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Video Recording for EDI Conference
in Central America

Thursday, January 16, 1997
2:40 - 3:00 p.m.
E 1227 Conference Room

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VRS

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A. CLASSIFICATION

- [x] Meeting Material
- [ ] Trips
- [ ] Speeches
- [ ] Annual Meetings
- [ ] Corporate Management
- [ ] Communications with Staff
- [ ] Phone Logs
- [ ] Calendar
- [ ] Press Clippings/Photos
- [ ] JDW Transcripts
- [ ] Social Events
- [ ] Other

B. SUBJECT: VIDEO RECORDING FOR EDI CONFERENCE IN CENTRAL AMERICA (N) (B) SESSION TO BE TAPED // ** CONFERENCE ROOM NEEDED (3:00-3:30 P.M. TO TAKE DOWN EQUIPMENT) - Thursday, January 16, 1997 from 2:40 - 3 p.m.

VENUE: E 1227 (CONF. ROOM)

CONTACT: JOYCE (VINOD) @ 36300

NOTE: ACTUAL PRESENTATION ABOUT 10 MINUTES // CONFERENCE ROOM WILL BE NEEDED AN HOUR BEFOREHAND TO SET UP EQUIPMENT (INFM VIA EMAIL 12/19)

IN ATTENDANCE: JDW, THOMAS, ZAMORA, KISHOR, BIANCHI, FURTADO, CRUZ, ATSUKO

(B) PREPARE BY THOMAS // DUE FRIDAY, JAN. 10

EXC: ATSUKO //LFG (12/16/96 3:51p)

DATE: 01/17/97

C. VPU

Corporate

- [ ] CTR
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Regional

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Central

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Affilliates

- [ ] GEF
- [ ] ICSID
- [ ] IFC
- [ ] Inspection Panel
- [ ] Kennedy Center
- [ ] MIGA

D. EXTERNAL PARTNER

- [ ] IMF
- [ ] UN
- [ ] MDB/Other IO
- [ ] NGO
- [ ] Private Sector

- [ ] Part I
- [ ] Part II
- [ ] Other

E. COMMENTS: this brief contains the following:
-briefing note from caroline dated 1/15/97
-Talking points
-numbers
-SEminar Objectives, audience, content, etc.
-Economic Globalization & Sustainable Development
-Ten Priniples of the new environmnetalism

File Location	Cleared By	Date:
☐ EXC ☐ IISC ☒ Archives		01/17/97

View Update History

Caroline

The World Bank
Washington, D.C. 20433
U.S.A.

Vinod Thomas
Director
Economic Development Institute
Development Economics

January 9, 1997

Mr. James D. Wolfensohn

Dear Jim:

Attached is a copy of the briefing note for the video message to be recorded on January 16, 1997. As you know, the message will be shown at the regional seminar "Economic Globalization and Sustainable Development" in Central America.

Best,

Vinod

Vinod Thomas

Attachment

cc: Mesdames Horiguchi, Anstey, Plumley, Belt

Paul Volcker

Suggestions
Bank of England
Fed

Education.

Video Message from Mr. Wolfensohn to participants of
Economic Globalization and Sustainable Development Seminar in Central America

A. The video recording will be ten minutes is for Mr. Wolfensohn to give informal remarks about his vision for sustainable development and how the Bank might collaborate with high level environment and economic planning/finance policy makers.

Proposed title of remarks --

"Promoting Globalization While Protecting the Environment:
The Challenge of Sustainable Development"

B. Annex 1 gives a description of the objectives of the Seminar, the main participants at the San Jose end and the expected outcomes.

C. Annex 2 highlights some issues of importance for economic globalization and sustainable development in Central America

ANNEX 1
Seminar Objectives, Audience, Content & Expected Outcomes:

Objectives:

- to help include incorporate environmental concerns in economic policies
- to help macroeconomists and sectoral leaders to work together on environmental concerns

Audience: A total of 120 participants will come from a broad base of stakeholders:

- President of Costa Rica, Jose Maria Figueres
- Ministers from Environment, Economic Planning and Finance Ministries
- Senior government officials (policy and decision-makers from economic, finance/planning, agriculture or industry and environment ministries)
- Parliamentarians (with some representatives from EU national parliaments)
- Journalists
- NGOs and the private sector (Councils of Sustainable Development)

Content: During the week, the individual seminars will cover topics such as:

- environmental standards and competitiveness in trade;
- environmental laws and regulations
- the role of civil society in environmental management
- public-private sector collaboration for environmental management
- decentralization and the role of local governments
- the Meso-American biodiversity corridor

Expected Outcomes:

Partner Institutions

- improve the capacity of partner institutions to collaborate in key sectors affecting sustainable development;

Ministers, Senior Policy Makers and Parliamentarians

- sensitize policy-makers to the need for incorporating environmental concerns into economic policies;

Councils for Sustainable Development and Journalists

- influence public opinion on the environment and sustainable development

All Audiences

- exchange experiences among national institutions, multilateral agencies, and NGOs engaged in environment and development in Central America;
- facilitate implementation of national action programs on environmentally sustainable economic development; and,
- build capacity for environmental work.

ANNEX 2
Issues for Economic Globalization and Sustainable Development in Central America

Summary:

Why is economic globalization important to Central American States?

Can growth and environmental protection go together?

Since environmental damage arises primarily from inappropriate economic incentives, what specific policy reforms can help the environment?

How can the Bank and member governments work together:

-Develop partnerships
-Promote win-win solutions
-improve integration of environment in all aspects of Bank work
-the "New Environmentalism"

A. Why is economic globalization important to Central American States?

- *There is a heavy reliance on external markets* for economic growth. The crisis that exploded in the region in the early 1980s was influenced as much by political and by economic factors. The immediate economic cause can be traced to the sharp deterioration in the region's terms of trade and a recession-induced decline in the demand for its primary exports. Similarly, economic expansion in the 1990s is linked to the increase of non-traditional exports, the expansion of in-bond sectors and an increase in tourism.

- *The potential for trade is high.* The main trading partner for the Central American States is the USA. Increased penetration in US markets as well as expansion into the EU and Latin American economies are potential growth areas for the region.

- *But, the process of economic growth threatens the environment.* The pace of environmental degradation is high as the transition from primarily rural-based economies, characterized by high population densities, poor infrastructure and technology, and degrading natural resources, are putting tremendous strains on the environment. The rates of deforestation, soil erosion and loss of endemic and endangered species in the tropical forests are high; and the forests and wetlands of the Meso-American corridor are important for migratory species.

B. Can growth and environmental protection go together?

- Yes, but only if there are some major changes: at the highest levels, macroeconomic and sectoral policy making has traditionally been divorced from environmental management. We might all agree that changes are needed in the following respects:

    ◊ Traditionally, there has not been much regard for the consequences of development policies on deforestation, fishery over-exploitation, or biodiversity destruction, Planning and finance ministries have tended to worry about budgets, trade, industrial expansion, incomes, employment and prices, to the exclusion of the environment.

    ◊ Traditionally, the most widespread and persistent problems of environmental degradation are due not to specific projects but to pressures associated with growth. However, environmental protection agencies have concentrated on regulating environmental problems of specific, large-scale projects such as road or dam construction.

    ◊ Recent Bank studies and current operational work have increased awareness of the potential for mitigating the environmental problems associated with growth, *if environmental management considerations are integrated directly in the process of countrywide economic planning and policy reforms.*

C. Since environmental damage arises primarily from inappropriate economic incentives, what specific policy reforms can help the environment?

- *Despite the increase of many forms of environmental damage in Central America, rapid growth per se is not the underlying.* For instance, almost the same environmental problems face countries with higher levels of economic growth (e.g. Costa Rica) and those with lower levels of economic growth (e.g. Guatemala). Environmental damage is largely an unintended (and often an unnecessary) consequence of economic activity.

- *Sources of environmental problems: failure to account for the negative environmental effects of growth or undervaluation of the benefits from environmental protection.* Excessive damage to the environment, whether in the form of air and water pollution or over extraction of timber occurs in large part because many benefits of conserving these environmental resources are not captured in the workings of markets.

- *Unfortunately, governments who are in a position to correct the wrong signals of the price system often worsen matters by subsidizing environmental damage directly.* Typically, the biggest culprits in this regard are subsidies to activities or inputs that are

damaging to the environment, such as pesticides, commercial logging, irrigation water, electric power, and fuels.

- The role for governments is, therefore, to take the necessary steps to ensure that businesses, consumers and their own agencies take the real costs of environmental damage into account in making decision.

- The bottom line for economic planners and environmental managers -- promoting sustainable development will require:

  a) that economic planning agencies also become environmentally involved;

  b) at the same time, environmental agencies need to be involved in economic policy making, to recognize that their environmental protection impact will be limited unless their activities are coordinated with their countries and in their economic development ministries.

D. How can the Bank and member governments work together?

Guiding principles to promote the environmental agenda. Since the late 1980s, when the Bank had made significant progress in managing the environmental impacts of individual projects, the Bank has moved its focus from a consideration of the environment at the project level, to one where environmental issues are integrated into macroeconomic and sectoral policy discussions and investments. The lessons that we have learned can be used a guiding principles to promote the agenda. These include the following [all text in quotes is taken from Mr. Wolfensohn's speeches]

- *We need to build partnerships in order to ensure environmentally sustainable development.*

". . . we recognize the importance of the environment; we recognize that we don't have a lock on ideas; we recognize that we need partnerships . . . the Bank and I particularly am passionately committed to the development of alliances and partnerships throughout the world.

- *We need to focus on the "win-win" situations since economic growth and poverty reduction can be made compatible with environmental sustainability.*

". . approaching issues of the environment is not just approaching a single issue. Solutions to the environment are not ordained. The solutions are systemic. You cannot say to someone who has no food that because of the long-term interests of the environment, they should not cut down that tree, because their life is involved":

"You cannot make it sustainable unless you bring it together. And we have to do it within a political environment in countries where the people know that what we are doing is in their best interests as it is in the interests of our planet."

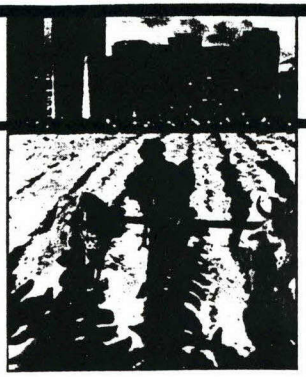
- *We need to integrate environmental considerations in all aspect of Bank work, including support for policy reform.*

"...this institution cares about the environment and ... everything we do considers the environment. I hope that you will understand that what we are trying to do is part of systemic solutions, that we are concerned about having realistic solutions, not just token shows in relationship to the environment. Because to have sustainable development, you must have a combination of economic forces, social forces, political forces with environmentally-friendly projects.

- *We need to encourage the "new environmentalism" which is gradually emerging and is reflected in the World Bank environmental portfolio.*

This "new environmentalism" aims to move environmental issues upstream in policy and lending so that environmental concerns are integrated at the conception of a policy or program. The ten principles of the "new environmentalism"are:

◊ Set priorities carefully.
◊ Make every dollar count.
◊ Harness "win-win" opportunities.
◊ Use market instruments where feasible.
◊ Economize on administrative and regulatory capacity.
◊ Work with the private sector, not against it.
◊ Involve citizens thoroughly.
◊ Invest in partnerships that work.
◊ Remember that management is more important than technology.
◊ Incorporate the environment from the start.



Ten Principles of the New Environmentalism

ANDREW STEER

A quiet revolution has been under way during the 1990s as environmental sustainability has gradually become an important theme in policymaking around the world.

RECENT years have witnessed a profound change in our understanding of the links between economic development and the natural environment. The key propositions of sustainable development laid out in the Brundtland Commission Report in 1987 and in the Rio de Janeiro Earth Summit's Agenda 21 in 1992 were controversial at the time but are now broadly accepted—even among mainstream economic policymakers. Among such propositions are the following:

- there is a crucial and potentially positive link between economic development and the environment;
- the costs of inappropriate economic policies on the environment are very high;
- addressing environmental problems requires that poverty be reduced;
- economic growth must be guided by prices which incorporate environmental values; and
- since environmental problems pay no respect to borders, global and regional collaboration is sometimes needed to complement national and regional actions.

