project design, and especially project implementation, ultimately requires greater reliance on national-level safeguard systems. Thus, the Bank will strive to support in-country improvement in safeguard capacity, effective implementation, and transparency in processes.

*Transition to responding to new challenges.* Over the long term, the Bank seeks to develop a new integrated framework to replace the current 10 free-standing safeguard policies. Development of a single unified safeguard policy would strengthen performance, provide for a consistent broad-based approach, allow greater flexibility in application, and permit harmonization of requirements and processes with client countries. This integrated framework would improve the Bank's performance in internalizing the environmental objectives and principles embedded in safeguard policies. We would systematically apply them in the program and project design, implementation, and evaluation processes. Specifically, an integrated framework would respond to a series of challenges:

- *Adapting to a changing lending profile.* There is a gradual shift in Bank lending toward using programmatic lending instruments, such as Poverty Reduction Support Credits (PRSCs), Adaptable Program Lending (APL), Learning and Innovation Loans (LILs), and Programmatic Structural Adjustment Loans and Credits (PSALs/PSACs). Programmatic lending instruments may involve lending for a series of projects (for example, APLs), support for policy reforms (for example, PSALs/PSACs), or approaches for low-income countries (for example, PRSCs) (see World Bank 2000h for a description of lending instruments). While most Bank projects and programs are carried out by government entities, CDD projects are implemented at the grassroots level. These new types of lending operations and instruments provide important opportunities and challenges for the innovative application of the principles of the safeguard policies in cooperation with clients and partners. In this



context, the Bank will develop and apply a systematic review system, enhanced analytical and diagnostic tools, guidelines for good practice, and indicators to ensure that the environmental implications of the changing lending profile are properly considered. As the CDD initiative progresses in Bank operations, greater emphasis will be placed on strengthening environmental assessment and monitoring capacities at the local level. The use of new instruments and the application of safeguard policies to these activities will require a targeted training program for Bank and client staff involved in these activities and evaluation of experiences to develop good practices and to internalize the lessons learned.

- *Focusing on client capacity and ownership.* Successful medium- and long-term environmental and social performance of clients, in both the public and private sectors, mandates mainstreaming of the principles of safeguard policies, effective use of EA and other instruments, and client ownership of the consultation and disclosure processes. To achieve this, the Bank and its partners will need to increase their emphasis on capacity development in national and local governments, academic and applied research organizations, private sector and consulting firms, and NGOs. These capacity-building measures should recognize the importance of national policies, laws, and procedures and seek to adapt the application of safeguard policies to local conditions. Gaps between borrower and Bank requirements will be narrowed through initiatives focused on achieving greater levels of harmonization between Bank and client procedures. We will assess the EA capacity and systems of our client countries and consider such capacity in the review, clearance, and monitoring process of Bank-funded projects.
- *Moving safeguard policies upstream in the decisionmaking process* by integrating them into the strategic planning processes used at the national, regional, program, and sectoral levels. This can be accomplished by improving the analytical underpinning as a routine part of Bank and client development planning processes. Increased attention will be given to early identification of issues, evaluation of alternatives, and assessment of risks at the country and sector levels. SEAs will be prepared to evaluate complex short-, medium-, and long-term environmental issues in critical sectors. This approach will support integration of safeguard policy issues during early planning stages and allow for cross-sectoral and ecosystem-based analysis. In the next five years, a program for SEAs will be introduced, SEA application will be gradually increased, and a system will be put in place to identify good practices and disseminate lessons learned.
- *Working with partners on coordination, dissemination, and harmonization.* The Bank Group will continue to take an active role in working with other international financial institutions to better coordinate efforts on the development and application of safeguard policies, dissemination of good practice, and specific measures to facilitate harmonization of policies and processes. The primary mechanism for this process is a Working Group on the Environment of International Financial Institutions (IFIs), which has an ongoing work program that includes a comparative review of policies and procedures and identification of key elements of environmental management systems. The Bank is actively cooperating to transfer experience between institutions in addressing environmental aspects of operations that use financial intermediaries. Comparable steps to improve coordination on safeguard policies with the private sector will be undertaken in cooperation with the IFC, MIGA, and the IFI Working Group.

## **Selectivity in Implementation**

The action agenda for the Strategy described in this chapter is diverse and challenging on numerous fronts. In order to be effective, we will have to apply the principle of selectivity to guide implementation. The Bank's Strategic Framework Paper (SFP) and Strategic Directions Paper (SDP) provide a framework for selectivity at three levels:

1. At the corporate level, priority is given to programs supporting global public goods that convey shared benefits worldwide; and to corporate advocacy in priority areas that enable the Bank to fulfill

1 its poverty reduction mandate. Specifically, these corporate priorities include the protection of  
2 environmental commons: climate, water, forests, biodiversity, and ozone depletion; and advocacy in  
3 areas such as environmental health.

4 2. At the regional level, Regional Strategies (summarized in annex A) have set regional and sub-regional  
5 priorities reflecting critical assessments of environmental constraints on poverty reduction and  
6 growth; outlined the Bank's comparative advantage in supporting actions on agreed priorities; and  
7 selected cost-effective ways to deliver our support. Annual business plans will further specify actions  
8 to be undertaken in accordance with the Strategy.

9 3. At the country level, priorities and the mixture of Bank assistance instruments will be determined by  
10 many factors, including progress in policy reform, the size of the economy, and access to external  
11 finance and markets. It is essential that an environmental diagnosis inform Bank assistance in each  
12 country, both in terms of environmental priorities and environmental management and assessment  
13 capacity.

14 This means that we will not work on all fronts of the Strategy in all countries. Also, while new means for  
15 delivering our services to client countries are introduced, our engagement in other areas will diminish,  
16 taking the lessons on effectiveness to heart. On the lending side, this may well reduce our involvement in  
17 supporting large-scale end-of-pipe pollution control projects and traditional freestanding environmental  
18 institution-building projects. On the non-lending side, there will likely be an increased emphasis on Bank  
19 assistance in support of a policy dialogue on poverty-environment linkages and environment-growth  
20 linkages and a reduced involvement in highly specialized technical studies.

21 Due to the great diversity among the Bank's client countries in their environmental challenges,  
22 environmental policy and management frameworks, and other country conditions, no simple guidelines  
23 can be set for matching country types with priority Bank assistance. During the implementation of the  
24 Strategy, enhanced country diagnostic work, the annual business planning process, and its alignment with  
25 the corporate Strategy framework will enable us to improve the environmental input to country  
26 programming and priorities.

27 For the Environment Strategy to succeed, a great many things must happen over which the World Bank  
28 has limited control. For example, the Bank can be a persuasive advocate for building a strong political  
29 commitment to environmental and resource issues in client countries, but in the end such a commitment is  
30 in the hands of political leaders in those countries.

31 In some areas, the Bank can play a more decisive role. Internally, for example, we can strengthen our  
32 institutional commitment to the Strategy's objectives. We can also play a leadership role in more  
33 precisely measuring the impact of environmental interventions. These issues are discussed in further  
34 detail in the next chapter.

## Chapter 4

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### Institutional Realignment

Sustainable development is a long-term goal. Achieving it requires a concerted pursuit of economic prosperity, environmental quality, and social equity. It calls for behavioral changes by individuals and organizations. Throughout the world, this change is occurring. By virtue of our long-term development focus, World Bank management and staff are naturally expected to take the lead in making a commitment to corporate environmental responsibility, and to ensure that this commitment is increasingly reflected at all levels of our organization. We understand that social and environmental issues are integral parts of development and prosperity, and that overcoming associated costs and constraints requires true corporate commitment. Since it also requires institutional realignment, it would not be a sudden move but a gradual process.

The global context in which we operate is rapidly changing. New directions of development assistance emphasize holistic, client-driven, and programmatic approaches to delivering lending and non-lending services, and build on new alliances with a broad range of stakeholders. This means that, while we have to learn from past lessons to improve our performance in traditional lines of business, we also need to prepare ourselves for a transition to changing development assistance.

This chapter defines how the above requirements translate into an institutional realignment including actions to (a) strengthen accountability and incentives, (b) coordinate work across sectors in the Bank, (c) adjust the skill mix, and (d) align resources with strategic objectives. It also calls for striving for partnerships with others—members of the UN family, conservation organizations, bilateral donor agencies, private sector companies, and civil society groups—to ensure more efficient use of scarce development resources. Finally, it defines a transparent system for measuring and monitoring progress in implementing the strategy.

#### Strengthening Accountability and Incentives

The Bank's Environment Strategy calls, first, for an accountability framework that is client-centered, acknowledging that our core responsibility is to support sustainable development in our client countries. This framework has to distinguish between actions depending on client demand and those for which Bank staff are responsible, so that we can ensure that the proper incentives are in place and our staff performance can be measured accurately. Within the Bank, the Strategy underscores the importance of maintaining clear lines of responsibility and a strong and consistent set of incentives applied throughout the institution.

