

DFID's approach to the environment



Cover photograph: A man in India helps his crop survive in cracked earth by watering it by hand. (© T. Balabaadkan/UNEP/Still Pictures)

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Introduction

1.1 This paper sets out **DFID's approach to the environment** and how we integrate environmental considerations into our work with developing countries and other donors. It describes the environmental challenges faced by poor people and the principles we use to make the environment a part of our efforts to reduce poverty. It gives examples of how DFID is successfully working with others to make a difference.

1.2 **DFID's main focus is on how the environment contributes to poverty reduction** and sustainable development in developing countries, as measured by progress towards the Millennium Development Goals (MDGs). The specific environmental goal is MDG7, to 'ensure environmental sustainability'. This aims for:

- principles of sustainable development to be integrated into national policies and programmes;
- environmental degradation to be reversed;
- poor people to gain access to water and sanitation; and
- slums to be upgraded.

Weak progress on this MDG will compromise achievement of the other MDGs and will undermine our overall investments in poverty reduction.

1.3 **Poor countries depend on environmental resources** to a much greater extent than richer countries. Poor people have inadequate access to environmental assets such as clean water, clean air, fertile land and productive plant and animal life that are essential for livelihoods and health. Poor people usually bear the highest costs of environmental hazards and degradation. Good environmental management and sustainable use of environmental and natural resources are essential to economic growth in developing countries.

1.4 **Links between environment and poverty are changing constantly.** Weather patterns, water flows and floods are increasingly extreme and uncertain. Ownership and control of environmental assets is becoming concentrated in fewer hands. Some assets are priced in markets but others continue to be treated as free goods. Many environmental issues suffer because of poor policies or failures in budget allocation. At the same time, there are changes in the way aid is given: we are trying to work more in partnership with countries' own programmes, co-ordinate donors' efforts better, use budget support more, and make the international system more effective.

1.5 The paper highlights three basic approaches necessary to address environmental challenges for poverty reduction and development:

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- (1) make a direct contribution to better environmental management;
- (2) tackle underlying institutional problems; and
- (3) manage environmental risks.

1.6 DFID will apply six interacting principles across its policy and programmes to tackle the range of environmental challenges:

- take an integrated approach to the environment;
- support country-driven processes so they can handle local, national and global environmental priorities;
- in selected countries, support the local processes that encourage sustainable development and improved capacity to manage the environment in a way that benefits poor people;
- manage environmental information, knowledge, and learning for continuous improvement;
- enable developing countries to strike effective deals through multilateral initiatives; and
- strengthen the co-ordination of donors' efforts and policies on the environment.

1.7 Within the UK, other government departments (in particular the Department for Environment, Food and Rural Affairs (Defra) and the Foreign and Commonwealth Office (FCO)) have responsibility for global environmental issues and international environmental processes. DFID works closely with them to ensure that poverty and development perspectives are appropriately addressed. DFID's approach to the environment is also consistent with principles described in the UK Sustainable Development Strategy.

The challenge

2.1 **The Secretary of State for International Development has emphasised the need to sustain progress in poverty reduction and to ‘make sure that today’s development successes don’t become tomorrow’s environmental failures’.**¹ For example, he has drawn attention to the World Wide Fund for Nature’s calculation that the overall ‘ecological footprint’ (a measure of demand on the Earth’s natural systems) exceeds carrying capacity by 20%, and is increasing.² The outgoing president of the World Bank identified environmental sustainability as one of today’s three top development challenges.³ Success in achieving sustainability depends on development choices and actions.

2.2 **But Millennium Development Goal 7 – the ‘environment’ MDG – is not being achieved.** Its inclusion among the MDGs demonstrates a worldwide aspiration for development to be sustainable, and for pursuing environment objectives that matter for poverty reduction. However, in examining 67 national MDG reports, the UN concluded that ‘there is poor coverage of MDG7, with many countries reporting that they are unlikely to reach MDG7 by 2015’.⁴ DFID’s attention to MDG7 is clearly warranted.

MDG7 – the challenges

MDG7, ‘ensure environmental sustainability’, includes three targets. Each of them presents significant challenges. The challenges of Target 9 mean it is too often ignored in policy development, implementation and assessment.

Target 9: To integrate the principles of sustainable development into country policies and programmes, and reverse the loss of environmental resources. Among environment specialists, the consensus is that the **world is off-track** for Target 9. Target 9 is particularly difficult to monitor. Almost all progress reports for MDG7 neglect it, offering data on only Target 10 and/or Target 11. Target 9 is the only non-quantitative target for the MDGs. The indicators themselves (forest cover, protected areas, energy sources, carbon dioxide emissions) do not reflect key interactions between the environment and poverty, and few are routinely measured.

Target 10: By 2015, reduce by half the proportion of people without access to safe drinking water and sanitation. The world is off-track for sanitation, but on-track for water except in sub-Saharan Africa. The target itself is relatively clear. However, there is no effective measure for access to safe water (‘safety’ is assumed to go hand in hand with ‘improved water supply’ and access permits a two-kilometre distance from the source and assumes reliability).

¹ SERA Annual Lecture: ‘Can Development be Sustainable?’ 24 November 2004.

² WWF. 2004. Living Planet Report 2004.

³ James Wolfensohn retirement speech, 2004.