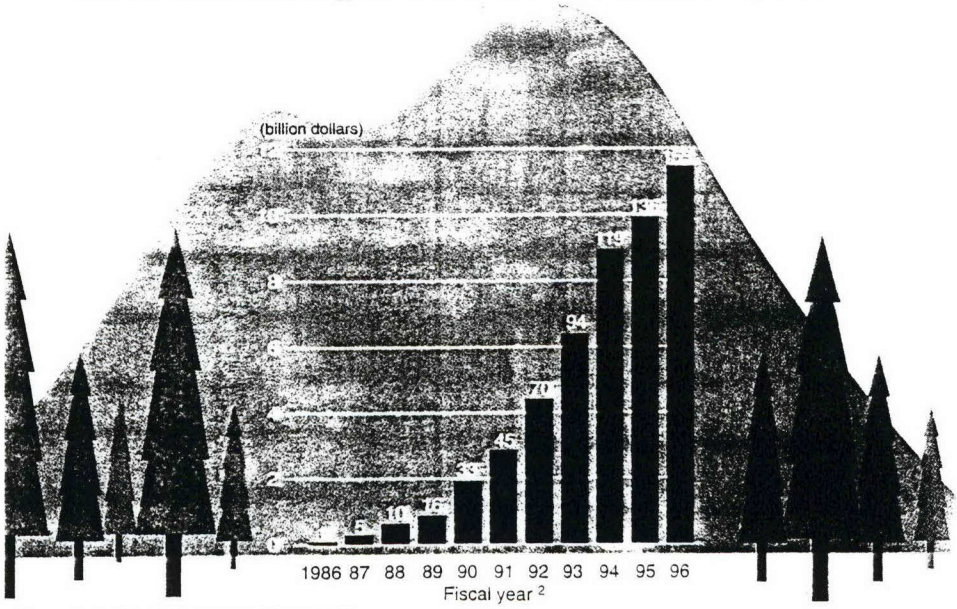
Broad acceptance of these propositions, however, has not assured their effective implementation. Most environmental problems continue to intensify, and in many countries there are few grounds for optimism. Nonetheless, in a growing number of other countries, awareness is leading to action, as policymakers begin to bring their money and political capital into line with their rhetoric. About 100 countries have now prepared national environmental strategies, and tangible changes in addressing environmental issues are apparent in about half this number.

Sixty-eight countries are currently receiving financial and technical support from the World Bank for environmental policy reforms and associated investments. Active Bank loans for these purposes currently total more than $11 billion. If cofinancing and the countries' own financing are added in, these investments total more than $25 billion. (See Chart 1 for trends in World Bank lending.)

These investments cover a wide variety of environmental problems, ranging from

Chart 1

World Bank financing for the environment: the active portfolio [1]



Source: World Bank, Environment Department.

1 Active World Bank projects whose objectives are primarily environmental are included here, but Global Environment Facility projects are not. The number of projects approved in each financial year appears on top of the corresponding vertical bar. The total financing made available in each financial year is measured by the height of the corresponding vertical bar.

2 The World Bank's fiscal years extend from July 1 of the preceding year to June 30 of the specified year. For example, fiscal year 1996 ran from July 1, 1995 to June 30, 1996.

Andrew Steer,
a UK national, is Director of the Environment Department, World Bank.

industrial pollution and coastal-zone management to protected-areas management and biodiversity conservation (see box). Despite this variety, however, some important common distinctions are becoming clear. A "new environmentalism" is emerging, as policies are being adopted that differ from those traditionally implemented by industrial nations. A recent review of the World Bank's environmental lending portfolio identified ten principles undergirding this "new environmentalism." Although these principles may seem straightforward and uncontroversial today, a decade ago they were not. And they stand in sharp contrast to most environmental policymaking in member countries of the Organization for Economic Cooperation and Development (OECD) over the past thirty years.

Principle 1: Set priorities carefully. The seriousness of environmental problems and the scarcity of financial resources have required tough prioritization and the phasing of remedial actions. The Eastern European Environmental Action Plan—prepared by the World Bank, the European Union, and all of the countries in the region—was a pioneering and influential effort in this regard. Based upon technical analysis of the health, productivity, and ecological impacts of environmental problems, the plan identifies the problems that must be addressed immediately. This approach differed radically from that of previous efforts to address Eastern Europe's problems, which, by failing to establish priorities, favored a broad, shallow, and expensive approach to problems. Thailand was another pioneer in the field: when a priority-setting exercise in 1992 identified lead pollution as one of the country's most critical problems, a full-scale effort was mobilized and leaded gasoline was phased out in just four years. Probably about 50 countries in the developing world have undertaken serious priority-setting exercises so far. The best of these combine the "sharp pencil" approach to carrying out analysis with participatory prioritization at the community level.

Principle 2: Make every dollar count. Most environmental policies, including the successful ones, have been unnecessarily expensive. Developing countries cannot afford the high-cost approaches traditionally used in industrial countries, and a new emphasis on cost-effectiveness is therefore taking root. Countries like Chile, the Czech Republic, and Mexico have led this effort. The new emphasis on cost-effectiveness is allowing much more to be achieved with limited resources. It requires a multidisciplinary approach—one that calls for environmental specialists and economists to work together to identify the lowest-cost methods of addressing key environmental problems. Chart 2 illustrates how this approach can help to reduce carbon emissions in Ukraine. It shows that the costs of different options for reducing these emissions vary substantially. The net costs of introducing gas metering and improving industrial efficiency are actually estimated to be negative, because in each case the value of the resulting energy savings exceeds the costs, while the costs of introducing coal-fired or gas-fired district heating are estimated to be both positive and substantial. By identifying a country's least-cost options, the required reduction in its emissions can often be achieved at moderate, or even negative, cost. The effort to reduce Ukraine's carbon emissions is just one of many such efforts currently under way.

Principle 3: Harness "win-win" opportunities. Some gains in the environment will involve costs and trade-offs. Others can be achieved as by-products of policies designed to improve efficiency and reduce poverty. Given the scarcity of resources that can be devoted to solving environmental problems, the latter kind of policies should form the first line of attack.

Reducing subsidies on the use of natural resources is the most obvious "win-win" policy. There is some good news here: preliminary calculations suggest that energy subsidies in developing countries and Eastern Europe have fallen by about half (from around $200 billion per year) since the early 1990s. A growing number of countries, led by Bangladesh and Indonesia, have eliminated pesticide subsidies; and a surprising number of countries, including China and India, have begun to reduce subsidies on irrigation water, which accounts for more than 80 percent of all water use.

Clarifying and reallocating property rights is often another "win-win" policy. Countries such as Azerbaijan, Colombia, the Philippines, and South Africa are now embarked upon market-based and negotiated land reform, which, in turn, is expected to have beneficial impacts on the environment.

The World Bank's environmental portfolio

The World Bank is currently financing efforts by 62 countries to improve environmental management. Projects are of three types: those designed to address pollution and urban environmental problems, those addressing rural environmental issues, and those seeking to build in-country institutional capacity for environmental management.

World Bank's portfolio of active environmental projects

(as of July 1996)

Project focus	Number of projects	Number of countries	World Bank contribution (loan or credit) (billion dollars)	Total project cost (billion dollars)	Average size of loan or credit (million dollars)
Pollution and the urban environment [1]	58	31	6.9	17.3	118
Rural environmental management [2]	69	41	3.6	7.0	52
Environmental institutions [3]	26	23	0.9	1.6	36
Total	**153**	**62**	**11.5**	**26.0**	**75**

Source: World Bank, Environment Department.

[1] Typically includes capacity building, funds for on-lending to enterprises and agencies, direct investment in pollution prevention and abatement, and support for policy reform for improved environmental managment.

[2] Addressing issues including biodiversity conservation, management of forests, and conservation of land and water resources.

[3] Aimed at strengthening national and local environmental management capacity.

In addition to these three categories of environmental projects, the Bank also implements the Global Environment Facility (GEF) and the Montreal Protocol (MP). Over the past year, $126 million was committed for 15 new GEF projects, bringing the total GEF portfolio to $506 million for 59 projects over the four focal areas: Biodiversity, Climate Change, Ozone Depleting Substances (ODS) Phaseout, and International Waters. The MP portfolio has also grown during the same period and now totals $214 million approved for 461 subprojects.

Principle 4: Use market instruments where feasible. Market-based incentives to reduce environmental damage are best in principle and often in practice as well. They stand in sharp contrast to the traditional command-and-control and technology-driven regulations that have been the norm until recently. A number of developing countries are experimenting with innovative approaches involving emissions and effluent charges, market-based extraction charges, and tradable permits. For example, Chile and Peru have recently introduced new fishing laws involving tradable harvesting permits; China is enforcing new charges on sulfur dioxide emissions; Thailand is experimenting with performance bonds for hazardous waste; and Malaysia has recently strengthened its system of effluent charges.

Principle 5: Economize on administrative and regulatory capacity. In developing countries, administration and enforcement capacity is often as scarce as money. Many countries are recognizing that they cannot adopt the highly "enforcement-intensive" approaches of industrial countries and consequently are experimenting with more self-enforcing policies (such as deposit-refund schemes and performance bonds) and blunter instruments (such as fuel taxes or import bans on certain types of pesticides) with fewer points of intervention and are recognizing that nongovernmental and community groups can help foster compliance. Informed public opinion can also play a powerful role in exposing and holding accountable private firms and government agencies that abuse the environment. Recognizing this, in 1996, Indonesia, with support from the World Bank, introduced a five-star system for rating the environmental performance of industrial enterprises. Such public disclosure and public education campaigns can often have a much more powerful impact than more traditional regulatory approaches.

Principle 6: Work with the private sector, not against it. Recognizing their limited regulatory capacity and the need for accelerated private investment, many governments are switching from a control-dominated attitude toward the private sector to one that involves dialogue and negotiated, monitorable programs. In some countries, governments are working with private sector environmental leaders to encourage environmental improvements throughout the value chain (including supplying industries). Self-enforcement and independent certification schemes (such as ISO 14000, a system for certifying that companies have sound environmental management systems in place) are also playing a much larger role. Innovative ways are being found to catalyze private financial flows in the service of the environment. This year, for example, the World Bank Group's International Finance Corporation (IFC) launched a Biodiversity Venture Capital Fund and is planning to launch similar funds to promote the use of renewable energy. Private finance is also being channeled into environment-improving activities, such as waste-treatment facilities and energy-efficiency improvement. The World Bank Group is helping to encourage this trend by providing partial risk guarantees and other instruments.

Principle 7: Involve citizens thoroughly. When a country's environmental problems are addressed, the chances of success are greatly enhanced if local citizens are involved. This has been well known for years for rural programs and is now becoming equally evident in efforts to manage pollution and waste in urban areas.

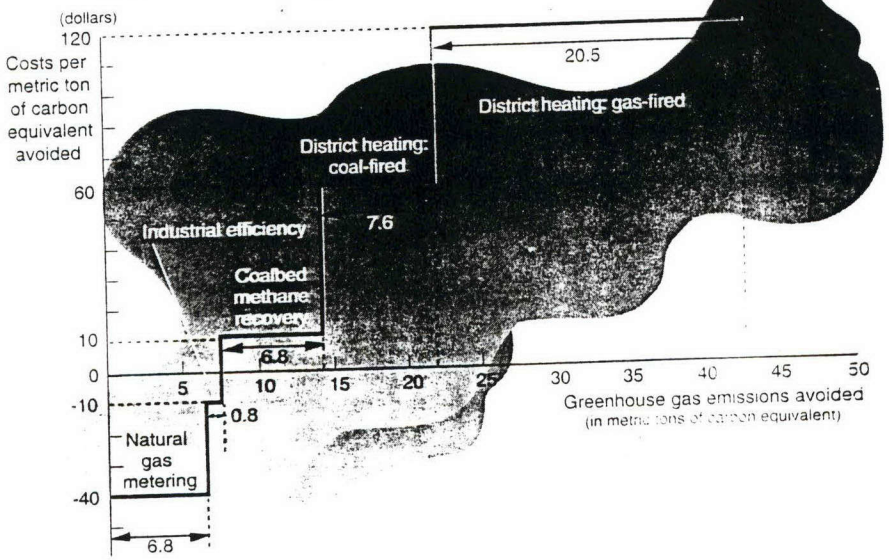
Such involvement is needed for four reasons. *First*, local citizens are often better able than government officials to identify the priorities for action. *Second*, members of local communities often know about cost-effective solutions that are not available to governments. *Third*, the motivation and commitment of communities are often what sees an environmental project through to completion. This is especially true, for example, for soil conservation and afforestation projects. Whether one looks at the soil clubs of northeast Brazil in the 1980s or the Sahelian community-based land management programs of the 1990s, the message is clear: participation works! Programs are much more successful if they are developed *with* the beneficiaries rather than *for* them.

The *fourth* reason for citizen involvement is that it can help build constituencies for change. Most environmental reforms will be opposed by those who have benefited from the right to pollute and degrade without penalty. Following through on environmental reform therefore requires a public constituency for change to act as a counterweight. This is why a growing number of concerned governments are investing in public awareness campaigns and fostering a vibrant nongovernmental environmental movement.

Principle 8: Invest in partnerships that work. Smart governments are realizing that they are often most effective in dealing with environmental issues when they work in partnerships. Most countries now involve nongovernmental specialists in their priority-setting exercises, and

Chart 2

Costs of reducing carbon emissions in Ukraine



Source: World Bank, 1994, *Ukraine Energy Options and Environment Analysis* (Washington).

tripartite relationships—including the government, the private sector, and community organizations—are increasingly common. The value of such partnerships stems from not only the different perspectives and skills that are brought to the table but also the necessity of carrying out concerted actions to address some environmental issues.

