

Multilateral and Bilateral Assistance Policies and Biodiversity

Mohamed T. El-Ashry

Introduction

A complex array of social, economic and political forces is behind the present crisis of oceans, forests, and species loss. These powerful forces are often deeply rooted in past development policies and patterns and frequently reflect the imbalances that exist globally and within developing countries. In developing countries, these include: rapid population growth, concentration of land in the hands of a few, limited job opportunities that induces migration, and patterns of resource exploitation that maximize short-term gains.¹

Among international economic factors that play a major role in forest and species decline, the debt burden of developing countries and the high demand in industrialized countries for tropical timber and other commodities produced at the expense of forests are the most important. While national governments make the policy decisions that most directly affect rates of deforestation and biodiversity loss, bilateral and multilateral assistance agencies exert significant influence on those decisions. Development assistance provides the funding, technical assistance, and expertise that allow certain projects to proceed, and it affects the balance of investment between sectors.

The World Bank

In the decade of the 80s, prior to the Rio Earth Summit, the Bank gained notoriety as the environmental impacts of its large development projects on forests, people, and biodiversity became apparent through schemes such as the Narmada Dam in India, Polonoroeste in Brazil, and transmigration in Indonesia.

Polonoroeste:

From 1981 to 1983, the World Bank earmarked approximately \$450 million to Brazil for the Polonoroeste land settlement and development project in Rondonia and Matto Grosso. Most of the funds were used to pave a road called BR-364 and to construct feeder roads. These byways cut through the heart of the region's previously intact forests and attracted more than 200,000 migrants in 1989 alone. It may, as the government claimed, be "the biggest land reform ever tried," but Polonoroeste has also earned the distinction of having Brazil's highest deforestation rate.² In retrospect, had the Polonoroeste proposal been subjected to an adequate environmental assessment by the Bank, its funding would have been turned down or its design would have been drastically changed.

Transmigration in Indonesia:

Indonesia's transmigration program is the world's largest government-sponsored resettlement program, moving millions of people from the densely populated, fertile inner islands of Java and Bali to mostly forested and sparsely settled outer islands - Kalimantan (Borneo), Sulawesi, and New Guinea. Between 1950 and 1979, some 828,000 trans-migrants made the move under government sponsorship, and transmigration rapidly picked up steam with the infusion of over \$500 million in World Bank loans between 1976 and 1986. Between 1979 and 1986, nearly 1.5 million people took advantage of the program to migrate. In a country where the 1987 per capita share of gross national product was only \$450, more than \$6,000 per family was spent on relocation. If the real costs in terms of forest destruction and the loss of environmental services were considered, the figure would have been much higher.³

Critics of World Bank policies and loans tend to ignore the important role and influence the Bank's shareholders have in major decisions within the Bank. The shareholders, as Executive Directors, approve Bank policies and loans. They are just as accountable as Bank staff and management for the adverse consequences of Bank lending and, at the same time, they deserve credit for the Bank's adoption in the early 1990s of a number of major environmental policies to guide its development planning (e.g. environmental assessment, forest policy, water resources policy). These actions, however, were taken following a decade of highly publicized criticism of the Bank, combined with lobbying of the U.S. Congress by Washington-based environmental groups. With the U.S. being the largest shareholder and Congress the largest appropriator of funds to the Bank, conditions were included in appropriations bills in the late 80's requiring the Bank to take environmental concerns in consideration as it funds infrastructure projects. Regional Development Banks, as well as numerous bilateral assistance agencies, eventually followed in adopting formal environmental policies.

In the mid 1990s, the Bank shifted its priorities for lending to poverty reduction and the social agenda (health, education, etc.), which brought about a period of peaceful co-existence with NGOs. However, in 2003 the Bank announced that it will resume lending to infrastructure projects (dams, power plants, roads, etc.), which prompted some observers to accuse the Bank of not learning from its past experience.