⁴ <http://www.developmentgoals.org/Environment.htm>

MDG7 – the challenges (continued)

Target 11: By 2020 achieve a significant improvement in the lives of at least 100 million slum dwellers. This figure is low compared with the predicted numbers of slum dwellers – there are presently 924 million slum dwellers worldwide, and this is expected to increase to 2 billion by 2030 if current trends do not change.

2.3 Most MDGs depend on environmental goods and services being available, and environmental hazards being controlled – but this remains compromised. Progress towards MDG7 can contribute towards achievement of other MDGs.⁵ Environmental systems produce assets that are essential for achieving most MDGs, such as clean water and fertile soils. Good environmental management and sustainable use of environmental and natural resources underpin economic growth in many developing countries.

Environment and growth

In Ghana, agriculture provides about 36% of GDP, 40% of export earnings and 60% of total employment. Forestry makes up 5% of GDP and 10% of export earnings. – C. Corson (2004), 'Environmental or Natural Resource Inputs to Economic Growth in SSA'.

A World Bank study estimates that natural capital makes up 5% of global wealth, but it contributes 26% of wealth in low-income countries. 51% of this wealth lies in cropland. 'Where is the Wealth of Nations? Measuring Capital for the 21st Century' (2005)

2.4 Environmental systems also produce hazards that threaten development, such as floods and pollution. Global and regional environmental challenges, such as climate change and drought, often make environmental hazards worse, with direct and indirect adverse effects on poverty reduction and sustainable development. As well as long-term impacts on development, environmental hazards precipitate short-term disasters or make such disasters worse. Better environmental management can reduce such risks. Rapid growth and population pressures can strain environmental resources further.

2.5 Floods, droughts and landslides regularly cause massive damage and loss of life – and death rates from endemic air and water pollution are as significant. Bangladesh suffered eight major floods between 1974 and 2004, the 1998 flood alone affecting 30 million people and inflicting losses of US\$3 billion (8% of GDP). Malawi's 1991-1992 drought cut real income by 8% and water scarcity in Africa is expected to

⁵ 'The long term success in meeting all of the MDGs depends on environmental sustainability' – 2005 UN Millennium Ecosystem Assessment.

double by 2025. Such hazards need to be predicted and controlled to prevent them limiting achievement of key MDGs.

Links between environment and Millennium Development Goals⁶

1. Eradicate extreme poverty and hunger

The livelihood strategies of 2 billion poor people, and the food security of most poor people, depend on ecosystems sustaining diverse goods and services. Good management of environmental and natural resources is often essential for economic growth.

2. Achieve universal primary education

Children, especially girls, collect water and fuelwood, reducing school attendance. Better school sanitation increases attendance by girls.

3. Promote gender equality and empower women

Poor women suffer indoor air pollution, the burden of collecting water and fuelwood, and unequal access to land and natural resources.

4. Reduce child mortality

Diarrhoea and respiratory infections are the main killers of children under five. These are strongly linked to unclean water, inadequate sanitation, and air pollution.

5. Improve maternal health

Indoor air pollution and the burden of carrying water and fuelwood affect women's health and fitness for safe childbirth.

6. Combat major diseases

Up to 20% of disease burdens in developing countries are associated with environmental factors. Preventive environmental health measures are as important as health treatment.

7. Ensure environmental sustainability

About half of the world's poor live in environmentally fragile rural areas. Environmental degradation must be reversed to sustain environmental services such as water, carbon, nitrogen and nutrient cycling.

8. Develop a global partnership for development

Many international environmental problems – such as climate change and depletion of major fisheries – can only be solved through partnerships between rich and poor countries.

⁶ World Bank, EC, DFID, UNDP (2002) Linking Poverty Reduction and Environmental Management; UN Millennium Project (2004) Report of Task Force 6 on Environmental Sustainability.

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2.6 The Prime Minister has singled out climate change as a threat to achieving the MDGs. Roughly US\$10-20 billion of annual official development assistance (ODA) is exposed to climate risks. OECD estimates of donor investments at risk from the adverse effects of climate are as high as 53% of total donor spending in Bangladesh and 26% in Tanzania.

2.7 **Environmental challenges affect poor people disproportionately.** Through participatory poverty assessments (PPA) in numerous countries, poor people have expressed just how much their livelihoods, health and safety depend on environmental assets. The poorest people often express their deprivations in terms of poor access to such things as water, fuelwood, and energy services, rather than income. They also tend to pay the highest costs of environmental degradation and hazards, and suffer most from environmental conflict.⁷ Individual challenges obviously depend on the context. For example, in urban areas poor people are often obliged to settle on land subject to floods, landslides or pollution, where poor housing creates severe health problems.

Research from Zimbabwe indicates that the poorest fifth of people get 55% of their income from environmental resources, compared with just 2% for the richest fifth. Further research suggests that the value of natural resources to poor households can be up to 40% of their total income. – W. Cavendish, 'Empirical Regularities in the Poverty-Environment Relationship of African Rural Households' (1999) Centre for the Study of African Economies.

Through a DFID-supported PPA in Pakistan (2003) poor people identified environmental and natural resources – including access to land and water, and a degrading natural resource base – as one of six priority areas of concern.

A study in Cambodia found that fuelwood, fishing and other resources provided by mangroves contributed 20% to 58% of household incomes, with heavier reliance among poorer households.

