

Supplementary written evidence submitted by Dr Camilla Toulmin, International Institute for Environment and Development

This written note is in response to your query as follows:

1. In the evidence session on 9 February you stated that DFID could do more on the urban agenda. Can you expand on what DFID do on the urban agenda currently and what you would like to see them doing in future?
2. In the evidence session on 9 February you referred to the market opportunities arising from the environmental agenda. Can you please expand on that point and detail some of examples of specific opportunities?

1. Addressing the urban agenda

Programmes cited by DFID in the report published on 12 January 2010 on Urbanisation and Poverty: Government Response to the Committee's Seventh Report of Session that include urban activities and have received DFID funding, include, in rough order of mention:

- Several country skill development programmes
- Several community security and policing initiatives
- Support for UN-Habitat
- An urban poverty programme in India
- The World Bank Rapid Social Response Programme
- The Protracted Relief Programme in Zimbabwe
- The Urban Poverty Reduction Programme in Bangladesh
- The Community-Led Infrastructure Finance Facility (CLIFF)
- Water and Sanitation for Urban Poor (WSUP)
- The Water and Sanitation Joint Monitoring Programme of WHO/UNICEF
- The Public Private Infrastructure Advisory Facility
- The Private Infrastructure Development Group
- The Water and Sanitation Programme
- The Slum Upgrading Facility
- The NEPAD Infrastructure Project Preparation Facility (IPPF) of the African Development Bank
- The Infrastructure Consortium for Africa (ICA)
- The EU-Africa Infrastructure Trust Fund
- The Commonwealth Local Government Forum's Good Practice Scheme
- The Voluntary Service Overseas (VSO)

I stated in evidence that, in common with other development agencies, DFID could do more on the urban agenda. This was stated in relation to the environment, but also applies to poverty reduction. DFID and most other major development agencies tend to see urban centres as key sites of economic growth, and understandably try to protect and enhance this role. They are inclined, however, to neglect the potential that urbanization and strategic urban initiatives have for more directly addressing poverty and for improving environmental conditions.ⁱ

What DFID do on the urban agenda

DFID funds many diverse activities in urban areas. It is difficult to estimate the number and value of these activities as they make no clear delineation between rural and urban projects. As indicated in Box 1, a fair number of the urban initiatives DFID supports are run by other international agencies, with a stronger urban focus, including the World Bank and, at least until recently, UN-Habitat. Many of these activities extend across both urban and rural areas. In reporting to the International Development Committee (see Box 1), DFID stated that: "we do not see rural and urban development as separate agendas and have no immediate plans to re-establish a dedicated urban team". On the need for research, they mentioned their support for urban research (including that of IIED), but emphasised that new work will "include issues of urban

development looked at through the lenses of economic growth, climate change, health, governance in challenging environments and looking at future challenges and opportunities.” In effect, at least until recently DFID has tended to see the urban challenge as being one of adapting sectoral activities to urban settlements – ranging from large megacities and urban regions to peri-urban settlements and small towns.

Why this is not sufficient

DFID’s current level of engagement on urban issues is not commensurate with either the scale of the urban challenge or the positive opportunities that urbanization and urban development offer. Perhaps more important, we consider that the urban challenge is not to adapt sectoral activities to urban settlements, but to combine sectoral activities effectively in urban settings, and often during periods of rapid demographic growth. This is a critical time to bring more coherence to urban development assistance internationally, and to support more efficient and integrated approaches to urban development locally. DFID is in a good position to take a lead in this, but has instead been inclined to avoid explicit urban engagements.

The magnitude of the ongoing urban transition is striking. Over the first half of the 21st century, the urban population of Asia and Africa is expected to increase almost threefold, from 1.7 to 4.6 billion. The rest of the world population is expected stay almost constant in size, at about 4.5 billion. Thus, by 2050 more than half of the world’s population is expected to live in urban Asia and Africa. Getting this ‘urban transition’ right is critical, economically, socially and environmentally. If current trends continue, a large proportion of this much expanded urban population will live in informal settlements lacking basic infrastructure and services and suffering high rates of infant, child and maternal mortality. Local governments are increasingly apprehensive about urban growth, but few are planning for anything like the scale of growth predicted. Perhaps this is not surprising; if a city plans for a large increase in low income residents, won’t this encourage even more poor migrants to move in? Alternatively, if a city imposes environmental targets, won’t this discourage businesses from moving in? In effect, local authorities are inclined to agree with most development assistance agencies – it is fine to look to cities for economic growth, but better to look elsewhere for solutions to poverty and environmental hazards and degradation.