Environmental Degradation And International Response

For the last three decades, the international community has attempted to address the challenges of global environmental degradation with limited success. Its major efforts started with the decision by the U.N. General Assembly in 1969 to convene the U.N. Conference on the Human Environment, which had the potential of becoming a watershed event in the movement towards a better environment.⁴

The U.N. Conference on the Human Environment: The Conference was held in Stockholm in June 1972 - the first of the major global conferences and agreements that helped shape the international environmental agenda for the last three decades (see Box). Stockholm placed the environment issue firmly on the global agenda and led to the creation of the U.N. Environment Programme as well as national environmental ministries or agencies in most countries.

Response to Environment and Sustainable Development Challenges

The challenges of environment and development have long been recognized by governments and international institutions. Examples of conferences, initiatives, and agreements that have addressed these issues over the last thirty years include:

- United Nations Conference on the Human Environment (Stockholm, 1972)
- World Commission on Environment and Development, “Our Common Future” (1987)
- The Global Environment Facility-Pilot Phase (1991)
- United Nations Conference on Environment and Development (Rio de Janeiro, 1992)
- The U.N. Convention on Biological Diversity (1992)
- The U.N. Framework Convention on Climate Change (1992)
- The Restructured Global Environment Facility-GEF (1994)
- International Conference on Population and Development (Cairo, 1994)
- World Summit for Social Development (Copenhagen, 1995)
- United Nations Millennium Summit (New York, 2000)
- The Millennium Ecosystem Assessment (2001)
- World Summit on Sustainable Development (Johannesburg, 2002)

The Stockholm Conference recognized forests as the largest, most complex and self-perpetuating of all ecosystems and emphasized the

need for sound land and forest use policies, ongoing monitoring of the state of the world's forests and the introduction of forest management planning. Today, the Stockholm Conference recommendations relating to forests remain valid and unfulfilled, in many ways because of conflicting interests in managing forests for environmental conservation and economic development, and the differences between developing and developed countries on issues of finance and the basis for sharing responsibilities and costs.⁵

The Rio Earth Summit: Despite progress in many areas of the environment, mainly in developed countries, the world continued to face a wide variety of critical environmental threats: degradation of soils, water, and marine resources essential to increased food production; widespread air and water pollution; global warming; and loss of habitats, species and genetic resources. And despite affluence for many, widespread poverty in developing countries continued. In many countries and in international development institutions, sectoral economic decisions were being made with little input about their environmental impact, and environmental ministries would often intervene after the damage had already been done. The overexploitation of natural resources tended to temporarily increase material well-being and reduce poverty but proved to be unsustainable.

In its report "Our Common Future" in 1987, the World Commission on Environment and Development made the case for sustainable development as the only viable pathway to a secure future for human kind. It defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

In response to the Commission's recommendations, the Earth Summit was convened in Rio de Janeiro in June 1992, twenty years after Stockholm. While Stockholm was about "environment," Rio was about "environment and development." In Rio, countries agreed that concerted action, shared responsibility, and international cooperation are crucial for addressing the link between development and environment. Agenda 21 was the main operational product of the Summit - a com-

prehensive blueprint for sustainable development to guide national and international sustainable development actions into the 21st Century.

One of the most disappointing aspects of the Earth Summit, according to Maurice Strong, Secretary General of the Summit, was the failure to agree on a forestry convention.⁶ On the positive side, however, the Conventions on Biodiversity and Climate Change, negotiated during preparations for the Summit and opened for signature in Rio, provided the basic legal framework for international agreement on two of the most important global environmental issues.

The Convention on Biological Diversity (CBD): The CBD, ratified by more than 175 countries but not by the U.S., enshrines the concepts of national rights and shared responsibilities regarding natural resources. The three mutually reinforcing objectives of the Convention - conservation, sustainable use, and equitable sharing of benefits - are the new standards by which successful efforts for stemming biodiversity loss will be judged.⁷

The CBD provides a unique global policy forum, the Conference of the Parties (COP), where governments can debate and promote cooperative action on the biodiversity issue. The COP, however, has become highly politicized along a North-South axis due to the failure to find a workable arrangement to begin implementation of the convention's objective on benefit sharing.

The CBD, like the Climate Change Convention and Agenda 21, recognized that improved resource management will remain elusive without improved knowledge and information and building the technical and analytical capacity in developing countries. The CBD also requires parties to the Convention to identify important areas of biodiversity and prepare a strategy and action plan for their conservation.