2.8 **Institutional and governance failures underlie the environmental problems facing poor people.** The Millennium Task Force on Environmental Sustainability notes that the *direct* factors behind environmental problems are change of land use, over-exploitation or inappropriate exploitation of resources, invasive species, pollution, and climate change. However, there are other *underlying* causes of environmental problems. Though context-specific, general trends do emerge.

Governance

2.9 Governance problems are one of the main reasons why poor people suffer environmental deprivations. Public ownership of environmental assets is often not

⁷ M.A. Brocklesby and E. Hinshelwood (2001) Poverty and the Environment: What the Poor Say. DFID

respected, and is ineffective. Poor people, who depend most on such assets, and who are potentially good environmental managers, frequently lack rights of legal access. Women, lower-caste and ethnic minorities, and subsistence communities, are especially vulnerable. Powerful groups are able to exclude them, and exploit environmental assets, and this is often concealed by poor mechanisms for transparency.

2.10 Environmental crime, such as illegal logging, is escalating in many countries but is often ignored or even informally institutionalised, with adverse impacts on society and the economy. Environmental assets are increasingly the cause of conflict, and environmental degradation the consequence of it.⁸

2.11 Good management of environmental resources should be integrated into the planning process for sustainable poverty reduction and development. This includes management of environmental and natural resources for sustainable growth, consumption and production. It also means accounting for the effects of global and regional environmental change. Policy to promote business growth for poverty reduction needs to encourage good environmental management and sustainable resource use.

Economic policy and markets

2.12 Tools have been developed to include environmental costs and benefits in economic assessments and cost-benefit analyses. Environmental impacts frequently take the form of 'externalities', which are positive and negative impacts of economic activity that are not priced or included in decisions. While such externalities can be valued and taken account of in public investment decisions, the use of sophisticated assessments of this type is not widespread. Furthermore, the private sector and other producers will not take account of externalities at all unless government puts in place mechanisms to make this happen. This may be, for instance, through regulation or the creation of property rights, which ideally can be traded to maximise efficiency. Unless there are incentives to minimise environmental costs or maximise environmental benefits, unsustainable development will result.

2.13 Government policy which promotes economic growth and private sector development should adequately promote sustainable resource use and good environmental management through appropriate regulation, property rights and market-based instruments. There are also opportunities to expand and harness the immature markets for investment in ecosystem services such as carbon sequestration, watershed

⁸ Speech by the Secretary of State for International Development, at Wilton Park 'Beyond polarisation and platitudes – policies for environment, development and sustainable peace' 16 September 2004.

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management and biodiversity conservation. Carbon emission reductions and sequestration schemes are the most advanced, for example, where business, government or individuals can make investments in forestation, often in developing countries, to offset emissions from energy consumption in the developed world.

2.14 Public and private investment in environmental assets can generate strong returns for poverty reduction, as demonstrated for example by investments in water and sanitation, and soil conservation.

'Investments in increasing access to water supply and sanitation yield very high rates of return, with benefit-to-cost ratios in the range 4:1 to 14:1, making them extremely attractive from a social investment standpoint.'

'Rates of return to investments in soil conservation measures can be very high, but with substantial variation according to geographic context. An economic survey of soil conservation in Central America and the Caribbean found high rates of return (60 to 85%).'

– Environment and the MDGs, Poverty and Environment Partnership, 2005.

Research in specific flood risk reduction activities in India shows that for every rupee invested, there is a return of 3.76 rupees in benefits. – Venton and Venton 'Disaster Preparedness Programmes in India – A Cost Benefit Analysis' (2004) ODI HPN Network Paper no. 49.

The cholera outbreak in Peru in 1991 (caused by poor water and sanitation) cost the economy an estimated US\$1 billion in lost tourism and agricultural exports in three months.

Fiscal regimes and subsidies

2.15 Tax regimes often offer inadequate incentives for environmental sustainability. Environmental fiscal reform (such as natural resource pricing measures, product subsidy reform, service cost recovery, and pollution charging) can help improve sustainability. For example, lower coal subsidies in China helped reduce energy intensity (the amount of energy used to run the economy) by 30% between 1984 and 1995. In agriculture, fisheries, forestry and energy supply, subsidies tend to benefit a small group at high cost to society by driving prices below competitive levels for small farmers, draining government treasuries, and ignoring environmental costs.

Information

2.16 The generation and use of environmental information by all interested parties tends to be weak, partly because of the points above. It is rare that information is good enough on both poverty and environmental conditions to reveal the major links between them. There are also scientific uncertainties that make it hard to predict environmental outcomes (for instance changes in climate and water resources).

In 2005 the G8 committed to supporting improvements to climate observation networks in Africa to address gaps in climate data. This will be supported by developing the ability to analyse and use that data so relevant national and sectoral plans and action can be properly informed.

Capacities in developing countries

2.17 Environmental institutions in developing countries have limited ability to understand links between environment and poverty, integrate with planners and treasuries, and work with stakeholders. Agencies with other responsibilities, such as planning and finance, do not fully consider environmental and natural resource aspects of growth and development. Local authorities, too, can play a vital role in helping poor people to access environmental assets, but in general their ability to do this is weak.