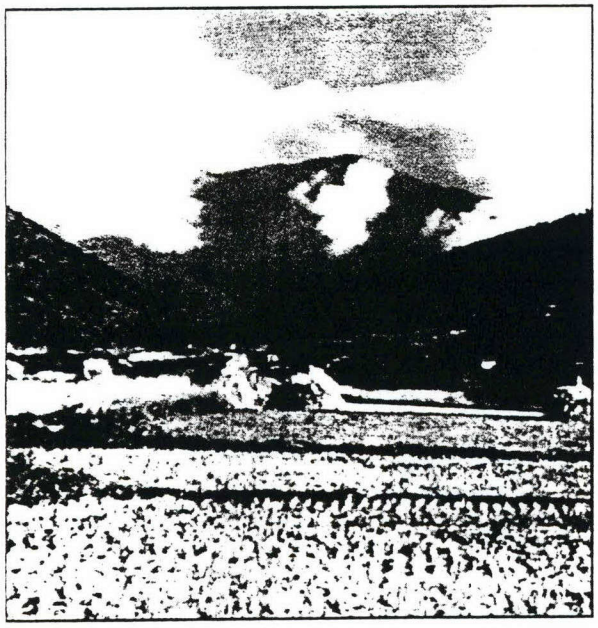
Forest management is a good example. Moving from current unsustainable practices to those which incorporate full knowledge about sustainable harvesting and processing often requires concerted action by private, community, and governmental actors. This past year, the World Bank helped establish a Forest Management Transformation Initiative that will bring together leading private enterprises, nongovernmental and community specialists, and international financial institutions to help remove constraints to adopting sustainable practices throughout the forest-product value chain.

Effective partnerships are also becoming more common at the transnational level. Since the Earth Summit in 1992, for example, regional seas programs have made important progress in the Baltic, Mediterranean, Black, and Aral Seas and in Lake Victoria. The sharing of international rivers is also being addressed, albeit slowly. One encouraging recent example: the 12 countries of the Southern African Development Community (SADC) recently signed a protocol for managing the 18 international rivers in the region.

Principle 9: Remember that management is more important than technology. The old-fashioned, technology-driven approach to the environment is giving way to a recognition of the crucial role of good management. Improved management practices are always a complement to, and sometimes a substitute for, investment in equipment.

Good managers can achieve large improvements in the environment at little cost. Examples abound. In Eastern Europe, lead smelters have shown a 60–80 percent reduction in air pollution and lead dust as a result of improved housekeeping and modest investments. In Latin America, improved efficiency stemming from the privatization of mining activities has sharply improved the management of tailings and wastewater. And in Egypt, recent technical assistance provided to improve the management of steel plants has transformed their environmental performance from among the worst to among the best in the developing world.

Conversely, bad managers can wipe out the benefits of new technologies. Thousands of heavily polluting industrial plants around the world have purchased equipment incorporating expensive environmental technologies that is currently either unused or poorly maintained. The new environmentalism, therefore, gives strong emphasis to good housekeeping and managerial improvements and to the reform of public enterprises.



Principle 10: Incorporate the environment from the start. When it comes to protecting the environment, prevention is much cheaper—and more effective—than cure. Most countries now seek to assess and mitigate potential damage from new infrastructural investment. But it is now becoming clear that such activities may be carried out too late in the cycle to have optimum impact. A small but growing number of efforts are now being made to move "upstream" to factor environmental concerns into the formulation of countries' sectoral strategies. Countries such as Nepal and Vietnam are currently seeking to take environmental costs and benefits into account when designing their country-wide, least-cost energy strategies. Such sectoral environmental assessments are expected to become standard practice in the coming few years.

Methodologies for carrying out such sectoral environmental assessments are still evolving, and a good deal of research is currently under way. The World Bank, for example, recently launched an important learning exercise entitled "global overlays" in which issues of biodiversity and climate change will be factored into sectoral policies in agriculture, energy, transportation, and infrastructure.

Moving upstream in environmental policy is also occurring in the design of macroeconomic, trade, and fiscal policies. Countries such as Côte d'Ivoire, the Czech Republic, Mexico, Peru, and Poland have explored how their economic reforms may affect the environment and are seeking to put in place complementary environmental policies. A recent World Bank review analyzes the experience of 12 such countries. This year also saw the dispatching of the first joint IMF-World Bank mission (to the Philippines) assigned to explore the relationships between fiscal and trade policies and the environment.

The unfinished agenda

The ten principles outlined above are helping to guide a new generation of environmental policymaking around the world. The new environmentalism—characterized by greater rigor in factoring environmental costs and benefits into policymaking—puts local people at the center of environmental strategies, diagnoses and addresses behavioral causes of environmental damage, and recognizes the political dimensions of environmental reform. This revolution in environmental management is not complete. Rather, it is just beginning. In most countries, environmental conditions are continuing to deteriorate, in many instances in an irreversible manner. Pursuing the new environmentalism is therefore a very urgent challenge—one that economists, as well as ecologists and technical specialists, need to be fully engaged in meeting. F&D

For more details on the World Bank's work on the environment, see the October 1996 issue of Environment Matters, *which can be obtained by writing to the Environment Department, World Bank, Washington, DC 20433, USA.*

FAXED 1:20 p.m 3/13. W.

TO: TAMARA BELT.

Joan Lessing

From: Caroline Austen

X 31800

Page 1 of 7

To Fax 676 0977.

ENVOR.

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RESULT	OK
DEPARTMENT	

ERA of PEACE

Talking Points for Mr. Wolfensohn's Video Message, January 16th

- Greetings to President Figueres;
- Delighted to be able to talk to a group that includes Ministers and high level officials from different kinds of ministries - integration of environment policy with economic policy is crucial.
- Importance of technology for this kind of dialogue, and for disseminating the lessons of development.

WE HAVE A POVERTY PROBLEM

- As we enter the third millennium the biggest challenge is to reduce poverty (and that includes the things that accompany poverty - disease, civil violence, chronic inability to alter one's life circumstances):
    - 1.3 billion live on less than $1 a day
    - By 2030, 3 billion more people added to the planet with 90% of the growth coming from the developing world.
    - 8 million children die every year because of polluted air and unsanitary water.

LASTING ECONOMIC GROWTH

- No country has achieved a lasting reducing in poverty without steady economic growth - East Asia provides the best example of growth and poverty reduction.

ERRONEOUS

- **BUT -** East Asia also reveals the dark side of economic growth - congestion, massive pollution, deforestation.
- In Central America, transition from a rural based economy with high population densities and poor infrastructure is putting a great strain on the environment - high rates of deforestation, soil erosion and loss of endemic and endangered species...
    - -Nicaragua - About 7.7 million hectares of the country's 12 million are affected by erosion, due to deforestation and poor land uses.
    - - El Salvador - 31% of the country's farm land degraded
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Honduras

- Rapid growth that comes at too high an environmental cost isn't sustainable. Moreover, growth without planning for environmental management inevitably leads to higher pollution, deforestation, depletion of water resources and soil erosion. This has an economic cost...
    - -In Panama, soil erosion results in losses of US $1.6 million
- This doesn't mean we should throw the baby out with the bathwater. Growth is crucial, but the challenge is to integrate environmental concerns with growth.

BELIZE - GUATEMALA

ECOTOURISM

- Three approaches:

1. Avoid the ill effects of growth oriented projects through environmental assessments. Much progress has been made in the countries and at the Bank in this direction.
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2. More and better investments to protect the environment.
   - 10 years ago, the World Bank had only a single environmental project, with only a handful of environmental experts.
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3. Third, and most crucial of all - factor in environmental concerns directly into all policymaking. For too long, finance ministers and planning ministers have neglected environmental issues. My hope is that this would change and the Bank could support more and more environmentally sustainable country programs.

- Many more people are beginning to understand the importance of this. In the 1990s there has been a greening - not just of government policy, but also of corporate policy.

- But in order for this greening to take effect and really have an impact, it has to be made central to policy. It cannot be an afterthought.

- Signs that this is happening:
  - Business is now moving from a view of the environment as something done as a goodwill gesture to placate public or environmental groups, to one that takes is seriously as a way of doing business. (World Business Council for Sustainable Development - good environment is good business).
  - National leaders are also finding that in the competition for financing a good environment is an excellent welcome mat to business.

- And finance ministers are finding that environmental pricing and taxes can generate much needed revenue.

Today about 100 countries have now prepared national environmental strategies and tangible changes in addressing environmental issues are apparent in about half this number.

- But there is a still a way to go.

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  - Last year, first joint IMF-World Bank mission (to the Philippines) to explore the relationships between fiscal and trade policies and the environment.

- World Bank cannot do it alone - any more than you can. Need to build partnerships - governments, UN agencies, other donors, NGOs, and the private sector.

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- We look forward to working with you in translating ideas and experiences from around the world into practices most suited to your setting.

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Numbers on the environment for selected Central America countries.

COSTA RICA

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(1) Costa Rica covers only 5 million hectares on the Central America isthmus but links two continents and harbors about 5-7 percent of the earth's biological diversity. Most of this biodiversity exists in forest areas.

(2) Though Costa Rica was largely covered by forest in 1940, the country now is only 29%. Recent deforestation was 50-60,000 hectares per year, mostly for converting to cattle ranching. Recently it has declined to 17,000 ha per year (between 1986 and 1992) and to only 5,000 hectares in 1994.

(3) A 1994 World Bank study estimated that Costa Rica forests had a value, conservatively estimated, of US $2.2 billion. The main value of Costa Rican forests is for carbon sequestration (US $1.1 billion), followed by sustainable timber (US $400 million), existence and option values (US $380 million), ecotourism development (US $272 million) and watershed protection (US $60 million). These are the values that would be lost, conservatively estimated, if remaining forests were to disappear.

(4) Estimates of the non-site erosion costs resulting from deforestation, measured as value of nutrients lost, are about US $60 million annually.

(5) The decline in the stock value of forests, soils and fisheries, not reported in the national accounts reached a peak in 1988 with an equivalent of 8.9 percent of GDP. Accounting for natural resources depletion and depreciation reduces the reported value of agricultural GDP by 29%.

(6) Costa Rica has taken courageous steps to reverse these trends and conserve and realize the full value of forests. 25% of the territory is now under some regimen of protection and it is in these protected areas that most remaining biodiversity is.

(7) Costa Rica has been able to capitalize more than most countries on these environmental values, ensuring that environmental conservation contributes to sustainable economic growth. For example tourism is the main source of foreign exchange, and ecotourism, principally based on the country's forest resources is the main reason tourists choose Costa Rica as a destination. Seventy five percent of tourists visit at least one of the protected areas, and 57%

participate in other activities related to natural resources. Visitors numbered 684,000 in 1993, a sharp increase from 261,000 in 1985.

(8) Costa Rica has also been an important innovator in devising new ways to generate wealth from environment conservation. A well known deal (US $1 million) with a pharmaceutical company for prospecting Costa Rican biodiversity for medical purposes has been replicated elsewhere. On reduction of green house gases, Costa Rica is one of the countries with more Joint Implementation Agreements under preparation or implementation. These are contracts in which a party from a developed country pays a party in a developing country to follow activities that reduce greenhouse gas emissions.

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The main environmental problems in Nicaragua are water degradation and contamination and soil erosion, mostly in the Pacific and Central regions.

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EL SALVADOR

Land degradation (loss of land's productive potential) is the most serious environmental problem in El Salvador.

(1) 31 percent of the country's farmed land are degraded and this could have serious impacts on agricultural production. On moderate and steep slopes, between 53% and 83% of fields are affected by degradation, and the expected problems are more severe. 13% of fields on step slopes are expected to suffer severe yield declines. About 20-25% of farm households, mostly poor, depend on these fields.

PANAMA

Deforestation and biodiversity losses are the main environmental problem in Panama.

(1) Panama is the terrestrial bridge which unites the continental masses of North and South America and its narrow mass separates the waters of the Pacific and the Atlantic Oceans. This contributes to making Panama a country of outstanding biodiversity.

(2) About 43% of Panama's forests still exist, mostly in the Atlantic. Deforestation, caused in part by lack of farming opportunities in degraded areas in the Pacific, approaches 55,000 hectares per year.

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(4) In the Pacific region where most agricultural activities of poor people are concentrated, corresponding to about 650,000 hectares, soil erosion results in losses of US $1.6 million, while the loss of 7,000 hectares of mangroves would result in a loss of US $11.4 million.

Numbers on Honduras to follow

Honduras

Deforestation, 1981-90

1.1 thousand square kilometers, represents 2.4% of the total area

7.7% of total surface area in the country is nationally protected.