As with other strategies, implementation of the Environment Strategy will be closely monitored by senior management, and progress reports will be submitted to the Board periodically. To ensure that feedback is properly channeled to operational managers, implementation reports will be disseminated to regional management and network teams.

Given the Bank's organizational structure, implementing the Environment Strategy will require the collaboration of two overlapping groups within the Bank: (1) the operational departments, including the country management units that are responsible for formulating the Bank's assistance strategy in each country and assigning budgetary resources, and the regional non-environmental sector units that support them and are responsible for implementing the strategy, and (2) the Bank's environment professionals, most of whom work in regional sector departments in collaboration with field staff, and some of whom work in the central Environment Department (ENV), WBI, OED, and IFC. So far, the burden of

responsibility for the Bank's environmental activities has been on the Bank's environment professionals alone. While the role of the latter remains critical, properly addressing environmental problems requires that environmental awareness be fully integrated into the work of the operational departments.

The organizational structure varies significantly among Regions, including the place of environmental units, mechanism of cross-sectoral coordination, and the level of decentralization to field offices. These differences—together with the large variation among Regions in the number of countries, development and environmental challenges, and ongoing programs—make it impossible to have a one-size-fits-all model. There are many common issues, however. This section describes the respective roles of operational and environment groups in implementing the Strategy and how incentives will be aligned with these roles.

### ***Operational departments***

*Regional Vice Presidents (RVP) and Regional Management Teams (RMTs).* Regional Vice Presidents are responsible for resource allocation to the implementation of the Regional Environment Strategies and for aligning accountability for mainstreaming environment. RVPs also share with the ESSD Vice President (ESDVP), responsibility for compliance with Bank safeguard policies. RVPs are accountable for overall compliance with safeguards in their regional portfolio and pipeline, for ensuring adequate funding levels for compliance, and for carrying out biannual safeguard risk assessments that identify special-risk projects to be monitored at the corporate level. RVPs are jointly accountable with ESDVP for corporate signoff for special-risk operations. In each Region, compliance with safeguard policies is monitored and supported by safeguard compliance teams. In addition to safeguard compliance, achieving better development outcomes requires that key environmental priorities are identified at the regional, sector, and country levels, and RMTs have a meaningful process in place to promote appropriate programmatic responses and support cross-sectoral collaboration, as needed.

*Regional sector departments.* Regional sector departments are responsible for undertaking the work programs of their respective sectors based on country-focused programming and budgeting. Environment is one of the regional sector departments (see discussion below). Any effort to integrate environmental considerations into other sectors' activities will, therefore, require close collaboration with staff from these units. As mentioned above, however, efforts will be needed to improve institutional incentives to work cross-sectorally. Working with regional sector units also raises issues of training, as discussed below.

*Country Management Units (CMUs).* The strategy calls for increased attention to mainstreaming environment into country and sector programs, for which country teams and other sectors are responsible. CMUs play a particularly important role, in that they have the primary responsibility for country and sector policy dialogue, designing lending and non-lending services, prioritizing interventions, coordinating with sector units (see below), and allocating Bank resources to different activities. Understanding the constraints that country teams face in properly integrating environmental considerations into their work is critical to improving the Bank's role in addressing environmental problems.

■ *Understanding the role of the environment.* For the environment to be fully integrated into Bank activities, constraints facing CMUs in incorporating environmental concerns into their programs need to be fully understood. Because of their day-to-day interaction with clients and awareness of their problems, CMUs are aware that good environmental planning and management are integral parts of good development, not simply a bureaucratic requirement. Few country managers would disagree with the notion that environmental problems can play an important role, but this understanding is not always accompanied by a clear sense of how environmental problems affect development issues in the countries they work on, what tools are at their disposal to address these problems, and what

1 institutional support they can draw on to develop realistic options to address them. There remains,  
2 therefore, an important place for advocacy and *specialist support*—although this support must be  
3 demand-driven, specific, and targeted, and appropriately integrated into country-team work, rather  
4 than generic or supply-driven—and for *training* that fully takes into consideration country conditions  
5 and constraints. The efforts discussed in the previous chapter to improve our *knowledge* of  
6 environmental problems through enhanced analytical work and indicators will play a critical role in  
7 this regard.

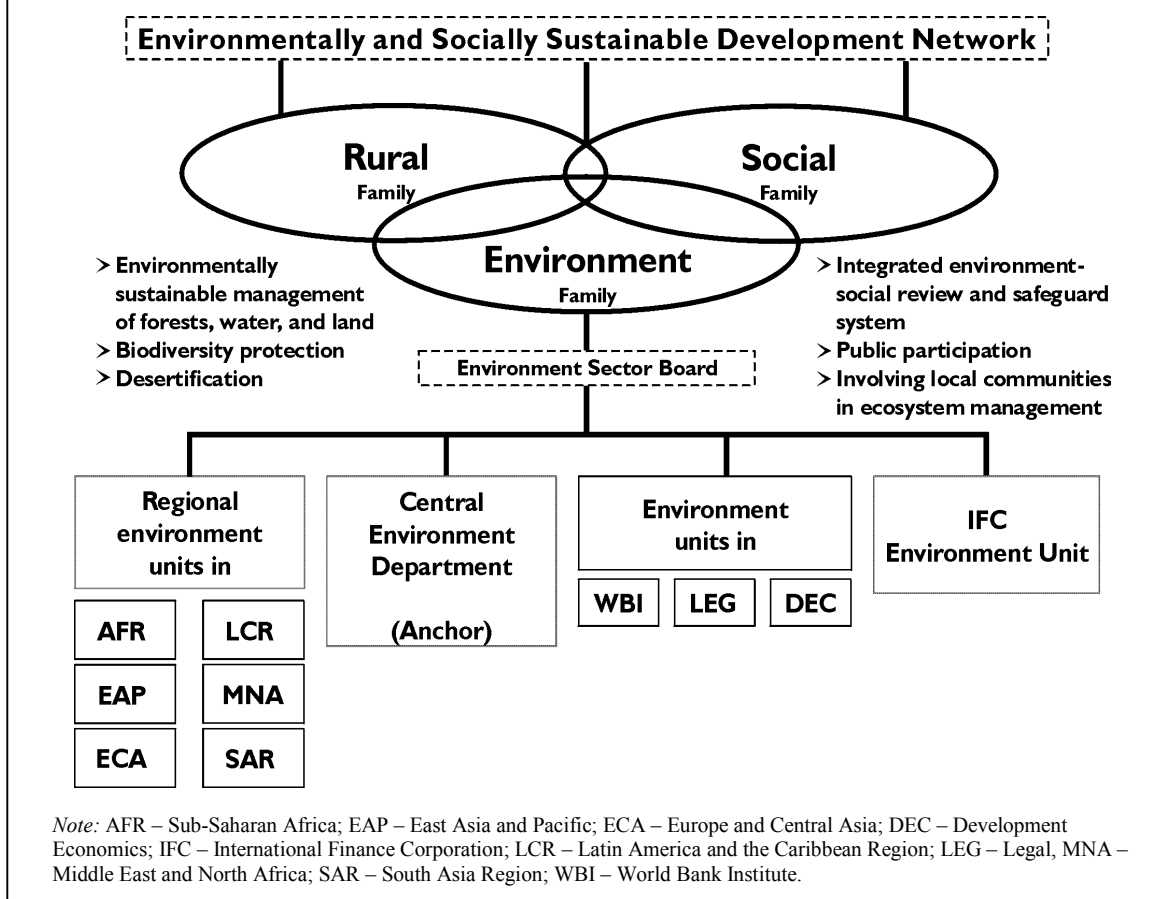
- 8 ■ *Prioritizing interventions.* The primary task of CMUs is to respond to clients' poverty reduction  
9 agendas. In doing so, they face many demands on their scarce resources and must decide how to  
10 allocate them across activities in their client countries. With so many pressing concerns to address, it  
11 is inevitable that some worthy activities will have to be cut. Here too, attention to environmental  
12 issues beyond the proper implementation of safeguards cannot be decreed. CMUs, with their detailed  
13 knowledge of country conditions and priorities, are best placed to prioritize interventions—this is a  
14 heavy responsibility, and the temptation to micro-manage should be resisted. But CMUs will be  
15 unable to properly assess the importance of environmental issues without adequate information on  
16 their extent and severity, so here, too, the analytical activities described in the previous chapter will  
17 play a key role. The farther upstream in the decisionmaking process this information is available, the  
18 more useful it is—hence the emphasis on country-level analysis, SEAs, and similar analytical tools.
- 19 ■ *Responding to institutional incentives.* The incentive system—budgets, reporting, and performance  
20 evaluation—as it currently exists, does not provide enough support to working on environmental  
21 issues, particularly when they require cross-sectoral work. Thus, operational staff members need to be  
22 provided with enhanced incentives and rewards for giving proper consideration to environmental  
23 issues. In order to recognize good performance, the environment family of the Bank will  
24 institutionalize high-profile “green” awards for staff and managers in other sectors and areas of the  
25 Bank for their collaboration in safeguards, and for mainstreaming environment into analytical work  
26 and operations. Emphasis will be given to recognizing contributions to addressing priority  
27 environmental challenges, effective supervision of projects with complex environmental and  
28 safeguard issues. The system of quality assessments and rewards will be reviewed and revised to  
29 focus on best practice, due diligence, and results on the ground.