International architecture

2.18 The current system of environmental governance is fragmented across a number of agencies and agreements with significant transaction costs and reporting burdens for developing countries. Despite recent progress, many agreements are not yet equitable. For example, the Kyoto Protocol allocated quotas for greenhouse gas emissions to industrialised countries, giving them rights to emit, but future agreements should also allow developing countries to participate fully in global carbon trading. Agreements should reflect common, but differentiated, responsibilities. There has been recent success in improved common understanding of how environmental management can contribute to poverty reduction, for example with international environmental organisations taking more account of poverty reduction. However, as recognised at the 2005 World Summit, development and environment organisations could be more coherent and improve co-ordination, so that expertise is used most effectively and knowledge gaps are filled.

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2.19 Environmental production standards favour bigger companies. Countries providing global environmental services receive inadequate benefit. It has also proved difficult to integrate complex, uncertain and long-term environmental issues into international development initiatives and targets. This is shown in the MDG7 targets for environment.

3.1 **DFID's mandate** is expressed by the International Development Act (2002), which stresses sustainable development as the principal purpose. Approaches also build on environmental commitments made in the two White Papers on international development:

- promoting equitable and environmentally sustainable growth;
- strengthening developing countries' ability to participate in international processes and negotiations on environment and development; and
- working with developing countries to ensure poverty reduction strategies (PRSs) reflect the need to manage environmental assets sustainably.

3.2 **Several of the UK Government's international obligations and commitments on the environment** have direct implications for DFID.

- *The 2005 World Summit* reiterated commitment to the achievement of all the MDGs, including MDG7. The Outcome Document recognised the importance of the environment and natural resource base to development, and highlighted specific areas for action, including climate change, water resources management and environmentally related research.
- *The 2005 G8 Gleneagles Plan of Action and Dialogue on Climate Change, Clean Energy and Sustainable Development* includes commitments on low carbon development in developing countries, adaptation to climate change, and illegal logging.⁹
- *Multilateral environmental agreements (MEAs)* – notably on climate change, biodiversity, desertification, ozone layer protection, persistent organic pollutants, and plant genetic resources – have been ratified by the UK. These lay out a wide range of legal obligations on the Government. DFID takes the lead on the Desertification Convention and has key roles in others.
- *The Global Environment Facility (GEF)* is the financial vehicle for implementing many MEAs. The UK is committed to its replenishment.
- *The UN-HABITAT agenda* comprises a wide range of actions for tackling urban poverty and environmental degradation, notably monitoring MDG Target 11. The UK is committed to this agenda, on which DFID leads.

⁹ DFID will work towards putting in place effective climate risk management in line with the G8 commitment. For example, DFID Bangladesh has initiated a climate change screening of its portfolio, the results of which will be used to help develop appropriate screening methods for country assistance plan (CAP) development.

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- *The 2002 World Summit on Sustainable Development (WSSD)* laid out key commitments in the form of the *Johannesburg Plan of Implementation*. DFID leads for the UK in four WSSD commitments and in subsequent reporting to, and policy development through, the *UN Commission for Sustainable Development*.¹⁰
 - integrating environment into PRSs and national development plans;
 - access to clean water and sanitation;¹¹
 - access to energy; and
 - finance (improving aid volume and effectiveness – with HM Treasury).

3.3 **The UK Sustainable Development Strategy**, launched in March 2005, integrates international issues. The strategy, and its implementation, offers a framework for improving the way government departments work together, their effectiveness for planning, acting on and monitoring international actions, and for helping other nations in their pursuit of sustainable development.

3.4 **High levels of concern for the environment by interested parties** mean that the way policies link environment and development is contentious. It is also subject to increasing scrutiny, such as by the House of Commons Environment Audit Committee, and Parliament as a whole, reinforced now by the Freedom of Information Act and its associated Environmental Information Regulations. The environment policy framework in which DFID operates is correspondingly fluid and demanding.

3.5 This policy framework, taken as a whole, is background for what is expected of DFID programmes. It is both consistent with DFID's major commitment to the MDGs, and offers ways to reinforce our work towards MDG7.

¹⁰ The Commission on Sustainable Development is the key forum for dealing with the integration of local and national environment assets into development processes.

¹¹ This paper complements the Water Action Plan which specifically addresses DFID's approach to water and sanitation.

What should be done about the challenge

4.1 DFID's poverty reduction mandate means its *primary environmental aim is to support sustainable use of natural resources, and equitable access and benefit sharing of environmental assets for poverty reduction*. Three basic approaches are required to address environmental challenges for poverty reduction and development. Each of these includes real successes, as well as areas for improvement.

Make a direct contribution to better environmental management

4.2 The challenge is to ensure a focus on environmental outcomes that matter most to poor people, and that are central to achieving many MDGs. This includes, for example, improved access by poor people to environmental assets, such as clean water and fertile land, and improved living conditions, such as in urban slums. This is often through assistance with broader objectives, such as to improve livelihoods or access to infrastructure, but where environmental outcomes are a significant component. It can also include addressing global and regional environmental challenges, such as climate change and desertification, which undermine sustainable poverty reduction. In some circumstances DFID works directly towards environmental outcomes important for sustainable poverty reduction.

Examples of direct DFID contributions to environmental outcomes

Water and sanitation (MDG7 Target 10)

DFID provides around 5% of the global aid total for water and sanitation services, which represents around 6% of our total bilateral aid. DFID's principal partners to help improve water resource management, and delivery of water and sanitation services to the rural and urban poor, are: the Water and Sanitation Programme (WSP), managed by the World Bank; the Global Water Partnership (GWP); the Water Supply Collaborative Council (WSCC); the Joint Monitoring Programme implemented by UNICEF and the World Bank; and Water Aid. To further strengthen this work, we have put in place a Water Action Plan. DFID will double over three years its funding (both bilateral and multilateral) for improvements in water and sanitation in sub-Saharan Africa, from £47.5 million to £95 million in 2007-8.

