

ECONOMIC REFORM AND INTEGRATION OF ENVIRONMENTAL PRIORITIES INTO ECONOMIC AND SECTORAL POLICIES IN RUSSIA AND THE NEWLY INDEPENDENT STATES

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Summary

Environment ministers at their biannual forums under the UN Economic Commission for Europe (UN ECE)'s programme 'Environment for Europe' declared the 1990s to be a decade for removing macro-economic imbalances, establishing effective environmental standards and regulations, strengthening compliance and enforcement, addressing liability issues, reforming prices for energy and natural resources, reducing subsidies harmful to the environment, and introducing cost-recovery mechanisms. They called on financial donors and international financial institutions (IFI) to continue to support the efforts of countries of Eastern Europe (CEE) to establish these and other necessary preconditions for environmental investment. They recognized that, in general, the financing of environmental expenditure should be based on the 'polluter pays principle'. Many measures were successfully implemented and contributed to the greening of new economies.

External financial resources will continue to be an important catalyst. A reference is also made to using debt-for-environment swaps offering benefits to the creditor and debtor countries and the environment. Initiatives in this area were welcome. The implementation of many of these outstanding issues requires inter-agency, economy-wide, win-win efforts which are outside the terms of reference of ministries of environment. Nevertheless, this action is usually initiated by the latter. The present paper mainly stresses activities of ministries of economy and attempts to highlight the importance of early integration of environmental considerations in economic decision-making in countries in transition (CIT). The World Summit on Sustainable Development (WSSD) held in Johannesburg in 2002 endorsed a number of these issues in its plan of implementation for the early decades of the twenty-first century.

This chapter describes the status and trends in the integration of environmental priorities into the economic reform process. Major problems faced by Russia and other CITs in this regard are highlighted and approaches applied for their resolution are outlined. It ends with a short list of key outstanding issues still to be handled.

The paper discusses the following issues: restructuring of main economic sectors and its implication for the environment; pricing of natural resources and energy; "greening" of fiscal and credit policies; promotion of markets for environmental goods and services; natural resources management, particularly requirements of environmentally vulnerable zones; environmental aspects of privatization; regional economic cooperation furthering sustainable development.

It consists of three parts that deal with issues of economic reform and sustainable development at the macro (economy-wide) and micro (enterprise) levels, and relationships between ministries of environment and economy.

1. Economic reform and sustainable development

The goal of sustainable development is to meet the needs of the present without compromising the ability of future generations to meet their own needs as it was put in the 1987 Brundtland Commission report 'Our Common Future'. The first global forum on this issue—the World Summit on Sustainable Development (WSSD) held in Johannesburg in 2002—made a commitment to advance and strengthen the interdependent and mutually reinforcing pillars of sustainable development—economic development, social development and environmental protection—at the local, national, regional and global levels.

Market mechanisms with due government regulation can assist this integration by promoting cleaner technologies, lower energy and natural resource consumption and least-cost solutions. The WSSD pointed out the need to reduce market distortions, and improve the functioning, transparency and information about markets with respect to both supply and demand. Awareness has increased within the private sector on the importance of sustainable development issues. However, the notion of profits must be addressed for business and industry to become truly committed to undertaking private initiatives towards sustainable development. Markets and profits should be effectively directed to alleviate poverty and attain other Millennium development goals through market incentives.

The UN Agenda 21 (UN Conference on Environment and Development, Rio, 1992) that was re-affirmed by the WSSD stressed the need for developing new concepts of sustainable economic growth and prosperity through, in particular, the evolution of new systems of national accounts and other indicators of sustainable development (para. 4.11. Agenda 21). It pointed out that 'It is necessary to establish, in the light of the country specific conditions, economic policy reforms that promote the efficient planning and utilization of resources for sustainable development through sound economic and social policies, foster entrepreneurship and the incorporation of social and environmental costs in resource pricing, and remove sources of distortion in the area of trade and investment.

In particular, Agenda 21 recommends that national economic policies, particularly in industrialized countries, should be pursued:

- to encourage a stable and predictable international economic environment, particularly with regard to monetary stability, real interest rates and fluctuations in key exchange rates;
- to stimulate savings and reduce fiscal deficits;
- to ensure that the processes of policy coordination takes into account the interests and concerns of the developing countries to halt their marginalization in the world economy;
- to undertake appropriate national macroeconomic and structural policies aimed at promoting non-inflationary growth, narrowing their major external imbalances and increasing the adjustment capacity of their economies.

Meanwhile developing countries should consider strengthening their efforts to implement sound economic policies:

- that maintain the monetary and fiscal discipline required to promote price stability and external balance;
- that result in realistic exchange rates;
- that raise domestic savings and investment, as well as improve returns to investment.

Countries in transition were not conspicuously singled out in 'Agenda 21' but they should consider an appropriate country-specific mix of the indicated policy directions. Many CITs share the following features:

- the hard environmental legacy of the past;
- declining overall environmental pollution due to the recent sharp economic, transition-related, decline;
- low rates of population growth;
- relatively small land areas unaffected by economic activity (possibly except for the sparsely populated Russian Siberian part);
- much skilled labor, but under-utilized and increasingly obsolete industrial capacity.

