

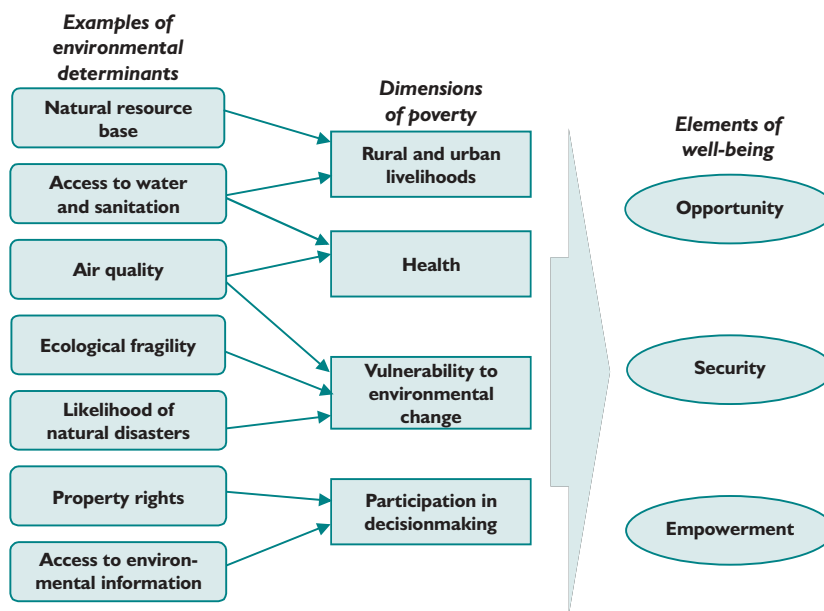
THE STRATEGIC FRAMEWORK

The Bank's mission of lasting poverty reduction requires that development be sustainable. This means that proper attention has to be paid to the social and environmental aspects of development challenges, as stated in our mission statement:

“To fight poverty with passion and professionalism for lasting results. To help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors... .”

The goal of the Environment Strategy, therefore, is to promote environmental improvements as a fundamental element of development and poverty reduction strategies and actions. (See figure 2.) The Bank will do this by helping our client countries set and address their environmental priorities and challenges, including those of a regional or global nature, and by supporting sustainability through its operations.

FIGURE 2
Environmental links to the dimensions of poverty



This Environment Strategy outlines the priority actions the World Bank plans to take to help its clients address the environmental challenges of development. In keeping with the World Bank's mission of reducing poverty within a framework of economic development, the Environment Strategy gives priority to issues where the links between poverty and the environment are particularly strong. (See box 6.) Therefore, the Strategy puts the environmental challenge into a local perspective, focusing on people in client countries and on the way environmental conditions and resources affect them. The Strategy's overall framework, its objectives, and the necessary adjustments in Bank

instruments and actions are outlined in matrix form in Table 2 at the end of this summary.

Our objectives

In support of our goal, the Strategy sets three interrelated objectives: improving people's quality of life, improving the prospects for and the quality of growth, and protecting the quality of the regional and global environmental commons.

Improving the quality of life

We will focus on three broad areas where environment, quality of life, and poverty reduction are strongly interlinked:

BOX 6

Integrating environment into poverty reduction strategies

As of September 1999, all low-income countries use participatory processes to prepare their own Poverty Reduction Strategy Papers (PRSPs) in order to obtain debt relief or concessional lending from the International Development Association (IDA) or the Poverty Reduction and Growth Facility (PRGF). Typically, the preparation of PRSPs involves three stages:

1. Developing a comprehensive understanding of poverty and its determinants
2. Choosing the mix of public actions that has the highest impact on poverty reduction
3. Selecting and tracking outcome indicators.

Because of the links between environment and poverty, and because a poverty reduction strategy must be environmentally sustainable over the long term, the Bank and the International Monetary Fund (IMF) have encouraged governments to consider environmental factors in their PRSPs. The Bank is helping to build the analytical base needed to quantify the links and prioritize potential environmental interventions compared with those in other sectors. Guidelines were prepared for the *PRSP Sourcebook*. Because poverty-environment links are location-specific, the Bank has taken a three-pronged approach toward helping integrate environmental issues into the PRSP process in individual countries: (1) analytical work, (2) training, and (3) review.