Given the right support, however, urbanization can help to improve environmental conditions and reduce poverty, as well as facilitating economic growth. Economists, social activists and environmentalists are all beginning to recognise the potential benefits of urbanization, though they may have different ideas about how to best tap it. Whether the priority is securing better water and sanitation or food security for the poorest, reducing the pollution of industries and transport systems, or reducing ecological footprints (driven primarily by affluent consumption), compact urban settlements can be made environmentally preferable to sprawling or dispersed settlements. Urbanization can also be made more pro-poor by ensuring that low-income households can find accommodation without having to live in informal settlements, that the informal markets that serve the poor best are not disabled, and that organizations of the urban poor can secure their proper place in urban governance. For the environmental and poverty-reduction potential of urban development to be achieved, infrastructure investment must also be made with a view towards environmental and poverty goals as well as economic objectives. It is in the urban arena that the contributions of different sectoral activities need to be brought together, preferably in a way that works for the majority of local residents. This can also contribute considerably to the achievement of many of the Millennium Development Goals. While DFID is providing important support to development in urban areas, it is not providing strategic support for countries or urban settlements trying to come to terms with their urban challenge.

What we would like to see DFID do

We would like to see DFID take the lead in bringing more coherence to urban development assistance internationally, and more support to pro-active and pro-poor approaches to urban development locally. This would require a dedicated urban team within DFID, though not necessarily a large one. The funds devoted to activities in urban areas would not necessarily increase, but more attention would need to be devoted to supporting the local institutions that can deliver. In this context, the challenge for development assistance is not to 'mainstream' or 'integrate' urban issues within sectoral activities, but to combine sectoral support so that it contributes to sustainable urban development.

We would like to see international urban assistance focusing not only on climate change, but also on local environmental priorities; not only on existing housing and tenure problems, but also on land and services to accommodate growth of low income populations; not only on economic growth, but also on support to organizations of the urban poor; not only on creating conditions conducive to successful business, but also to healthy living. There are urban partners in many low-income nations that can help ensure effective use of DFID support, including national federations of women's savings groups formed by slum or shack dwellers and local governments who now choose to work with them. IIED would be happy to share our experience working in partnership with many such low income groups and associations, developed over more than 30 years of work in this field.

2. Market opportunities arising from the environmental agenda – noting those that are relevant to poor producers and consumers

We can divide environmental markets into three – although there are overlaps between them:

1. **Markets for certified sustainable commodities and products**, where environmental sustainability is a part of the value proposition in, for example, food and timber. These markets are growing but largely remain as niche. IIED has carried out significant work on them, especially on improving benefits to poor countries and producers.
2. **Formal environmental service markets** in significant sectors such as alternative energy and energy efficiency, water treatment and pollution control, and waste technologies and resource management – which are large and often well established. There is a lot of movement in these markets. The new UK Green Investment Bank, for example, may prove to be a forerunner for a wave of similar banks elsewhere; and the UN is now calling for 2% of GDP to be invested in such markets.
3. **Markets for ecosystem services** that were hitherto often (but not always) treated as unpriced and unmarketed public goods, such as carbon, biodiversity and watershed protection. These markets are innovating rapidly; apart from carbon, which is becoming established, they are yet to operate at significant scale, but significant developments can be expected in some. IIED's new initiative, *Shaping Sustainable Markets*, is exploring these markets, offering independent assessment on their ability to address issues related to sustainable development.