Perhaps the most critical feature of the CBD for ensuring its implementation is the provision of finance to assist developing countries in carrying out their obligations under the convention. The financial mechanism of the CBD, as in climate change, was entrusted to the Global Environment Facility (GEF), which is accountable to the COP in implementing its guidance.

The Global Environment Facility (GEF): The GEF was established in 1991 by the World Bank as a three-year pilot program at the initiative of the governments of France and Germany. Its establishment was in anticipation of the Earth Summit and the negotiations on the conventions of biodiversity and climate change. To secure the participation of developing countries in the implementation of these conventions, financial resources had to be made available by OECD countries. The GEF emerged from Rio as a key component of the financial package that sealed agreement by developing countries on Rio's outcomes and the two conventions. A decade later, the GEF stands as the only financial accomplishment arising from Rio.

In the short 10 years since its restructuring in 1994, the GEF grew from less than 30 members during its pilot phase to 174 member countries and has become the largest single source for funding for the global environment, including biodiversity. Since 1994, the GEF was replenished three times for a total of \$7 billion. These resources, however, are small compared to global environmental needs. That is why GEF resources have been used strategically to leverage additional investments from private and public sources, including the developing countries themselves. The current \$16.5 billion portfolio consists of \$4.5 billion in GEF grants and \$12 billion in co-finance for more than 1000 projects, mostly for biodiversity and climate change.

Operationally, the GEF focused initially on protected area management, including hot spots, and pioneered "conservation trust funds" for financing recurring management costs. Later on, the GEF expanded its work to buffer areas, agriculture and other production landscapes where people live and work, thus balancing two of the three objectives of the CBD - conservation and sustainable use. Similarly, the GEF has expanded its work from a focus on ocean pollution from tankers to land-based sources of pollution and coastal and marine biodiversity. In all, the GEF has allocated more than \$1.5 billion in grants for almost 500 biodiversity projects in 160 countries. These projects have attracted another \$3 billion in co-financing.

Recognizing the synergy and overlaps among international agreements, particularly biodiversity and climate change, a new genera-

tion of GEF projects has taken an “integrated ecosystem management” approach. These projects link biodiversity conservation and sustainable use, climate change mitigation, and management of trans-boundary waters, addressing policy and governance as well.

Finally, an important area of intervention that holds great promise for biodiversity conservation is the “payment for environmental services.” A GEF project, Costa Rica’s Eco-markets, is a good illustration. Here, land owners in the upper parts of the watershed are paid for conservation efforts that generate environmental goods and services, including biodiversity habitats, water capture, carbon sequestration and scenic beauty. These goods and services are paid for by the users - water companies, the tourism industry, the public at large - and facilitated by the GEF. The net result is a system of sustainable ecosystem conservation on private lands.

The Millennium Ecosystem Assessment

The Millennium Assessment (MA), a four-year international work program, is designed to meet the needs of decision-makers for scientific information on the links between ecosystem’s health and human well-being. It was launched in 2001 with leading scientists from more than 100 nations conducting the assessment. Its goal is to establish the scientific basis for actions needed to enhance the contribution of ecosystems to sustainable development and to build capacity for analyzing and supplying information. Financial support for the MA is being provided by the GEF, a number of bilateral and multilateral organizations, and private foundations.

Among the questions the MA intends to address: What are the current conditions and trends of ecosystems and their associated human well-being? What are the plausible future changes in ecosystems and in the supply of and demand for ecosystem services? What can we do to enhance well-being and conserve ecosystems? The final reports of the MA will be released in 2005.⁸

The World Summit on Sustainable Development (WSSD)

Ten years after the Earth Summit in Rio it became clear that little progress in the implementation of the Summit agreements has been

achieved. In late August and early September of 2002, world leaders gathered in Johannesburg to review and renew a collective commitment to the environment and sustainable development. The WSSD produced three outcomes: a political declaration, a plan of implementation, and the so-called type II (voluntary) commitments. For those who had high expectations, the WSSD was a great disappointment. For those who did not expect much based on the inadequate preparation process, the Summit achieved some success.