■ *Enhancing livelihoods.* Because poor people often depend heavily on the productivity and environmental services of ecosystems and natural resources, the World Bank will help improve the sustainable management and protection of these resources. This includes helping communities sustainably manage natural resources such as land, water, and forests; helping clarify and establish property rights; strengthening or reforming incentive systems that influence how resources are used; and building the analytical base and institutional capacity to improve natural resource management. (See box 7.)

■ *Preventing and reducing environmental health risks.* Environmental factors, such as

unsafe water and air pollution, are major contributors to the total burden of disease and impose significant economic costs, particularly for poor people. (See table 1.) These risks are substantially greater in developing countries than in developed countries. (See figure 3.) Our interventions will focus on cost-effective measures to prevent and reduce environmental health risks through reducing people's exposure to indoor and urban air pollution, waterborne diseases, and toxic chemicals. Measures include improved access to cleaner commercial fuels by households; the phaseout of leaded gasoline and the introduction of cleaner transport fuels; and improved design and coverage of safe water and

BOX 7**Community-based natural resource management**

Natural resource management projects increasingly try to incorporate a role for communities in their design and implementation. For example, the Mauritania Rainfed Natural Resource Management Project (fiscal 1997) is financing the first 5 years of a 20-year long-term program to activate a process of natural regeneration of land fertility, rangeland vegetation, and livestock and forest production. It will do this by encouraging the emergence of better-adapted and more sustainable approaches to resource use. This is likely to result in greater biodiversity conservation while generating more income and a better quality of life for the local people. The project, which will provide rural communities with effective empowerment in the management of their natural resources, is active in 47 villages in three regions of the country. A number of micro-projects (dikes, small dams, wells, women's vegetable gardens, nurseries of indigenous tree species) are under way with the active participation of local communities.

sanitation services to increase health benefits.

- *Reducing people's vulnerability to environmental hazards.* Millions of poor people are vulnerable to natural disasters and environmental hazards, a threat that is expected to increase as a result of climate change. Our

interventions will aim to reduce this vulnerability and the cost of natural disasters by supporting upland resource management and payments for environmental services; assessing the impacts of natural disasters; improving weather forecasting and the dissemination of weather-related information; providing

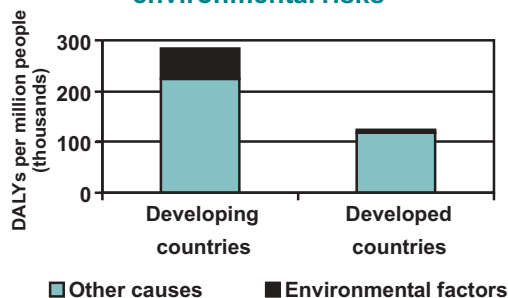
TABLE 1 The burden of disease from major environmental risks

<i>Environmental health group</i>	<i>Percentage of total DALYs in each country group</i>							
	<i>AFR</i>	<i>India</i>	<i>China</i>	<i>Asia and Pacific</i>	<i>LAC</i>	<i>FSE</i>	<i>LDCs</i>	<i>EME</i>
Water supply and sanitation	10	9	3.5	8	5.5	1.5	7	1.0
Malaria	9	0.5	0	1.5	0	0	3	0
Indoor air pollution	5.5	6	9.0	4	0.5	0	5	0
Urban air pollution	1	2	4.5	2	3	3	2	1
Agroindustrial waste	1	1	1.5	1.5	2	2	1	2.5
All causes	26.5	18.5	18.5	17	11	6.5	19	4.5

Note: Regions in the table slightly differ from World Bank Regions (see the definition in World Bank 1992 and in Murray and Lopez 1996). Definitions are as follows: AFR, Sub-Saharan Africa; Asia and Pacific, countries of East and South Asia, except for China, India and Pakistan; LAC, Latin America and Caribbean; FSE, former socialist economies of Europe (does not include Central Asia); LDCs, less developed countries (all regions and countries in the first six columns); EME, established market economies.

Source: Lvovsky and others (1999) based on Murray and Lopez (1996), Smith (1998), and World Bank estimates.