Examples of direct DFID contributions to environmental outcomes (continued)

Slum upgrading (MDG7 Target 11)

DFID has been a major contributor to slum upgrading programmes in India since the late 1970s, and is presently funding major upgrading initiatives across the state of Andhra Pradesh, and in Kolkata in West Bengal. DFID has also provided £1 million for the City Community Challenge Fund in Zambia and Uganda, to build links between civil society and local government to reduce urban poverty. It currently provides financial support to a range of international initiatives including the Community-Led Infrastructure Financing Facility, the Cities Alliance, the Slum Upgrading Facility, and various World Bank projects aimed at reducing urban poverty.

Environmental governance programme in Kenya

DFID supports a £2.2 million programme in Kenya that helps poor people gain better access to natural resources essential for making a living, such as forests, charcoal and land. We work with civil society to better enable them to represent the needs of poor communities to government and advocate improvements in legislation to benefit poor people, such as the Forest Act, Environment Act and Energy and Mining Bills. The programme has facilitated greater accountability and transparency in environmental decision making so that government is better able to respond to community needs. It has strengthened dispute resolution processes and trained the judiciary for improved understanding of environmental law. The programme is also working with sections of the private sector that rely on natural resources, to encourage more sustainable use so as to create better job opportunities for the poor.

The Yunnan Environment and Development Programme in China

DFID helped the Yunnan provincial government to integrate environment into policies and programmes addressing rural poverty. The DFID programme identified ways for poor people to better access environmental resources, such as land and forests, as well as how provincial government environmental management policies can be improved to ensure poor rural people benefit.

Overseas Territories Environment Fund

Because the UK Overseas Territories are not eligible to benefit from the Global Environment Facility, DFID has established jointly with the Foreign and Commonwealth Office an Overseas Territories Environment Fund. It supports the implementation of their Environment Charters and environmental management more generally, in order to meet both local and global objectives.

Global environmental funds

DFID is a major contributor to the Montreal Protocol Fund, Global Environment Facility, UN Convention to Combat Desertification and UN Forum on Forests, supporting especially the participation of developing countries and building their negotiation capacity. A key example is DFID's £10 million contribution to the UNFCCC Special Climate Change Fund to integrate climate risks in development planning and policies.

Examples of direct DFID contributions to environmental outcomes (continued)

Climate change adaptation

DFID Bangladesh is providing £6 million over five years to support the UN Development Programme (UNDP) and Government of Bangladesh in establishing the Comprehensive Disaster Management Programme. This programme enables transition of disaster management from relief to risk reduction, including longer-term climate risks. DFID China and Defra are collaborating on the £550,000 climate change initiative 'Integrated assessment of impacts of climate change on Chinese agriculture and options for adaptation', to combine scientific advice with practical policy recommendations. DFID is funding a health and vulnerability assessment in 12 least-developed countries that aims to engage the health sector in climate change discussions, highlight adaptation responses, and provide recommendations on effectively bringing the issues into mainstream planning.

Programme Partnership Agreement with World Wide Fund for Nature-UK

DFID is supporting WWF-UK to improve environmental capacity and delivery in developing countries (notably civil society organisations, local government, participatory approaches to natural resource management, and climate change adaptation plans) as well as policy development – including environmental integration into PRSs and investment frameworks for sustainable energy.

Forest governance

The new Forest Law Enforcement, Governance and Trade (FLEGT) regulation was agreed in October 2005. This will give EU customs authorities powers to implement a timber licensing system and deny access to EU markets by unlicensed timber products from partner countries. DFID will support voluntary bilateral partnership agreements with timber producing countries under which the country agrees to export only verified legal timber in exchange for EU development assistance to improve forest governance. DFID also supports regional forest law enforcement and governance processes. Declarations in East Asia and Africa have committed participating countries to intensify national efforts and strengthen bilateral, regional and multilateral collaboration to address violations of forest law and forest crime and create regional taskforces of forest law enforcements and governance.

The Ecosystem Market Place

DFID has been a key contributor to the start-up costs of the Ecosystem Market Place. This is a source of information on emerging markets and payment schemes for ecosystem services, such as watershed management for water quality, and carbon sequestration through forestation. It will provide much-needed transparency to emerging ecosystem markets, including who is buying, who is selling and at what price. It includes information on how low-income producers and community groups in developing countries can benefit from markets in ecosystem services.

Tackle underlying institutional challenges

4.3 Since environmental problems linked to poverty are a result of institutional failure, the environment should be integrated into development processes. For example, this can include encouraging sustainable use of natural resources for pro-poor growth, governance of environmental assets and ensuring global and regional environmental change, such as climate change, is addressed in development planning processes. The challenge is to strengthen work on governance, growth, trade, and country-driven planning, so that it can also achieve pro-poor environmental management.

Examples of underlying institutional challenges

Environment in poverty reduction strategies (MDG7 Target 9)

DFID is helping develop 'environmental wealth diagnostics' and similar tools to ensure that PRS and national development processes are informed of environmental opportunities and sensitivities. DFID has reviewed how environment has been included in four PRSs.