There were agreements on a number of sustainability issues. They include commitments to halve by 2015 the number of people who do not have access to basic sanitation, the achievement by 2010 of a significant reduction in the current rate of loss of biodiversity, maintaining or restoring fish stocks to levels that can produce maximum sustainable yield, and expanding the marine protected area system.

One of the positive outcomes also was the announcement at the Summit of a number of viable partnerships as part of the type II outcomes. The President of Brazil and the heads of the GEF, WWF, and the World Bank announced in Johannesburg the largest ever forest protection initiative - setting aside 12% of the Brazilian Amazon under strict conservation.

But the WSSD failed to agree on clear targets for stemming biodiversity loss or for clean energy. At the same time, the plan of implementation (a rehash of Agenda 21) did not address how commitments will be monitored and reported. Once again, an opportunity for international cooperation and concerted action was lost.

Policy Recommendations

Looking ahead, the next decade presents a unique opportunity to ensure that environmental sustainability is effectively integrated into actions designed to achieve economic development. But this will take different ways of acting and thinking, which include, among others, controlling population growth and lifting people out of poverty; reforming the current accounting framework for economic analysis

which fails to treat natural resources as productive capital; phasing out counter-productive subsidies; building the capacity of national and international environment and sustainable development institutions and adequately implementing laws and regulations; spreading best practice about sustainable forestry and sustainable agriculture; and employing science and modern information technologies and tapping traditional and indigenous wisdom. Specifically:

1. Mobilize Additional Finance

- (a) *Public Sector Finance*: While it is not possible to estimate with any degree of accuracy the financial requirements for dealing with the major environment and sustainable development challenges of our time, it is generally agreed that environment and sustainability initiatives are highly under-funded, particularly in developing countries. The incongruity between public concerns about sustainability and the shortfall in financing is exacerbated by the failure of donor countries to live up to commitments made in Rio to devote 0.7% of their GDPs to Official Development Assistance (ODA). In fact, in the 1990s, total ODA flows actually fell in relation to the donor countries' GDPs from 0.35% in 1992 to 0.22% in 2000.

Options for mobilizing significant additional resources have been proposed over the last 10-15 years. They center mainly on environmental taxes and phasing out perverse subsidies. For example, a universal carbon tax on gasoline equal to 4.8 cents per US gallon has the potential of raising an astronomical \$125 billion annually. Reducing OECD countries agricultural subsidies of \$360 billion annually by 15% would double current levels of ODA. Allocating 1% of agricultural subsidies (\$3.6 billion annually) for forest and biodiversity conservation in mega-diversity countries could provide significant benefits locally, regionally, and globally, including for climate change.

- (b) *Private Sector Finance*: While ODA has stagnated in the 1990s, Foreign Direct Investment (FDI) has quadrupled from about \$65 billion in 1991 to \$257 billion in 2000 (but

has declined since). However, only 15 developing countries receive most of those flows and that FDI has not focused on the social or environmental agendas. This is mainly because investors often perceive these potential investments in developing countries as being excessively risky.

- (c) *Debt-For-Nature Swaps (DFNs)*: DFNs have been effectively used for years to convert developing country external debt into funding for environment and nature conservation initiatives. Since 1987, when the first DFN was brokered by Conservation International in Bolivia, over \$1 billion in funding has been generated by DFNs in nearly 30 countries. To date, just a few donor countries have participated in DFNs. The most important program has been associated with the U.S. government's "Enterprise for the Americas Initiative," which was established in 1990.

The level of external debt of the developing countries reached approximately \$2 trillion in 2000. Recently, the international donor community has responded by ratcheting up debt relief measures, the most ambitious of which is the Heavily Indebted Poor Countries (HIPC) Initiative. As an integral part of the HIPC Initiative, countries receiving debt relief are required to allocate greater amounts to social spending in the context of their poverty alleviation efforts. Consideration should be given to expanding the initiative beyond the current 24 countries, mostly from sub-Saharan Africa, and to also making environmental spending a part of HIPC. This could include, among other things, spending on labor-intensive environment and conservation programs such as reforestation which would underscore the close link between poverty and the environment.