### 30 ***The environment family***

31 Within the Environmentally and Socially Sustainable Development Network (ESSD), the Bank Group's  
32 environment professionals are organized as a family, with members from Regional Environment  
33 Departments, the central Environment Department, environment staff in the Legal and Development  
34 Economics Vice Presidencies, the World Bank Institute (WBI), as well as IFC. It is led by the  
35 Environment Board (EB), which consists of directors and managers of these units (see figure 4.1). A  
36 fundamental principle of this Strategy is to align the role of the environment family with common  
37 practice. Its core functions ought to be to regulate, advise, and facilitate the activities of the rest of the  
38 Bank to promote environmental sustainability.

39 *Regional Environment Departments (REDs).* The REDs have three major roles: they (1) are responsible  
40 for overseeing and providing technical guidance to implement environmental safeguard policies; (2)  
41 undertake analytical and advisory activities; and (3) help prepare and supervise lending activities. The  
42 organizational structure of departments, and the relative importance they assign to these roles, varies  
43 across Regions. The Strategy is being translated into detailed annual business plans, to be approved and  
44 monitored by RVPs. The lead responsibility for facilitating the preparation of the regional business plans  
45 rests with the environment sector directors/managers. In these plans, particular attention would be paid to  
46 integrating environment into the Bank's poverty agenda; moving environment upstream in country  
47 strategy processes, including CAS preparation; working with clients preparing PRSPs; and providing  
48 early environmental review of programmatic and policy-based lending. As part of implementing the

**Figure 4.1**  
**Environment in the ESSD network**



1 Strategy, Regional environment directors /managers are accountable for their efforts to stimulate cross-  
2 sectoral coordination and for providing technical guidance for integrating environmental considerations  
3 into the CAS and sector policy dialogue.

4 The annual business planning and reporting process is expected to overcome the weaknesses of the  
5 current incentive structure, which favors project management and is not well suited for encouraging  
6 advisory services and cross-sectoral coordination. It is expected to enhance communication with other  
7 sectors, heighten management attention, strengthen accountability, and ensure consistency with corporate  
8 priorities.

9 Recent changes in the safeguard system address another weaknesses of the current system: the conflict of  
10 clearance and advisory functions, and inadequate corporate consistency and oversight. They also raised  
11 the profile of staff performance in this area. Staff members who provide technical guidance on policy  
12 application are better recognized, and more weight is given in performance evaluation to due-diligence  
13 service. In addition, more attention is being paid to corporate accountability aspects in performance  
14 evaluation of staff and managers in other sectors. Likewise, greater weight needs to be given in  
15 evaluations to cross-sectoral work. For environment staff, annual results agreements and performance  
16 evaluations will be routinely used by environmental managers to assess staff performance and reward  
17 staff for their effectiveness in influencing sector and country programs.

1 *Central Environment Department (ENV)*. ENV, like other central departments of the Bank, has several  
2 key functions. It (a) coordinates the Strategy preparation and the monitoring of its implementation; (b)  
3 provides operational support to turn innovations into reality and to help identify and transfer good  
4 practices in environmental management and project design across Regions (*knowledge management*); (c)  
5 facilitates *quality enhancement* of lending and non-lending activities; (d) provides the public face of the  
6 World Bank on environmental matters, and coordinates *corporate programs and partnerships*. Three  
7 aspects, however, make ENV different from other central departments: (1) its role in ensuring the  
8 implementation of safeguard policies; (2) the need to coordinate with other sectors; and (3) its role in  
9 fulfilling the Bank's global environmental mandate. Some of these special functions have only recently  
10 been explicitly recognized. ENV will continue to fulfill these roles, focusing on efforts to support the  
11 Bank's transition to fully integrating environmental concerns across all its activities, and particularly on  
12 poverty alleviation efforts; assisting CMUs in dealing realistically with specific constraints that they face  
13 in addressing environmental programs; and adapting work on the environment to changing conditions.  
14 This transition will not happen overnight; ENV will support it through advocacy and technical support, by  
15 monitoring progress and by working with other parts of the Bank to adjust the Strategy in light of results.

16 The *Legal Vice-Presidency (LEG VPU)* works closely with the environment family on implementation of  
17 the safeguard policies. LEG has primary responsibility for 2 of the 10 safeguard policies (OP/BP 7.50,  
18 Projects in International Waterways; and OP/BP 7.60, Projects in Disputed Areas). In particular, the  
19 environmental law specialists in ESSD and the International Law Group in the LEG VPU provide  
20 expertise to assist client countries in introducing environmental and natural resource policy and regulatory  
21 frameworks, including land tenure and property rights regimes; in strengthening environmental  
22 compliance programs; and in the implementation of international conventions.

23 The *Vice Presidency of Development Economics (DEC VPU)* carries out research and collaborative work  
24 with operations in a number of key areas including ongoing work on the role of market and non-market  
25 instruments in addressing local and national environmental externalities, and on protecting the global  
26 environmental commons. In alignment with the Strategy, future work is planned on poverty, growth, and  
27 environmental linkages; environmental performance indicators; and environmental health issues.  
28 Additionally, the DEC VP, in collaboration with ESSD will undertake major research on sustainability  
29 issues in preparation for the 2002 *World Development Report: Sustainable Development with a Dynamic*  
30 *Economy*.

31 The *World Bank Institute (WBI)* is responsible for developing and delivering learning programs and  
32 promoting knowledge networks for clients and staff on a broad range of sustainable development issues.  
33 Most WBI programs target poverty-environment linkages; social issues, such as conflicts over natural  
34 resource management; governance aspects of environmental policy, such as environmental enforcement  
35 and compliance, international environmental rulemaking, and the international conventions; and  
36 safeguards. In recognition of the continuing challenges of mainstreaming, WBI is increasingly targeting  
37 non-environmental audiences, such as economic policymakers and macroeconomists, to highlight the  
38 linkages between environment and other issues central to poverty reduction and broader economic  
39 development. Learning activities in Africa in support of the Poverty Reduction Strategy (PRS) process  
40 focus on the interface between poverty-natural resource management-environment issues. In the next  
41 year, in support of The 2002 Earth Summit, learning programs will focus on linking the PRS process and  
42 target of implementing national sustainable development strategies expressed in the International  
43 Development Goals.

44 *Environment Board (EB)*. While responsibility for the implementation of Bank strategies rests with senior  
45 Bank management, the EB plays a critical role in leading and overseeing the Environment Strategy  
46 implementation process. The EB will review the annual regional business plans to support corporate  
47 consistency in regional strategic planning, and to facilitate the sharing of experience across Regions. At

the corporate level, the EB, supported by ENV, plays a key role in establishing and coordinating a systematic strategy implementation monitoring and reporting system. Its consolidated findings are the basis for reporting to senior management. The EB also oversees the strategic development and deployment of human resources, the mobilization and allocation of resources in support of the Strategy, and the consistency and quality of environmental work throughout the Bank.

## Senior management

Certainly, the success of the Environment Strategy will build on the continued commitment of senior Bank management. As mentioned earlier, implementation of the environment strategy will be closely monitored at the Managing Director level, for a number of reasons. First, the cross-sectoral nature of environmental issues requires senior oversight to ensure coordination among a variety of actors. Second, success in integrating environmental considerations into Bank operations more systematically increases the sustainability of Bank-supported projects and programs. Third, improved environmental performance reduces corporate risk and improves the Bank's credibility in undertaking its development mandate. Past experience with mainstreaming environment in the Bank clearly indicates that the greatest progress can be made if senior management support is sustained, visible, based on a candid view of what can be attained at the country level, and supported by adequate resources within institutional resource constraints.

## Coordinating Across Sectors and Networks in the Bank

Environmental problems are inherently cross-sectoral. The need to integrate work on environmental problems closely with sectoral work is a key theme of this Strategy. The degree of overlap obviously varies from case to case, but the widespread recognition of the importance of environmental dimensions in other sector strategies, such as rural and urban development, energy, transport, and water, is an encouraging indication that environment is slowly becoming part of mainstream thinking.