National sustainable development strategies (NSDS) (MDG7 Target 9)

DFID and the German aid agency GTZ co-led OECD Development Assistance Committee (DAC) work to review the NSDS experiences in eight developing countries. This produced both DAC guidance and a resource book of practical ways to identify poverty-environment links, to balance local and global issues, to set priorities, and to set in place systems and capacities for cross-sectoral working and continuous improvement.

Tanzania – National Strategy for Growth and Reduction of Poverty

In co-operation with UNDP, DFID helped the Tanzanian government develop its ability to address poverty and environment links in its growth and poverty reduction strategy. Assistance included developing poverty-environment indicators as part of the strategy's poverty monitoring system (PMS), work with the Vice President's Office, and including local government and other stakeholders in strategy development.

Ghana – PRS process

Following the strategic environmental assessment (SEA) of the first PRS which DFID helped to launch, DFID is providing technical support to enhance the capacity of the government body responsible for drafting the new PRS.

Examples of underlying institutional challenges (continued)

Support for Environmental Assessment and Management (SEAM) Programme in Egypt

The SEAM programme helped local government produce and implement regional environmental action plans, with participation by communities and the private sector. The plans integrate environment issues such as water, sanitation and solid waste management with economic growth and service delivery that benefits local communities.

Strategic environmental assessment

DFID is working with OECD-DAC and several multilateral financial institutions to develop a joint approach to strategic environmental assessment (SEA), which enables the environmental implications of policies and programmes to be assessed and managed.

Poverty-environment guidelines

The World Bank, UNDP, EC and DFID identified poverty-environment links, and recommendations for policies to ensure such links were helpful to poverty reduction. DFID continues to take a lead in the work of the informal multi-agency Poverty Environment Partnership.

Bilateral sustainable development dialogues

We co-operate with the Defra-led sustainable development dialogues with China and India which aim to help integrate development and environment in these two countries that have a large potential 'environmental footprint'.

Managing environmental risks

4.4 Since developmental outcomes are subject to environmental risks, assessment of short and long-term environmental impacts on development is needed. For example, DFID programmes are required to assess relevant environmental aspects in key decisions through a mandatory environmental screening procedure.

5

Moving forward: operating principles to guide DFID actions

5.1 Six interacting principles will be applied in tackling the range of environmental challenges across DFID policy and programmes at country, international and central levels.

Principle 1: Take an integrated approach to environment.

5.2 We will integrate environment into policies and programmes across DFID. We also encourage partners to integrate environmental objectives in their development work.

5.3 DFID's environmental screening procedure is an important tool for considering environmental opportunities as well as risks. It is most effective when applied early at key points in programme design. The environmental screening procedure will be periodically reviewed to take account of international good practice, emerging threats such as climate change, and changing aid instruments.

DFID's environmental screening procedure

DFID staff responsible for regional, country and international programmes are required to assess relevant environmental dimensions of DFID assistance. For activities over £1 million we operate a mandatory 'environmental screening' procedure. This is unusual among development agencies' safeguards in drawing attention to environmental opportunities as well as hazards.

The approach works best if it is applied early enough to the design, implementation and review of an activity. It includes screening of poverty reduction budget support (PRBS) and other support channelled through government systems, linking the support with an assessment of how government policies address environmental management for sustainable poverty reduction. It is used to identify and address environmental risks, including global and regional risks such as climate change and water shortage, associated with DFID's own programmes and activities.

The procedure is supported by an *Environment Guide*, DFID environment advisers and access to specialist external advice through an enabling agreement. New *Environmental Information Regulations* related to the Freedom of Information Act now also require greater transparency on environmental information.

5.4 Environmental screening could be supplemented by:

- guidelines for environment integration in country action plans, and directors' delivery plans – to realise the twin potentials (i) for environment to support DFID work to help achieve the MDGs, and (ii) for DFID's work on governance, growth, trade, and country-driven processes to integrate environmental challenges;

- a review of DFID’s overall environmental risks and liabilities – guiding priorities and associated responsibilities; and
- improved awareness by managers and other staff on how to integrate environmental objectives.¹²

5.5 We also work to strengthen the *development* dimension in our partners’ environmental work. For example, we work closely with Defra to ensure poor people and their perspectives are included in negotiating and implementing the climate change and biodiversity conventions. We will work to integrate environmental considerations into DFID policy and practice, such as those for trade, growth and disaster risk reduction.

Principle 2: Support country-driven processes that can handle local, national and global environmental priorities.

5.6 Policies and actions for poverty reduction and development challenges are more effective when driven by countries themselves and where there is strong national ‘ownership’ and the capacity to act. DFID country programmes promote development through country-led approaches, where countries identify their own priorities, such as through poverty reduction strategy (PRS) processes, and associated budget processes, such as medium-term expenditure frameworks. In general, however, PRSs have proven weak in addressing local environmental issues (for example revealed by participatory poverty assessments and poverty and social impact assessments) and global or regional issues such as cross-border resources including water, global environmental assets and climate change. This is well-documented by World Bank monitoring studies.¹³

¹² In many organisations, this is now key to staff performance assessment. The UK SDS proposes measures for mainstreaming sustainable development in the Civil Service, through the Skills in Government Programme.

