

## Global priority

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**James D. Wolfensohn** explains that achieving environmental sustainability is essential if poverty is to be reduced

The Millennium Development Goals (MDGs) grew out of the agreements and resolutions of conferences organized by the United Nations in the past decade. They have now been commonly accepted as a framework for measuring development progress, and the World Bank Group is committed to working with our country partners to achieve these goals.

The MDGs can only be attained if countries choose an environmentally and socially sustainable development path. This requires managing the physical, human, natural and social capital that underpin development in ways that meet the needs of the present generation without foreclosing options for the future. This task is particularly challenging in the case of natural capital where the goods and services provided by ecological systems to sustain human development continue to be overexploited, degraded and – in cases such as biodiversity – irreversibly lost, on a scale that causes worldwide concern.

There is broad agreement that reversing environmental degradation is critical to poverty reduction, since poor countries – and particularly poor people – are most vulnerable to environmental degradation and lack the financial, technical and institutional means to address these problems. The priorities for action include:

- Improve access by poor people to safe water and sanitation and reduce indoor and outdoor air pollution to lessen the burden of disease.
- Arrest the degradation of soil and water resources to help improve agricultural productivity.
- Conserve terrestrial and aquatic ecosystems, to preserve critical ecological goods and services.
- Improve social and economic conditions to help reduce the effects of environmental disasters.

## Sound policies

Addressing these priorities – and building environmental sustainability at the country level – starts with sound national policies and programmes for economic growth that improve people's lives and the local environment. However, unless such national policies and programmes take into account adverse regional spill-over effects, they will potentially seriously threaten the health of transboundary ecosystems that provide vital environmental services to hundreds of millions of poor people. Moreover, unless we collectively act to preserve the global environmental commons – the climate, the ozone layer, the diversity of life and the oceans – we will undermine the sustainability of national and regional development. The evidence is unequivocal: regional and global environmental commons are, with few exceptions, deteriorating.

Environmental services constitute regional and global commons. They can be protected only through cooperation and collective action by developed and developing countries.

Helping our country partners address these challenges is the focus of the Bank's new environment strategy, Making Sustainable Commitments. On many global environmental issues, Bank action is linked to the objectives of international agreements. The Bank Group works with country partners to overcome the factors that restrict their ability to act on global environmental priorities, particularly individual countries' limited economic incentives for taking action on the global environment, and the frequently weak national policy and institutional frameworks that limit the incentives and scope for effective action.

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These limited economic incentives follow inherently from the regional or global public goods character of environmental services. As a consequence, decisions taken at the country level on the use of natural resources for national economic development do not adequately reflect their global impacts – or as the economists would say, the regional and global externalities are not internalized at the national level. Absent markets for trading certain global environmental goods and services, global non-market values are today captured primarily through international resource transfers. The Global Environment Facility (GEF) and the Multilateral Fund for the Implementation of the Montreal Protocol (MLF) were established to help underwrite and leverage such transfers.

Resource transfers from these mechanisms have served to raise the returns to host countries on environmentally friendly investments with global benefits, including energy services, rural development, management of terrestrial and aquatic ecosystems, and finding alternative technologies to replace chlorofluorocarbons and other ozone-threatening substances. Such investments can have a double benefit, contributing to long-term environmental sustainability – through, for example, reduced emissions of carbon dioxide – while also producing immediate local environmental benefits such as improved air quality.

## Partnerships

Together with the United Nations Development Programme and UNEP, the World Bank Group has served as an implementing agency for the GEF and the MLF. We remain firmly

committed to deliver on our mandates under these funding mechanisms, and strongly support expanded funding for the GEF to meet its broadening responsibilities. We see our role and impact going further: through these partnerships, we can help mobilize public funds for global environmental management, accelerate the transfer of environmentally friendly technologies to our developing country partners, and play a role – particularly through the Bank Group's International Finance Corporation – in promoting the global environment as a business opportunity.

The Bank Group's partnership with the GEF and the MLF has prompted a growing realization within our institution that global environmental needs have to be addressed as an extension of the local, national and regional environmental issues that underpin sustainable development. Through these alliances, we have embraced new financial mechanisms using limited grant resources, secured effective stakeholder involvement, and fostered partnerships of strategic importance for global environmental management.

### **Market mechanisms**

A key challenge in our joint effort to promote public goods for the global environment is to help devise broader market-oriented mechanisms for dealing with long-term externalities, such as carbon emissions, where there is great scope for win-win solutions benefiting industrial and developing countries alike.

The development and management of the Prototype Carbon Fund (PCF) is a first step by the Bank Group in this direction. Participants in the \$180 million PCF include 17 major corporations as well as six governments. The PCF seeks to demonstrate the feasibility of creating environmentally credible greenhouse gas emission reductions under the regulatory framework of the Kyoto Protocol's Clean Development Mechanism (CDM) and the development of a global market in which these would be traded. It has already negotiated emission reductions purchase agreements in more than a dozen projects and countries.

We are currently designing and marketing two new specialized funds: the Community Development Carbon Fund (CDCF) and the BioCarbon Fund (BioCF). The CDCF is designed to channel private capital under the CDM to small projects to the smallest and poorest countries. The BioCF is to develop prototypes for the production of environmentally and socially credible carbon assets through creation of carbon sinks in sustainable forestry, agriculture and management, and expanded biodiversity conservation efforts, consistent with the objectives of the Conventions on Biodiversity and Desertification. The Bank's efforts to create and sell certified improvements in biodiversity bundled with its carbon assets in its PCF business, and under the BioCF, signal the opportunity to create an independent market for biodiversity.

The Bank is committed, working in partnership with others, to support the priorities identified in the Plan of Action of the World Summit on Sustainable Development ■

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