FIGURE 3
Burden of disease and environmental risks



Source: Lvovsky and others 2001. "Health and Environment." World Bank, Environment Department, Washington, DC.

information to communities about the risks they face; and stabilizing hillsides and coastal zones.

Improving the quality of growth

It is not enough to improve the quality of people's lives today; we have to ensure that short-term gains do not come at the expense of constrained opportunities for future development. Sustainable environmental management, therefore, is an essential condition for long-term economic growth and lasting improvements in people's well-being. There is also increasing evidence that attention to the environmental and social aspects of business development increases the international competitiveness of our client countries. Recognizing the important changes in the respective roles of the public and private sectors, our interventions will focus on (a) promoting better policy, regulatory, and

institutional frameworks for sustainable environmental management; and (b) harnessing the role of the private sector to become an engine for sustainable development.

- *Supporting policy, regulatory, and institutional frameworks for sustainable environmental management.* In cooperation with client countries and development partners, we will help client countries (a) strengthen their environmental policy, regulatory, and institutional frameworks with a special focus on local environmental institutions; (b) strengthen environmental assessment systems and practices; (c) reinforce the positive role of markets and the environmental benefits of sectoral and macroeconomic reforms; and (d) support good governance, institutions for collective action, increased transparency, access to environmental information, and public participation in decisionmaking.
- *Supporting sustainable private sector development.* We will assist in harnessing the role of markets and the private sector in promoting sustainable development by (a) helping clients introduce environmental regulations that allow flexible market mechanisms to achieve environmental objectives; and (b) helping to create markets for environmental goods and services. As part of the World Bank Group, IFC and MIGA will promote,

through their investments and guarantees, environmental and social responsibility and good environmental management in the private sector. (See box 8 on the PPAH, box 9 on IFC and box 10 on MIGA.) We will facilitate partnerships among the public and private sectors and civil society to resolve environmentally sensitive issues and to agree on benchmarks for good environmental management.

Protecting the quality of the regional and global commons

The search for solutions to sustainability needs to go beyond individual countries. The deteriorating quality of the regional and global commons threatens many developing countries. (See box 11.) They face potential conflicts over shared resources, such as scarce water resources and fertile land. They are also expected to suffer most of the worst effects of climate change, despite the fact that over 75 percent of cumulative greenhouse gas (GHG) emissions have been emitted by industrialized countries over the past 150 years, and per capita GHG emissions today are still five times less in developing than in industrialized countries.

A poverty-focused environmental agenda will require an increased emphasis on the local

BOX 8

Promoting good practice in environmental management

The Bank Group's *Pollution Prevention and Abatement Handbook 1998* (1999b) provides a comprehensive set of policy- and industry-specific guidelines for international good practice in pollution management. It emphasizes pollution prevention rather than control and underlines the role of good management rather than sole reliance on technical solutions.

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

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

aspects of global environmental challenges, on reducing the impacts of the degradation of the global environmental commons on developing countries, and on interventions that are carefully targeted to benefit developing countries and local communities. Therefore, in addressing global challenges, we will apply the following key principles:

- Focus on the positive linkages between poverty reduction and environmental protection
- Focus first on local environmental benefits, and build on overlaps with regional and global benefits

BOX 9

IFC's approach to environmental and social issues

The International Finance Corporation's (IFC) environmental and social safeguard policies are closely harmonized with the Bank's safeguard policies, with minor adjustments to adapt them to the private sector context of its operations. (See box 13.) IFC's approach includes the following elements:

- IFC applies the World Bank Group's *Pollution Prevention and Abatement Handbook 1998* to its investments, with high-level management clearance required for any variation. To provide guidance for sectors for which no guideline is available in the *Handbook*, the IFC has developed its own guidelines.
- The Environmental and Social Review Procedure (ESRP), set forth in 1998, guides staff in the application of the policy and guideline framework to the environmental and social analysis and processing of all investments.
- IFC monitors the environmental and social performance of projects as part of its portfolio supervision. This includes (a) review of adherence to agreed environmental or corrective action plans and to other specific loan covenants and reporting requirements; and (b) the development of environmental and social management capacity.
- An independent compliance advisor/ombudsman (CAO) oversees audits of the IFC's and MIGA's environmental and social performance, both on systemic issues and in relation to sensitive projects.
- In 1996, the IFC created the Environmental Projects Unit (EPU) to act as a catalyst and incubator for projects with specific environmental benefits. The EPU has begun to encourage the identification and implementation of ecoefficiency improvements in mainstream IFC projects.

