



## Executive Summary

Over the past decades, the East Asia and Pacific (EAP) region has grown faster economically than any other region of the world. This was a formidable performance that resulted in dramatic improvements in the quality of life in the region's countries. The picture, however, is far from entirely positive. Gains have been unevenly distributed, and rapid economic growth has been achieved at considerable environmental cost.

### Environmental Challenges of the Region's Development

In virtually all countries in the region, natural resources have been degraded, often at alarming rates. For example, the region's rich forest

endowment is rapidly disappearing, and its renewable biological resources have been increasingly exploited at unsustainable rates.

Some countries in the region have lost 70 to 90 percent of their original wildlife habitat to agricultural and infrastructure development, deforestation, land degradation, and climate change impacts.

During the past decade, demand for water has almost doubled, and water quality has deteriorated, particularly in the vicinity of urban areas, due to increasing and uncontrolled discharges from municipal and industrial sources. Environmental services and policies have not been able to keep pace with rapidly growing urban environmental challenges, as indicated by insufficient levels of access to safe water and sanitation, a dramatic increase in waste generation and unsanitary disposal practices, and serious air pollution impacts. In China alone, air pollution from fuel combustion has been estimated to contribute to the equivalent of 3 to 6 million life-years lost annually. In addition, the region is facing increasing transboundary, regional, and global environ-

mental challenges, including the sustainable management of shared natural resources such as the Mekong, cross-boundary air pollution, and the environmental implications of regional infrastructure development.

Environmental deterioration and pollution impacts are important aspects of people's quality of life, often affecting poor people disproportionately more than richer segments of societies. As most EAP countries are critically dependent on natural resources, their deterioration also constrains future economic growth prospects, while the impact of an unhealthy environment and pollution imposes considerable economic costs on societies. The sustainable management of natural resources and the environment is therefore a key condition for improving people's quality of life, and for enhancing the opportunities for future generations to share the benefits of economic development.

Throughout the region, formal environmental policies, regulations, and institutions have been developed. With few exceptions, however, incentives, political commitment, and human and financial capacity for implementing, monitoring, and enforcing environmental laws and regulations remain weak. Decentralization, currently taking place in several countries in the region, poses both challenges and opportunities for environmental management, as does the increasing role of the private sector in many areas of the economy, including the provision of environmental services. An important new phenomenon is the increasingly

important role civil society is playing in influencing decisions about development projects, programs, and policies, as well as working for improved environmental conditions.

As the region is continuing its strong economic growth and undergoing significant structural and demographic changes—such as industrialization, urbanization, and regional integration—environmental issues should be considered an integral part of the development challenge. Integrating environmental considerations into development policies, plans, and projects in rapidly growing economies is particularly critical as many investment decisions are made in a short period of time that effect environmental performance and outcomes for many years to come. International experience has clearly demonstrated that the grow-now-clean-up-later approach is costly in the long run, while environmental measures can be more cheaply incorporated in new investments. For growing sectors like tourism, particularly in the beach and dive tourism industries, environmental quality is a *sine qua non* for maintaining market share of an increasingly discriminating clientele. Loss of coastal environmental quality, goods and services, also jeopardizes the livelihoods and security of tens of millions of poor people who depend directly on these natural assets. Countries in the EAP region, therefore, have a great opportunity—and a compelling need—to act at the right time.

Key priorities in the coming years include (a) enhancing urban environmental conditions,

including air quality, access to safe water, sanitation, waste collection and safe waste disposal, with a focus on the welfare of poor segments of the population; (b) improving the governance of natural resources, with a focus on the engagement of local communities in decision making and resource management; and (c) responding to intensifying regional and global environmental challenges.

## The World Bank's Environmental Assistance in the EAP Region

For many years, the World Bank has assisted countries in the region in addressing their environmental challenges through its lending and non-lending services. The portfolio of IBRD/IDA projects and project components with environmental and natural resource management objectives amounts to \$5.3 million, addressing biodiversity protection, climate change, land management, policy and institutional development, pollution management, water resource management, and other environmental issues. The Bank has also been administering grant facilities to support the implementation of global environmental agreements through the Global Environment Facility (GEF) and the Ozone Depleting Substance (ODS) phaseout programs.

Analytical and advisory activities have supplemented the Bank's lending services, environ-

mental analyses, and capacity building. These have focused on assessing the health impacts and economic costs of pollution, setting environmental priorities, developing strategies for natural resource management and biodiversity protection, helping develop environmental policies and regulatory frameworks, exploring environment-poverty linkages, monitoring environmental trends, supporting the disclosure of environmental information, and forging effective partnerships.

