

# Executive Summary

*“In nature’s economy the currency is not money, it is life.”*  
 —Vandana Shiva, *Earth Democracy: Justice, Sustainability, and Peace*

Environment and natural resources (ENR) such as water, forests, soils, minerals and fisheries form an essential economic base in many developing countries, and their use generates significant economic and social benefits for people—particularly the poor. Seventy per cent of the world’s 1.2 billion people who live below the poverty line largely depend on natural resources for their livelihoods. With rapid economic growth and increasing pressure on land and water resources, ENR are being degraded at an unprecedented rate. Coupled with the impacts of climate change, ENR degradation continues to have deleterious economic and social repercussions for the poor. It also has implications for gender equality, as a significant majority of the world’s estimated 1 billion rural women depend on natural resources and agriculture for their livelihoods, making them more vulnerable to negative impacts.

Increasingly, governments are working to address the challenges of unsustainable ENR use and climate change. And many are coming to recognize that the links between poverty reduction and environmental sustainability are fundamentally important for the well-being of current and future generations. But even as governments come to realize that our planetary boundaries are being reached, environmental sustainability goals are persistently underachieved in many countries, and the resilience of life-supporting ecosystems is being severely tested. As the priorities of the Post-2015 Agenda are shaped, the linkages

between poverty reduction, gender and ENR sustainability must be a central endeavour of development policies. The solution lies in country-led efforts to integrate or “mainstream” poverty-environment objectives into development planning and budgeting processes at the national, subnational and sectoral levels.

This handbook is designed as guidance for policymakers and practitioners to mainstream pro-poor environment and climate concerns into planning, budgeting and monitoring. Mainstreaming is achieved by putting poverty-environment issues at the heart of government—in other words, by taking these issues into mainstream economic decision-making processes, particularly the national and subnational planning and budgeting processes led by ministries of finance, planning and local government, and supported by ministries of environment. Over the last 10 years, the Poverty-Environment Initiative (PEI), a joint programme of the United Nations Development Programme and the United Nations Environment Programme, has successfully supported the integration and implementation of pro-poor, environmental sustainability objectives into national, subnational and sectoral development policies, plans and budgets to contribute to poverty alleviation and an inclusive, green economy. The handbook provides concrete examples from PEI experience in Africa, Asia-Pacific, Europe and the Commonwealth of Independent States, and Latin America and the Caribbean, as well as from other initiatives.



## Mainstreaming Opportunities and Challenges

Mainstreaming means engaging directly with ministries of finance and planning—the parts of government that determine public expenditures and the fiscal policy that incentivizes private sector investment. Many environmental and climate problems arise from what economists call “policy and market failures,” which leave the environment undervalued and underpriced so that the costs of environmental damages are not included in mainstream economic decision-making. In overcoming such failures, successful mainstreaming offers potentially huge pay-offs and opportunities.

The challenges of poverty-environment mainstreaming mirror its complexity, and include consideration of the two-way linkages between poverty and ENR management, and appreciation of the diverse range of environmentally related issues that are cross-cutting and thus part of a mainstreaming agenda—e.g. climate change adaptation and mitigation, green economy, and sustainable consumption and production. Separate challenges to mainstreaming exist with respect to climate change. Notably, planners need to take into account considerable uncertainty as to future trends and impacts; also, in many cases, potential climate risks need to be addressed across programmes.

### Programmatic Approach, Theory of Change and the Political Economy of Mainstreaming

Poverty-environment mainstreaming is a demanding task that requires a programmatic approach to guide the choice of activities, methodologies and tools. PEI has developed a flexible programmatic model for poverty-environment mainstreaming, which incorporates gender and a rights-based approach, and can be applied to different contexts. The model is comprised of three components, which are not

necessarily conducted sequentially: (i) finding the entry points and making the case; (ii) mainstreaming in national planning and budgeting processes; (iii) mainstreaming into sector and subnational planning and budgeting, monitoring and private investment. A theory of change is a useful tool in applying a mainstreaming programmatic approach. It uses an iterative process to support critical thinking at each step of the programme cycle.

To apply a programmatic approach, practitioners need to understand the political economy of mainstreaming, including the range of stakeholders involved and the best entry points. Undertaking preliminary assessments; identifying and understanding the poor; understanding the governmental, institutional and political contexts; developing impact, vulnerability and adaptation assessments; assessing and strengthening mainstreaming capacities; enhancing coordination mechanisms for sustained mainstreaming; and raising awareness and building partnerships are all major activities in finding the entry points and making the case for mainstreaming.