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1/15/97

VIDEO message for the regional seminar on "Economic Globalization and Sustainable Development"

Mr. Wolfensohn:

I enclose talking points for the video message, a background brief from EDI on the Conference and the issue, and a selection of numbers/background on the environment in Central America which Luis Constantino of LAC put together for me.

Caroline

Talking Points

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Numbers on Honduras to follow

Seminar Objectives,
Audience, Content, etc.

ANNEX 1
Seminar Objectives, Audience, Content & Expected Outcomes:

Objectives:

- to help include incorporate environmental concerns in economic policies
- to help macroeconomists and sectoral leaders to work together on environmental concerns

Audience: A total of 120 participants will come from a broad base of stakeholders:

- President of Costa Rica, Jose Maria Figueres
- Ministers from Environment, Economic Planning and Finance Ministries
- Senior government officials (policy and decision-makers from economic, finance/planning, agriculture or industry and environment ministries)
- Parliamentarians (with some representatives from EU national parliaments)
- Journalists
- NGOs and the private sector (Councils of Sustainable Development)

Content: During the week, the individual seminars will cover topics such as:

- environmental standards and competitiveness in trade;
- environmental laws and regulations
- the role of civil society in environmental management
- public-private sector collaboration for environmental management
- decentralization and the role of local governments
- the Meso-American biodiversity corridor

Expected Outcomes:

Partner Institutions

- improve the capacity of partner institutions to collaborate in key sectors affecting sustainable development;

Ministers, Senior Policy Makers and Parliamentarians

- sensitize policy-makers to the need for incorporating environmental concerns into economic policies;

Councils for Sustainable Development and Journalists

- influence public opinion on the environment and sustainable development

All Audiences

- exchange experiences among national institutions, multilateral agencies, and NGOs engaged in environment and development in Central America;
- facilitate implementation of national action programs on environmentally sustainable economic development; and,
- build capacity for environmental work.

Economic Globalization
& Sustainable Dev't

ANNEX 2
Issues for Economic Globalization and Sustainable Development in Central America

Summary:

Why is economic globalization important to Central American States?

Can growth and environmental protection go together?

Since environmental damage arises primarily from inappropriate economic incentives, what specific policy reforms can help the environment?

How can the Bank and member governments work together:
-Develop partnerships
-Promote win-win solutions
-improve integration of environment in all aspects of Bank work
-the "New Environmentalism"

A. Why is economic globalization important to Central American States?

- *There is a heavy reliance on external markets* for economic growth. The crisis that exploded in the region in the early 1980s was influenced as much by political and by economic factors. The immediate economic cause can be traced to the sharp deterioration in the region's terms of trade and a recession-induced decline in the demand for its primary exports. Similarly, economic expansion in the 1990s is linked to the increase of non-traditional exports, the expansion of in-bond sectors and an increase in tourism.

- *The potential for trade is high.* The main trading partner for the Central American States is the USA. Increased penetration in US markets as well as expansion into the EU and Latin American economies are potential growth areas for the region.

- *But, the process of economic growth threatens the environment.* The pace of environmental degradation is high as the transition from primarily rural-based economies, characterized by high population densities, poor infrastructure and technology, and degrading natural resources, are putting tremendous strains on the environment. The rates of deforestation, soil erosion and loss of endemic and endangered species in the tropical forests are high; and the forests and wetlands of the Meso-American corridor are important for migratory species.

B. Can growth and environmental protection go together?

- Yes, but only if there are some major changes: at the highest levels, macroeconomic and sectoral policy making has traditionally been divorced from environmental management. We might all agree that changes are needed in the following respects:

    ◊ Traditionally, there has not been much regard for the consequences of development policies on deforestation, fishery over-exploitation, or biodiversity destruction, Planning and finance ministries have tended to worry about budgets, trade, industrial expansion, incomes, employment and prices, to the exclusion of the environment.

    ◊ Traditionally, the most widespread and persistent problems of environmental degradation are due not to specific projects but to pressures associated with growth. However, environmental protection agencies have concentrated on regulating environmental problems of specific, large-scale projects such as road or dam construction.

    ◊ Recent Bank studies and current operational work have increased awareness of the potential for mitigating the environmental problems associated with growth, *if environmental management considerations are integrated directly in the process of countrywide economic planning and policy reforms.*

C. Since environmental damage arises primarily from inappropriate economic incentives, what specific policy reforms can help the environment?

- *Despite the increase of many forms of environmental damage in Central America, rapid growth per se is not the underlying.* For instance, almost the same environmental problems face countries with higher levels of economic growth (e.g. Costa Rica) and those with lower levels of economic growth (e.g. Guatemala). Environmental damage is largely an unintended (and often an unnecessary) consequence of economic activity.

- *Sources of environmental problems: failure to account for the negative environmental effects of growth or undervaluation of the benefits from environmental protection.* Excessive damage to the environment, whether in the form of air and water pollution or over extraction of timber occurs in large part because many benefits of conserving these environmental resources are not captured in the workings of markets.

- *Unfortunately, governments who are in a position to correct the wrong signals of the price system often worsen matters by subsidizing environmental damage directly.* Typically, the biggest culprits in this regard are subsidies to activities or inputs that are

damaging to the environment, such as pesticides, commercial logging, irrigation water, electric power, and fuels.

- The role for governments is, therefore, to take the necessary steps to ensure that businesses, consumers and their own agencies take the real costs of environmental damage into account in making decision.

- The bottom line for economic planners and environmental managers -- promoting sustainable development will require:

    a) that economic planning agencies also become environmentally involved;

    b) at the same time, environmental agencies need to be involved in economic policy making, to recognize that their environmental protection impact will be limited unless their activities are coordinated with their countries and in their economic development ministries.

D. How can the Bank and member governments work together?

Guiding principles to promote the environmental agenda. Since the late 1980s, when the Bank had made significant progress in managing the environmental impacts of individual projects, the Bank has moved its focus from a consideration of the environment at the project level, to one where environmental issues are integrated into macroeconomic and sectoral policy discussions and investments. The lessons that we have learned can be used a guiding principles to promote the agenda. These include the following [all text in quotes is taken from Mr. Wolfensohn's speeches]

- *We need to build partnerships in order to ensure environmentally sustainable development.*

". . . we recognize the importance of the environment; we recognize that we don't have a lock on ideas; we recognize that we need partnerships . . . the Bank and I particularly am passionately committed to the development of alliances and partnerships throughout the world.

- *We need to focus on the "win-win" situations since economic growth and poverty reduction can be made compatible with environmental sustainability.*

". . approaching issues of the environment is not just approaching a single issue. Solutions to the environment are not ordained. The solutions are systemic. You cannot say to someone who has no food that because of the long-term interests of the environment, they should not cut down that tree, because their life is involved":

"You cannot make it sustainable unless you bring it together. And we have to do it within a political environment in countries where the people know that what we are doing is in their best interests as it is in the interests of our planet."

- *We need to integrate environmental considerations in all aspect of Bank work, including support for policy reform.*

"...this institution cares about the environment and ... everything we do considers the environment. I hope that you will understand that what we are trying to do is part of systemic solutions, that we are concerned about having realistic solutions, not just token shows in relationship to the environment. Because to have sustainable development, you must have a combination of economic forces, social forces, political forces with environmentally-friendly projects.

- *We need to encourage the "new environmentalism" which is gradually emerging and is reflected in the World Bank environmental portfolio.*

This "new environmentalism" aims to move environmental issues upstream in policy and lending so that environmental concerns are integrated at the conception of a policy or program. The ten principles of the "new environmentalism"are:

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◊ Make every dollar count.
◊ Harness "win-win" opportunities.
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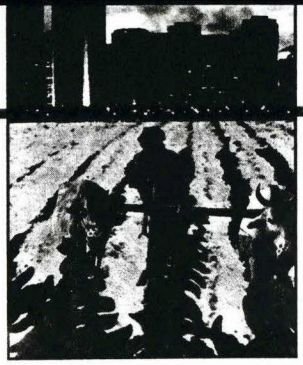
◊ Economize on administrative and regulatory capacity.
◊ Work with the private sector, not against it.
◊ Involve citizens thoroughly.
◊ Invest in partnerships that work.
◊ Remember that management is more important than technology.
◊ Incorporate the environment from the start.

Ten Principles of the
New Environmentalism



Ten Principles of the New Environmentalism

ANDREW STEER

A quiet revolution has been under way during the 1990s as environmental sustainability has gradually become an important theme in policymaking around the world.

RECENT years have witnessed a profound change in our understanding of the links between economic development and the natural environment. The key propositions of sustainable development laid out in the Brundtland Commission Report in 1987 and in the Rio de Janeiro Earth Summit's Agenda 21 in 1992 were controversial at the time but are now broadly accepted—even among mainstream economic policymakers. Among such propositions are the following:

- there is a crucial and potentially positive link between economic development and the environment;
- the costs of inappropriate economic policies on the environment are very high;
- addressing environmental problems requires that poverty be reduced;
- economic growth must be guided by prices which incorporate environmental values; and
- since environmental problems pay no respect to borders, global and regional collaboration is sometimes needed to complement national and regional actions.

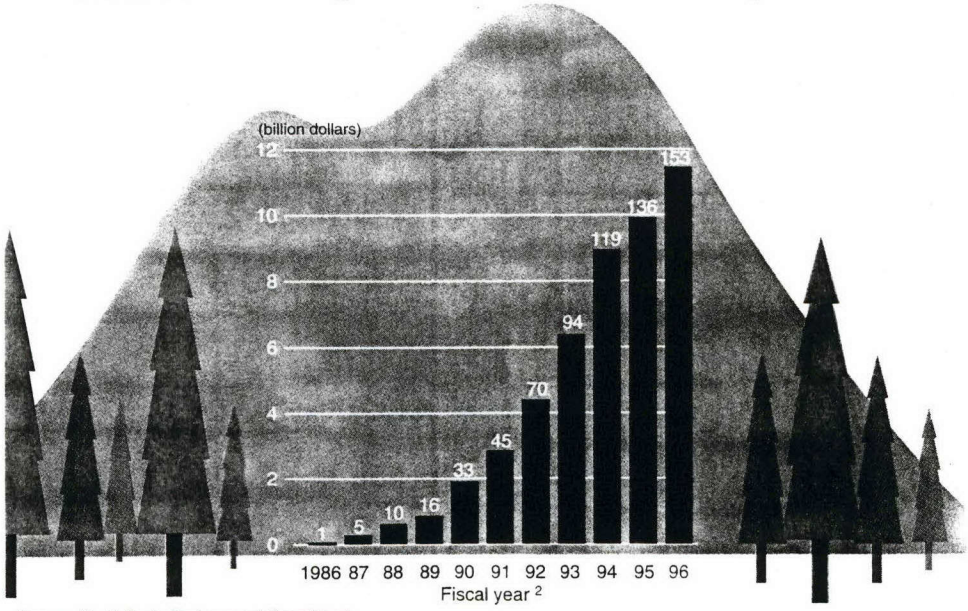
Broad acceptance of these propositions, however, has not assured their effective implementation. Most environmental problems continue to intensify, and in many countries there are few grounds for optimism. Nonetheless, in a growing number of other countries, awareness is leading to action, as policymakers begin to bring their money and political capital into line with their rhetoric. About 100 countries have now prepared national environmental strategies, and tangible changes in addressing environmental issues are apparent in about half this number.

Sixty-eight countries are currently receiving financial and technical support from the World Bank for environmental policy reforms and associated investments. Active Bank loans for these purposes currently total more than $11 billion. If cofinancing and the countries' own financing are added in, these investments total more than $25 billion. (See Chart 1 for trends in World Bank lending.)

These investments cover a wide variety of environmental problems, ranging from

Chart 1

World Bank financing for the environment: the active portfolio [1]



Source: World Bank, Environment Department.

1 Active World Bank projects whose objectives are primarily environmental are included here, but Global Environment Facility projects are not. The number of projects approved in each financial year appears on top of the corresponding vertical bar. The total financing made available in each financial year is measured by the height of the corresponding vertical bar.

2 The World Bank's fiscal years extend from July 1 of the preceding year to June 30 of the specified year. For example, fiscal year 1996 ran from July 1, 1995 to June 30, 1996.

Andrew Steer,
a UK national, is Director of the Environment Department, World Bank.

industrial pollution and coastal-zone management to protected-areas management and biodiversity conservation (see box). Despite this variety, however, some important common distinctions are becoming clear. A "new environmentalism" is emerging, as policies are being adopted that differ from those traditionally implemented by industrial nations. A recent review of the World Bank's environmental lending portfolio identified ten principles undergirding this "new environmentalism." Although these principles may seem straightforward and uncontroversial today, a decade ago they were not. And they stand in sharp contrast to most environmental policymaking in member countries of the Organization for Economic Cooperation and Development (OECD) over the past thirty years.

