

Presentation to the European Sustainable Development Forum
Paris, May 29th, 2001

Initial and very preliminary thoughts re:
**The *World Development Report 2003* on
Sustainable Development with a Dynamic Economy**

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In this presentation, I shall explain what the aims of the World Development Report 2003 are, describe progress to-date, and outline the process and timing of the report's production, which, for reasons I'll explain, have a material bearing on the report's content. Please note that these thoughts have not yet been circulated or discussed inside the Bank.

The report really should have been started last year, so that its completion would have enabled its insertion into the agenda-setting process for the South Africa Earth Summit in September, 2001. But the WDR is targeted primarily towards the Annual Meetings of the World Bank and IMF, and serves first and foremost this original audience. There we try to engage ministers of finance, economy, planning and governors of central banks on a set of issues we consider critical for development. Despite the fact that the report will not be ready to feed into the Johannesburg agenda setting process by this September, we will attempt to disseminate some of the emerging key ideas prior to Earth Summit in Johannesburg next September.

The goal we have set ourselves is quite ambitious. We hope to bridge the gap and to address sceptics on all sides of the debate revolving around the perceived antagonism between growth and sustainable development. On the one hand, we hope to create a framework in which ministries of finance, economy, and planning will come to recognize the importance, and in some cases the urgency, of action on environmental and social issues. We envisage doing this by tying sustainability issues more tightly to their origin in or impact on macro-economic behaviour than we have done in the past. On the other hand, we also want to clarify what can and cannot be done by market forces in improving environmental and social results. We feel there is much misunderstanding about the strengths and limitations of markets and market mechanisms in allocating resources, and we would like to put that debate on a firmer foundation.

To achieve this dual goal we would like to merge the concepts of sustainable development and growth. First, this requires a move away from the notion that sustainability is a purely conservationist, steady state or stewardship concept, towards a paradigm invoking improved human knowledge and technological innovation as key elements in the evolution and transformation of societies and economies. The interaction and impacts of these transformations on the sustainability of naturally evolving environmental and ecological life support systems must then form an essential component in our analysis. Second, in line with this reconfigured concept of sustainability, we would need to redefine the concept of economic growth to include explicitly notions such as the management of a portfolio of assets that are imperfect substitutes, and the need for collective action to complement the market. These notions need to be embedded in the arsenal of ideas which economists use. Third, we need to shift the temporal horizon for evaluating development paths to a 25-50 year period.

This change will highlight issues that do not normally show up in shorter time horizons (such as the next year or two, which is the focus of most politicians and governments, or even the next 5-10 years, which is the focus of much traditional central planning type activities). It is also more practical than longer time horizons (such as the next 50-100 years which is sometimes discussed in futuristic scenarios).

We also choose this horizon, because we believe the one-to-two generation period is more appropriate to dealing with the institution-building and transformational issues that we see as important for a more sustainable development path. Once one shifts to the 25-50 year time frame, several other factors emerge which differentiate our approach from that of traditional economic theory. Traditional economic theory regards the emergence of technologies, preferences, and institutions as exogenous variables, lying outside the frame of analysis. This is analytically quite acceptable when the time horizon is short. Recent endogenous growth theories have attempted to broaden growth theory by incorporating knowledge, innovation and technological development. In our longer-term horizon, preferences and institutional developments also become partially if not totally endogenous. These new dimensions represent areas we hope to explore. The results obtained will of necessity be rudimentary, but we feel that therein lies the future of the debate. Two points that we think are particularly important in this exploration are the role of institutions as central mechanisms in bringing about the convergence of 'what people do' vs 'what people should do'; and the role of equity considerations as compensatory mechanisms to facilitate institutional transformations.

The philosophical perspective or working assumption we bring to these issues is that people change society and the environment because they have incentives to do so. Social and environmental problems arise, either because people are unaware of the consequences of their behaviour, or – and this is possibly more important – they are aware but are unconcerned. They are indifferent because the burdens fall on others, either in the current or future generations (whether within countries or across countries). This indifference is a challenge for social action. The poor and vulnerable constitute the most exposed groups, since by definition they are the recipients of these burdens, whose transfer they cannot stop. They are least able to protect themselves; worse, they are even unable to protect themselves against well-intentioned programmes to protect the environment or social cohesion which do not explicitly include measures directed at improving the lot of the poor. So this report will be firmly anchored in the World Bank's expanding agenda on poverty reduction. That means our report approaches sustainability from a slightly different perspective to that informing many other debates on sustainability.