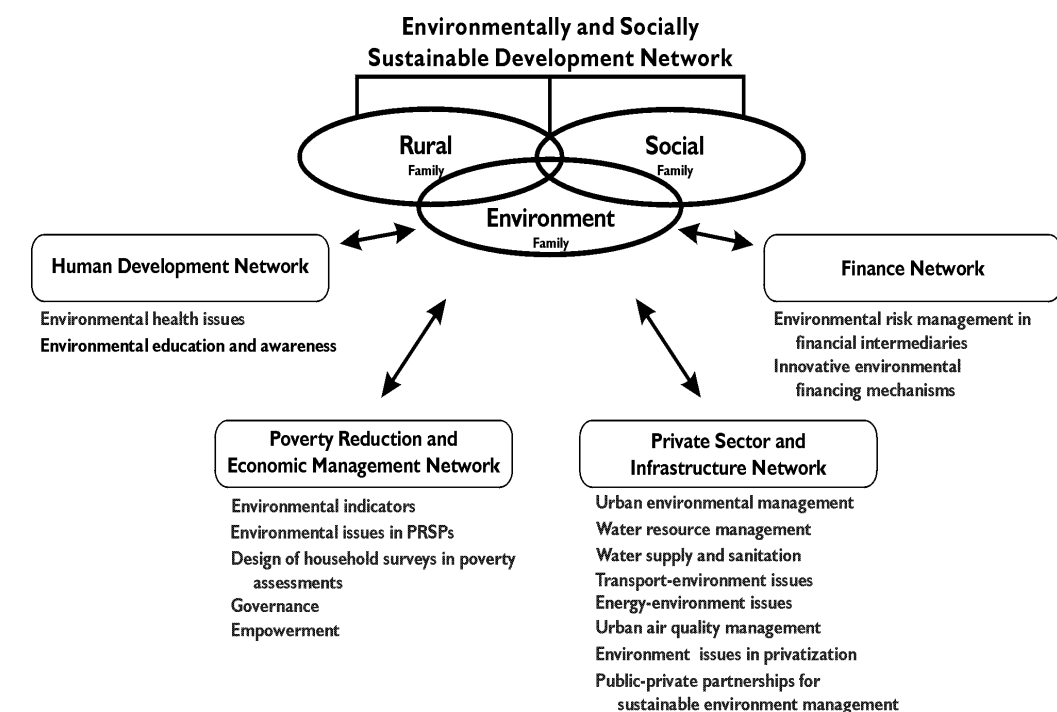
Cross-sectoral coordination must, of course, go beyond implementing safeguards and recognizing the importance of environmental issues in sector strategies. There is also a need to coordinate analytical and operational work.

Cooperation between the environment and other sectors and networks occurs at the project level, and it is often focused on country- or region-specific issues. At the corporate level, coordination and joint work with other networks is already under way in several areas (see also figure 4.2).

*Environmentally and Socially Sustainable Development (ESSD). Within*

**Figure 4.2**

### Environmental interface with other networks





1 ESSD, environment and rural development families have joint programs undertaken by teams comprising  
2 specialists from the environment and rural development families on land, forest, and water resources  
3 management issues. Biodiversity specialists from the environment family, with support from the GEF, are  
4 also integrated into joint teams. In land management, the rural development family is taking the lead in  
5 addressing on-site productivity issues, while the environment family is taking the lead in addressing off-  
6 site externality issues. Because, in practice, land degradation problems always involve both issues to  
7 varying degrees, close cooperation is necessary. The practical outcome of this deepening cooperation is  
8 increasingly reflected in the rural portfolio. There is close collaboration between the social development  
9 family developing an integrated social and environmental review and risk management system, on  
10 promoting social and environmental responsibility in operational programs, and on approaches to  
11 enhancing the role of local communities in ecosystem management.

12 *Private Sector and Infrastructure (PSI).* The environment family is collaborating with the PSI network in  
13 several areas. The environment and energy families jointly prepared Fuel for Thought, an environment  
14 strategy for the energy sector, and they are working closely on its implementation, including the  
15 preparation of Energy and Environment Reviews; support for the preparation of projects with  
16 environmental objectives; and integration of climate-friendly approaches to energy development (see box  
17 4.1 and F.1 in annex F). The environment family's work on the economic costs of fuels has contributed to  
18 setting priorities in the energy sector. There is longstanding coordination between the environment family  
19 and the water and sanitation and urban families, including issues such as urban environmental priorities,  
20 priority- setting in water resource management, and cost-effective measures to address environmental  
21 health priorities (see annexes C, D, and E for more detail on environmental health, water resource  
22 management, and urban priorities). Urban air quality management has been an area for collaboration  
23 between the energy, urban transport, and environment families (see annex E for more detail). There is an  
24 emerging need to collaborate more closely on private sector development and disaster management.

25 *Human Development (HD).*

26 Collaboration between the  
27 environment and HD on  
28 environmental health issues has  
29 begun, but relatively little  
30 formal collaboration has been  
31 established at the corporate  
32 level. In South Asia, a joint  
33 work program is addressing  
34 indoor air pollution, a key  
35 environmental health issue. The  
36 link between sanitation and  
37 health is a subject of  
38 discussions with the health and  
39 sanitation sectors, with the aim  
40 of trying to target interventions  
41 to improve health outcomes. A  
42 broader effort is under way to  
43 better understand the full range  
44 of environment and health  
45 linkages, which are estimated to  
46 result in over 20 percent of the  
47 health burden of many  
48 countries. This work is also  
49 building increased collaboration  
50 with external health agencies

**Box 4.1**

**Collaborating with the energy sector: *Fuel for Thought***

*Fuel for Thought (FFT): An Environment Strategy for the Energy Sector* is the product of collaboration between the environment and energy sectors of the Bank Group. The work originated with a request from senior management to review the reputational risks involved in operations in coal-based projects in both the extractive and the end-use sectors. During the initial evaluation, however, it became clear that there was a need to outline the strategic environmental priorities in the energy sector, and to move from “do no harm” to a more proactive stance considering environment as an integral part of energy development. Accordingly, the scope of work was extended to examine ways in which the bank could switch from mitigation of local and global impacts of energy use to actively seek opportunities for integrating environmental considerations into sector planning and development.

A joint team of energy and environment staff was formed to do the work. One of the most important findings of the stocktaking and analytical work undertaken in support of the Strategy was that, to be effective at the energy-environment nexus, cross-sectoral interventions were required. As a result, the Strategy makes operating in cross-sector teams a priority—an approach that is strongly evident in the implementation of FFT.

Though the bulk of the interventions and collaborations are with staff from energy and environment operational units, people from transport, urban, health and human development sectors also participate in the implementation as needed (for example, to work on the critical issue of indoor air pollution and its linkages with child and female health). Evaluation, training, and other activities now routinely involve both energy and environment staff.

such as WHO and the US Centers for Disease Control (CDC). There are obvious opportunities for increasing such collaboration in both the health and education areas.

*Poverty Reduction and Economic Management (PREM)*. PREM and ENV are working together on environmental indicators and, increasingly, on poverty-environment links as part of an effort to integrate environmental considerations into PRSPs. There is clearly scope for much greater collaboration on poverty-environment linkages, specifically on integrating environmental considerations into household data analysis, updating guidelines for the PRSP Sourcebook, and assisting countries to prepare and implement PRSPs. Future collaboration is also expected to improve in other areas, including environmental aspects of public sector management, public expenditure reviews, and governance issues.

*Finance*. Linkages with the Finance network have been established on a case-by-case basis, particularly in connections with financial intermediary lending. More systematic collaboration in this area, as well as in connection with innovative environmental environmental financing mechanisms will be needed in the future.

In each case, the environment family needs to be more proactive in seeking out areas of possible collaboration and in converting them into meaningful operational programs.

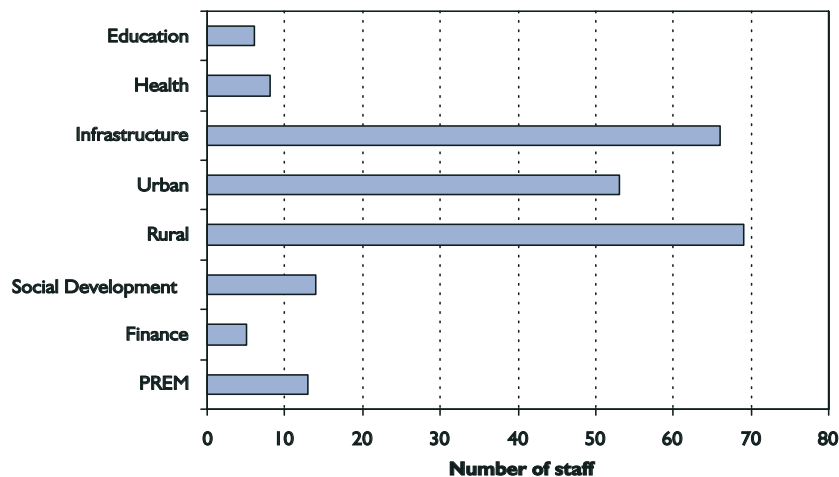
## Improving Skills

Staff skills surveys indicate that the Bank has a relatively robust environmental skills base, especially in natural resource management and biodiversity; environmental policy and planning, environmental engineering; and water resource management. The Bank's environment professionals include some of the leading experts in their respective fields. As a result of targeted training and experience, more than one third of the current 253 environmental staff members have developed expertise in environmental assessment. Figure 4.3 provides information on cross-sectoral experience among environmental staff based on a self-assessment survey. The figure indicates relatively low levels of cross-sectoral affiliation in macroeconomics, poverty, health, and finance.