Principle 1: Set priorities carefully. The seriousness of environmental problems and the scarcity of financial resources have required tough prioritization and the phasing of remedial actions. The Eastern European Environmental Action Plan—prepared by the World Bank, the European Union, and all of the countries in the region—was a pioneering and influential effort in this regard. Based upon technical analysis of the health, productivity, and ecological impacts of environmental problems, the plan identifies the problems that must be addressed immediately. This approach differed radically from that of previous efforts to address Eastern Europe's problems, which, by failing to establish priorities, favored a broad, shallow, and expensive approach to problems. Thailand was another pioneer in the field; when a priority-setting exercise in 1992 identified lead pollution as one of the country's most critical problems, a full-scale effort was mobilized and leaded gasoline was phased out in just four years. Probably about 50 countries in the developing world have undertaken serious priority-setting exercises so far. The best of these combine the "sharp pencil" approach to carrying out analysis with participatory prioritization at the community level.

Principle 2: Make every dollar count. Most environmental policies, including the successful ones, have been unnecessarily expensive. Developing countries cannot afford the high-cost approaches traditionally used in industrial countries, and a new emphasis on cost-effectiveness is therefore taking root. Countries like Chile, the Czech Republic, and Mexico have led this effort. The new emphasis on cost-effectiveness is allowing much more to be achieved with limited resources. It requires a multidisciplinary approach—one that calls for environmental specialists and economists to work together to identify the lowest-cost methods of addressing key environmental problems. Chart 2 illustrates how this approach can help to reduce carbon emissions in Ukraine. It shows that the costs of different options for reducing these emissions vary substantially. The net costs of introducing gas metering and improving industrial efficiency are actually estimated to be negative, because in each case the value of the resulting energy savings exceeds the costs, while the costs of introducing coal-fired or gas-fired district heating are estimated to be both positive and substantial. By identifying a country's least-cost options, the required reduction in its emissions can often be achieved at moderate, or even negative, cost. The effort to reduce Ukraine's carbon emissions is just one of many such efforts currently under way.

Principle 3: Harness "win-win" opportunities. Some gains in the environment will involve costs and trade-offs. Others can be achieved as by-products of policies designed to improve efficiency and reduce poverty. Given the scarcity of resources that can be devoted to solving environmental problems, the latter kind of policies should form the first line of attack.

Reducing subsidies on the use of natural resources is the most obvious "win-win" policy. There is some good news here: preliminary calculations suggest that energy subsidies in developing countries and Eastern Europe have fallen by about half (from around $200 billion per year) since the early 1990s. A growing number of countries, led by Bangladesh and Indonesia, have eliminated pesticide subsidies; and a surprising number of countries, including China and India, have begun to reduce subsidies on irrigation water, which accounts for more than 80 percent of all water use.

Clarifying and reallocating property rights is often another "win-win" policy. Countries such as Azerbaijan, Colombia, the Philippines, and South Africa are now embarked upon market-based and negotiated land reform, which, in turn, is expected to have beneficial impacts on the environment.

The World Bank's environmental portfolio

The World Bank is currently financing efforts by 62 countries to improve environmental management. Projects are of three types: those designed to address pollution and urban environmental problems, those addressing rural environmental issues, and those seeking to build in-country institutional capacity for environmental management.

World Bank's portfolio of active environmental projects

(as of July 1996)

Project focus	Number of projects	Number of countries	World Bank contribution (loan or credit) (billion dollars)	Total project cost (billion dollars)	Average size of loan or credit (million dollars)
Pollution and the urban environment [1]	58	31	6.9	17.3	118
Rural environmental management [2]	69	41	3.6	7.0	52
Environmental institutions [3]	26	23	0.9	1.6	36
Total	**153**	**62**	**11.5**	**26.0**	**75**

Source: World Bank, Environment Department.

[1] Typically includes capacity building, funds for on-lending to enterprises and agencies, direct investment in pollution prevention and abatement, and support for policy reform for improved environmental managment.

[2] Addressing issues including biodiversity conservation, management of forests, and conservation of land and water resources.

[3] Aimed at strengthening national and local environmental management capacity.

In addition to these three categories of environmental projects, the Bank also implements the Global Environment Facility (GEF) and the Montreal Protocol (MP). Over the past year, $126 million was committed for 15 new GEF projects, bringing the total GEF portfolio to $506 million for 59 projects over the four focal areas: Biodiversity, Climate Change, Ozone Depleting Substances (ODS) Phaseout, and International Waters. The MP portfolio has also grown during the same period and now totals $214 million approved for 461 subprojects.

Principle 4: Use market instruments where feasible. Market-based incentives to reduce environmental damage are best in principle and often in practice as well. They stand in sharp contrast to the traditional command-and-control and technology-driven regulations that have been the norm until recently. A number of developing countries are experimenting with innovative approaches involving emissions and effluent charges, market-based extraction charges, and tradable permits. For example, Chile and Peru have recently introduced new fishing laws involving tradable harvesting permits; China is enforcing new charges on sulfur dioxide emissions; Thailand is experimenting with performance bonds for hazardous waste; and Malaysia has recently strengthened its system of effluent charges.

Principle 5: Economize on administrative and regulatory capacity. In developing countries, administration and enforcement capacity is often as scarce as money. Many countries are recognizing that they cannot adopt the highly "enforcement-intensive" approaches of industrial countries and consequently are experimenting with more self-enforcing policies (such as deposit-refund schemes and performance bonds) and blunter instruments (such as fuel taxes or import bans on certain types of pesticide) with fewer points of intervention and are recognizing that nongovernmental and community groups can help foster compliance. Informed public opinion can also play a powerful role in exposing and holding accountable private firms and government agencies that abuse the environment. Recognizing this, in 1996, Indonesia, with support from the World Bank, introduced a five-star system for rating the environmental performance of industrial enterprises. Such public disclosure and public education campaigns can often have a much more powerful impact than more traditional regulatory approaches.

Principle 6: Work with the private sector, not against it. Recognizing their limited regulatory capacity and the need for accelerated private investment, many governments are switching from a control-dominated attitude toward the private sector to one that involves dialogue and negotiated, monitorable programs. In some countries, governments are working with private sector environmental leaders to encourage environmental improvements throughout the value chain (including supplying industries). Self-enforcement and independent certification schemes (such as ISO 14000, a system for certifying that companies have sound environmental management systems in place) are also playing a much larger role. Innovative ways are being found to catalyze private financial flows in the service of the environment. This year, for example, the World Bank Group's International Finance Corporation (IFC) launched a Biodiversity Venture Capital Fund and is planning to launch similar funds to promote the use of renewable energy. Private finance is also being channeled into environment-improving activities, such as waste-treatment facilities and energy-efficiency improvement. The World Bank Group is helping to encourage this trend by providing partial risk guarantees and other instruments.

Principle 7: Involve citizens thoroughly. When a country's environmental problems are addressed, the chances of success are greatly enhanced if local citizens are involved. This has been well known for years for rural programs and is now becoming equally evident in efforts to manage pollution and waste in urban areas.

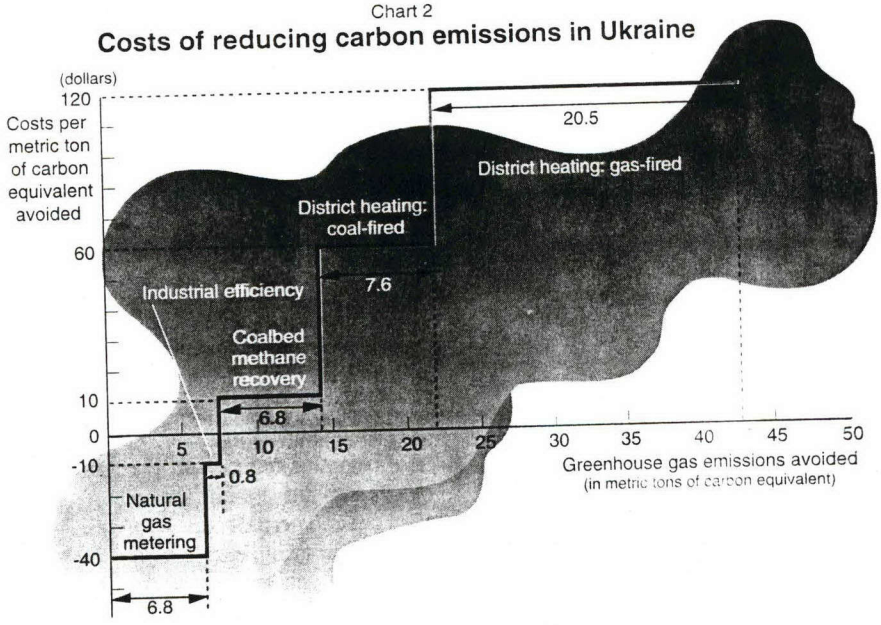
Such involvement is needed for four reasons. *First,* local citizens are often better able than government officials to identify the priorities for action. *Second,* members of local communities often know about cost-effective solutions that are not available to governments. *Third,* the motivation and commitment of communities are often what sees an environmental project through to completion. This is especially true, for example, for soil conservation and afforestation projects. Whether one looks at the soil clubs of northeast Brazil in the 1980s or the Sahelian community-based land management programs of the 1990s, the message is clear: participation works! Programs are much more successful if they are developed *with* the beneficiaries rather than *for* them.

The *fourth* reason for citizen involvement is that it can help build constituencies for change. Most environmental reforms will be opposed by those who have benefited from the right to pollute and degrade without penalty. Following through on environmental reform therefore requires a public constituency for change to act as a counterweight. This is why a growing number of concerned governments are investing in public awareness campaigns and fostering a vibrant nongovernmental environmental movement.

Principle 8: Invest in partnerships that work. Smart governments are realizing that they are often most effective in dealing with environmental issues when they work in partnerships. Most countries now involve nongovernmental specialists in their priority-setting exercises, and

Chart 2

Costs of reducing carbon emissions in Ukraine



Source: World Bank, 1994, *Ukraine Energy Options Global Environment Analysis* (Washington).

tripartite relationships—including the government, the private sector, and community organizations—are increasingly common. The value of such partnerships stems from not only the different perspectives and skills that are brought to the table but also the necessity of carrying out concerted actions to address some environmental issues.

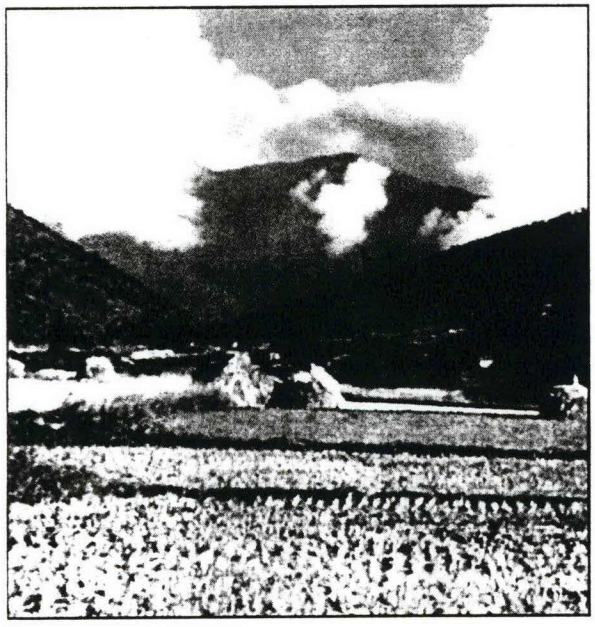
Forest management is a good example. Moving from current unsustainable practices to those which incorporate new knowledge about sustainable harvesting and processing often requires concerted action by private, community, and governmental actors. This past year, the World Bank helped establish a Forest Management Transformation Initiative that will bring together leading private enterprises, nongovernmental and community specialists, and international financial institutions to help remove constraints to adopting sustainable practices throughout the forest-product value chain.

Effective partnerships are also becoming more common at the transnational level. Since the Earth Summit in 1992, for example, regional seas programs have made important progress in the Baltic, Mediterranean, Black, and Aral Seas and in Lake Victoria. The sharing of international rivers is also being addressed, albeit slowly. One encouraging recent example: the 12 countries of the Southern African Development Community (SADC) recently signed a protocol for managing the 18 international rivers in the region.

Principle 9: Remember that management is more important than technology. The old-fashioned, technology-driven approach to the environment is giving way to a recognition of the crucial role of good management. Improved management practices are always a complement to, and sometimes a substitute for, investment in equipment.

Good managers can achieve large improvements in the environment at little cost. Examples abound. In Eastern Europe, lead smelters have shown a 60–80 percent reduction in air pollution and lead dust as a result of improved housekeeping and modest investments. In Latin America, improved efficiency stemming from the privatization of mining activities has sharply improved the management of tailings and wastewater. And in Egypt, recent technical assistance provided to improve the management of steel plants has transformed their environmental performance from among the worst to among the best in the developing world.