We believe that a demographic transition is well underway. The global population, on current projections, is likely to stabilise at around 12-15 billion. That is lower than the estimate of 20-25 billion of 10 years ago, and lower than the 50 billion forecast in the sixties. This suggests that there has been a major deceleration of population growth in the last 40 years. While this deceleration has dramatically reduced the peak population forecast, it has not had as dramatic an effect on the actual population in 2000 versus what was forecast for 2000. We will use the ultimate 12-15 billion estimate as a useful benchmark. With this benchmark, given the current age distribution and inertia in population structure, another 2-billion people are likely to be added to the world's population over the next 20-25 years - - all in developing countries. That is a difficult to alter datum, built as it is into the current population structure. The real task confronting us is how to accommodate this new growth in population, while at the same time trying to remove the backlog of 2.5-3 billion people living

on less than US\$2 per day right now. In other words, we face a dual problem: there is a known population for which accommodation must be made within the time-frame of this report, and that population's standard of living, its consumption per capita, will have to rise.

In the WDR we will try to demonstrate that current policies and institutions are unable to cope with either this population expansion or per capita consumption increase, without causing additional and avoidable stresses on the environment and the social fabric. In fact, almost all countries are experiencing escalating social tensions today. Almost half of the poorest countries are in a state of outright civil war, which is in part attributable to the scale of natural resource management problems: there are rents to be collected, and different groups are vying to collect them, since this is easier than the creation of new value through acquisition of higher skills, institutional transformation, etc. Thus, social fragmentation is likely to accelerate, if we do not address these issues. As others have observed, environmental degradation, e.g. significant degradation of land for cultivation (~40%), substantial loss of tropical forest resources (30%+), is also on the increase. The inference we draw is that, as institutions and incentives are currently set up, they are unable to handle current problems and will be much less able to handle the future problems of the next 25+ years.

Our goal therefore will be to identify a development path/process, or a set of issues for designing a more appropriate development path/process, focussing on how to accommodate productively the dual growth of population and aspirations. This goal puts our views on sustainable development somewhat at variance with recent utterances of the OECD on decoupling the growth in consumption from use of natural resources and environmental services. Decoupling is a reasonable goal in the case of industrial countries, where there has been a massive growth in the tertiary knowledge economy, which is less resource intensive than industries that manufacture or transform material products. In this sense (the use of less natural resources per dollar of output) decoupling is premature in the case of developing countries where growth in per capita consumption will be necessary and, in all probability, dependent on increased per capita use of natural resources and environmental services. A variant of the decoupling concept, however, is feasible in developing countries, because we have better and more resource efficient technologies today than we did in the past, and that is that developing countries do not have to repeat the *resource use intensity* that characterised Western industrialisation.

The key message on institutions that we would like to use as the organising principle for the report is that the failures we see are failures of collective action, failures of institutions and mechanisms to allow people to *learn and share*. Hoping to go beyond the WDR currently in preparation, whose important work focuses on institutions to support markets, we would like to include institutions that complement the market. These are institutions for collective action, dealing with public goods, imperfect markets, asymmetric information and similar features which are endemic to the sustainability debates. This focus constitutes the primary interest in this report.

I can anticipate some of the conclusions. There is a large body of information into which we can tap on how to overcome the weaknesses of existing traditional and local-modern institutions, without undertaking new research. This information falls into four main categories.

The first category covers a set of improvements building on existing traditional institutions. For example, local community action is an underestimated powerful source which

we need to leverage. At this stage in our analysis, it appears that resource degradation is higher in regions where democracy is lower. The context and scale of the problems confronting these institutions have been altered and magnified. The institutions must be upgraded accordingly, in particular, to cope with the impact of globalisation. So, building on and upgrading existing social capital and traditional norms constitutes one area of reform. This is the first category of institutional changes we feel are necessary.