Through the application of its environmental and social (safeguard) policies, the Bank has also supported national, provincial, and municipal environmental agencies in developing domestic environmental assessment (EA) procedures to enhance their technical competence, effectiveness, and credibility. It has also helped government agencies at various administrative levels to mainstream environmental considerations into sectoral decision making processes, and trained counterparts in environmental management. Within the Bank, through the EAP Safeguard Secretariat, a systematic review, monitoring, and feedback process is in place to ensure that environmental and social development issues are considered. Risks are systematically evaluated for EAP operations according to the Bank's safeguard policies.

The Bank's past environmental assistance to client countries has yielded valuable lessons, and revealed many remaining and new challenges. In the absence of an explicit environ-

mental strategy, the Bank's activities have responded to emerging country demands, and focused primarily on project-specific interventions. Looking to the future, the challenge will be to (a) scale up project-specific efforts; (b) strengthen the strategic focus on priority environmental challenges at the country and regional level; and to (c) find mechanisms for long-term engagement in policy and institutional development.

## The Bank's Environment Strategy for the EAP Region

In line with the Bank's corporate Environment Strategy, and in support of the Bank's regional strategy, the objectives of the regional environment strategy are to help client countries to:

- ◆ *Improve the quality of life* (people's health, livelihoods, and security) by enhancing environmental conditions and reducing vulnerability to environmental hazards. The EAP Environment Strategy is aimed at assisting client countries to reinforce the positive linkages between good environmental management and quality of life by focusing on the following key areas: (a) improving urban and peri-urban environmental conditions; (b) promoting cleaner energy sources and uses; (c) supporting sustainable natural resource management practices; and (d) reducing vulnerability to natural disasters and the impacts of climate change.
- ◆ *Enhance the quality of growth* by strengthening the policy, institutional, and regulatory framework for sustainable environmental management, and by promoting the mainstreaming of environmental issues into policies and sector programs and projects. The Strategy supports client countries in (a) improving policy and regulatory frameworks; (b) strengthening institutional capacity; and (c) engaging the private sector and civil society in improving environmental management.
- ◆ *Protect the quality of the regional and global environmental commons* by addressing cross-boundary, regional, and global environmental issues. The Bank supports client countries in (a) improving cross-boundary watershed, air quality, and ecosystem management; (b) building on synergies between local and global environmental benefits; and (c) leveraging financial resources to catalyze local action for global environmental progress.

In support of strategic objectives, the following key adjustments are planned in Bank services and tools in the next three years:

- ◆ Moving upstream to address environmental priorities proactively at the country level, including enhancing strategic environmental analyses and strengthening support for

projects and programs that address environmental priorities proactively.

- ◆ Scaling up development effectiveness by focusing on country systems and client capacity, including systematically assessing environmental policy and institutional capacity and performance; supporting policy and institutional development; and piloting greater reliance on client capacity for environmental management.
- ◆ Managing the environmental risks of the Bank's expanding infrastructure lending portfolio by enhancing Strategic Environmental Assessments, promoting and engaging in stakeholder dialogues, and improving the monitoring of environmental and social outcomes of projects and programs.

Countries in the EAP region vary substantially with respect to their economic development, the environmental issues they face, and their capacity to address these issues. The EAP Environment Strategy adopts a differentiated approach to countries that takes into account key environmental indicators and trends; established environmental dialogue and client demand for Bank assistance; development partners' involvement in environmental assistance; and the Bank's comparative advantage. On the basis of these analyses and the region's broader assistance strategy, differentiated approaches are developed to the following five country groups: (1) China; (2) upper-middle-

