



# GOVERNANCE AND ENVIRONMENTAL MANAGEMENT

## DIRECTOR'S OVERVIEW

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**S**trengthening governance is now an integral component of the World Bank's approach to development assistance. Symptoms of weak governance include problems with the distribution of revenues, non-payment of taxes, restricted entry and competition in markets, questionable quality of the regulatory framework, poor control of corruption or graft, questionable attention to civil liberties, transparency and accountability, and instability or violence and crime. It is impossible to determine the developmental cost of poor governance, but world-wide bribery alone is estimated to exceed \$1 trillion dollars annually.

The management of water, forests, fisheries, wildlife, and other natural resources is too often subject to poor governance, which contributes to degradation—such as depleted soils, insufficient and polluted water, rapidly disappearing forests, and collapsed fisheries—and threatens the health and livelihoods of millions of people. These problems are particularly acute in poorer countries, in which people are most dependent on their natural resource base. In many developing countries, the costs of environmental degradation have been estimated at 4 to 8 percent of GDP annually. Yet such resources are a vital part of these countries' overall wealth. The World Bank's recent *Wealth of Nations*

found that in poor countries (excluding oil states) natural resources make up 25 percent of total wealth, compared to 16 percent for produced goods and services.

The central focus of the World Bank's Environment Strategy and program is to promote poverty reduction while managing this natural wealth for current and future generations. This past year, the World Bank launched, in collaboration with donors, NGO partners, and other international organizations, a global program on sustainable fisheries—PROFISH. This initiative focuses on facilitating stakeholder dialogue, providing technical assistance and policy advice, and enhancing fisheries sector capacity and skills (see page 16). In addition, the World Bank's forest program is supporting regional forest governance activities to curb illegal logging and support the development of a more level playing field among legitimate forest operators (see page 12).

We have also:

1. Promoted mainstreaming of environmental analysis into development planning through country and sectoral environmental analyses, such as the Ghana and Guatemala studies.
2. Incorporated explicit policy reforms and monitoring indicators in new operations that support transparency and account-

ability in natural resource management, such as the recent development policy loans in Gabon and Cambodia.

3. Scaled up community-based natural resource management in investment lending to support greater community control and decision making, decentralization of service delivery, and protection of rights of communities living near forests, such as the Mexico Community Forest Project.
4. Supported strengthened disclosure and dissemination of environmental management indicators through the Country Performance and Institutional Assessments, which assess countries' current policies and institutional frameworks.
5. Collaborated with IFC to scale up public-private partnerships for improved corporate governance, focusing on natural resource certification schemes (particularly in forestry), voluntary codes of conduct, and corporate transparency initiatives.

## Our Portfolio of Projects in Fiscal 2006

While placing greater emphasis on environmental governance, the Environment family has remained committed to our core business

of supporting poverty reduction, protecting human health, protecting water resources, strengthening forest management, and supporting innovative environmental policy tools. The program of analytical and advisory work is growing and is increasingly focusing on questions of institutional performance, coordination, and helping institutions improve their capacity.

In fiscal 2006, the World Bank approved 73 projects with environment and natural resources management content in 48 countries, amounting to \$1.4 billion in new commitments. Twenty-four of these new projects have objectives specifically targeting strengthening environmental policies and institutions. The total active portfolio with environment and natural resources management components was \$9.7 billion at the end of fiscal year 2006 (see Figures, right).

Throughout our portfolio, we are strategically seeking projects that demonstrate multiple benefits. In Senegal, for example, a World Bank-GEF project on Sustainable and Participatory Energy Management introduced sustainable forest management and successfully promoted the manufacture and sale of 250,000 improved wood stoves. This project helped improve the air that millions of poor women and children breathe, reduced poverty, stemmed the rate of deforestation, and lowered carbon dioxide emissions. Participatory activities were funded to develop detailed community-based forest and natural resource management plans.

In Colombia, Costa Rica, and Nicaragua, the Integrated Silvopastoral Approaches to Ecosystem Management Project seeks to compensate livestock producers who implement environmentally sound forest and pastoral systems. The project promotes land use change from systems characterized by low vegetation cover and minimal environmental attributes to more biologically

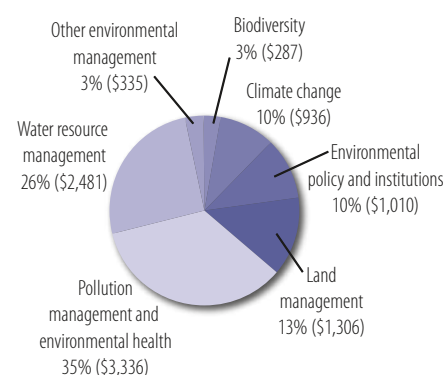
diverse and productive systems. Some of the environmental benefits that have been gained through these changes include biodiversity conservation, water retention, prevention of landslides and erosion, improved soil productivity, reduction of deforestation, and enhanced carbon sequestration. The project also focuses on enhancing the ability of the project partners and farmers to monitor land use changes, calculate the incremental environmental services gained (or lost) against their baseline, and reward producers who have made positive changes.

Our carbon finance business is demonstrating how greenhouse gas emissions can be reduced, while also providing local benefits, such as switching to cleaner fuels and cheaper energy sources. These initiatives include investments in more efficient transportation and industrial processes, and improved waste and land management. Capacity building, business development support services, and facilitation of dialogue at the community level are frequently key components of these projects.

## The Challenge

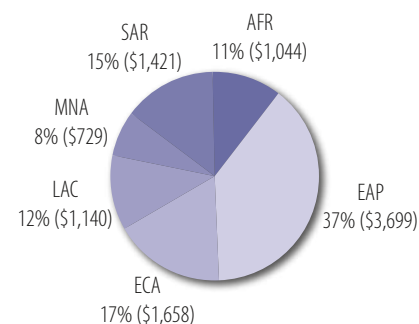
In this issue of *Environment Matters*, the emphasis on good governance underscores our commitment to work with clients and partners on building stronger institutions and systems for greater transparency and accountability. We focus our efforts on (a) changing bad policies, such as those that permit high levels of discretion in economically important sectors; (b) promoting and building institutional capacity that enables agencies to disclose to the public more information about environmental quality and associated decisions; (c) devolving aspects of resource management to communities, with mechanisms for checks and balances; and (d) promoting public policies that support responsible environmental and social

### ACTIVE ENVIRONMENTAL AND NATURAL RESOURCE MANAGEMENT PORTFOLIO, END FY06



Percentages based on commitment amounts. Figures in \$ millions.

### ACTIVE ENVIRONMENT AND NATURAL RESOURCE MANAGEMENT PORTFOLIO — REGIONAL DISTRIBUTION, END FY06



Percentages based on commitment amounts. Figures in \$ millions.

behavior by the private sector, including collaborating with IFC in the implementation of its environmental and social performance standards.

The World Bank's work with partners and clients on governance and the broader environmental agenda is enormously exciting. Working with all sectors of society, we will strive to make more accountable the institutions that serve the public's daily needs and guide our resource decisions. This is one of the most daunting development challenges.