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- Address the vulnerability and adaptation needs of developing countries
 - Facilitate transfer of financial resources to client countries to help them meet the costs of generating global and environmental benefits not matched by national benefits
 - Stimulate markets for global environmental public goods.

The Global Environment Facility (GEF) has emerged as a facilitator and a funding mechanism for integrating global concerns into the development process.

GEF assistance currently covers four focal areas: biodiversity, climate change, international waters, and the ozone layer. The Bank's GEF program is dominated by projects focused on biodiversity and climate change, which together account for more than 75 percent of World Bank–GEF grants. Since 1991, the Bank has committed more than \$1.5 billion in combined GEF and MFMP funding, with associated funding of \$5 billion for climate change mitigation, biodiversity conservation, the phaseout of ozone-depleting substances, and protection of international waters. (See figure 4.)

BOX 10

MIGA's approach to environmental issues

Since the Multilateral Investment Guarantee Agency (MIGA) issued its first investment insurance contract in 1990, it has been applying World Bank environmental policies and guidelines to MIGA projects.

In fiscal 1998, MIGA began drafting its own specific environmental assessment and disclosure policies, which reflect its business as an insurer of foreign investments. These draft policies, and the procedures for implementing them, were the subject of extensive discussions by MIGA's Board and management. The Board approved MIGA's environmental assessment and disclosure policies and procedures in May 1999.

MIGA's Environmental Assessment Policy is the basic framework for MIGA's evaluation of the environmental and social soundness of a proposed project. The policy requires the project sponsors to carry out an environmental assessment (EA) of the project. As explained in the policy, the level of detail of this assessment varies with every project and depends largely on the nature, magnitude, and significance of the project's impacts on the environment and on local communities. MIGA then uses this assessment as the basis for its review and evaluation.

The World Bank–GEF Program can play an important role in implementing the objectives of the Environment Strategy in four main ways:

- It can provide a powerful extension of other World Bank instruments to help address the quality of the regional and global commons.
- It can generate local environmental benefits in the pursuit of global environ-

mental benefits and through mobilization of associated funding.

- It can offer assistance—small-scale grants, for example—not readily available under conventional World Bank lending for engaging nongovernmental organization (NGOs) and other parts of civil society in the country dialogue on environmental management.
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BOX 11

Global environmental issues

Global environmental issues fall into one of two categories:

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

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

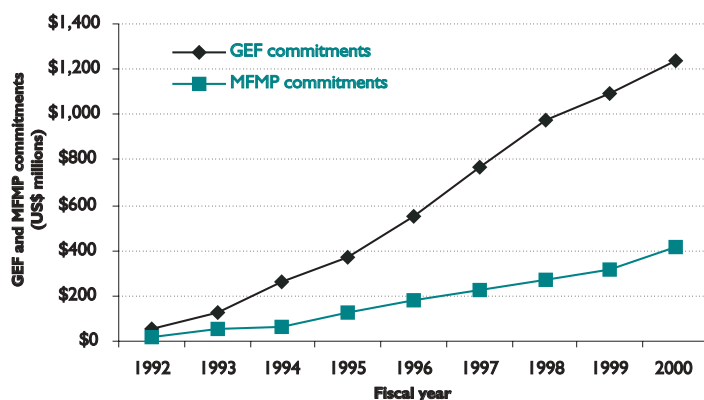
To address these issues effectively, all countries need to take coordinated action.

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

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

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

FIGURE 4
GEF and MFMP commitments, fiscal 1992–2000



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

- It can support the piloting of innovative methods of sustainable natural resource management with local-global environmental links.