2. Implement Environmental Safeguards

The World Bank, the Regional Development Banks, and most bilateral assistance institutions have in place state-of-the-art environmental assessment guidelines and other safeguard policies. Their implementation, however, continues to be uneven.

When the World Bank strictly applied its assessment and resettlement policies, it cancelled the Arun Dam project in Nepal and withdrew from the funding of the Narmada Dam in India. Had the Bank's environmental assessment guidelines been in existence in the 1980's, the Polonoroeste and Indonesia Transmigration projects would have been extensively redesigned or cancelled.

Multilateral and bilateral assistance institutions can also refocus on assisting governments in policy reforms and in institutional capacity building. This could include: reforming policy and regulatory frameworks to "level the playing field" for forests (e.g. subsidies, taxation, and land tenure); supporting the development of independent forest certification systems; developing due diligence procedures for private sector investors; and establishing guarantee funds to buy down the risk of investing in natural forests. In addition, Country Assistance Strategies (CAS) should reflect commitments made by governments in international environmental conventions and in summits.

3. Strengthen North-South Partnership

The unequal distribution of power and wealth between developed and developing countries have hampered the conclusion and implementation of effective international agreements. Issues concerning resource ownership, differentiated responsibility for action, benefit sharing and intellectual property rights, for example, have complicated the effective implementation of the CBD and stood in the way of negotiating an international forestry agreement. In international forums, developing countries argue for "new and additional" finance and developed countries argue for improved governance and policy reforms. These are among the main reasons for the lackluster outcome of the WSSD and the complete collapse of the WTO negotiations in Cancun last year. It is becoming increasingly clear that the developing countries must be brought into a full and equitable partnership in the global governance system.

4. Build Capacities in Developing Countries

For more than three decades, failed development projects in developing countries were blamed on weak institutions. Billions of dollars have been spent through the international system on capacity building, yet these institutions remain weak. In addition, the scientific complexity of underlying problems and of potential solutions for global sustainability requires links at all levels between national institutions in charge of the environment and natural resources and those responsible for economic development. The same can be said at the international level. Local scientists must also be enabled to provide their policy-makers with the advice they need to formulate strategic directions and to press for their adoption and implementation. However, disparities between countries of the North and the South in the generation of scientific information and its use make it difficult for the South to participate fully in actions for global sustainability. Developed countries representing 20% of humanity have more than 90% of the world's share of scientific publications and more than 90% of the R&D expenditures.

5. Cultivate Leadership - The United States

As a world leader, the U.S. has an indispensable role to play in the conservation of biodiversity. For some time, the USAID has been the largest bilateral forestry donor. The U.S. is also the number one contributor to the multilateral development banks and in the past has pressed them to incorporate environmental considerations in development projects. And the U.S. provided leadership in the negotiations of several international treaties, especially on protecting the ozone layer. The U.S., however, should support international conservation goals by ratifying the Biodiversity Convention. Another action that would have a significant and positive impact on multilateral actions is assuming a leadership role in reducing greenhouse gas emissions, thus demonstrating a national willingness to abide by the same requirement urged on developing countries.

Notes

- ¹ Miller, K., Reid, W.V. and Barber, C.V., "Deforestation and Species Loss," In *Preserving the Global Environment*, J.T. Mathews (Editor), W.W. Norton & Co., New York, pp. 88-89, 1991.
- ² Miller, K. and Tanglely, L., *Trees of Life-Saving Tropical Forests and their Biological Wealth*, Beacon Press, Boston, p. 62, 1991.
- ³ *Ibid.*, p. 37.
- ⁴ Strong, M., "Stockholm Plus 30, Rio Plus 10: Creating a New Paradigm of Global Governance," In *Worlds Apart*, J.G. Speth (Editor), Island Press, Washington. p. 35, 2003.
- ⁵ United Nations Environment Programme, *Synthesis GEO 3*, UNEP, Nairobi, p. 3, 2002.
- ⁶ Strong, M., *op. cit.*, p. 35.
- ⁷ Global Environment Facility, *Valuing the Global Environment*, GEF, Washington, p. 83, 1998.
- ⁸ Millennium Ecosystem Assessment, *Ecosystems and Human Well-Being*, Island Press, Washington, p. xii, 2003.