Low official unemployment figures, which are usually a sign of prospering economies, clash with a low economic output. This situation reflects low labor productivity and, thus, redundancy of formally employed labor. A significant share of the services sector in GDP and in employment is not a sign of a 'post-industrial' economy in CIT. Rather, it is a reflection of inefficient domestic industry and agriculture, with consumption (demand) largely covered by imports of consumer goods and labor employed in trading activities.

In the 1960s and 1970s, concerns centered around the belief that economic growth was inherently limited by the finite nature of fossil fuel energy, minerals and other non-renewable resources. This "no-growth" position has since been largely discredited on the grounds that it failed to give due weight to the ability of markets to stimulate

technological substitutes as scarcities emerged. Concern has now shifted to other potentially limiting factors, notably: (a) the degradation of renewable resources, particularly agricultural land; (b) the accelerating rate of species loss; (c) the accumulation of polluting emissions and wastes in the environment, with negative consequences for human health and possible ecological impacts, many of which represent largely unknown risks. Lately, environmental changes—from local to global—have increasingly become human health and environmental security concerns.

One practical approach that may be useful to policy-makers and the public is the concept of maximization of net benefits of economic and social development, subject to maintaining the services from, and the stock of natural resources over time. This implies that renewable resources, especially if they are scarce, should be utilized at rates less than or equal to the natural rate of regeneration. The efficiency with which non-renewable resources are used should be optimized subject to substitutability between these resources and technological change. Waste should be generated at rates less than or equal to the assimilative capacity of the environment, and efforts should be made to protect intra- and intergenerational equity.

Sustainable development strategies, or, rather, strategies for transition to sustainable development, with indispensable economic and environmental (as well as social) components are becoming a useful vehicle for securing a general national consensus on the importance of the greening of economies. CITs are at different levels of preparation of such strategies—from finalizing it (for example, in Belarus) to considering early approaches to it (for example, in Georgia and Uzbekistan). Adopting special laws on sustainable development (SD) is another feature of this process. For example, Estonia has such a law, while in Russia, draft SD legislation was discussed in Russian parliament in the 1990s but was never submitted for formal deliberations.

The elaboration of the concept for Russia's transition to sustainable development was completed with its signing by the RF President in April 1994. The world-wide support for sustainable development, especially in connection with the WSSD, spurred activities in Russia in this area. Some regions began designing SD strategies employing public participation. Russia's President included references to SD for Russia in a chapter on habitat protection in his work program 'Russia: an individual-a family-society-the state' published in early 1997. As if echoing this mood, the government paid a tribute to SD in its 'Mid-term development program for 1997-2000' but beefed it up in its development programs for 2010 and 2050.

The policy response to the challenge set by Agenda 21 has been twofold. The main focus of attention continues to be on production and the traditional polluting sectors of industry, transport and agriculture. In addition, much innovative policy research and development now centers on creating an incentive framework for the more efficient utilization of resources and the development of closed-loop production/consumption systems that prevent the escape of wastes into the environment.

The concept of eco-efficiency, which is concerned with maximizing the productivity of energy and material inputs in order to reduce resource consumption and pollution/waste per unit output, is currently seen as a promising short- to medium-term strategy,

appropriate to all countries, including CITs, for maintaining economic growth and competitiveness while achieving improved environmental quality (the double dividend). Eco-efficiency is winning acceptance in government and industry as a politically and economically feasible strategy for modifying unsustainable consumption and production patterns. The scope for reducing pollution, waste and unnecessary resource use through technological innovation in products and processes is great and underexploited. The eco-efficiency approach re-emphasizes the need for increased research and investment in clean, efficient technologies and increased efforts to disseminate these technologies internationally (see the report of the Secretary-General on chapter 34 of Agenda 21 (Transfer of technology). It seems likely that policy-making in the short and medium term will continue to favor an eco-efficient approach. However, eco-efficient product and process changes, such as closing product loops, dematerialization and design for recycling, are still largely under development as leading-edge concepts. If they should develop into more mainstream practices in industrialized countries, a stabilization or decline in demand for a wide range of raw materials could, in theory, follow.

Key problems relating to trend analysis include lack of understanding (ignorance of socio-economic and environmental systems, uncertainty surrounding policy intervention) and inadequate information management (poor or uncoordinated information collection, processing and presentation). A particular weakness relates to understanding the inter-linkages between economic activities and their social and environmental impacts, which can be distant in space and time (though the knowledge base concerning the relationship between human activities and climate change has improved significantly in recent years (see the report of the Secretary-General on chapter 9 of Agenda 21 (Protection of the atmosphere) (E/CN.17/1996/2)).

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Biographical Sketch

Renat Perelet is a research leader at the Institute for Systems Analysis, Russian Academy of Sciences, and an associate professor at the Russian Academy of Civil Service under the RF President's administration, Moscow, Russia. He has authored and co-authored *Dictionary of Environmental Economics* (2002, Earthscan Publications Ltd, UK), *Guide to Sustainable Development and Environmental Policy* (2001, Duke Univ. Press), *Economics of Biodiversity* (in Russian, 2002, Global Environment Fund and Moscow State University), *Economics of Sustainable Development* (in Russian, 2004, Moscow), and co-edited *Conflict and the Environment* (1997, Kluwer Academic Publishers). He has worked as a consultant/expert to the World Bank, European Community, UNDP, UN ECE, NATO, the Brundtland Commission, Harvard Institute for International Development, Russian ministries of economic development; science and technologies; natural resources. He was a member of the Russian governmental delegation to the World Summit on Sustainable Development (2002, Johannesburg).