As implementing agency of the Global Environment Facility and Multilateral Fund for the Montreal Protocol, we remain fully committed to our mandate to help client countries address the objectives of international environmental conventions and associated protocols, including the conventions on climate change, ozone, and biodiversity. We will engage in these and other partnerships that help facilitate technical assistance, the transfer of financial resources and environmentally friendly technologies, and the development of markets for environmental goods and services.

Our toolkit

Environment is not a sector or an add-on. It has been long recognized that environmental issues should be considered in the early stages of decision-making processes. The Environment Strategy emphasizes the importance of continuing our efforts to work with clients to integrate, or mainstream, environment into

investments, programs, sector strategies, and policy dialogue mindful of the institutional requirements and capacity constraints. This translates into actions throughout the Bank. The Strategy stresses improvements in three key areas: (1) strengthening analytical and advisory activities; (2) addressing environmental priorities through project and program design; and (3) improving the safeguard system.

Strengthening analytical and advisory activities

Analytical and advisory activities provide a foundation for defining strategic environmental priorities and informing policy dialogue and decisions on projects and programs. A systematic approach is needed to ensure that environmental considerations enter the development planning process at an early

stage by taking a multisectoral and long-term view of development.

- *Country-level environmental analysis* will build on NEAPs and other country-led environmental work, as well as analyses undertaken by the Bank and development partners to assess environmental trends and priorities, policies, and institutional capacity in managing environmental resources and risks. Country-level environmental analytical work will become part of the diagnostic tools that inform country dialogue, poverty reduction strategies, and country assistance strategies (CASs).
- *Strategic—sectoral, regional, and policy-focused—environmental assessments (SEAs)* will be used more systematically as analytical tools through a structured learning program involving clients and partners for addressing complex cross-sectoral environmental issues and for integrating environment at early stages in sectoral decisionmaking and planning processes.
- In our *advisory activities*, we will respond to client demand, priorities, and capabilities and build on the Bank's comparative advantage in working across sectors and throughout the world to transfer good practices in policy and technical issues. We will help clients set and address their own

environmental priorities and improve their environmental management capacity. We will pay particular attention to poverty-environment linkages, the economic valuation of environmental resources and of their degradation, and environmental policy analysis.

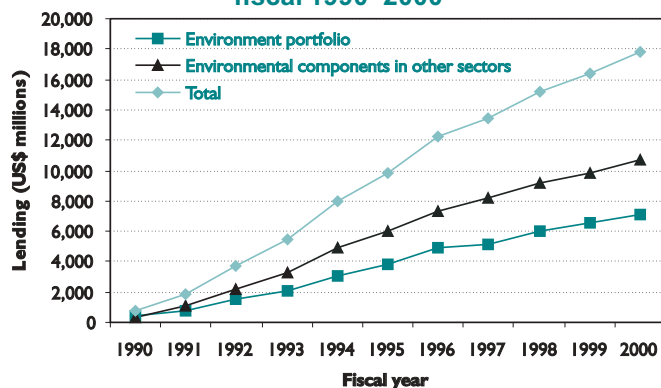
Addressing environmental priorities through project and program design

Since 1992, lending through self-standing environmental projects has gradually shifted toward environmental lending as a component of sectoral projects. Environmental components are increasing in many sectors, such as agriculture, energy, urban development, and water and sanitation. (See figure 5.)

Addressing environmental priorities that affect the long-term sustainability of development requires a proactive approach. Some environmental problems are best addressed by dedicated projects, others by integrating environmental activities into sectoral projects and programs. Depending on client demand and circumstances, we will work on both fronts with attention to the following areas:

- *Improving the design and performance of environmental projects and components.* Our experience has shown that environmental

FIGURE 5
World Bank environmental lending,
fiscal 1990–2000



Note: Excluding GEF and MFMP lending, shown in figure 4. The Environment portfolio consists of projects, the primary objective of which is environmental improvement. Environment components in other sectors include environmental components in the agriculture, energy, urban development, and water and sanitation sectors.

projects or project components work best when they are based on a good understanding of the causes of the problem, are expected to have a major impact, and have the commitment and capacity of local stakeholders, so that project outcomes are sustainable after the project is over. We will continue to ensure that the lessons from our growing experience in environmental projects are disseminated and applied to new projects.