The second category of reforms involves the question of how to replace policy failures with markets and market mechanisms. This is an issue which is not always correctly understood. There are environmental issues which are susceptible to the allocation of property rights and the creation of markets to enable more efficient allocation of resources. They would go a long way in ensuring non-wasteful use and even conservation of natural resources. We would like to consider a whole range of these issues. It follows that the more egregious distortions, such as subsidies for excessive use of natural resources, would have to be eliminated. Here we will have to confront issues of the emergence of vested interests that transform what may have once been an appropriate set of policies and prolonged their life even when the underlying rationale had disappeared.

The third category of institutional changes which are of universal concern, even if the WDR will not solve them, is the creation of new institutions to deal with collective action. These involve the whole gamut of market failures and public goods that by definition cannot be addressed through the markets. Some prototypes are emerging at the national and transnational levels which we will review. However, we shall highlight the fact that failure to create these new institutions represents the most serious challenge - particularly at the global level.

The final category of institutional reform is the approach to risk management as a whole. This category differs from the other three. For many factors, it is possible to create insurance markets to hedge risk, but there are a few risk factors which are not susceptible to this treatment. Global climate is an example. We shall look at those elements in global issues that have an impact on local and national behaviour and those elements that can only be resolved through collective action internationally. This category of institutional reform will probably have to include backstop arrangements to cope with the consequences of national or global *inaction* if preventive arrangements cannot be agreed-upon in time.

How will we study these categories? Rather than using economic sectors, which is common in economic analysis, or an ecosystem-specific perspective which is common in environmental analysis, we plan to approach development from a social-spatial perspective, since the joint transformation of the economy, society and environment are most clearly visible in spatial terms. (In any case, and fortunately for us, the WRI is compiling another report providing ecosystem-specific perspectives and feeding into the Millennium Ecosystem Assessment.) This approach shares some common features with earlier, more fundamental formulations of the development process as the transformation of traditional, rural societies (heavily dependent on agriculture as primary sources of employment and output) to modern, non-rural societies (dependent on secondary and tertiary activities). This often involves migration of surplus rural populations to urban areas, as well as the creation of non-farm employment in rural areas.

We want to start here for pragmatic reasons too, because it represents the current situation of many of the poorer, developing countries, and the poorest regions within them.

We will explore development options in rural areas, which is where the majority or a very large segment of the poor are concentrated right now. This is also where examination of the marginal rural communities becomes critical, because poverty is concentrated not just in rural areas but in rural areas often overlapping fragile ecosystems. Hence the link between poverty reduction and ecosystem preservation is far tighter than many people recognize. Indeed, according to our internal analysis, some of the poorest regions are the mountainous areas, which are the most inaccessible and difficult to render productive on a large scale. Nonetheless, the mountainous regions have a major impact on downstream communities because of deforestation, mining, and watershed management issues. More generally, we plan to examine **rural, marginal rural, urban and peri-urban** regions. Each of these has slightly different implications for the nature both of the environmental problems and social cohesion issues that have to be addressed. That will constitute one cut along which space will be segmented. The other cut involves scale -- local, national, and global -- which highlights the mismatch between the spatial jurisdiction and impact of socio-economic activities.

Let me now describe briefly the structure of the report, its team, its timing and the consultation process.

The first section of the report will include 2-3 chapters. The first chapter will outline the challenges I've sketched out above in much more detail. The next chapter or two will provide a framework to merge the concepts of growth and sustainable development. This section will cover an array of the issues ranging from the implications of using an expanded concept of income (to include non-monetised income, important for welfare analysis) for evaluating growth; to the utility of moving to green accounting or the use of appropriate environmental and social indicators to complement traditional measures of improvements in standards of living. In other words, this section will review a variety of models of development and associated measures that have been proposed to guide and improve policy evaluation. We shall also explore the idea of explicitly introducing a multi-asset model, (consisting of human capital, social capital, physical capital, and natural capital), and the management of this portfolio of imperfectly substitutable assets over a period of time in the light of uncertainties re: thresholds and other non-linearities in the consequences of development policies and actions.

The second section of the report will contain 3-4 chapters discussing the problems of development along the spatial segmentation of rural/urban and pockets of poverty described above, but in each case, linking the debate to the associated social, environmental, and natural resource management issues.

The third section will provide 2-3 chapters considering global issues, including local-global links, as well as pure global problems requiring international co-operation.