## Continuing to realign the skill mix

The change in the lending profile of the Bank, the need for responding to new ways of delivering development assistance, and a changing emphasis from project-level safeguards toward integrated portfolio-level risk assessment and quality enhancement, client outreach, and development effectiveness will require a gradual realignment of environmental staff skills. An enhanced role for programmatic lending instruments poses both a challenge and an opportunity to integrate environmental considerations into macroeconomic and sectoral planning. Environmental staff, therefore, must be able to make a stronger contribution to the upstream policy dialogue. Such dialogue should be based on solid analytical work and effective communication with country teams and other sectors,

**Figure 4.3**  
**Cross-sectoral affiliation of environmental staff**



Note: Environment staff is collaborating with a range of sectors and themes. This figure does not reflect all aspects and details of such cross-sectoral affiliation.

as well as an ability to work with clients and development partners and provide high-quality inputs to the design of programs and projects.

*Improving integration and cross-sectoral skills.* While technical expertise will remain important, the capacity to integrate across a wide range of development issues will become critical. Environmental staff, therefore, should enhance skills and knowledge in other areas—such as economics, health, rural development, or urban management—in order to work as core members of teams in these areas. In particular, more policy, economic, institutional, and process management knowledge will be needed to contribute to macroeconomic work and decentralized activities such as community-based development programs. Emphasis should be given to the ability to communicate effectively, not only to manage self-standing tasks.

As work programs increasingly call for cross-sectoral expertise, the need for staff with both environmental and sector-specific knowledge and skills will increase, as noted above. At the same time, a gradual shift toward improved environmental skills in non-environmental specialist staff is expected to take place through operational experience in using new approaches, formal training in integration of environmental issues into programs and project design, and new hiring of experienced professionals. Since sector boards play an important role in human resource issues, there will be a need to coordinate these functions across sector boards—for example, to facilitate joint appointments or the rotation of staff.

### ***Joint appointments, secondment, and training***

The integration of environmental objectives into country and sectoral programs and projects, and a shifting accountability for environmental performance beyond the environment sector, assume a cultural and institutional change. This shift will be encouraged through joint appointments, staff rotation, and secondments with other sectors (rural and urban development, energy, water), thematic areas (macroeconomic policy, poverty, public sector management and private sector development), and, where feasible, partner organizations, private sector companies, and consulting firms. Priority will be given in external secondments to placing Bank staff in developing country settings.

Staff and client training programs will be aligned with the Environment Strategy to maximize understanding of the key themes of the Strategy. Target audiences will include both environment staff in the Bank and officials from environment and related ministries in client countries, as well as key economic policymakers, in the World Bank and in client countries. To the extent possible, staff and client training will be integrated to encourage joint learning, foster closer teamwork between staff and clients, and create a shared vocabulary and knowledge base.

Safeguard policies are a key area of emphasis in our training program for staff and clients. In order to improve the Bank's performance in implementing environmental safeguards, we propose to deliver a systematic and mandatory training program for all relevant Bank staff over a five-year period. Training for clients on Bank safeguard policies is in the initial stages and will be increased over the next few years.

To support the integration of environment into sector and adjustment programs, training will be designed around the three conceptual pillars of the Strategy: improving the quality of life, the quality of growth, and the quality of the regional and global commons. A core course on sustainable development will be built around poverty-environment themes and will support the integration of environmental issues into Poverty Reduction Strategies. Modules will include linkages between poverty and health, between poverty and natural resources, and between vulnerability to natural disasters and management of natural resources, as well as the political economy of land use changes—for example, conversion of forests to agriculture—and the effects of these changes on food security. The course will also include modules on methodologies and analytical tools to enable environmental specialists to assess poverty impacts and

1 linkages. Staff training will focus, in particular, on integrating environmental aspects into poverty  
2 assessment tools.

### 3 **Realigning Budgets**

4 Increasing the integration of environmental concerns into the Bank's work plan promises to bring strong  
5 returns by improving livelihoods, reducing health risks and vulnerability, improving the prospects for and  
6 the quality of growth, and improving the quality of the regional and global commons—all objectives that  
7 are at the core of the Bank's mission of poverty alleviation. But there is no free lunch. Achieving these  
8 objectives will require that resources be dedicated to the task. This is all the more important because the  
9 relative newness of environmental activities, their cross-sectoral complexity, and global public policy  
10 aspects mean that they tend to be more costly than traditional single-sector operations.

11 This section presents the budgetary implications of implementing the Environment Strategy. It is based on  
12 projected levels of key activities over the next five years that would begin to have a meaningful effect on  
13 the objectives, and could realistically be delivered during this period, assuming availability of the required  
14 resources. Underpinning the budget realignment are two fundamental considerations: (1) the need to  
15 guide a transition toward adapting to new ways of delivering development assistance, including  
16 programmatic lending and (2) the need to exercise selectivity in our programs and realign current budget  
17 allocations according to strategic priorities.

### 18 ***Managing the transition while exercising selectivity***

19 The cost of implementing the Strategy is inevitably increased by the fact that the strategy will support an  
20 adjustment of the Bank's environmental policies and programs to meet the requirements of a Bank in  
21 transition. Key themes of the transition are a greater focus on poverty, enhanced responsiveness to client  
22 needs, and a shift toward more programmatic lending in many countries. This transition, however, has to  
23 be carefully managed to make sure that we honor current corporate commitments and that we ensure  
24 environmentally responsible Bank performance in the application of current Bank assistance instruments  
25 and policies. At the same time, we need to move forward on revisiting policies and developing  
26 instruments to respond to new approaches to development assistance, while helping our developing  
27 country partners build the capacity to manage such concerns through more effective implementation of  
28 their own enhanced regulatory frameworks.

29 Effectively addressing the diverse environmental challenges in client countries requires selectivity at the  
30 corporate, Regional, and country levels. The Strategy sets an overall framework for setting priorities  
31 which is further refined in the Regional Environment Strategies and the corresponding annual business  
32 plans. As discussed in chapter 3, the Bank's engagement is likely to diminish in some areas. At the same  
33 time, the Bank is facing emerging challenges. This will be increasingly reflected in the Bank's external  
34 relations and partnerships (see below).

35 Realigning our programs, tools, and partnerships with the priorities described in the Strategy will be a  
36 gradual process. Several activities in the first year of the Strategy (fiscal 2002) will focus on preparing for  
37 this transition, starting to redeploy resources to the new uses emphasized by the Strategy, refining and  
38 disseminating methodologies, launching pilot exercises, and developing better tools and mechanisms to  
39 influence the PRSP and CAS process (see table 2 in the executive summary).

### 40 ***Budget requirements***

41 Defining the Bank budget allocated for environmental work precisely is not straightforward.  
42 Environmental costs are integral part of project preparation and supervision, while environmental input is  
43 often integrated into analytical work prepared by other sectors. With these caveats, the Bank's current  
44 annual administrative budget for environmental is in the order of \$25 million, covering work on the  
45 environmental components of projects, self-standing environment projects, analytical work and advisory  
46 services to clients, as well as safeguard compliance tracking and monitoring for the entire Bank portfolio.

1 Additionally, GEF and MFMP resources in the amount of approximately \$28 million fund the  
2 administrative budget of staff working on these programs and projects, while bilateral trust funds may be  
3 available to supplement Bank budget for analytical work and non-lending services based on criteria  
4 established for the trust fund.

5 Some of the requirements of this Strategy can be met by realigning budget allocations in response to  
6 changes in work program priorities and by delivering on such priorities more efficiently. Others have to  
7 be met by allocating new and additional resources or in combination with realignment gains. For the Bank  
8 to meaningfully address the objectives of the proposed Strategy, an annual incremental Bank budget of  
9 \$5-7 million over the next five years would be needed through Regional and ESSD budget allocations.  
10 The three key components of this incremental funding are:

- 11 1. *Safeguards and compliance.* In addition to long-overdue measures to improve the implementation of  
12 the compliance system, the incremental activities under the Strategy over the next five years include  
13 completing environmental management capacity assessments in our client countries and associated  
14 support for country capacity building; introducing and expanding the use of SEAs to upstream  
15 environmental consideration in decisionmaking; and conducting a comprehensive review of the  
16 safeguards policy framework to fit the needs of a changing Bank—all to facilitate the transition to an  
17 environmental compliance system better suited to a changing Bank lending profile.
- 18 2. *Mainstreaming support.* Additional resources will be required to supplement current Regional  
19 operational budgets for environment if we are to bring about effective mainstreaming of the  
20 environment in the country assistance dialogue and programs. A proposed new instrument, the  
21 Mainstreaming Fund for Environment, would focus on mainstreaming environmental issues with  
22 special emphasis on IDA countries in accordance with IDA requirements; linking corporate  
23 environmental priorities and global public goods with country programs, with an emphasis on upfront  
24 work on CAS preparation; facilitating cross-sectoral and cross-institutional approaches and work  
25 programs to addressing environmental issues, particularly with respect to the environment, health, and  
26 poverty interface; and addressing sub-regional and regional environmental activities.

