

STAKEHOLDER GROUP (S): MULTISTAKEHOLDER

Location of consultation: Lilongwe, Malawi

Date: March 2, 2010

Participants (please attach list of participants and their affiliations):

Please see attachment

World Bank Participants and Role:

Sandra Bloemenkamp, Country Manager, Malawi

Kulsum Ahmed, Lead Environmental Specialist, ENV – Morning Presenter and Coordinator

Herbert Acquay, Program Coordinator, AFTEN – Afternoon Presenter and Chair of Morning Session

Glenn- Marie Lange, Sr. Environmental Economist, ENV – Chair of Afternoon Session

Cary-Anne Cadman, Senior Forestry Specialist, Malawi Country Office

Alejandra Alvarez, Consultant, ENV

How did the process fit into ongoing country dialogue (if relevant; for international meetings, please explain how it fit into the topic of that meeting)?

This consultation was held within the framework of the Poverty and Environment Partnership Meeting, which took place between March 1 – 5, 2010. It was hosted by the Government of Malawi, and it was coordinated by OECD, DFID, World Bank, UNDP and UNEP, under the theme: “Climate and Environment Mainstreaming and the Green Economy to Achieve the Millennium Development Goals”. The week consisted of four meetings within the framework of the PEP. These included: the PEP meeting itself which had as its main themes: climate and environmental mainstreaming and green economy; the OECD DAC day focused on aid effectiveness and the environment, the UN Poverty Environment Initiative day for sharing lessons learned in helping countries to mainstream environment in development planning and finally, the World Bank day focused on the corporate and Africa Regional Environment Strategy consultations.

What were the key issues/themes raised by participants?

The participants uniformly raised the following points for the Bank Group to take into consideration linked with the emerging Strategy themes of promoting sustainable development

(by acknowledging that capital could be converted into different forms to promote growth), environmental sustainability (where there were limits to capital substitutability) and green growth:

- (i) The concept of capital substitutability needed to also take into account the winners and losers over the short and long term, i.e. who gains from the substitution over different timeframes. It was pointed out that in Africa often natural capital was used by the poor, but when the capital was substituted for other types of capital, the group that stood to gain was often not the poor. Substitution of capital also sometimes led to the benefits being transferred across national boundaries.
- (ii) It was noted that promoting environmental sustainability (in practice) when there were limits to capital substitutability was a very difficult concept to apply in practice as it was extremely hard to track and predict tipping points.

The participants felt that the Bank Group's comparative advantages were as

- (i) As a knowledge institution (i.e. bringing information to the table on linkages between environment and growth and poverty reduction, but letting the country decide what needed to be done),
- (ii) As an institution that can take a long term view (and therefore one that could provide full information to decision-makers on the short term and long term effects to enable them to make the right choices), and
- (iii) As an institution that provides long term loans.

They also expressed that governance issues should be a priority and within this capacity building at all levels was imperative, with the caveat that country ownership was a pre-requisite. It is also important to provide support (through small scale grants) for civil society organizations in order to be able to hold their governments accountable. It was pointed out that the Bank Group had good procedures that sought to do no harm, but also that the Bank Group sometimes did not seem to be following its own guidelines.

Participants appreciated that the main challenge of a strategy was to build internal alliances and help build shared ownership and accountability for environment objectives and goals within an institution. In that regard, efforts to integrate environment in sector strategies through developing common goals and indicators was appreciated. The participants felt that equally important was to ensure that (i) accountability for implementing the environment strategy started at the top of the institution, (ii) incentive structures to implement the strategy (including performance assessments of decision-makers within the institution) were examined and strengthened to promote greater accountability. The importance of "practicing what you preach" was stressed.

Finally, some of the topics that the participants felt were missing from the current Strategy presentation were reference to poverty reduction and environment, the MDGs, governance issues, incentives for the private sector to take care of the environment and/or insurance

mechanisms against environment damage in the long term and harmonization and coordination with other development partners to maximize impact (it was striking to find out that about 7 bilateral institutions were also preparing environment or environment and climate change strategies, mostly with reference to green growth)

Given the profile of the participants, the following questions were discussed in small group sessions with reporting back to plenary:

1. How should short-term and long term trade-offs between development and environmental sustainability be balanced?

The responses and discussion related to this question were from two different perspectives, namely the role of the Bank viz a viz supporting developing countries to have better information on this issue and second from the perspective of internal Bank incentives and approaches.

