



## MAINSTREAMING CROSS-CUTTING THEMES IN PROGRAMME AND SECTOR AID: THE CASE OF ENVIRONMENTAL ISSUES

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*Whilst there is growing evidence on how programme aid and Sector-Wide Approaches (SWAs) might best be managed, there remain few accounts of how cross-cutting themes can successfully be incorporated into these. This paper focuses on environment as one such theme. Environmental issues have a close bearing on the livelihoods of the poor, and form the focus of this paper.*

### Policy conclusions

- To integrate cross-cutting issues into programme aid (e.g. into Poverty Reduction Strategy Papers (PRSPs), and into Sector-Wide Approaches (SWAs)) is likely to have a profound effect on their content.
- Government and civil society need to work together to interpret cross-cutting themes (such as strategic environmental assessment) into PRSPs and SWAs but will often require specialist skills and donor support to make this happen.
- Programme aid provides a good opportunity to work with Ministries of Finance, which do not normally see cross-cutting issues as relevant to them. In this way their capacity may be enhanced to handle new devices such as green taxation.
- In both intra- and inter-sectoral (i.e. cross-cutting) issues, short-term verifiable environmental undertakings (conditionality) can be effective where donors are highly coordinated, have powerful leverage and are willing to stand by agreed conditions. However, this is the exception rather than the rule for programme aid.
- Civil society can play an important role in monitoring cross-cutting undertakings – expenditures against budget commitments and shared agreements under programme aid (such as forest-related issues in Cambodia) and broader civil society engagements merit encouragement.

### Programme and sector aid – background

Programme aid is financial support to government budgets, largely in order to prioritise and protect pro-poor expenditures, typically in health, education and water, and to help establish an enabling macro-economic framework for growth. It generally forms part of a multi-donor support package, led by the World Bank and the International Monetary Fund.

Insistence that governments should 'own' their programmes underpins both a process of national consultation to produce a Poverty Reduction Strategy Paper (PRSP) for each Highly Indebted Poor Country (HIPC), and the creation of a rolling 3-year Medium Term Expenditure Framework (MTEF). Inclusion of programmes in the MTEF is both clear proof of government ownership, and their best chance of continued funding.

For Foster et al. (2000), the defining characteristics of Sector Wide Approaches (SWAs) are that:

- there is government leadership of the programme;
- there are common approaches across the sector;
- all significant funding for the sector supports a single policy and expenditure programme;
- there is a goal of relying on government procedures to disburse and account for all funds.

### Why mainstream environmental issues into poverty alleviation and economic development debates?

A consensus is emerging across the UN, World Bank and OECD countries on the importance of environment-poverty links for the natural resource, health and vulnerability dimensions of the livelihoods of the poor. Poor people in developing countries are particularly dependent on natural resources for their livelihoods. Soil degradation is a major threat to the livelihoods of 1 billion people, mostly the poor who are more likely to live in degraded or more fragile areas. Rapid deforestation and biodiversity losses are depriving people of valuable forest resources, such as fuelwood, food and medicine. This particularly affects the poor. Moreover, environmental hazards due to unsafe water, inadequate sanitation and waste disposal, and air pollution

are a major problem for the poor. As DFID's Target Strategy Paper (DFID, 2001) on poverty elimination and the environment makes clear, environmental factors are responsible for almost a quarter of the entire disease burden in developing countries.

The poor are particularly vulnerable to shocks arising from environmental change, conflict and natural catastrophes. They tend to live on hillsides or flood plains and in insubstantial housing and are therefore most directly affected by natural disasters. When disaster strikes they have the fewest assets to consume or sell, or savings to draw on.

The political élite in many poor countries have been the principal beneficiaries of their nation's natural capital but have failed to convert this into assets or entitlements for the majority of the population. Natural resource taxation in a context of reduced corruption can provide a major source of revenues to support pro-poor investments in future.

### The record so far

A review of DFID programme and sector aid by Yaron and White (2000) found a number of areas for improvement as well as some encouraging examples of best practice (Box 1).

#### Box 1 Environmental issues and budget support in Uganda

Collaboration between DFID economics and environment advisers resulted in the integration of environmental issues in the budget support submission, recommending donor support for:

- the introduction of 'green' national accounts and green taxation to reflect and redress the problems of over-exploitation of natural and environmental capital;
- integration of environmental sustainability into both policy and investment mechanisms of the Plan for the Modernisation of Agriculture (PMA);
- guidance on the related issue of integrating environmental issues into the District Development Planning process;
- promotion of inter-ministerial dialogue on the need for promotion of 'environmentally-friendly' energy as identified in the Poverty Eradication Action Plan (PEAP);
- identification and use of appropriate poverty-environment indicators.