27 In addition, if we are to successfully move toward full compliance on safeguards and effective  
28 mainstreaming, we need to invest in enhanced skills for our staff and through training and capacity  
29 building to raise awareness of the role of environmental sustainability in addressing poverty reduction and  
30 sound economic growth. The incremental costs of these activities will be reflected in the Bank's overall  
31 training program.

32 Systematic assessment of progress made, feedback, and adjustment are essential parts of Strategy  
33 implementation, and enhanced corporate environmental responsibility. In the first year, we will plan for a  
34 significantly enhanced comprehensive and transparent monitoring and reporting framework to be phased  
35 in. Establishing such a framework will take time, cultural change, and adequate resources.

36 The Bank will work with interested partners in bringing about the successful implementation of the  
37 Strategy. This means that, wherever possible, the Bank will rely on work produced by partners which may  
38 have a comparative advantage in certain areas and, in a strategic and cost-effective fashion, avail itself of  
39 trust funds from bilateral partners and others. On the other hand, the comprehensive actions needed to  
40 address the environmental challenges of economic development in client countries described in the  
41 Strategy (including the prudential management of trust fund resources and coordination of analytical  
42 contributions from development partners) will require adequate deployment of Bank resources.

## 43 **External Relations and Partnerships**

44 In an increasingly complex international and global arena, no single public agency has the legitimacy,  
45 credibility, and financial and organizational capacity to influence decisively all major development issues  
46 alone. The coordination of activities across development agencies in the environment area is particularly  
47 important because many environmental issues have strong global public aspects.

1 The Bank, according to its Articles of Agreement, deals primarily with governments. However, in  
2 response to a changing development framework in which civil society and the private sector are playing  
3 an increasingly significant role in many areas, including environment, the Bank has expanded its dialogue  
4 and involvement in partnerships with civil society organizations and the private sector. These notions are  
5 expressed in the CDF, which underlines the importance of participation of key stakeholders in the  
6 decisionmaking process and encourages partnerships to enhance development effectiveness.

7 Partnerships are collaborative relationships based on a common vision and objectives, consideration of  
8 the comparative advantages and roles of the various parties, and a division of responsibilities and  
9 activities (see World Bank 1998). In many areas of environmental assistance, the Bank has limited  
10 comparative advantage and reasons for direct involvement. Through its convening power and informal or  
11 formal partnerships, however, we can play a catalytic role.

12 Our engagement has been substantial in international policy dialogue, and through a wide variety of  
13 collaborative arrangements and partnerships in the environment area. These have ranged from project-  
14 level to regional- and corporate-level relationships. Partnerships also differ by the level of engagement,  
15 accountability, and allocation of financial resources. A recent review in the ESSD Network has identified  
16 the key types of partnerships (see box 4.2).

### 17 ***Realigning with corporate priorities***

18 We recognize that partnerships can yield major benefits by harnessing the Bank's development  
19 effectiveness. We also recognize, however, that they require careful management attention, staff time, and  
20 a mechanism to link partnerships with core  
21 country programs and operations in order to be  
22 effective.

23 The rapid rise in the number of partnerships in  
24 recent years has raised management concerns  
25 about spreading the Bank's resources and  
26 attention too much among too many  
27 partnerships, instead of focusing on only those  
28 partnerships in which we can most effectively  
29 catalyze action and achieve results. Given the  
30 visibility and sensitivity of some of the issues  
31 addressed by partnerships, they may also raise  
32 unreasonable expectations about what the  
33 Bank can achieve or contribute, and expose  
34 the Bank to high reputational risk.

35 Choosing which partnerships to invest in when  
36 deciding how to allocate scarce staff,  
37 management time, and budget resources is  
38 critical. The Bank's draft Strategic Framework  
39 Paper (SFP) and draft Strategic Directions  
40 Paper (SDP) for fiscal 2002–04 have outlined  
41 broad corporate priorities and criteria for  
42 selectivity. The preliminary framework for  
43 corporate priorities distinguishes between  
44 corporate advocacy and global public goods  
45 priorities, including work toward solutions to  
46 environmental challenges. Corporate advocacy

#### **Box 4.2**

##### **Partnerships review in the ESSD network**

A recent review has identified three types of partnerships in the ESSD network:

**1. Institutional engagements** provide a framework for dialogue, and coordination of activities between the Bank and development partners, but do not involve structured programs and specific commitments. Examples include collaboration with UNEP, WHO, OECD, IUCN, WHO, WBCSD, and many others.

**2. Collaborative Arrangements** are formal agreements among partner organizations to address a certain issue or implement a time-bound program. Typically, participating organizations allocate resources to achieve specific goals. Examples include the Mesoamerican Biological Corridor or the UNDP-World Bank International Waters Partnership.

**3. Corporate Partnerships** are entities legally established to address specific high-priority issues of global and corporate importance. They have their own governance structure, and involve high levels of institutional commitment. They can generate strong benefits, but may also present high operational risks. They may address commitments to implement international agreements (such as the GEF activities), new mechanisms for targeting specific global issues (such as the WWF/WB Alliance for Forest Conservation), or new approaches to creating global public goods (such as the Prototype Carbon Fund).

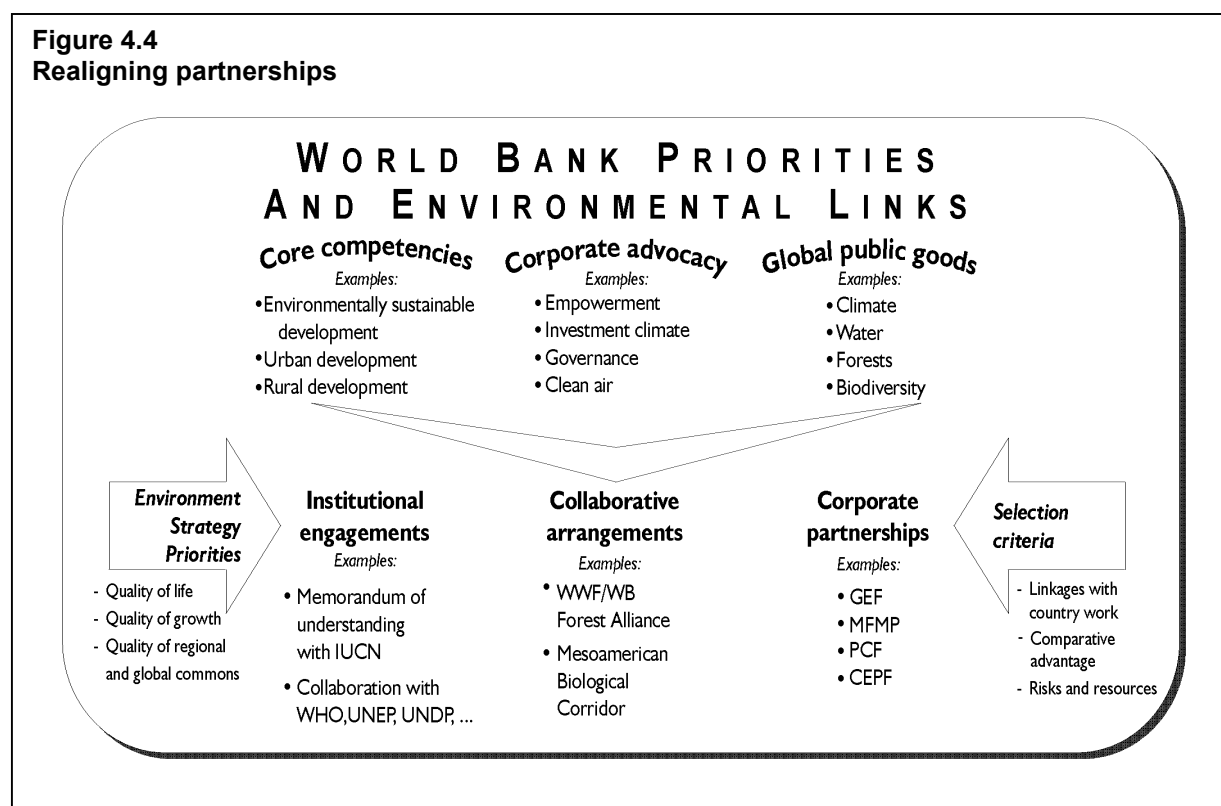
1 priorities are important enablers of poverty reduction that the Bank is particularly well qualified to  
 2 champion by sharing knowledge, building awareness with clients, development partners, and other  
 3 stakeholders.