On the former, many participants suggested that the WBG should focus on its comparative advantage as a knowledge institution to bring information to decision-makers on the linkages between development and environmental sustainability and to help support their understanding of the related equity issues (i.e the distribution of winners and losers in the short term and long term). There was a sense that the role of the Bank was more as an information provider (and one that could effectively make the case for looking at both long term and short term), which in turn allowed countries to make their own (informed) choices, rather than for the Bank to make decisions of how to balance short term/long term trade-offs. Some participants noted that SEA was an important tool in this regard.

There was also acknowledgment and appreciation of the WBG's role in providing long-term banking to support countries' development efforts. Many participants felt that the Bank should leverage the new climate initiatives to help countries to better address both short term and long term needs. The importance of better linking climate change and ecosystem services in the Strategy, within sectors such as agriculture, forest, energy and water, were emphasized.

Some participants noted that since green alternatives and new technologies are costly, the financing gap from business as usual should be filled with options such as the GEF and new climate initiatives such as the CIF. These should be used to leverage incremental costs and tie local needs to the global agenda. Projects with high environmental impacts should be cleaned up or compensated with carbon offsets.

Some participants were concerned that by raising this issue in the Strategy Consultations, it would open the risk of aiming only at short term goals and lose the "space" required for long-term issues. They stressed the importance of introducing the concept of threshold effect and irreversibility. Projects needed to clearly address short term goals at the same time as long-term goals.

Participants expressed that the Strategy is a good opportunity for the WBG to examine itself, clearly define its role, and position itself between a financing institution and a knowledge sharing one. It should also re-examine its internal procedures and develop incentives and rewards for managers and staff to encourage long-term environmental thinking.

2. Are we on the right track by emphasizing growth in the context of Sustainable Development or Environmental Sustainability as appropriate?

The participants expressed concern that growth and development were being used as if they were interchangeable, which they disagreed with. Growth brings opportunities for development and poverty reduction, but is not sufficient to effectively achieve this. The Strategy should address in what way growth is the root to development, and keep in mind that the objective is improving development for poverty reduction. Poverty reduction is only achieved through quality of growth and effective distribution of that growth. Some felt that functioning eco-system services were a pre-requisite for growth. Some participants suggested that the World Bank should have an overarching strategy on development and growth, and the environment strategy, as well as other sector strategies, should be developed under that.

Many participants welcomed the focus on growth, given that this signaled development opportunities. However, all participants cautioned the Bank to be more specific in terms of how growth was discussed in the Strategy. In addition to emphasizing distributional aspects of growth, participants felt it was important that the Strategy address the boundaries of converting natural capital, and where the line should be drawn.

It was felt that the concept of capital substitutability needed to also take into account the winners and losers over the short and long term, i.e. who gains from the substitution over different timeframes. It was pointed out that in Africa often natural capital was used by the poor, but when the capital was substituted for other types of capital, the group that stood to gain was often not the poor. Substitution of capital also sometimes leads to the benefits being transferred across national boundaries. Some participants suggested that the Bank consider preparing guidelines on fungibility of capital, taking into account the impact of the shift between different forms of capital on different stakeholders, across boundaries and over different time frames.

It was also noted that promoting environmental sustainability (in practice) when there were limits to capital substitutability was a valid concept but at the same time was a very difficult concept to apply in practice as it was extremely hard to track and predict tipping points.

Participants felt that it was also important that the Bank incorporate the concept of Green Growth in the Strategy. They suggested that the Bank should look at what is being done well and what has been done poorly, in order to learn from past experiences. The importance of coordination with other agencies, also active on this topic, was emphasized.

3. What should the balance be in the Bank's role between addressing country specific priorities and global public goods agenda?

Most participants stated that by concentrating on country priorities, global public goods (GPGs) should be addressed, i.e. the World Bank should think globally and act locally, always maintaining coherence between the country and global agendas. However, they stressed the importance of the agendas being country demand driven. They expressed that multi-donor trust funds had been successful in this regard and, therefore, should be looked at and addressed in the Environment Strategy.

The participants also stated that the Bank should focus more on LDCs, because currently, it is too focused on middle income economies.

According to participants, an important issue that the Strategy should focus on is governmental capacity. Participants felt that the WBG is in a strong position to influence policy and national practices, and to help countries see and benefit from GPGs, so it should take advantage of this. It can raise alternatives while respecting national sovereignty. It is important to package information to influence finance ministers decisions and public utility within countries, which is often determined on a political basis. The Bank should help countries develop indicators at sector and country levels.