The fourth and final section, which will be new for a WDR, will highlight those "controversial" issues we believe are important for development, but on which there is no consensus. Rather than not talking about non-consensual issues, we prefer to highlight them, and indicate or hint at stepping stones required to converge towards a consensus. It is here where we also expect to discuss backstop arrangements that might be necessary to cope with the consequences of national or global *inaction* if preventive or sustainable arrangements cannot be an agreed-upon in time.

The space constraints of 200 pages will enforce streamlining of the document in order to achieve a coherent storyline and analytic framework to guide action. There will be a premium on the selectivity of issues to be covered. We hope to mitigate the effects of this constraint by generating a number of background papers and hyperlinks in a website to cover some topics excluded from the report.

The report team is small, consisting of six economists plus myself. It is almost formed and will start work on July 1st, 2001.

An outline of the report will be reviewed by the Senior Management and Board of the World Bank in September 2001. Time constraints mean that consultation will be limited and simultaneous, rather than sequential. A full draft should be ready for internal review by the end of March 2002 and for submission to the Board by the end of May 2002. That will be the last point at which member governments can raise issues through their Executive Directors. The report is scheduled to go to the printer by the end of June 2002 and be ready for distribution at the Johannesburg Earth Summit in the first week of September 2002.

On the consultation process, we have learned some lessons from the previous WDR on poverty, where the introduction of a fairly extensive external consultation process more than doubled the cost of production and increased the time of production by about 80%. We can not afford such a time-intensive process if we are to meet the Johannesburg deadline. For this reason, we have to ensure that the report takes into account external work and views through consultations which will probably have to assume the form of e-conferencing, thereby obviating the need for physical gatherings. We shall organise some selective workshops. Our current concern is how to ensure adequate participation by developing countries, their governments, NGO's, and academics in the debates preceding the final draft.

I should like to use this opportunity to solicit from you some contributions that will help in the production of this WDR. I am searching for three types of narratives. The first type is stories of **regret**: are there any European examples that you can point to, where you can say with hindsight that the social or environmental damage caused in achieving current standards of living (i.e. growth) could have been avoided? I.e. current standards of living could have been achieved without the social or environmental dislocation or degradation that actually did occur. These narratives are important. In discussions about environmental impacts it is not uncommon to be confronted with the argument that Europeans and Americans engaged in environmentally degrading activities to achieve growth, so why should developing countries not replicate their behaviour. Once per capita incomes have grown sufficiently attention can then be shifted to addressing environmental issues. This presupposes that the cost of the damages are low and that they are reversible. By providing concrete empirical examples, regret narratives serve to weaken and undermine the force of the 'right to replicate' arguments which are predicated on the fallacious assumption that there is a single path to growth or improvement in societies' welfare. Please let me know of any stories of this type, particularly in developed countries, since these are the most potent examples. I am seeking examples that would be convincing to someone committed to growth, but who needs demonstration that there are different paths to growth, some less damaging than others.

The second type of story concerns case studies or illustrations of how **institutions for collective action** evolve over time. What are examples of institutions for collective action that learn and adapt in the face of change of a problem's context or scale? For instance, when population densities were low and resource availability high, there was no scarcity and

allocation rules were redundant, i.e. open access was possible and not damaging. However, over time as population densities increased, people were forced to create rules or institutions to restrict access in order to protect the resource on which they were economically dependent. Those same institutions are now under threat as the next stage of globalisation arrives. The trajectory from abundance, through scarcity, to high pressure on resources will require different institutional responses. The speed at which institutions can adapt peacefully is one of the key parameters. My question is where are there good examples, traditional or non-traditional, that have successfully managed these transitions. Those are the ones we wish to highlight.

Finally, I am interested in analyses of the environmental or social costs of current growth policies that can be referenced. These analyses of w/ and w/o are harder to come by than analyses of before and after, because they must specify the counterfactual state, i.e., what things would have been like otherwise. It helps if the analysis is quantified. Remember that the goal of this report is twofold persuasion: it attempts to convince the sceptics who are pro-growth at any cost, that they should consider different growth paths, and to win over the sceptics on the environmental and social side to the view that institutional reforms are important, including reforms that might contain more market components than many people have been willing to contemplate or endorse. Finally it hopes to highlight collective action problems that cannot be addressed by markets and which are endemic in the sustainability debates.

That, in a nutshell, summarises the state of the report. I should be very happy to receive any comments.