¹³ <http://www.worldbank.org/poverty/strategies/chapters/environment/environ.htm>

DFID's approach to the environment

The World Resources Report 2005 identifies a number of actions needed to improve integration of environment into PRS processes, such as:

- recognising the importance of income from the environment and natural resources;
- addressing tenure and access to resources;
- tackling issues of decentralisation and ability to manage at the local level; and
- developing environmental indicators and monitoring that are relevant to poverty.

DFID support to PRSs or equivalent processes has had effective results including improvements in environmental governance in Kenya, and environmental capacity development in Tanzania, Uganda and Ghana. In Uganda DFID helped the Ministry of Water, Land and the Environment and a sector working group to integrate environmental management important for poverty reduction into the Poverty Reduction Strategy. In Tanzania DFID worked with the Vice President's Office to ensure ways in which poor people rely on environmental resources were included in the growth and poverty reduction strategy.

Recent case studies jointly funded by DFID, the Canadian International Development Agency (CIDA) and GTZ show that PRSs are particularly poor in responding to critical environmental governance and control of environmental and natural resources. Instead, they tend to focus on technical issues in particular sectors. Successful examples of environmental integration are strongly associated with greater participation in the PRS process by interested parties.

5.7 DFID is committed to encouraging country-led policies, planning and programmes to include better environmental management that leads to sustainable poverty reduction. This includes addressing specific issues related to the environment, such as risks from climate change, managing natural resources for growth, access to water and sanitation, access to energy, links between biodiversity and poverty reduction, and how environmental degradation can undermine sustainable poverty reduction. PRBS and other aid instruments that channel support through government budgets should take account of how development policy, for example expressed through a PRS, addresses environmental management and sustainability for poverty reduction and development.

DFID promotes co-ordination among donors so they work together at country level, taking a collective approach to supporting country-driven processes. Harmonised donor assistance may include programmes of institutional support – perhaps focusing on high-priority sectors which currently bear significant environmental costs, such as health and infrastructure.

5.8 Effective best-practice approaches are still being developed. We will learn from experience and pass on good practice for use in and outside DFID.

5.9 In fragile states, country-led approaches are sometimes not possible because governments are unwilling or unable to tackle poverty effectively. Nevertheless, environmental issues should still be integrated into programming. This may include support through international and national NGOs, the private sector, UN, and community-based activities.

Principle 3: Support the local drivers of sustainable development and improved capacity for environmental management that benefits the poor in selected countries.

5.10 Within country-led approaches, environment authorities, those who depend on the environment and government departments responsible for planning, development and service delivery should work together. But systems in less-developed countries do not usually involve integrated approaches to consider how good environmental management and accounting for environmental hazards lead to better development.

5.11 The role of local institutions and stakeholders is also important – as drivers of and contributors to policy change, as investors in and deliverers of environmental services, and in monitoring good environmental management. Strengthened local voice can help ensure environment and poverty links are properly addressed in PRS and other development planning processes.

5.12 Where appropriate, DFID will help improve capacity in selected countries, for example:

- improving *government* ability to better address and take a more integrated approach to environment and development, for example by making better links between planning, finance, sectoral agencies and environment stakeholders; and
- enabling stakeholders such as civil society to participate in development processes and helping articulate environmental needs and influence policy and practice.

Examples of ongoing and possible future initiatives include:

- address vulnerability to natural hazards and climate change in Bangladesh;
- forest and water resource management in India;
- slum improvements in India;
- water resource management in China;
- sustainable management of fishery stocks in Cambodia;
- forest access rights in Indonesia;
- environmental resources and growth in Ghana;
- environmental governance and threats to development in Kenya; and
- the Overseas Territories Environment Fund.

Principle 4: Manage environmental information, knowledge, and learning.

5.13 Generating, accessing and analysing *environmental information* and building and maintaining an evidence base are increasingly challenging. *Knowledge, science* (to improve knowledge) *and technology* (to improve efficiency) are vital to better environmental management and use. DFID aims to integrate environmental management and sustainability into research programmes and support research on environment and development linkages, for example through the new sustainable agriculture, and water and sanitation research programmes, and the proposed climate change adaptation and energy research initiatives.

A three-year Climate Change Research and Capacity Development Programme on adaptation to climate change in sub-Saharan Africa will start in 2006. We also support the African Agriculture Technology Facility, to improve the contribution of science, including environmental science, to poverty reduction. We have recently appointed a Chief Scientific Adviser to help develop systems and procedures to support knowledge development.

5.14 DFID recognises that more work is needed to understand how environment and poverty links can be fully integrated into development strategies and planning. We will learn from our own and others' international experience, developing and promoting good practice for use in and outside DFID.

Examples of learning initiatives involving multiple stakeholders include:

- the OECD-DAC Environet and the related Poverty Environment Partnership;
- UNDP's Poverty-Environment Initiative;
- the Extractive Industries Transparency Initiative (EITI);
- the Multistakeholder Forestry Programme in Indonesia; and
- the UN Commission on Sustainable Development's biennial cycles of learning and policy development.

5.15 There is a need for developing countries to improve the way they keep track of environmental assets (for development planning) and environmental deprivations (for poverty statistics). Environmental information is also required to assess risks to poverty reduction. For example, DFID will help developing countries obtain full benefit from the global climate observing system by addressing the main deficiencies in climate information and the capacity to use climate information effectively in development planning. Where appropriate, DFID seeks to promote generation of and access to information by developing the ability to do so.