The WBG should also have a strong role in capacity building at all levels. Due to decentralization, it should work more on the district and local levels, and should facilitate expanded stakeholder engagement at the country level.

The WBG should also focus on its comparative advantage of making decisions on regional and transboundary impacts of projects, and to help coordinate sector wide, multi-donor activities. The way that growth is measured and the drivers of its lending should be reevaluated. It is important to achieve donor harmonization of environmental sustainability and the Bank can have a pioneer role in this. There should be a greater integration of lending instruments.

In order to effectively address GPGs, it is also important that the Bank look at its internal organizational structure and incentives, since one of the problems it faces is that sector specialists work on projects with limited participation and do not engage as cross-cutting professionals across the whole program.

One participant stated that the first thing that needs to be done is reform the GEF. Some questioned whether the WBG was the adequate institution to address GPGs.

4. What should the role of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) be in helping private sector stakeholders to achieve higher levels of performance in pursuing environmental sustainability?

The engagement of private sector in sustainable development for poverty reduction was broadly discussed and considered a fundamental issue. The participants expressed the need to develop clear guidelines and specific targets for private sector to meet environmental sustainability. Tax policies were also considered fundamental to address.

Environmental assessment should be a condition attached to lending, and there should be more emphasis on insurance against environmental damage in the long term.

Frameworks for investments which support and encourage green investments should be developed.

5. Are there any other issues that have not been fully covered that we should include in the Strategy?

The participants stressed that the WBG Environment Strategy should not lose sight of their main objective which is poverty reduction. It is important to focus on the environment and development linkages. They also were surprised at the lack of reference to the MDGs in the Strategy to-date.

They expressed that governance issues were not sufficiently addressed in the presentation and concept note and that they should have a strong role in the new Environment Strategy.

They also considered that is important to achieve harmonization with other development partners.

They noted that t strategy should address WBG operational and organizational issues and re-evaluate the incentive structure in order to be able to work cross-sectorally.

Biodiversity and ecosystems should have a stronger role within the Environment Strategy, as should cleaner production approaches.

Participants noted that it is important to focus on communities and livelihoods, and concentrate on the benefits of communities. It is also important to assure finance for support for civil society to hold government accountable. The Bank should work with CSOs in small scale grants

The question of “why moving beyond mainstreaming?” was raised. “If it has not been achieved yet, how can we move beyond it?”

The strategy needs clearly stated objectives, and the Bank’s position on GPGs and governance should be clear.

“Will the Environment Strategy be embedded in others? What incentive system will be in place to ensure that the Strategy is operationalized?” Indicators are needed to measure strategy process and country programs.

Three key issues that should be addressed were as follows:

- a. take into account context
- b. ownership and accountability
- c. how to move this from the shelf to implementation

Annex 1: Information on Flip Charts: Feedback from Group Discussions

How should short-term and long term trade-offs between development and environmental sustainability be balanced?

- By addressing this in the Strategy, it opens up the risk of opening up a chance of aiming at short term
- Introduce threshold effect, irreversibility
- Need to start managing uncertainty
- Projects should address short term at the same time as long term
- Projects with high environmental impacts should be cleaned up
- Mainstreaming in other sector investments
- Green alternatives are costly - why not consider filling the gap in financing from business as usual (like GEF - incremental cost)
- If bad choices are made, offset or compensate as a principle
- WBG has the advantage of knowledge and tools, therefore, it should make the case for long-term over short term
- Should use the “investment pays” argument to facilitate funding green
- New climate initiatives such as CIF should be used to leverage incremental costs and tie local needs to global agenda
- Should climate change and ecosystem services be better linked?
- Ecosystem services should be addressed within sectors (agriculture, forest, energy, water)
- Needs to focus on linkages between global public goods and environment at local level (livelihoods)
- Strategy needs to address inequities (a focus on equity would address short and long term trade-offs)
- Need long term banking, not short term projects, objectives (i.e. forest bonds)
- Bank needs to position itself between a finance institution and a knowledge sharing one
- Incentives for Bank staff need to address long-term environmental thinking (expand thinking from REDD)
- Innovate and incentivize long-term
- New technology is expensive so how to avoid the cheap alternative
- WB is just one actor - how do investments from China and Brazil, with lower environmental standards, influence the thinking

- Move beyond capital costs in decision making, governmental long-term needs
- How is DPL Reform related to Environment Strategy
- How will SEA be dealt with to form basis for policies and set priorities for long-term

Are we on the right track by emphasizing growth in the context of Sustainable Development or Environmental Sustainability as appropriate?