Conversely, bad managers can wipe out the benefits of new technologies. Thousands of heavily polluting industrial plants around the world have purchased equipment incorporating expensive environmental technologies that is currently either unused or poorly maintained. The new environmentalism, therefore, gives strong emphasis to good housekeeping and managerial improvements and to the reform of public enterprises.



Principle 10: Incorporate the environment from the start. When it comes to protecting the environment, prevention is much cheaper—and more effective—than cure. Most countries now seek to assess and mitigate potential damage from new infrastructural investment. But it is now becoming clear that such activities may be carried out too late in the cycle to have optimum impact. A small but growing number of efforts are now being made to move "upstream" to factor environmental concerns into the formulation of countries' sectoral strategies. Countries such as Nepal and Vietnam are currently seeking to take environmental costs and benefits into account when designing their country-wide, least-cost energy strategies. Such sectoral environmental assessments are expected to become standard practice in the coming few years.

Methodologies for carrying out such sectoral environmental assessments are still evolving, and a good deal of research is currently under way. The World Bank, for example, recently launched an important learning exercise entitled "global overlays" in which issues of biodiversity and climate change will be factored into sectoral policies in agriculture, energy, transportation, and infrastructure.

Moving upstream in environmental policy is also occurring in the design of macroeconomic, trade, and fiscal policies. Countries such as Côte d'Ivoire, the Czech Republic, Mexico, Peru, and Poland have explored how their economic reforms may affect the environment and are seeking to put in place complementary environmental policies. A recent World Bank review analyzes the experience of 12 such countries. This year also saw the dispatching of the first joint IMF-World Bank mission (to the Philippines) assigned to explore the relationships between fiscal and trade policies and the environment.

The unfinished agenda

The ten principles outlined above are helping to guide a new generation of environmental policymaking around the world. The new environmentalism—characterized by greater rigor in factoring environmental costs and benefits into policymaking—puts local people at the center of environmental strategies, diagnoses and addresses behavioral causes of environmental damage, and recognizes the political dimensions of environmental reform. This revolution in environmental management is not complete. Rather, it is just beginning. In most countries, environmental conditions are continuing to deteriorate, in many instances in an irreversible manner. Pursuing the new environmentalism is therefore a very urgent challenge—one that economists, as well as ecologists and technical specialists, need to be fully engaged in meeting. F&D

For more details on the World Bank's work on the environment, see the October 1996 issue of Environment Matters, *which can be obtained by writing to the Environment Department, World Bank, Washington, DC 20433, USA.*

16th January 1997

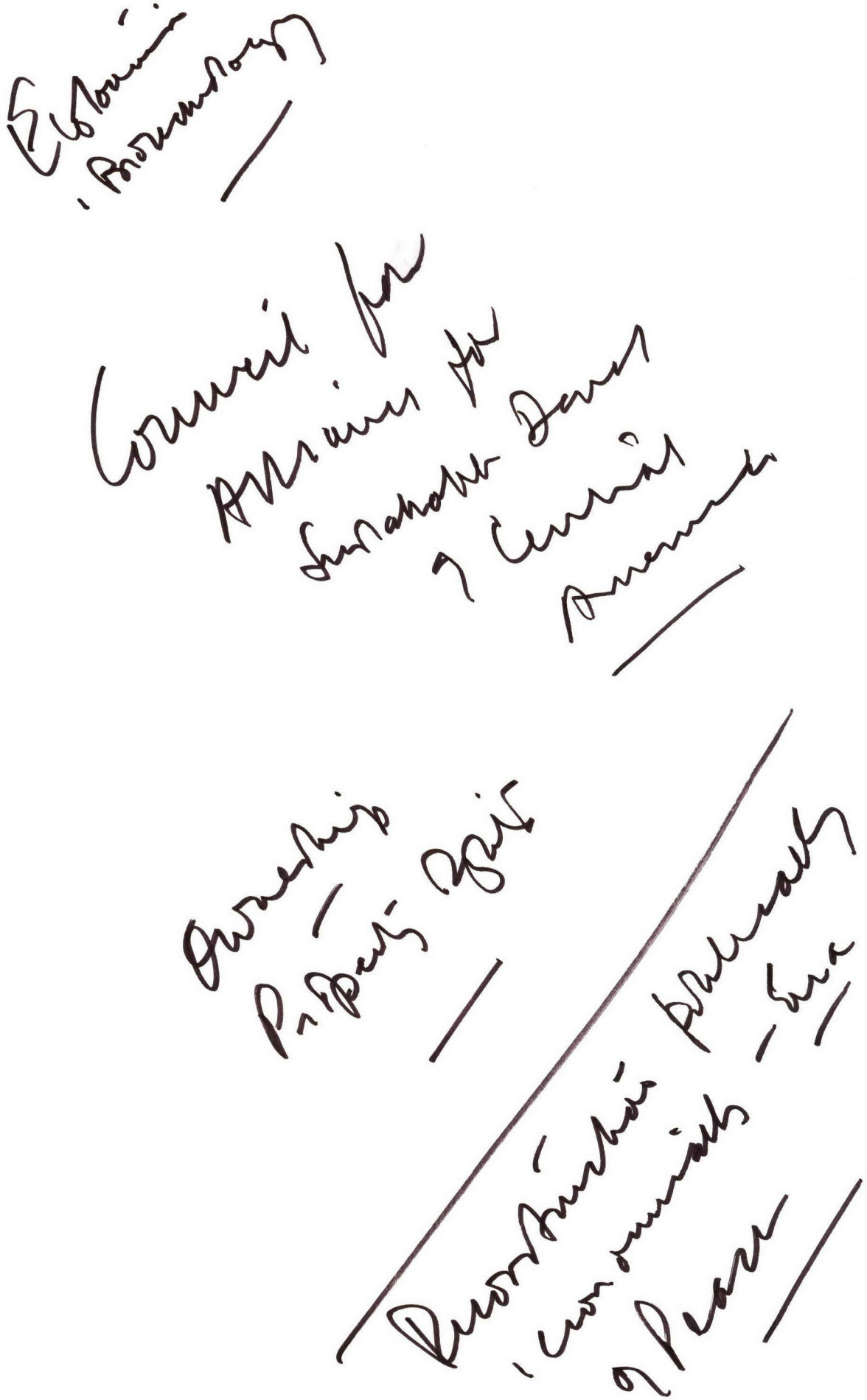
Video Conference for seminar on "Economic Globalization and Sustainable Development" in Central America

Mr. Wolfensohn:

I enclose talking points for the above event; a background brief friom EDI on the audience and the issue; and some numbers on environmental degradation in Central America which Luis Constantino of LAC put together for me.

Caroline

Numbers



Numbers on the environment for selected Central America countries.

COSTA RICA

The main environmental problem in Costa Rica was deforestation and loss of biodiversity. A lot has been done recently, however, namely the creation of the National Parks System, and the situation is under control.

(1) Costa Rica covers only 5 million hectares on the Central America isthmus but links two continents and harbors about 5-7 percent of the earth's biological diversity. Most of this biodiversity exists in forest areas.

(2) Though Costa Rica was largely covered by forest in 1940, the country now is only 29%. Recent deforestation was 50-60,000 hectares per year, mostly for converting to cattle ranching. Recently it has declined to 17,000 ha per year (between 1986 and 1992) and to only 5,000 hectares in 1994.

(3) A 1994 World Bank study estimated that Costa Rica forests had a value, conservatively estimated, of US $2.2 billion. The main value of Costa Rican forests is for carbon sequestration (US $1.1 billion), followed by sustainable timber (US $400 million), existence and option values (US $380 million), ecotourism development (US $272 million) and watershed protection (US $60 million). These are the values that would be lost, conservatively estimated, if remaining forests were to disappear.

(4) Estimates of the non-site erosion costs resulting from deforestation, measured as value of nutrients lost, are about US $60 million annually.

(5) The decline in the stock value of forests, soils and fisheries, not reported in the national accounts reached a peak in 1988 with an equivalent of 8.9 percent of GDP. Accounting for natural resources depletion and depreciation reduces the reported value of agricultural GDP by 29%.

(6) Costa Rica has taken courageous steps to reverse these trends and conserve and realize the full value of forests. 25% of the territory is now under some regimen of protection and it is in these protected areas that most remaining biodiversity is.

(7) Costa Rica has been able to capitalize more than most countries on these environmental values, ensuring that environmental conservation contributes to sustainable economic growth. For example tourism is the main source of foreign exchange, and ecotourism, principally based on the country's forest resources is the main reason tourists choose Costa Rica as a destination. Seventy five percent of tourists visit at least one of the protected areas, and 57%

participate in other activities related to natural resources. Visitors numbered 684,000 in 1993, a sharp increase from 261,000 in 1985.

(8) Costa Rica has also been an important innovator in devising new ways to generate wealth from environment conservation. A well known deal (US $1 million) with a pharmaceutical company for prospecting Costa Rican biodiversity for medical purposes has been replicated elsewhere. On reduction of green house gases, Costa Rica is one of the countries with more Joint Implementation Agreements under preparation or implementation. These are contracts in which a party from a developed country pays a party in a developing country to follow activities that reduce greenhouse gas emissions.

NICARAGUA

The main environmental problems in Nicaragua are water degradation and contamination and soil erosion, mostly in the Pacific and Central regions.

(1) Nicaragua still counts with considerable areas of pristine forest areas in the Atlantic Coast while the Pacific Coast and Central areas have been seriously depleted. The Atlantic part of Nicaragua escaped the pressures that afflicted the Pacific due to poor access, low population density and the civil war.

(2) About 7.7 million hectares of the country's 12 million are affected by erosion, due to deforestation and poor land uses. Studies have found declines in crop yields due to this problem. Other studies have estimated that arresting soil erosion could yield incremental benefits to farmers of about US $23 per hectare or about US $30 million for the entire farmed land of Nicaragua.

(3) Since 1950 forests have been reduced from 7 million hectares to an estimated 4.3 million hectares.

(4) A major environmental problem in Nicaragua is water quality. Over 40 tons of mercury of been discharged in Lake Managua in the last 20 years. Laguna Asosca which supplies water to Managua has been contaminated by industrial discharges. In the Pacific region of Nicaragua water contamination from agrochemicals, mainly associated with cotton, is 4 times the amount allowed in the United States.

(5) Nicaragua counts with important areas of mangroves. Mangroves are a critical element of the food chain that supports the fishery. Each hectare of mangrove lost can result in a loss of US $1,700 hectare in downstream activities such as fisheries.

EL SALVADOR

Land degradation (loss of land's productive potential) is the most serious environmental problem in El Salvador.

(1) 31 percent of the country's farmed land are degraded and this could have serious impacts on agricultural production. On moderate and steep slopes, between 53% and 83% of fields are affected by degradation, and the expected problems are more severe. 13% of fields on step slopes are expected to suffer severe yield declines. About 20-25% of farm households, mostly poor, depend on these fields.

PANAMA

Deforestation and biodiversity losses are the main environmental problem in Panama.

(1) Panama is the terrestrial bridge which unites the continental masses of North and South America and its narrow mass separates the waters of the Pacific and the Atlantic Oceans. This contributes to making Panama a country of outstanding biodiversity.

(2) About 43% of Panama's forests still exist, mostly in the Atlantic. Deforestation, caused in part by lack of farming opportunities in degraded areas in the Pacific, approaches 55,000 hectares per year.

(3) Panama is making substantial efforts to protect some of these forests. The Panama canal watershed, a protected area, ensures the sustainability of the Panama Canal, a US $400 million a year operation.

(4) In the Pacific region where most agricultural activities of poor people are concentrated, corresponding to about 650,000 hectares, soil erosion results in losses of US $1.6 million, while the loss of 7,000 hectares of mangroves would result in a loss of US $11.4 million.

Numbers on Honduras to follow

Seminar Objectives,
Audience, Content, etc.

All Audiences

- exchange experiences among national institutions, multilateral agencies, and NGOs engaged in environment and development in Central America;
- facilitate implementation of national action programs on environmentally sustainable economic development; and,
- build capacity for environmental work.

Economic Globalization
& Sustainable Dev't

ANNEX 2
Issues for Economic Globalization and Sustainable Development in Central America

Summary:

Why is economic globalization important to Central American States?

Can growth and environmental protection go together?

Since environmental damage arises primarily from inappropriate economic incentives, what specific policy reforms can help the environment?

How can the Bank and member governments work together:

-Develop partnerships
-Promote win-win solutions
-improve integration of environment in all aspects of Bank work
-the "New Environmentalism"

A. Why is economic globalization important to Central American States?

- *There is a heavy reliance on external markets* for economic growth. The crisis that exploded in the region in the early 1980s was influenced as much by political and by economic factors. The immediate economic cause can be traced to the sharp deterioration in the region's terms of trade and a recession-induced decline in the demand for its primary exports. Similarly, economic expansion in the 1990s is linked to the increase of non-traditional exports, the expansion of in-bond sectors and an increase in tourism.