4 The SFP and SDP emphasize the importance of supporting the Bank's global mandate, and its capacity to  
 5 implement global programs at the country level. They, however, also call for a stronger linkage between  
 6 corporate priorities and country activities. A paper on *Partnership Selectivity and Oversight* (World Bank  
 7 2000g), which was discussed by the Board in April of 2000, listed common criteria to be applied to  
 8 assessing all potential partnerships. The criteria are:

- 9 ■ Clear linkage to core institutional objectives and country operational work
- 10 ■ A strong case for Bank participation in terms of comparative advantage
- 11 ■ Potential risks to the Bank, assessed at the outset
- 12 ■ Thorough analysis of the expected level of Bank resources needed
- 13 ■ Guidelines for implementation and management of new commitments, time frame, and exit strategy
- 14 ■ A plan for communicating with and involving key stakeholders and for informing and consulting with  
 15 EDs.

16 These selection criteria and the priorities of the Environment Strategy provide a comprehensive  
 17 organizing framework for realigning the Bank's environmental partnerships. As part of the  
 18 implementation of the Strategy, we will apply this framework rigorously to review and realign our current  
 19 partnerships in the various categories (see figure 4.4). Some areas where the Bank has a strong  
 20 comparative advantage to support corporate environmental priorities include:

**Figure 4.4**  
**Realigning partnerships**



- Working toward multi-stakeholder agreements on good socially acceptable environmental management practices in key sectors where the Bank has significant involvement
  - Working with multinational development banks in harmonizing EA procedures
  - Convening key stakeholders and development partners to address regional and global environmental problems
  - Building knowledge-sharing mechanisms.
- A key focus for the Bank's external institutional dialogue and collaborative arrangements in the next 18 months will be to collaborate with clients, other UN agencies, NGOs, and private sector leaders in preparation for the next Earth Summit, which will take place in Johannesburg in the summer of 2002.

### ***Stocktaking and realignment***

The current portfolio of partnerships has evolved over the past decade (see annex K for a list of selected external partnerships). To enhance its effectiveness, we need to strengthen its consistency with corporate criteria and strategic priorities by taking action in the following areas:

- *Portfolio update and evaluation.* During fiscal 2002, the environment family will finalize the partnership portfolio review, evaluate it in relation to priorities outlined in the Strategy, and assess its effectiveness. Applying the partnership typology established in the ESSD Partnership review to clarify oversight, the EB will clarify monitoring, quality enhancement, and reporting responsibilities.
- *Realignment.* The EB will apply the corporate priorities and directions of the Strategy to plan for a gradual realignment of the partnership portfolio. It will review the exit strategies for existing partnerships to ensure effective transition if necessary, and will avoid extending continuous support simply because a partnership already exists. At the same time, the EB will be open to creativity and innovation in identifying and catalyzing new partnerships that may contribute powerfully to the Strategy's implementation. The EB will coordinate with the Partnership Council to ensure that the transaction costs imposed by new partnerships on operational staff are agreed upon and affordable.
- *Governance, management and reporting.* The EB will set guidelines for improving the governance, management, and reporting of partnerships, including donor communication, resource management, risk management, and accountability. Additionally, the Partnership Council of the Bank is in the process of identifying a corporate framework for managing corporate partnerships, which will be monitored and reviewed at the corporate level. With the EB's oversight, accurate records will be kept of partnerships, their budgetary implications, and performance. The EB will initiate periodic reviews of the performance of our current partnerships, their links with country programs, and alignment with our strategic priorities.

### **Performance Monitoring and Reporting**

Both internal and external consultations on the Environment Strategy have emphasized a focus on implementation and accountability for results. To ensure accountability and the capacity to learn from experience, we will introduce a performance monitoring and reporting framework that will track the Bank's performance on the environment, monitor implementation of the Strategy, and support regular reporting on progress, constraints, and steps taken to overcome the constraints. It will use the Internet and other means of communication with key stakeholders to make available reports and information about the Bank's environmental performance.

Performance monitoring and reporting will be based on joint reporting responsibilities of the ENV, RMTs, and REDs, overseen by the EB. A small performance monitoring and reporting unit will be set up in ENV, with the objectives of (a) collecting, in collaboration with the Regions, relevant data on key environment performance indicators; (b) preparing quarterly Strategy implementation reviews for the EB



and senior management; (c) supporting knowledge sharing and dissemination of good practices; (d) in collaboration with the Staff Association, collecting data and reporting on our institutional footprint; and (e) publishing Environment Performance Reports in *Environment Matters*, the Environment Department's Annual Review.

The first tasks of the unit will be to examine the menu of institutional performance indicators and to assess the applicability, costs, and benefits of reporting and the sustainability of data collection in order to ensure the efficiency and utility of the system. The core categories of institutional reporting will include:

- *Safeguard compliance.* Safeguard compliance will be carried out jointly with QACU. A unified monitoring and tracking system is being introduced to track projects and trigger safeguard policies. Biannual risk assessments will be undertaken by all Regions. Additionally, the review of safeguard-related issues by the Quality Assurance Group (QAG) will be strengthened in the areas of quality-at-entry and supervision. QAG ratings will be monitored and targets set for satisfactory ratings in the next fiscal year. Compliance reporting will also include a GHG emissions review, to be carried out by the Climate Change Team, in response to Bank policy requirements to estimate and report GHG emissions from Bank-funded projects.
- *Policy integration.* ENV, in collaboration with the Regions, will undertake regular reviews of CASs, PRSPs, and adjustment loans to assess how environmental issues have been addressed in these strategies and programs. The results will be shared and discussed with RVPs and RMTs and reported to senior management as part of annual Environment Strategy implementation reports. The environmental review of CASs will be coordinated with Bankwide CAS retrospective reviews prepared every 18 months for review by the Bank's Board of Directors.
- *Environmental projects and programs.* The environment portfolio is monitored by REDs, which are responsible for their performance and quality. ENV will provide the EB with cross-Regional assessments of portfolio quality. Additionally, ENV will set up a corporate portfolio monitoring system to track and monitor the environmental components of key sector portfolios. These data will be shared and discussed with the relevant Sector Boards and Regional sector units and reported as part of the annual Environment Strategy implementation reports.
- *Training.* ENV and WBI will report on progress in delivering management, staff, and client-training programs. Tracking of training delivery will be improved to better target and customize both mandatory safeguards training and training on cutting-edge issues of sustainability, environmental policy, and poverty and environment.

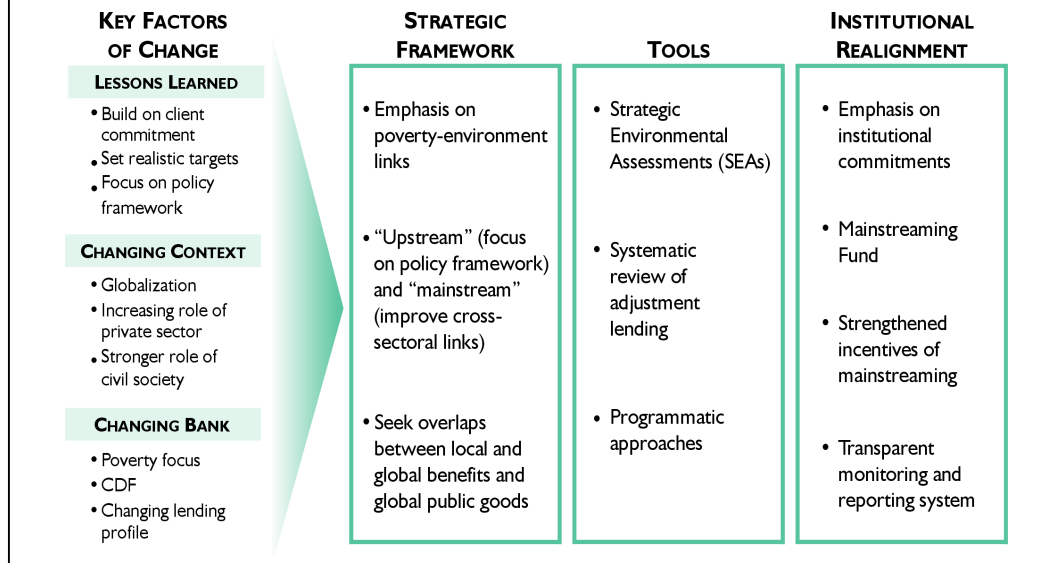
## Conclusion

As the Strategy suggests, making real progress toward poverty reduction and sustainable development requires changes in a challenging array of policies, tools, and institutional issues (see figure 4.5).