- Why is growth and development interchanged, when it is not interchangeable?
- In what way is growth the root to development?
- Growth brings opportunities for sustainability
- Growth + Quality + Distribution = Poverty reduction
- Improving development is the point
- Quality of Growth is important
- Functioning Ecosystem Services is prerequisite for growth
- In what way is growth a way to development?
- A WBG overarching strategy on development and growth is missing
- From poverty reduction to growth is not good
- What are the boundaries of converting natural capital? Where should the line be drawn?
- Green growth needs to be more embedded in the Environment Strategy
- Use clear terminology (SD, ES, etc)
- Fungibility of all forms of capital - need clear guidelines
- Environmental standards in developing countries are compromised in name of development: WB should set clear boundaries
- When converting forms of capital understand winners and losers. Rural poor is most dependent on natural capital. (equity issue) WB needs to be a more informed partner.
- Do no harm, focus on long term problems (employment, income, nutrition)
- Look at what is being done well and poorly now?

What should the balance be in the Bank's role between addressing country specific priorities and global public goods agenda?

- GEF Reform
- Concentrating on country will lead to global
- Is the WBG the most effective organization to address global public goods?
- Coherence between country vs. Global
- Think globally, act locally
- WBG should focus more on LDCs
- Strategy should have reference to MDGs
- Should be country demand driven
- Success of multi-donor trust funds to address environmental issues should be addressed
- Should be demand vs. supply driven
- More SEA, instead of CEA would help address upstream issues
- How to influence public utility? Tariff structures are often determined on political basis.



- Indicators at sector and country level should be developed
- Capacity building with decentralization needs to move to lower levels (district, localities)
- Three clusters - sustainable development, environmental sustainability and green growth - do these make sense? are they competing, overlapping?
- Continue to support and manage carbon and climate funds.
- National capacity is a critical issue in the WB
- Bank is in a strong position to help countries see and benefit from GPGs
- Apply safeguards to programs to assure GPGs are not harmed
- WB is in a strong position to influence policy and national practices, so it should take advantage of this.
- Learn from bad experience
- Strategy needs and accountability framework. It should apply to its own performance measures
- Comparative advantage of WB is making decisions on regional and transborder impacts of projects.
- Need to raise alternatives of alternatives while respecting national sovereignty
- Role of Bank is to help coordinate sector wide, multi-donor activities
- Need targets on donor harmonization of environment sustainability - Bank should pioneer.
- Much talk about balance but we are still professing that we don't know the linkages to make trade-offs
- Specific focus should be where Bank has comparative advantage
- Full spectrum of lending needs integration
- Linkages of instruments and emphasis to different bank's agendas
- Link of regional institutions is missing
- The way that growth is measured and the drivers of its lending should be looked at
- How to package information for finance ministries?
- Enable stakeholders to create demand at country level
- Make sure grants fulfill their mandates in terms of environmental legislation
- Facilitate expanded stakeholder engagement
- A problem of WB is that sector specialists come in for limited participation and do not engage as cross-cutting professionals across the whole program
- Bank has a role in global public goods such as fisheries, but these rarely fit within country strategies
- Ecosystem services are global, private and country goods.

4. What should the role of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency ((MIGA) be in helping private sector stakeholders to achieve higher levels of performance in pursuing environmental sustainability?

- Should have guidelines and specific targets to meet environmental sustainability
- Tax policies
- Lending systems to be environment proofed
- Environmental assessment should be condition attached to lending
- More emphasis on insurance against environmental damage

- Frameworks for investments which support/encourage green investments

5. Are there any other issues that have not been fully covered that we should include in the Strategy?

- Poverty reduction should be the most important issue addressed - the objective
- Governance issues
- Harmonization with other development partners
- Should address WBG operational and organizational issues
- Biodiversity and ecosystems
- Communities must benefit
- Why moving beyond mainstreaming?
- Clean production initiative
- Assure finance for support for civil society to hold government accountable
- Strategy needs clearly stated objectives
- Bank's position in global public goods and governance is needed
- New aid modalities and procedures should be addressed - What will be different?
- Will environment strategy be embedded in others?
- What incentive system will be in place to ensure the Bank practices what it preaches
- Indicators are needed to measure strategy process and country programs
- The Bank should work with CSOs in small scale grants
- It is important to focus on the environment and development linkages
- Focus on risk and resilience
- How will it be operationalized and what indicators will there be to follow up?
- 3 key issues that should be addressed:
 - b. take into account context
 - d. ownership and accountability
 - e. how to move this from the shelf to implementation