- *Coordinating investments and policy reforms.* Some investment projects are unlikely to bring lasting results in a distorted policy environment. At the same time, individual investment projects may lead to a dialogue on policy reform. We will consider

carefully the proper sequencing of policy reform efforts and specific investments in each case.

- *Applying a location-specific focus.* Because the linkages between natural resource management and poverty are complex and location-specific and because implementation capacity varies, efforts to integrate environmental considerations into investment projects, adjustment lending, and programs will clearly vary from country to country. We will rely on enhanced analytical work and dialogue with clients to assess the best location-specific interventions in priority countries.

- *Supporting capacity development.* Capacity-building efforts will be targeted, based on client demand, and tailored to existing environmental regulatory and institutional frameworks. We will collaborate with other development partners involved in environmental capacity development to improve overall development effectiveness. In a few cases where strong commitment exists in the country to undertake environmental institutional reform, we will apply a programmatic approach.
- *Enhancing the environmental outcome of adjustment lending.* Considering the importance of the policy framework to

environmental sustainability, we will pay special attention to reinforcing positive and minimizing potentially negative environmental outcomes. Strengthened analytical work will inform policy dialogue, help identify environmental trends and threatened resources, assess country institutional capacity to manage resources sustainably, and prepare guidelines for good practice. Systematic upstream reviews and monitoring will help ensure that environmental concerns are appropriately integrated into the changing lending profile. These issues will be further elaborated during the update and conversion of the Operational Directive on adjustment lending.

Improving the safeguard system

The Bank's safeguard system is an essential tool for integrating environmental and social concerns into development policies, programs, and projects by providing minimum requirements that all Bank-supported operations must meet. (See box 12.) We will continue improving the quality and consistency of the application of our safeguard policies with increased attention to results on the ground, where many issues are intertwined. Improving the safeguard system is a dynamic process that involves both the Bank and its clients in

BOX 12

Safeguard policies

The following safeguard policies set forth mandatory requirements to be followed by Bank operations:

- OP/BP 4.01 Environmental Assessment
- OP/BP 4.04 Natural Habitats
- OP/BP 4.36 Forestry
- OP/BP 4.09 Pest Management
- OD 4.30 Involuntary Resettlement
- OD 4.20 Indigenous Peoples
- OP/BP 11.03 Cultural Property
- OP/BP 4.37 Safety of Dams
- OP/BP 7.50 Projects in International Waterways
- OP/BP 7.60 Projects in Disputed Areas

These policies are complemented by:

- OP/BP 17.50 Disclosure of Operational Information.

Notes: OP/BP = Operational Policy/Bank Procedures.
OD = Operational Directive.

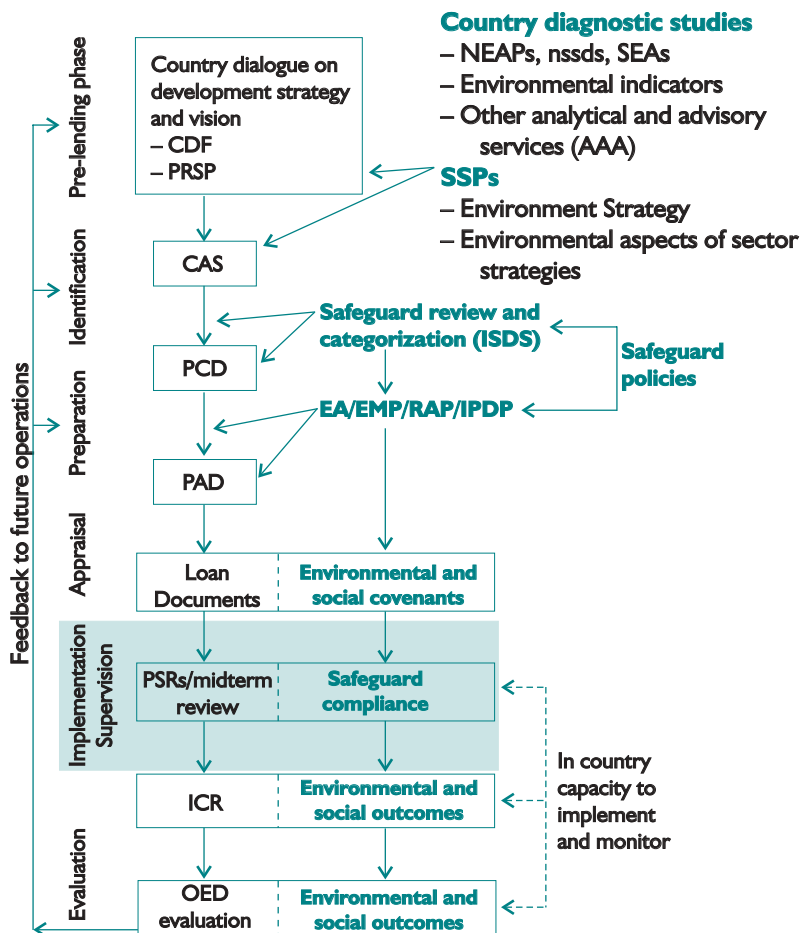
a series of actions designed to create better linkages between policies and their application in projects and programs.