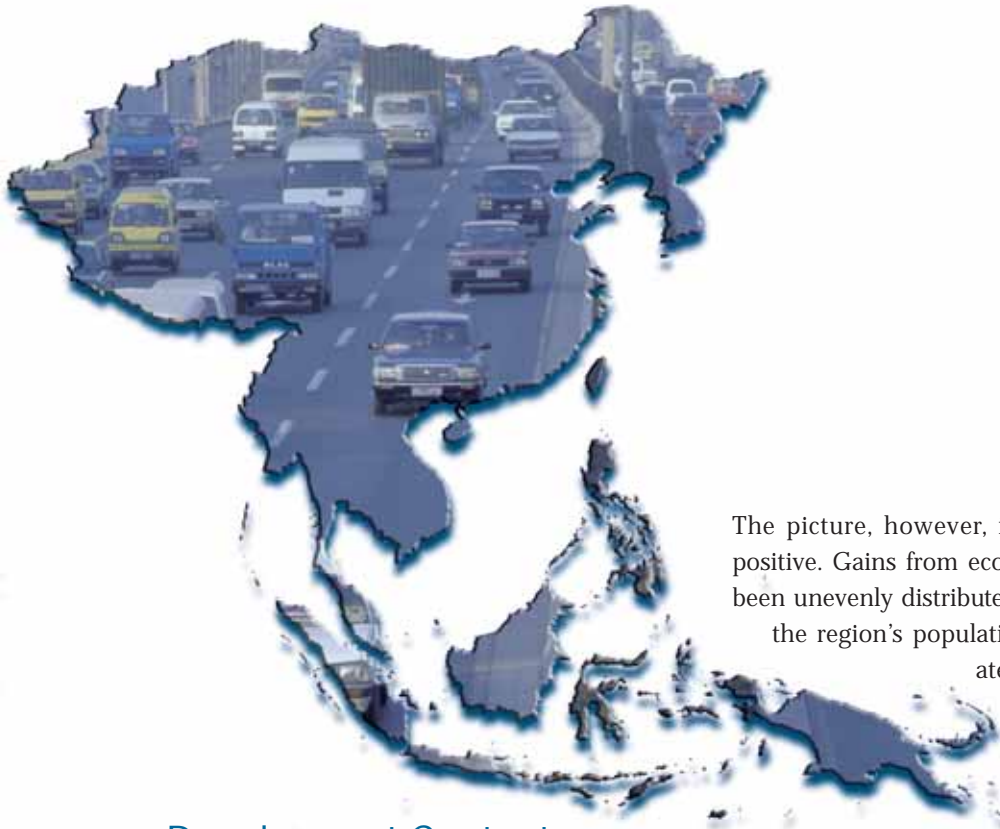
income countries (Korea, Malaysia, and Thailand); (3) lower-middle-income countries (Indonesia and the Philippines); (4) IDA countries (Cambodia, Lao PDR, Mongolia, Timor-Leste, and Vietnam); and (5) Pacific Island Countries (Fiji, Kiribati, Marshall Islands, Nauru, Palau, Papua New Guinea, Solomon Islands, Vanuatu).

As economic development continues in the region, the magnitude and severity of transboundary environmental problems are expected to increase. We envisage enhanced engagement in regional environmental programs, with a focus on (a) facilitating cross-boundary collaboration; (b) engaging in constructive partnerships to catalyze policy dialogue on environmental issues of regional significance; (c) supporting knowledge partnerships; and (d) collaborating and harmonizing approaches with development agencies.

## Implementing the Strategy

Implementation of the Strategy involves several sectors, constituencies, and development partners internally in the Bank, and externally with clients and development partners. The Strategy calls for enhanced collaboration among these constituencies to improve the development impact of environmental assistance as a fundamental part of poverty reduction and development programs.





## Introduction

### Development Context

Over the past three decades, the East Asia and Pacific (EAP) region has grown faster economically than any other region of the world. The region's eight largest economies—China, Indonesia, the Republic of Korea, Malaysia, the Philippines, Singapore, Taiwan (China), and Thailand—grew three times as fast as Latin America or South Asia and 25 times faster than Sub-Saharan Africa. This was a formidable performance that resulted in dramatic improvements in the quality of life in the region's countries. The number of people living in absolute poverty dropped by 44 percent; average per capita gross domestic product (GDP) increased from \$181 in 1960 to \$1,154 in 1999; average life expectancy increased by more than 70 percent; and the infant mortality rate fell by about 72 percent (World Bank 2002b).

The picture, however, is far from entirely positive. Gains from economic growth have been unevenly distributed, and large parts of the region's population remains desperately poor (World Bank 2003a). In addition, environmental factors such as air pollution, waterborne diseases, and exposure to toxic chemicals threaten the health of millions of people, and natural resources are being degraded at alarming rates, undermining livelihoods and future economic growth.

As the region continues to grow and undergo significant structural and demographic changes such as industrialization, urbanization, and regional integration, the sustainable management of the environment and natural resources will be a key condition for improving people's quality of life, ensuring the sustainability of growth, and for enhancing the opportunities of future generations to share the benefits of economic development. Simultaneously, far-reaching developments such as globalization, the increasing role of the private sector and civil society, and rapid technological advances are getting more and more closely

intertwined with social development and environmental issues.

## Global, Regional, and World Bank Context

Countries in the region have recognized the need for addressing their environmental challenges, and taking measures to enhance the environmental and social sustainability of their development. Many of these efforts have generated positive impacts, but large challenges remain. To support and supplement country-specific efforts, a wide array of global, regional, and Bank initiatives have emerged to address the most pressing priorities and to support countries' efforts to achieve environmentally sustainable growth.