Source: Yaron and White (2000)

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The EU provides significant budget support to the HIPC group through the EDF Structural Adjustment Facility (SAF). This support is conditional on recipient countries meeting IMF criteria and is intended to integrate with and support the PRSP. Thus environmental considerations within the PRSP also impact on EC structural aid.

A recent study for the World Bank reports that since 1991, the share of Bank lending subject to full environmental assessment or environmental analysis has varied between 32% and 64%. However, less than 20% of Bank structural adjustment loans approved in FY 1998/9 had any mention of potential environment impact, according to Seymour and Dubash (2000). Mainstreaming the environment in programme aid clearly remains a major task for the World Bank.

Despite these worrying findings, there is also evidence of best practice adjustment lending to draw on. For example, the Bulgaria Environment and Privatisation Support Adjustment Loan provides budgetary support to cover the costs of integrating environmental issues into the large-scale privatisation of enterprises (itself supported by a financial sector adjustment loan).

### **An overview of 'ways in' for the environmental to programme and sector aid**

Several opportunities are open to donors to mainstream environmental issues in programme and sector aid. These include: the potential role of strategic environmental assessment and project support; environmental conditionality, 'green' taxation and accounting; and SWAps, specifically focusing on environmental issues. These are discussed in turn below.

#### **The role of strategic environmental assessment (SEA) and project support**

The key elements of SEA are that it is a *systematic process* for assessing the environmental consequences of policies, plans, programmes or proposals to ensure that they are addressed *early on* in the decision-making process.

There is also no unique methodology for undertaking detailed environmental assessments of the SEA. However, Munasinghe and Cruz (see Warford et al., 1997) have developed a widely quoted method of doing this based on preparing Action Impact Matrices. This has three stages:

- listing the major areas of environmental concern together with indicators of the problems and the underlying causes (policies and institutional failures);
- listing current and proposed economic/sector policies and links to the environment; and
- combining the above to list how policies are likely to affect the major areas of environmental concern.

There is plenty of scope for officials preparing programme

and sector aid submissions to ensure that some form of SEA becomes part of this programme submission process. In Canada and the Netherlands, staff involved in preparing aid submissions have access to an on-line guide for the environmental component.<sup>1</sup> Yet this is only a partial solution: the ultimate aim is to ensure that the PRSP has taken environmental issues into account – in effect that the SEA has been 'owned' by the recipient government. This can be a major undertaking and it requires specialist skills as well as donor support in many cases. In Uganda, DFID has helped to start this process (Box 1).

#### **Environmental conditionality**

Many observers now believe that conditionality does not work. Conditions are difficult to monitor, lenders do not wish to stop disbursements and reforms can be stalled once initial conditions have been met. However, under certain circumstances, conditionality can strengthen the hand of reformers within government and can help engage with civil society.

Conditions specific to environmental issues are rare. Nonetheless, reform of forestry policy was a condition of adjustment lending to Indonesia, the Philippines, Cambodia, Cameroon and Papua New Guinea (PNG). Contrary to the general experience, environmental conditionality has been successful in Indonesia (see Box 2), the Philippines and PNG. Forestry policy has moved towards sustainability in these cases and some progress has been made in Cambodia and Cameroon.

Drawing on reviews of environmental conditionality by Semour and Dubash (2000) and Yaron and White (2000), the principal lessons from environment sector conditionality appear to be that:

- Conditions attached to programme aid can raise the profile of environmental issues and encourage the Ministry of Finance to support reforms that raise revenues.
- When there is a relatively strong domestic coalition for reform (e.g. the Philippines and Indonesia) conditionality can help tip the balance. Moreover, consultation with civil society can help to build this environmental reform coalition (e.g. in Indonesia).
- When the entrenched interests are strong the World Bank/IMF have to be in a position of exceptional strength (such as that following the Asian economic crises) **and** be willing to use this leverage to press for adherence to environmental undertakings. This was the case in PNG and Cambodia but not in Cameroon.
- It must be possible to implement the conditions in the *short-run*. This favours undertakings related to economic reforms (such as raising resource taxation) over those related to changes in management practice (such as adherence to management plans) that have to be monitored over a period of time.
- Any environmental conditions must be tightly specified. The implementation of conditions will always be more difficult than their design, and requires careful monitoring.
- Governance conditions – such as requiring transparent concession allocations – are consistent with short-term conditionality and could be more widely used.
- Donor co-ordination is essential to make conditionality work where there are many players (e.g. Cambodia) and it can be very effective. This is the route for bilateral donors to get environmental undertakings on to the agenda – they cannot realistically do it alone.