We will follow a two-pronged approach:

- *Addressing short-term priorities.* Our immediate priority is to strengthen compliance with the safeguard policies, establish an integrated safeguard system, and improve results on the ground. To this end, we will (a) continue to strengthen the

Bank’s internal review, monitoring, and tracking system to improve corporate consistency and compliance in applying the policies; (b) integrate environmental, social, and legal policies into an integrated safeguard compliance system, including the use of the Integrated Safeguard Data Sheet (ISDS); and (c) help improve in-country capacity for safeguard implementation through enhanced training and capacity building. (See figure 6 for a description of the way upstream environmental input and safeguard issues are integrated into the Bank’s decisionmaking and project cycles.)

FIGURE 6
Environmental and safeguard input into the Bank’s decisionmaking and project cycle



Note: EA: Environmental Assessment, EMP: Environment Management Plan, ICR: Implementation Completion Report, IPDP: Indigenous Peoples Development Plan, ISDS: Integrated Safeguard Data Sheet, PAD: Project Appraisal Document, PCD: Project Concept Document, PRSP: Poverty Reduction Strategy Paper, PSR: Project Supervision Report, RAP: Resettlement Action Plan, SEA: Strategic Environmental Assessment, SSP: Sector Strategy Paper.

- *Reforming the safeguard system.* In parallel, we will (a) respond to new challenges posed by a greater variety of lending

instruments, including programmatic lending and projects implemented at the grassroots levels; (b) help move safeguard considerations earlier into the decisionmaking process; (c) work with clients and partners to coordinate and harmonize good practice; and (d) focus increasingly on client ownership, capacity, and safeguard systems. We will prepare a medium-term plan for reforming the safeguard system to adapt to a changing lending profile, direct more attention to clients' own capacity for good environmental management, and develop a risk management system that takes into account not only the risk characteristics of projects but also the capacity of countries to comply with safeguards. Over the long term, the Bank seeks to develop a single unified safeguard policy to provide a consistent approach.

Our ultimate objective is to help clients introduce and implement their own safeguards to manage their environmental resources sustainably. To this end, we and our partners need to increase our emphasis on capacity development at the national and sub-national levels. We need to search for ways of assessing and helping develop in-country capacity to adopt and internalize the prin-

ciples of sustainable development, and create incentives and rewards for good performance by delegating responsibilities to borrowers with demonstrated capacity to manage the environmental aspects in their own programs.

The need for selectivity

The action agenda described above is diverse and challenging. In order to be effective, we will have to be selective to guide implementation at three levels:

1. *At the corporate level*, the Strategy defines corporate environmental priorities in detail, and guides their integration into Regional Strategies and country-level programming.
2. *At the regional level*, Regional Strategies show the linkages between the corporate strategic framework and the regional context, reflecting regional and sub-regional differences.
3. *At the country level*, the Strategy provides a framework for setting priorities for environmental assistance. Using the corporate strategic framework, selectivity for environmental assistance at the country level will be based on a diagnosis of environmental priorities and management capacity, country demand, and consistency with the CAS. At the same time, the Bank is committed to ensure the implementation of its safeguard policies to all Bank operations in all countries.