Principle 5: Enable developing countries to strike effective deals through multilateral initiatives.

5.16 Many developing countries offer strong – but rarely realised – potential for producing global environmental goods, such as biodiversity and carbon storage. They are also susceptible to global hazards such as climate change. A more effective *multilateral environment regime* – which encourages joint action by multiple organisations – is, therefore, an important goal. DFID is actively engaged in the development and review of multilateral environmental agreements, and supports involvement by partners in least-developed countries.

Current activities include:

- The post-2012 climate regime: how to agree a shared global approach to achieving the ultimate objective of the United Nations Framework for Climate Change, recognising its key principles, including that of common but differentiated responsibilities.
- Integrating climate issues into PRSs and development planning systems – to reduce the risks of climate change undermining poverty reduction.

DFID will help implement the G8 Gleneagles Plan of Action, which includes working to tackle illegal logging and developing a financing framework for low carbon energy investment in developing countries.

5.17 It is equally important to improve the participation of developing country environmental interests in the 'global developmental deals' taking forward the Doha and Monterrey agendas and the MDGs. We will consider ways to improve this.

Principle 6: Strengthen donor harmonisation and alignment on the environment.

5.18 DFID strongly supports donor co-ordination and processes that are in keeping with countries' own priorities. We promote greater co-ordination of donor assistance for environmental management important for poverty reduction. Development banks are discussing how to use countries' own environmental safeguard systems for assessing investments. This can ensure best practice in safeguarding the environment while avoiding multiple burdens on developing countries.

5.19 DFID will work with other donors to develop common understanding of links between environment, poverty reduction and development. For example, DFID is a lead player in the OECD-DAC Environet, and will use DAC environment guidance and 'good practice' documents – which are also used by other donors and partners.

5.20 DFID is working with the OECD and multilateral financing institutions to harmonise strategic environmental assessment approaches. This work includes guidance on identifying the environmental implications of direct budget support and sector approaches.

6.1 Other government departments usually have responsibility for international processes that mainly focus on the environment and they lead UK Government involvement. In such cases, DFID co-operates with other departments to ensure poverty and development perspectives are appropriately addressed. DFID's primary focus is to consider how the environment is important for poverty reduction and sustainable development at national and regional levels in developing countries, as well as implications of changes in the global environment for poor countries. DFID will also co-operate with other departments when they consider UK-focused policies with implications for developing countries, such as UK sustainable consumption and production.

6.2 Some examples of where others lead but DFID has important interests include:

- Defra leads on international climate change agreements, and DFID works closely with Defra to ensure developing country interests are addressed.
- Defra and DFID jointly lead on the EU Action Plan on Forest Law Enforcement (FLEGT) to tackle illegal logging and international trade in illegally harvested timber.
- FCO and Defra are responsible for UK approaches to international environmental governance, such as those operated through the UN system. The main DFID interest is to ensure the resulting policies and programmes benefit poor countries.
- Defra leads UK involvement in the Commission for Sustainable Development and its monitoring of the Johannesburg Plan of Implementation resulting from the 2002 World Summit on Sustainable Development (WSSD). DFID programmes are important in helping meet some UK Government commitments such as integrating environment into poverty reduction strategies and other national development plans, and improving access to water and sanitation.

6.3 In a few cases DFID does have primary UK Government responsibility for international environmental issues, where they are specifically linked to development objectives. In particular, DFID leads on UK support to the Global Environmental Facility and the UN Convention to Combat Desertification, which has a strong Africa focus.

6.4 The process of developing and implementing the new UK Sustainable Development Strategy, launched in March 2005, improves consistency between the Government's international development policy, on which DFID leads, and its international environmental policy, on which Defra leads.

6.5 The strategy addresses economic and social, as well as environmental, dimensions of sustainable development, and this paper is consistent with the environmental aspects of the strategy relevant to DFID. In common with other government departments, DFID has developed a Sustainable Development Action Plan, as part of ensuring effective delivery and shared ownership across Government. DFID will review progress against the plan, including reporting to the inter-departmental Sustainable Development Programme Board and the Sustainable Development Ministers Committee. Where possible, results will be integrated into standard departmental processes, such as the annual departmental report.

Department for International Development

DFID, the Department for International Development: leading the British government's fight against world poverty.

One in five people in the world today, over 1 billion people, live in poverty on less than one dollar a day. In an increasingly interdependent world, many problems – like conflict, crime, pollution, and diseases such as HIV and AIDS – are caused or made worse by poverty.

DFID supports long-term programmes to help tackle the underlying causes of poverty. DFID also responds to emergencies, both natural and man-made.

DFID's work forms part of a global promise to

- halve the number of people living in extreme poverty and hunger
- ensure that all children receive primary education
- promote sexual equality and give women a stronger voice
- reduce child death rates
- improve the health of mothers
- combat HIV & AIDS, malaria and other diseases
- make sure the environment is protected
- build a global partnership for those working in development.

Together, these form the United Nations' eight 'Millennium Development Goals', with a 2015 deadline. Each of these Goals has its own, measurable, targets.

DFID works in partnership with governments, civil society, the private sector and others. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

DFID works directly in over 150 countries worldwide, with a budget of nearly £4 billion in 2004. Its headquarters are in London and East Kilbride, near Glasgow.

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