The capacity for civil society monitoring is relevant to monitoring undertakings or shared agreements under programme aid support. In Cambodia, for example, one of

#### **Box 2 Conditionality and forestry policy reform in Indonesia**

Forestry policy reform in Indonesia has been unsustainable and has produced few benefits for rural households. However, in 1998 following the Asian financial crisis, negotiations with the IMF and World Bank produced specific commitments to both forestry and environment sector reform. Initially, entrenched opponents of reform resisted meeting these commitments. Political changes starting with the resignation of President Suharto in May 1998 strengthened the constituency for forestry (and more general) reform. Moreover, the forestry reform coalition broadened to include civil society representatives calling for social justice and accountability and by 1999 had implemented important forest sector reforms. A new concession management regulation demanded higher royalty payments and finally instituted performance bonds with independent monitoring for concession holders.

Source: Yaron and White (2000)

the conditions attached to the US\$470 million aid package put forward at the 1999 meeting of the Consultative Group of Cambodia's donors was that there should be independent monitoring of log processing and export (Box 3).

Civil society can also have an important role in monitoring sectoral spending agreed by recipient governments. In South Africa, a local NGO has effectively monitored and publicised spending on women and children (who represent another cross-cutting concern) across government ministries against government pledges. This model is likely to be adopted in other countries and could be extended to spending on the environment.

### Green taxation

The term green taxation is used in a broad sense to cover policy actions that have both revenue raising and environmental objectives. The most useful green fiscal instruments for developing countries are reducing subsidies that have harmful environmental effects, taxing pollution and levying user fees on natural resources (see Box 4). Subsidies that result in environmental damage also tend to benefit the relatively well off rather than the poor. Subsidised electricity, for example, misses out the rural poor who have no access to grid supply. The international evidence is that green taxation has real potential to raise additional sources of revenue for developing countries. Moreover, the World Bank estimates that environmentally damaging subsidies cost developing countries US\$240 billion annually in the mid-1990s.

There are cases where simple policy changes can produce a 'win-win' result – ending pesticide subsidies for example. Collaboration between donor agency economic and environmental advisers should identify cases in which pro-environmental policies will save recipient governments money. In general, though, it is necessary to design appropriate fiscal instruments **and** to strengthen regulatory institutions to narrow the distortion between private and social costs of economic activities.

Programme aid provides a good opportunity to work with Ministry of Finance staff who do not normally see environmental issues as being relevant to them. Technical assistance to recipient governments can help to design green taxation, to ensure that impacts on the poor are well understood, that governance issues are incorporated and that effective regulatory institutions are in place. In addition, if the PRSP is to take green taxation issues on board, civil society institutions will also need donor assistance to develop capacity in this area.

### Green accounting

Measures of the stock of total national wealth (produced assets, natural capital and human resources) and changes in wealth after accounting for the depreciation of produced

#### Box 3 NGO monitoring of the forestry sector in Cambodia

The British environmental and human rights group Global Witness was appointed as the official independent monitor of Cambodia's forestry sector in 1999. The need for independent monitoring was identified at the 1999 Consultative Group (CG), made up of Cambodia's donors, meeting in Tokyo, to ensure the Royal Government of Cambodia's (RGC) compliance with promised forestry reforms. The IMF's re-engagement and the World Bank's new Structural Adjustment Credit were conditional on the signing of the deal.

The independent monitoring role is part of the recently established Forest Crime Monitoring Unit, also made up of inspection teams from the Forestry Department and the Ministry of Environment, both of whom will receive the bulk of donor funds to support monitoring.

Source: Global Witness (1999)

assets, depletion of natural resources, costs of pollution and investments in human capital (genuine savings) are useful indicators of how sustainable current policies are. Sustainable development is not possible if the rate of genuine savings is negative for an extended period of time.

Key findings from the 'genuine savings' literature are that:

- Sustained negative rates of genuine savings will result in welfare losses. Sub-Saharan Africa as a whole has experienced negative genuine saving rates since the late 1970s.
- High rates of genuine saving are consistent with converting natural capital into human capital. Many East Asian economies managed high rates of genuine savings in the 1970s and 1980s while experiencing significant losses in natural resources.
- Both macroeconomic and sector-specific policies play a role in improving genuine savings rates.

An important aim of including genuine savings rates alongside traditional measures is to focus attention on the sustainability of national economic performance. Producing genuine savings information helps to inform the debate on sustainable development. However, just because 'savings' form part of the economist's lexicography, it does not mean that finance ministries will take note of genuine savings data. This needs to be brought into general use and donor agency economists can help by taking account of existing data on genuine savings and reasons for these rates when preparing programme aid submissions. A further and greater challenge is to work with civil society in recipient countries to increase economic literacy and so enable better use to be made of genuine savings data.