- *The potential for trade is high.* The main trading partner for the Central American States is the USA. Increased penetration in US markets as well as expansion into the EU and Latin American economies are potential growth areas for the region.

- *But, the process of economic growth threatens the environment.* The pace of environmental degradation is high as the transition from primarily rural-based economies, characterized by high population densities, poor infrastructure and technology, and degrading natural resources, are putting tremendous strains on the environment. The rates of deforestation, soil erosion and loss of endemic and endangered species in the tropical forests are high; and the forests and wetlands of the Meso-American corridor are important for migratory species.

B. Can growth and environmental protection go together?

- Yes, but only if there are some major changes: at the highest levels, macroeconomic and sectoral policy making has traditionally been divorced from environmental management. We might all agree that changes are needed in the following respects:

    ◊ Traditionally, there has not been much regard for the consequences of development policies on deforestation, fishery over-exploitation, or biodiversity destruction, Planning and finance ministries have tended to worry about budgets, trade, industrial expansion, incomes, employment and prices, to the exclusion of the environment.

    ◊ Traditionally, the most widespread and persistent problems of environmental degradation are due not to specific projects but to pressures associated with growth. However, environmental protection agencies have concentrated on regulating environmental problems of specific, large-scale projects such as road or dam construction.

    ◊ Recent Bank studies and current operational work have increased awareness of the potential for mitigating the environmental problems associated with growth, *if environmental management considerations are integrated directly in the process of countrywide economic planning and policy reforms.*

C. Since environmental damage arises primarily from inappropriate economic incentives, what specific policy reforms can help the environment?

- *Despite the increase of many forms of environmental damage in Central America, rapid growth per se is not the underlying.* For instance, almost the same environmental problems face countries with higher levels of economic growth (e.g. Costa Rica) and those with lower levels of economic growth (e.g. Guatemala). Environmental damage is largely an unintended (and often an unnecessary) consequence of economic activity.

- *Sources of environmental problems: failure to account for the negative environmental effects of growth or undervaluation of the benefits from environmental protection.* Excessive damage to the environment, whether in the form of air and water pollution or over extraction of timber occurs in large part because many benefits of conserving these environmental resources are not captured in the workings of markets.

- *Unfortunately, governments who are in a position to correct the wrong signals of the price system often worsen matters by subsidizing environmental damage directly.* Typically, the biggest culprits in this regard are subsidies to activities or inputs that are

damaging to the environment, such as pesticides, commercial logging, irrigation water, electric power, and fuels.

- The role for governments is, therefore, to take the necessary steps to ensure that businesses, consumers and their own agencies take the real costs of environmental damage into account in making decision.

- The bottom line for economic planners and environmental managers -- promoting sustainable development will require:

  a) that economic planning agencies also become environmentally involved;

  b) at the same time, environmental agencies need to be involved in economic policy making, to recognize that their environmental protection impact will be limited unless their activities are coordinated with their countries and in their economic development ministries.

D. How can the Bank and member governments work together?

Guiding principles to promote the environmental agenda. Since the late 1980s, when the Bank had made significant progress in managing the environmental impacts of individual projects, the Bank has moved its focus from a consideration of the environment at the project level, to one where environmental issues are integrated into macroeconomic and sectoral policy discussions and investments. The lessons that we have learned can be used a guiding principles to promote the agenda. These include the following [all text in quotes is taken from Mr. Wolfensohn's speeches]

- *We need to build partnerships in order to ensure environmentally sustainable development.*

". . . we recognize the importance of the environment; we recognize that we don't have a lock on ideas; we recognize that we need partnerships . . . the Bank and I particularly am passionately committed to the development of alliances and partnerships throughout the world.

- *We need to focus on the "win-win" situations since economic growth and poverty reduction can be made compatible with environmental sustainability.*

". . approaching issues of the environment is not just approaching a single issue. Solutions to the environment are not ordained. The solutions are systemic. You cannot say to someone who has no food that because of the long-term interests of the environment, they should not cut down that tree, because their life is involved":

"You cannot make it sustainable unless you bring it together. And we have to do it within a political environment in countries where the people know that what we are doing is in their best interests as it is in the interests of our planet."

- *We need to integrate environmental considerations in all aspect of Bank work, including support for policy reform.*

"...this institution cares about the environment and ... everything we do considers the environment. I hope that you will understand that what we are trying to do is part of systemic solutions, that we are concerned about having realistic solutions, not just token shows in relationship to the environment. Because to have sustainable development, you must have a combination of economic forces, social forces, political forces with environmentally-friendly projects.

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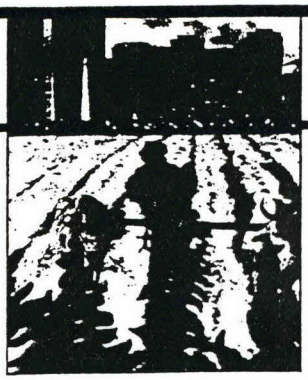
Ten Principles of the New Environmentalism



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- there is a crucial and potentially positive link between economic development and the environment;
- the costs of inappropriate economic policies on the environment are very high;
- addressing environmental problems requires that poverty be reduced;
- economic growth must be guided by prices which incorporate environmental values; and
- since environmental problems pay no respect to borders, global and regional collaboration is sometimes needed to complement national and regional actions.

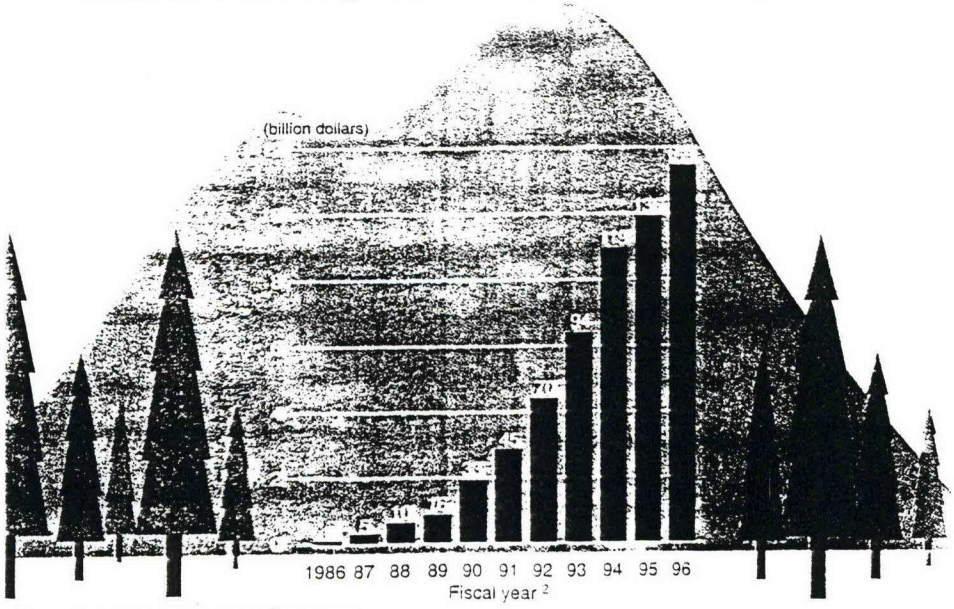
Broad acceptance of these propositions, however, has not assured their effective implementation. Most environmental problems continue to intensify, and in many countries there are few grounds for optimism. Nonetheless, in a growing number of other countries, awareness is leading to action, as policymakers begin to bring their money and political capital into line with their rhetoric. About 100 countries have now prepared national environmental strategies, and tangible changes in addressing environmental issues are apparent in about half this number.

Sixty-eight countries are currently receiving financial and technical support from the World Bank for environmental policy reforms and associated investments. Active Bank loans for these purposes currently total more than $11 billion. If cofinancing and the countries' own financing are added in, these investments total more than $25 billion. (See Chart 1 for trends in World Bank lending.)

These investments cover a wide variety of environmental problems, ranging from

Chart 1

World Bank financing for the environment: the active portfolio [1]



Source: World Bank, Environment Department.

1 Active World Bank projects whose objectives are primarily environmental are included here, but Global Environment Facility projects are not. The number of projects approved in each financial year appears on top of the corresponding vertical bar. The total financing made available in each financial year is measured by the height of the corresponding vertical bar.

2 The World Bank's fiscal years extend from July 1 of the preceding year to June 30 of the specified year. For example, fiscal year 1996 ran from July 1, 1995 to June 30, 1996.

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industrial pollution and coastal-zone management to protected-areas management and biodiversity conservation (see box). Despite this variety, however, some important common distinctions are becoming clear. A "new environmentalism" is emerging, as policies are being adopted that differ from those traditionally implemented by industrial nations. A recent review of the World Bank's environmental lending portfolio identified ten principles undergirding this "new environmentalism." Although these principles may seem straightforward and uncontroversial today, a decade ago they were not. And they stand in sharp contrast to most environmental policymaking in member countries of the Organization for Economic Cooperation and Development (OECD) over the past thirty years.

Principle 1: Set priorities carefully. The seriousness of environmental problems and the scarcity of financial resources have required tough prioritization and the phasing of remedial actions. The Eastern European Environmental Action Plan—prepared by the World Bank, the European Union, and all of the countries in the region—was a pioneering and influential effort in this regard. Based upon technical analysis of the health, productivity, and ecological impacts of environmental problems, the plan identifies the problems that must be addressed immediately. This approach differed radically from that of previous efforts to address Eastern Europe's problems, which, by failing to establish priorities, favored a broad, shallow, and expensive approach to problems. Thailand was another pioneer in the field: when a priority-setting exercise in 1992 identified lead pollution as one of the country's most critical problems, a full-scale effort was mobilized and leaded gasoline was phased out in just four years. Probably about 50 countries in the developing world have undertaken serious priority-setting exercises so far. The best of these combine the "sharp pencil" approach to carrying out analysis with participatory prioritization at the community level.

Principle 2: Make every dollar count. Most environmental policies, including the successful ones, have been unnecessarily expensive. Developing countries cannot afford the high-cost approaches traditionally used in industrial countries, and a new emphasis on cost-effectiveness is therefore taking root. Countries like Chile, the Czech Republic, and Mexico have led this effort. The new emphasis on cost-effectiveness is allowing much more to be achieved with limited resources. It requires a multidisciplinary approach—one that calls for environmental specialists and economists to work together to identify the lowest-cost methods of addressing key environmental problems. Chart 2 illustrates how this approach can help to reduce carbon emissions in Ukraine. It shows that the costs of different options for reducing these emissions vary substantially. The net costs of introducing gas metering and improving industrial efficiency are actually estimated to be negative, because in each case the value of the resulting energy savings exceeds the costs, while the costs of introducing coal-fired or gas-fired district heating are estimated to be both positive and substantial. By identifying a country's least-cost options, the required reduction in its emissions can often be achieved at moderate, or even negative, cost. The effort to reduce Ukraine's carbon emissions is just one of many such efforts currently under way.

Principle 3: Harness "win-win" opportunities. Some gains in the environment will involve costs and trade-offs. Others can be achieved as by-products of policies designed to improve efficiency and reduce poverty. Given the scarcity of resources that can be devoted to solving environmental problems, the latter kind of policies should form the first line of attack.

Reducing subsidies on the use of natural resources is the most obvious "win-win" policy. There is some good news here: preliminary calculations suggest that energy subsidies in developing countries and Eastern Europe have fallen by about half (from around $200 billion per year) since the early 1990s. A growing number of countries, led by Bangladesh and Indonesia, have eliminated pesticide subsidies; and a surprising number of countries, including China and India, have begun to reduce subsidies on irrigation water, which accounts for more than 80 percent of all water use.

Clarifying and reallocating property rights is often another "win-win" policy. Countries such as Azerbaijan, Colombia, the Philippines, and South Africa are now embarked upon market-based and negotiated land reform, which, in turn, is expected to have beneficial impacts on the environment.

The World Bank's environmental portfolio

The World Bank is currently financing efforts by 62 countries to improve environmental management. Projects are of three types: those designed to address pollution and urban environmental problems, those addressing rural environmental issues, and those seeking to build in-country institutional capacity for environmental management.

World Bank's portfolio of active environmental projects

(as of July 1996)

Project focus	Number of projects	Number of countries	World Bank contribution (loan or credit) (billion dollars)	Total project cost (billion dollars)	Average size of loan or credit (million dollars)
Pollution and the urban environment [1]	58	31	6.9	17.3	118
Rural environmental management [2]	69	41	3.6	7.0	52
Environmental institutions [3]	26	23	0.9	1.6	36
Total	153	62	11.5	26.0	75

Source: World Bank, Environment Department.