*Globally*, there is a growing consensus that country-based approaches to economic, social, and environmental challenges are inadequate for dealing with many current and potential future challenges. International conventions and agreements such as the UN Framework Convention for Climate Change and the associated Kyoto Protocol, the Montreal Protocol, the Convention on Biological Diversity, the FAO code of Conduct for Responsible Fisheries, and others forge partnerships among countries to address global environmental challenges. Several global financing mechanisms were established to support developing countries' implementation efforts such as the

Global Environment Facility (GEF) and the Multilateral Fund for the Montreal Protocol (MFMP). The United Nations Millennium Development Goals (MDGs), which provide a coordinated approach with monitorable performance measures, are supported by the great majority of countries and by all development agencies, including the World Bank. This broad consensus on objectives and targets in a 15-year timeframe necessitates a coordinated approach within the international community. Achieving environmental sustainability has been clearly recognized as one of the MDGs (see box 1). Ten years after the Rio Earth Summit, the 2002 World Summit for Sustainable Development (WSSD), in Johannesburg, reinforced the international commitment to sustainable development and the MDGs (UNDP 2003).

*Regionally*, the East Asian financial crisis of 1997 stimulated a greater recognition of the close interrelationships among EAP countries, and this in turn has led to the adoption of development strategies that stress closer regional cooperation, economic growth, and social stability. The financial crisis has also demonstrated the need to improve the governance and institutional frameworks that underpin not only the financial system but also other areas of the economy, including environmental and natural resource management. Several regional and subregional environmental initiatives have emerged to address issues of common interest and transboundary environmental challenges such as illegal logging, degradation of

## Box 1 Environmental Sustainability in the Millennium Development Goals

Environmental sustainability is an essential component of the MDGs. While environmental improvements are key conditions for several other MDGs (for example, the reduction of child mortality, maternal health, malaria, and other diseases), Goal 7 specifically calls for *Ensuring Environmental Sustainability*. The goal comprises three targets:

- ◆ Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources;
- ◆ Halve, by 2015, the proportion of people without sustainable access to safe drinking water;
- ◆ Have achieved, by 2020, a significant improvement in the lives of at least 100 million slum dwellers.

The last targets refer to specific measurable actions, while the first target—the integration of the principles of sustainable development into policies and programs, and the reversal of the loss of environmental resources—is a complex target, encompassing many aspects of environmental management, including both the policy and institutional framework, as well as the quality of environmental resources, such as land, forests, biodiversity, water, and air.

Specific environmental challenges—deforestation, water resource degradation, air pollution, and other environmental problems—vary by country. As a result, there are no globally accepted measures applicable to every country to track the achievement of goal number seven. Instead, the goal needs to be adapted to each country's context and development needs.

To date, despite the international community's support for the MDGs, there is limited evidence of concrete progress made to achieve their targets. Additional efforts are needed to analyze the linkages among the goals and develop a comprehensive and cost-effective program to monitor progress.

*Source:* UNDP (2003).

international waters, declining air quality, and transboundary haze.

*The World Bank* has assisted client countries in addressing their environmental challenges through lending operations, grant financing, analytical work, and advisory services for many years. In addition, operational policies and procedures provide requirements and guidance for integrating environmental and social considerations into Bank-financed projects. In 2001,

the Bank's Senior Management and the Board of Directors endorsed the Bank's corporate Environment Strategy—*Making Sustainable Commitments: An Environment Strategy for the World Bank* (World Bank, 2001c). This report defined the Bank's broader environmental agenda; set a vision, objectives, and a course of action for the longer term; suggested specific targets; and outlined institutional measures in the shorter term. The Strategy is trans-

lated into Regional and country-specific strategies and actions.

## Purpose and Organization of the Strategy

This strategy applies the framework of the Bank's corporate Environment Strategy to the specific needs and priorities of the Bank's client countries in the EAP region. It summarizes key environmental challenges in the region, defines a strategy for the Bank's assistance to client countries in response to these challenges, and recommends concrete priority actions for Bank assistance in the next three years. It takes into account recent developments in the global, regional, and internal contexts, including the (a) renewed commitment of the international community to sustainable development and the MDGs at the WSSD; (b) increased interest in regional integration among EAP countries; (c) the Bank's renewed

efforts to ensure greater effectiveness in integrating environmental and social issues throughout the project cycle; and (d) increased attention to strengthening countries' environmental policy and institutional capacity.

Internally, regional, sector, and country management units are the primary audience. Externally, the report is intended to inform Bank clients and development partners—including government institutions, nongovernmental organizations (NGOs), the private sector, and civil society institutions involved in related issues in the region.

The report is organized in three chapters. Chapter 1 discusses the main environmental challenges of development in the East Asia and Pacific region. Chapter 2 reviews the Bank's assistance portfolio and lessons learnt. Chapter 3 defines strategic priorities, directions, and actions for the coming years. The appendixes summarize key aspects of the implementation of the strategy.