### Developing environmental SWAp?

While there are many examples of health and education programmes that fulfil the criteria of a Sector Wide Approach (SWAp), it is very difficult to find examples of environmental SWAps. The Centre for Aid and Public Expenditure at ODI listed approximately 80 Sector Programmes in 2000, including environment SIPs in Malawi, Zambia and Uganda. However, Yaron and White (2000) found these environmental examples to have large project rather than SWAP characteristics.

It may, in fact, be difficult to make a case for the environment as a 'sector' and for any move towards distinct 'environmental SWAps'. Certainly, the case for a state role in relation to environmental protection and improvement is strong, and stakeholders need to agree the scope and modalities of such a role. But, overall, environmental matters are inherent in all conventional sectors (agriculture, forest, wildlife, tourism, industry, transport and communications...), so that the most appropriate strategy is to integrate treatment of environmental issues into these, but with some commonality of objectives, strategies and methods.

Taking a holistic view provides a way to integrate environmental issues into sectors such as health. While health sector investments were seen from a strictly curative viewpoint, it was easy to justify a sector focus on building

#### Box 4 The pollution levy system in China

In 1979 China began to experiment with a levy on industrial pollution that exceeded emissions standards in cities. In the early 1980s a pollution levy system was officially incorporated into law and was gradually expanded to cover the entire country. Government revenues from the pollution levy have since increased rapidly, e.g. from 1.2 billion yuan in 1986 to 2.7 billion yuan in 1993. The pollution levy now provides about 15% of all capital expenditures for pollution control and is the principal source of funding for regulatory enforcement activities by local environmental protection bureaux.

Source: World Bank (1997a)

health centres and hiring health workers. However, as noted above, environmental factors are responsible for almost a quarter of all disease in developing countries. Water supply and sanitation and indoor air pollution are the two largest causes of lost disability-adjusted life years in developing countries. Viewed from a sustainable livelihoods perspective environmental concerns also have a legitimate role in transport sector SWAps (via deforestation and impact on wildlife) and agriculture SWAps (due to soil degradation and loss of forest protection functions).

While it is theoretically attractive to integrate environmental considerations into conventionally-defined SWAps, there are also counter-arguments. There may, for instance, be some reluctance to make health SWAps more complex by introducing roles for ministries of water and sanitation and energy. In such cases it is quite conceivable that donor-coordinated support for environmental education would take the form of a project designed to support a health ministry SWAP. The longer-term goal would be to integrate this project into programme or sector aid.

DFID's support to local government strengthening in Nigeria also provides an example of how environmental projects can be linked into a broader sector programme – see Box 5. The livelihoods of the poor are currently worsened by: the failure to enforce the few existing pollution controls; ineffective management of environmental issues in rural areas; minimal provision of environmental services (e.g. sanitation, solid waste management) in urban areas; and little monitoring of change and people's consequent vulnerability. A lack of empowerment constrains the ability of people to improve their situation. This situation has led to the identification of environmental issues as one appropriate indicator of success of the local government programme, through the implementation by states and local governments of a number of demonstration projects addressing priority issues in environmental management.

## Conclusions

Whilst there is only a limited case for 'environmental SWAps' as such, there is ample scope for incorporating environmental considerations into the new architecture of aid. This paper

### Box 5 Integrating the environment into local government strengthening in Nigeria

In both urban and rural parts of Nigeria, the consequences of poor governance and inequitable distribution of resources are leading to severe environmental degradation. However, there are some positive signs. New environmental decrees provide for greater involvement of local people, and a strong civil society interest in environment and development has emerged. There is therefore a growing argument for using environmental issues as one appropriate indicator of success of the programme to strengthen local government, through the implementation by states and local governments of a number of demonstration projects addressing priority issues in environmental management. Potential projects for demonstrating the benefits of improved governance fall into two broad generic categories, namely those which offer the prospect of:

- tangible, physical and socio-economic benefits, e.g. the provision of solid waste management facilities, the extension of sanitation facilities and clean water supplies, the cessation of soil erosion and de-forestation, the restoration of formerly degraded land areas, the effective storage and processing of crops which hitherto perished or were lost due to predation, etc. All of these potential pilot projects relate both directly and transparently to the improvement of livelihoods;
- improvements in institutional capacities and management processes, leading to the adoption of sustainable development processes. Whilst they too are expected to contribute to livelihood improvements, their impacts are likely to be less immediate.

Source: Environmental appraisal sections of the SLGP DFID project memorandum (2000)

has provided illustrations of these, drawing out strong messages on political commitment, professional engagement (including that by over-arching ministries, such as finance) and the need for civil society engagement if the governance of environmental resources is to be enhanced and to generate benefits for the poor.

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<sup>1</sup> The Netherlands guidance can be found at: <http://www.minbuza.nl/SubSites/Gea/index.htm>

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