[1] Typically includes capacity building, funds for on-lending to enterprises and agencies, direct investment in pollution prevention and abatement, and support for policy reform for improved environmental managment.

[2] Addressing issues including biodiversity conservation, management of forests, and conservation of land and water resources.

[3] Aimed at strengthening national and local environmental management capacity.

In addition to these three categories of environmental projects, the Bank also implements the Global Environment Facility (GEF) and the Montreal Protocol (MP). Over the past year, $126 million was committed for 15 new GEF projects, bringing the total GEF portfolio to $506 million for 59 projects over the four focal areas: Biodiversity, Climate Change, Ozone Depleting Substances (ODS) Phaseout, and International Waters. The MP portfolio has also grown during the same period and now totals $214 million approved for 461 subprojects.

Principle 4: Use market instruments where feasible. Market-based incentives to reduce environmental damage are best in principle and often in practice as well. They stand in sharp contrast to the traditional command-and-control and technology-driven regulations that have been the norm until recently. A number of developing countries are experimenting with innovative approaches involving emissions and effluent charges, market-based extraction charges, and tradable permits. For example, Chile and Peru have recently introduced new fishing laws involving tradable harvesting permits; China is enforcing new charges on sulfur dioxide emissions; Thailand is experimenting with performance bonds for hazardous waste; and Malaysia has recently strengthened its system of effluent charges.

Principle 5: Economize on administrative and regulatory capacity. In developing countries, administration and enforcement capacity is often as scarce as money. Many countries are recognizing that they cannot adopt the highly "enforcement-intensive" approaches of industrial countries and consequently are experimenting with more self-enforcing policies (such as deposit-refund schemes and performance bonds) and blunter instruments (such as fuel taxes or import bans on certain types of pesticides with fewer points of intervention and are recognizing that nongovernmental and community groups can help foster compliance. Informed public opinion can also play a powerful role in exposing and holding accountable private firms and government agencies that abuse the environment. Recognizing this, in 1996, Indonesia, with support from the World Bank, introduced a five-star system for rating the environmental performance of industrial enterprises. Such public disclosure and public education campaigns can often have a much more powerful impact than more traditional regulatory approaches.

Principle 6: Work with the private sector, not against it. Recognizing their limited regulatory capacity and the need for accelerated private investment, many governments are switching from a control-dominated attitude toward the private sector to one that involves dialogue and negotiated, monitorable programs. In some countries, governments are working with private sector environmental leaders to encourage environmental improvements throughout the value chain (including supplying industries). Self-enforcement and independent certification schemes (such as ISO 14000, a system for certifying that companies have sound environmental management systems in place) are also playing a much larger role. Innovative ways are being found to catalyze private financial flows in the service of the environment. This year, for example, the World Bank Group's International Finance Corporation (IFC) launched a Biodiversity Venture Capital Fund and is planning to launch similar funds to promote the use of renewable energy. Private finance is also being channeled into environment-improving activities, such as waste-treatment facilities and energy-efficiency improvement. The World Bank Group is helping to encourage this trend by providing partial risk guarantees and other instruments.

Principle 7: Involve citizens thoroughly. When a country's environmental problems are addressed, the chances of success are greatly enhanced if local citizens are involved. This has been well known for years for rural programs and is now becoming equally evident in efforts to manage pollution and waste in urban areas.

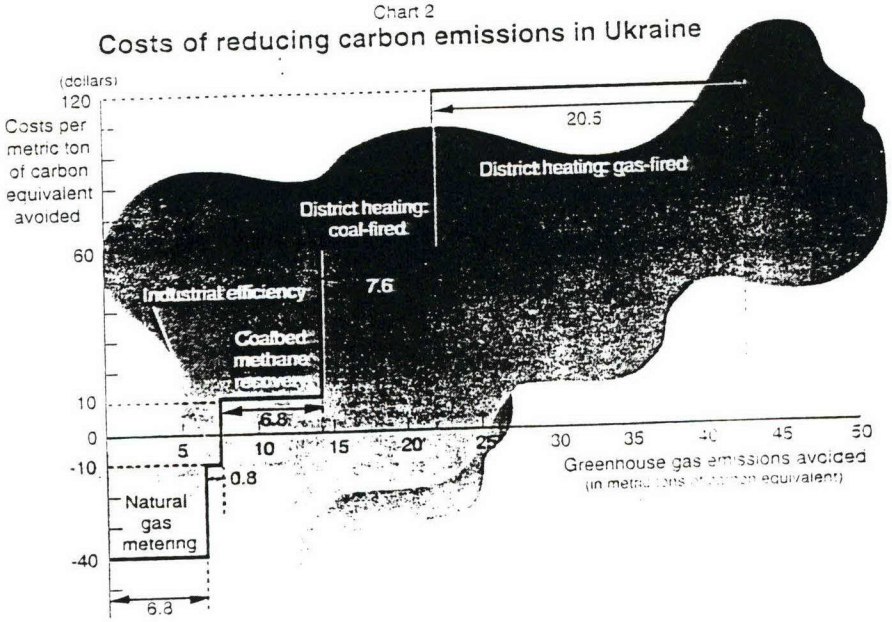
Such involvement is needed for four reasons. *First*, local citizens are often better able than government officials to identify the priorities for action. *Second*, members of local communities often know about cost-effective solutions that are not available to governments. *Third*, the motivation and commitment of communities are often what sees an environmental project through to completion. This is especially true, for example, for soil conservation and afforestation projects. Whether one looks at the soil clubs of northeast Brazil in the 1980s or the Sahelian community-based land management programs of the 1990s, the message is clear: participation works. Programs are much more successful if they are developed *with* the beneficiaries rather than *for* them.

The *fourth* reason for citizen involvement is that it can help build constituencies for change. Most environmental reforms will be opposed by those who have benefited from the right to pollute and degrade without penalty. Following through on environmental reform therefore requires a public constituency for change to act as a counterweight. This is why a growing number of concerned governments are investing in public awareness campaigns and fostering a vibrant nongovernmental environmental movement.

Principle 8: Invest in partnerships that work. Smart governments are realizing that they are often most effective in dealing with environmental issues when they work in partnerships. Most countries now involve nongovernmental specialists in their priority-setting exercises, and

Chart 2

Costs of reducing carbon emissions in Ukraine



Source: World Bank, 1994, *Ukraine Energy Options* [illegible] *Environment Analysis* (Washington).

tripartite relationships—including the government, the private sector, and community organizations—are increasingly common. The value of such partnerships stems from not only the different perspectives and skills that are brought to the table but also the necessity of carrying out concerted actions to address some environmental issues.

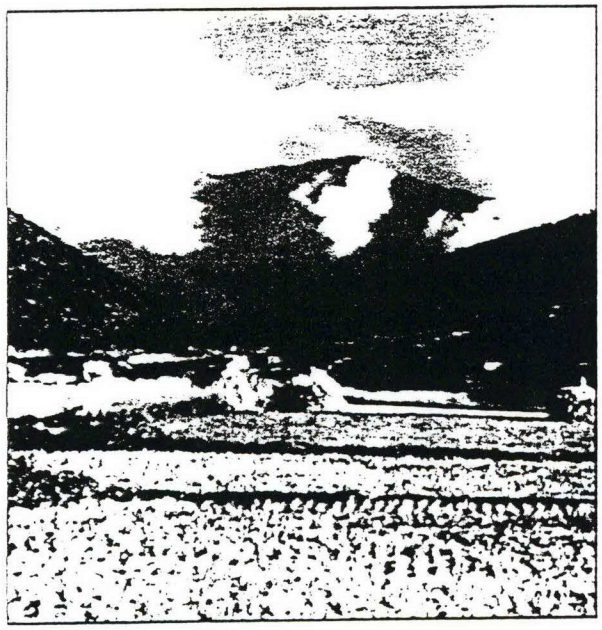
Forest management is a good example. Moving from current unsustainable practices to those which incorporate the knowledge about sustainable harvesting and processing often requires concerted action by private, community, and governmental actors. This past year, the World Bank helped establish a Forest Management Transformation Initiative that will bring together leading private enterprises, nongovernmental and community specialists, and international financial institutions to help remove constraints to adopting sustainable practices throughout the forest-product value chain.

Effective partnerships are also becoming more common at the transnational level. Since the Earth Summit in 1992, for example, regional seas programs have made important progress in the Baltic, Mediterranean, Black, and Aral Seas and in Lake Victoria. The sharing of international rivers is also being addressed, albeit slowly. One encouraging recent example: the 12 countries of the Southern African Development Community (SADC) recently signed a protocol for managing the 18 international rivers in the region.

Principle 9: Remember that management is more important than technology. The old-fashioned, technology-driven approach to the environment is giving way to a recognition of the critical role of good management. Improved management practices are always a complement to, and sometimes a substitute for, investment in equipment.

Good managers can achieve large improvements in the environment at little cost. Examples abound. In Eastern Europe, lead smelters have shown a 60–80 percent reduction in air pollution and lead dust as a result of improved housekeeping and modest investments. In Latin America, improved efficiency stemming from the privatization of mining activities has sharply improved the management of tailings and wastewater. And in Egypt, recent technical assistance provided to improve the management of steel plants has transformed their environmental performance from among the worst to among the best in the developing world.

Conversely, bad managers can waste the benefits of new technologies. Thousands of heavily polluting industrial plants around the world have purchased equipment incorporating expensive environmental technologies that is currently either unused or poorly maintained. The new environmentalism, therefore, gives strong emphasis to good housekeeping and managerial improvements and to the reform of public enterprises.



Principle 10: Incorporate the environment from the start. When it comes to protecting the environment, prevention is much cheaper—and more effective—than cure. Most countries now seek to assess and mitigate potential damage from new infrastructural investment. But it is now becoming clear that such activities may be carried out too late in the cycle to have optimum impact. A small but growing number of efforts are now being made to move "upstream" to factor environmental concerns into the formulation of countries' sectoral strategies. Countries such as Nepal and Vietnam are currently seeking to take environmental costs and benefits into account when designing their country-wide, least-cost energy strategies. Such sectoral environmental assessments are expected to become standard practice in the coming few years.

Methodologies for carrying out such sectoral environmental assessments are still evolving, and a good deal of research is currently under way. The World Bank, for example, recently launched an important learning exercise entitled "global overlays" in which issues of biodiversity and climate change will be factored into sectoral policies in agriculture, energy, transportation, and infrastructure.

Moving upstream in environmental policy is also occurring in the design of macroeconomic, trade, and fiscal policies. Countries such as Côte d'Ivoire, the Czech Republic, Mexico, Peru, and Poland have explored how their economic reforms may affect the environment and are seeking to put in place complementary environmental policies. A recent World Bank review analyzes the experience of 12 such countries. This year also saw the dispatching of the first joint IMF-World Bank mission (to the Philippines) assigned to explore the relationships between fiscal and trade policies and the environment.

The unfinished agenda

The ten principles outlined above are helping to guide a new generation of environmental policymaking around the world. The new environmentalism—characterized by greater rigor in factoring environmental costs and benefits into policymaking—puts local people at the center of environmental strategies, diagnoses and addresses behavioral causes of environmental damage, and recognizes the political dimensions of environmental reform. This revolution in environmental management is not complete. Rather, it is just beginning. In most countries, environmental conditions are continuing to deteriorate, in many instances in an irreversible manner. Pursuing the new environmentalism is therefore a very urgent challenge—one that economists, as well as ecologists and technical specialists, need to be fully engaged in meeting. F&D

For more details on the World Bank's work on the environment, see the October 1996 issue of Environment Matters, *which can be obtained by writing to the Environment Department, World Bank, Washington, DC 20433, USA.*

ANNEX 1
Seminar Objectives, Audience, Content & Expected Outcomes:

Objectives:

- to help include incorporate environmental concerns in economic policies
- to help macroeconomists and sectoral leaders to work together on environmental concerns

Audience: A total of 120 participants will come from a broad base of stakeholders:

- President of Costa Rica, Jose Maria Figueres
- Ministers from Environment, Economic Planning and Finance Ministries
- Senior government officials (policy and decision-makers from economic, finance/planning, agriculture or industry and environment ministries)
- Parliamentarians (with some representatives from EU national parliaments)
- Journalists
- NGOs and the private sector (Councils of Sustainable Development)

Content: During the week, the individual seminars will cover topics such as:

- environmental standards and competitiveness in trade;
- environmental laws and regulations
- the role of civil society in environmental management
- public-private sector collaboration for environmental management
- decentralization and the role of local governments
- the Meso-American biodiversity corridor

Expected Outcomes:

<u>Partner Institutions</u>

- improve the capacity of partner institutions to collaborate in key sectors affecting sustainable development;

<u>Ministers, Senior Policy Makers and Parliamentarians</u>

- sensitize policy-makers to the need for incorporating environmental concerns into economic policies;

<u>Councils for Sustainable Development and Journalists</u>

- influence public opinion on the environment and sustainable development