It means looking back at the past and ahead to the future. Based on past experience, we know that we need to build on our clients' commitment, set realistic targets, and focus on the policy framework. Looking ahead to the future, we need to understand the implications of globalization, increase the role of the private sector, and strengthen the role of civil society.

It means sharpening our strategic framework by increasing the emphasis on poverty-environment links; raising environmental issues at the earliest possible stage of new development projects; more effectively merging the environment and development mindsets; and seizing every opportunity to link local action with global benefits and enhance global public goods.

**Figure 4.5**  
**What is new in the Environment Strategy**



1 Its means adjusting our tools to respond to changing approaches to development assistance—through a  
 2 greater use of strategic assessments; a more systematic review of adjustment lending; and more  
 3 programmatic approaches.

4 It means institutional changes, including a greater emphasis on institutional commitments; strengthened  
 5 incentives to incorporate environmental issues into development; and a more transparent monitoring and  
 6 reporting system.

7 Most fundamentally, it means a serious commitment to the role of environmental issues in poverty  
 8 reduction and development, and a wholehearted institutional commitment to see that the future of  
 9 development and the effort to end poverty in this century will not be undone by environmental  
 10 degradation.

# ACRONYMS

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AAA	Analytical and Advisory Activities
ADB	Asian Development Bank
AEAP	Annual Environmental Action Plan
AfDB	African Development Bank
APL	Adaptable Program Loan
ARES	Africa Region Environment Strategy
ARI	Acute Respiratory Infection
AusAID	Australian Agency for International Development
BMZ	Federal Ministry for Economic Co-Operation and Development, Germany
BNPP	Bank-Netherlands Partnership Program
CAO	Compliance Advisor/Ombudsman
CAS	Country Assistance Strategies
CASE	Country Assistance Strategies and the Environment
CBD	Convention on Biological Diversity
CCAD	Central American Commission for Environment and Development
CCD	Convention to Combat Desertification
CDC	Center for Disease Control
CDD	Community Driven Development
CDF	Comprehensive Development Framework
CDM	Clean Development Mechanism
CDR	Country Development Review
CDS	City Development Strategy
CEDARE	Center for Environment and Development for the Arab Region and Europe
CEE	Central and Eastern European Countries
CEPF	Critical Ecosystem Partnership Fund
CESP	Country Environment Strategy Paper
CGIAR	Consultative Group on International Agricultural Research
CI	Conservation International
CIDA	Canadian International Development Agency
CMU	Country Management Unit
CODE	Committee of Development Effectiveness
COPD	Chronic Obstructive Pulmonary Disease
CPF	Collaborative Partnership on Forests
DALYs	Disability-adjusted Life Years
DANIDA	Danish International Development Assistance
DBSA	Development Bank of South Africa
DECVP	Development Economics Vice Presidency
DFID	Department for International Development (UK)
DGF	Development Grant Facility
EA	Environmental Assessment
EAP	East Asia and Pacific Region
EB	Environment Board
EC	European Commission
ECA	Europe and Central Asia Region
ECLAC	Economic Commission for Latin America and the Caribbean

EER	Energy Environment Review
EIA	Environmental Impact Assessment
EIB	European Investment Bank
ELCI	Environment Liaison Centre International
EMAP	Joint UNDP/World Bank Energy Sector Management Assistance Programme
ENV	Environment Department
EPSAL	Environmental and Privatization Support Adjustment Loan
EPU	Environmental Projects Unit
ESB	Environment Sector Board
ESCO	Energy service component
ESDVP	Environmentally and Socially Sustainable Development Vice Presidency
ESMAP	Energy Sector Management Assistance Programme
ESMRS	Environment Strategy Monitoring and Reporting System
ESP	Environmental Support Program
ESRP	Environmental and Social Review Procedure
ESSD	Environmentally and Socially Sustainable Development
ESW	Economic and Sector Work
EU	European Union
Euronatur	European Natural Heritage Fund
FAO	Food and Agriculture Organization
FASID	Foundation for Advanced Studies on International Development
FFT	Fuel for Thought
FMTI	Forest Market Transformation Initiative
FUG	Forest User Group
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHGs	Greenhouse Gases
GRI	Global Reporting Initiative
GTZ	Gesellschaft für Technische Zusammenarbeit
HD	Human Development
IBRD	International Bank for Reconstruction and Development
ID	Institutional Development
IDA	International Development Association
IDB	Inter-American Development Bank
IEM	Integrated Ecosystem Management
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International financial institution
ILWMAP	Integrated Land Water Management Action Program for Africa.
IPCC	Intergovernmental Panel on Climate Change
IPRSP	Interim Poverty Reduction Strategy Paper
ISDS	Integrated Safeguard Data Sheet
IUCN	World Conservation Union
JEP	Joint Environment Program
JBIC	Japan Bank for International Cooperation
JI	Joint Implementation projects
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LAC	Latin America and the Caribbean

LCR	Latin America and the Caribbean Vice Presidency
LEGVP	Legal Vice Presidency
LIL	Learning and Innovation Loan
LPCD	Liters per capita per day
LPG	Liquid Propane Gas
MAP	Mediterranean Action Plan
MBC	Mesoamerican Biological Corridor
M&E	Monitoring and Evaluation
MEA	Millennium Ecosystem Assessment
MEF	Middle East and North Africa Environmental Fund
MEIP	Metropolitan Environmental Improvement Program
MELISSA	Managing the Environment Locally in Sub-Saharan Africa
METAP	Mediterranean Environmental Technical Assistance Program
MFMP	Multilateral Fund for the Montreal Protocol
MIGA	Multilateral Investment Guarantee Agency
MNA	Middle East and North Africa Region
NEAP	National Environmental Action Plan
NEP II	Brazil Second National Environment Project
NGO	Nongovernmental organization
NIS	Newly Independent States
NORAD	Norwegian Agency for Development Cooperation
NRM	Natural Resources Management
NSS	National Strategy Studies
OAS	Organization of American States
OD	Operational Directive
ODA	Official Development Assistance
ODS	Ozone-Depleting Substances
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
PAGE	Pilot Analysis of Global Ecosystems
PAHO	Pan American Health Organization
PAL	Programmatic Adjustment Loans
PCF	Prototype Carbon Fund
POP	Persistent organic pollutants
PPAH	Pollution Prevention and Abatement Handbook
PREM	Poverty Reduction and Economic Management
PRGF	Poverty Reduction and Growth Facility
PROFOR	UNDP Programme on Forests
PROPER	Program for Pollution Control, Evaluation, and Rating
PRS	Poverty Reduction Strategies
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
PSAC	Programmatic Structural Adjustment Credit
PSAL	Programmatic Structural Adjustment Loan
PSI	Private Sector and Infrastructure
PV	Photovoltaic
QACU	Quality Assurance and Compliance Unit
QAG	Quality Assurance Group
QPM	Quality Project Management

RED	Regional Environment Department
REEF	Renewable Energy and Energy Efficiency Fund
RHA	Respiratory Hospital Admissions
RMT	Regional Management Team
RVP	Regional Vice President
SAL	Structural Adjustment Loan
SDP	Strategic Directions Paper
SDC	Swiss Agency for Development and Cooperation
SDG	Solar Development Group
SEA	Strategic Environmental Assessment
SECAL	Sectoral Adjustment Loan
SECO	State Secretariat for Economic Cooperation of Switzerland
SFP	Strategic Framework Paper
SIDA	Swedish International Development Cooperation Agency
SLRM	Sustainable Land Resources Management
SME	Small and medium enterprise
SRI	Socially responsible investing
TACIS	Technical Assistance for the Commonwealth of Independent States
TF	Trust fund
UNCCD	United Nations Convention to Combat Desertification
UNCED	United Nations Conference on Environment and Development
UNCHS	United Nations Commission on Human Settlements (Habitat)
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNFCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
UNIDO	United Nations Industrial Development Organization
UMP	Urban Management Program
URBAIR	Urban Air Quality Management Strategy
USAID	US Agency for International Development
VAF	Vulnerability and Adaptation Facility
VDC	Village Development Committees
WB	World Bank
WBG	World Bank Group
WBI	World Bank Institute
WCD	World Commission on Dams
WCED	World Commission on Environment and Development
WDR	World Development Report
WHO	World Health Organization
WMO	World Meteorological Organization
WPA	Work Program Agreement
WRI	World Resources Institute
WSS	Water Supply and Sanitation
WWF	World Wide Fund for Nature

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## Selected Readings

This section provides suggestions for additional readings on the topics discussed in this strategy paper. It is not a complete bibliography, rather, it lists some of the important works—produced both inside and outside the Bank—that relate to the areas covered. It points the reader to recent thinking that influenced this paper. A more detailed list of sources—including country-specific references—can be found on the Environment Strategy website, <http://www.worldbank.org/environment/>. The publications in both lists are grouped according to their theme or geographic focus.

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