### Mainstreaming Poverty-Environment Objectives into National Planning Processes

To integrate poverty-environment objectives into national development planning processes successfully, practitioners have to identify and understand the government planning processes in place—including the elaboration, implementation and monitoring stages; their timelines; and the institutions and actors involved. It also requires an assessment of how effectively planning processes link national, sectoral and subnational priorities. The links between planning and budgeting need to be determined as well, since plans are only effective if they actually influence spending decisions. Gauging the effectiveness of mainstreaming at the national and subnational levels requires an assessment

of how central-level planning systems inform subnational plans and budgets, and vice versa. There has been much positive experience in including pro-poor environmental and climate issues into the text of a national plan, but their inclusion needs to be institutionalized so it continues when external support ends. Some notable achievements have been made in this regard, including setting up formal structures to continue mainstreaming over the medium term.

### **Mainstreaming Poverty-Environment Objectives into Budget Processes**

Mainstreaming into budget processes means engaging with the key political and economic decisions of a government. This includes a government's decisions on both expenditure—what to spend on—and revenue raising—what to tax and levy charges on. These public fiscal policy decisions also incentivize private sector investments. Public expenditures can have positive effects on environmental and climate issues—e.g. when they support priorities such as sanitation, watershed and forestry management and climate-proofing infrastructure. “Negative” expenditures would include budgeting for government-funded fossil fuel power plants or state-led land clearance. Similarly, positive fiscal policy can include incentives for clean technology or private forestry plantations, while negative fiscal policy can include tax breaks for private fossil fuel investments or for private investors to clear forests. Creating the national budget is a complex political and technical exercise, providing multiple entry points for poverty-environment and climate mainstreaming. The main steps in the budget process are budget planning and formulation, budget execution and implementation, and budget monitoring and accountability. Both public expenditure and environmental fiscal reforms that influence private investment

can be the target of mainstreaming within the budget process.

### **Mainstreaming Poverty-Environment Objectives in Sectoral and Subnational Planning Processes**

To ensure that pro-poor environmental and climate issues contained in national development plans and budgets are actually implemented and lead to meaningful change for people requires that sectoral and subnational plans and annual budgets integrate the same poverty-environment objectives. In some countries, local-level structures—both local government and community-based organizations—have made progress in integrating climate adaptation and resilience into subnational plans and budgets. However, more work needs to be done to influence budget allocations and investment plans.

### **Mainstreaming Poverty-Environment Objectives into National Monitoring Processes**

Monitoring and evaluation are part of any effective planning and budgeting process and offer another key entry point for mainstreaming. If poverty-environment issues are included in the national monitoring system, it is easier to track progress towards achieving the goals, targets and implementation strategies included in main policy documents (e.g. a national development plan or sector strategy). Inclusion of these issues in the monitoring system also helps maintain and improve understanding of poverty-environment linkages and how they can be measured. Monitoring poverty-environment including gender/equity issues allows policymakers and implementers to demonstrate the impact of policy measures put in place, share lessons learned, make adjustments in policies, and guide budget and resource allocation.



## Managing Private Investment in Natural Resources

Over the past two decades, there has been a steady rise in flows of private investment and foreign direct investment (FDI) to developing countries. Evidence suggests that this can provide considerable economic, social and environmental benefits for host countries. But these benefits are not automatic: the outcomes of FDI depend heavily on government policies and the host country's institutional settings. Increased investment in primary sectors, including agriculture, forestry, fisheries and extractive industries, creates new growth opportunities for countries with natural resource potential; this is of interest to international investors and of high economic significance for many developing countries. Without adequate environmental regulation, however, FDI-induced economic growth can

result in environmental degradation and a loss of natural resources, which can exacerbate poverty. The implications of FDI for host developing countries necessitate a strategic approach to managing FDI within a country's overall development framework, establishing economic and institutional settings and implementing policies to attract and successfully manage FDI, scrutinizing individual investment proposals and negotiating investment contracts, and monitoring investor compliance with relevant laws and project contracts.

The rich experience and examples shared in this handbook demonstrate how mainstreaming poverty-environment objectives into planning, budgeting, monitoring and private investment can help ensure sustainable ENR management—which in turn can reduce poverty and promote sustainable inclusive growth.