Basic information on trends in each of these three broad areas follows:

1. Markets for sustainable commodities and products, i.e. environmental sustainability as a part of the value proposition:

Markets for sustainable products have expanded significantly over the last five years, growing much faster than those for conventional products, according to IIED's *2010 State of Sustainability Initiatives (SSI) Review*.ⁱⁱ This Review represents the most up-to-date and comprehensive overview of major voluntary sustainability standards and initiatives in the forestry, coffee, cocoa, tea and banana sectors, including detailed information on market performance, governance, criteria coverage and implementation practices.

Recent years have witnessed a remarkable rise in the number of environmental and social standards attached to commodities. Where most markets remain niche, Fairtrade and Rainforest Alliance are becoming mainstream. The SSI Review 2010 reveals a growing appetite among consumers for products certified by Fairtrade Labelling Organizations International, Forest Stewardship Council, Programme for the Endorsement of Forest Certification schemes, Rainforest Alliance, UTZ Certified, International Federation of Organic Agriculture Movements, GLOBALGAP, Sustainable Forestry Initiative, Social Accountability International (SA8000), and 4C Association. Key findings in the SSI Review 2010 include:

- **Forestry:** the land area under globally recognized sustainable forestry certification has **grown by 181 per cent over the past five years**, reaching 343,603,088 hectares in 2009, up from 122,267,222 hectares in 2004, and accounted for nearly 9 per cent of global forested land in 2009.
- **Coffee:** sales of certified sustainable coffee have **more than quadrupled over the past five years**, reaching 392,347 metric tons in 2009, up from 73,602 metric tonnes in 2004. Total sustainable coffee represented more than 8 per cent of global coffee exports and 17 per cent of global production in 2009.
- **Tea:** sustainable tea production has grown by **more than fifty times over the past five years** reaching 281,105 metric tons in 2009, up from 4,969 metric tons in 2004, and accounted for 7.7 per cent of global exports in 2009.
- **Bananas:** sustainable banana sales have **grown by almost 63 per cent over the past two years**, reaching 3,480,565 metric tons in 2009, up from 2,133,653 metric tons in 2004, and accounted for 20 per cent of global exports in 2009.
- **Cocoa:** sustainable cocoa sales have **grown by 248 per cent over the past five years**, reaching 46,896 metric tons in 2008, up from 13,473 metric tons in 2003, and accounted for 1.2 per cent of global sales in 2008.

Price premiums are not guaranteed for producers and are typically paid for improved quality rather than 'sustainability' certification per se. As certification schemes become mainstreamed, price premiums become less and less likely. (The exception is Fairtrade which always offers a social premium – and minimum price – and which can act as a very important financial safety net for farmers). Nevertheless, it is typically the better resourced farmers who are able to meet the financial and technical investments needed for certification (those same farmers who are more likely to participate and benefit from markets). Many certification bodies are looking closely at the additional costs they impose on farmers and ways of reducing the barriers to entry, without undermining the value of certification. Adapting certification for small scale, unorganised producers and those operating within dispersed and informal trading structures is a key area of opportunity for certifying bodies.

Supply of certified produce often exceeds demand and many farmers have chosen multiple certification (e.g. organic and Fairtrade) to hedge their bets. IIED's experience in linking small-scale producers to Northern supermarkets directly has highlighted the importance of certification as a way to objectively verify the environmental and social value of the product to end consumers – with supermarkets requesting certification as part of their agreement to source from poor producers. Certification schemes can also adapt their standards to allow for greater flexibility while producers upgrade to participate in supplying certified markets (for example, Rainforest Alliance begins with a low percentage of certified produce in its certified tea, coffee and flowers products to allow gradual upgrading of producers and flexibility for intermediaries in their supply base while this is happening).

While certification is becoming mainstream to some export markets (in the North), local or domestic markets in the South remain largely uncertified. Nevertheless 'supermarketisation' in the South may see the growing relevance of standards (and demand) amongst consumers in the South. Greater participation of small producers (and developing country representatives) in setting sustainability standards is required to ensure they are relevant to these groups and are not exclusionary.

Overall, there is a trend toward multi-issue initiatives that apply a wide spectrum of sustainability criteria. This may cause consumer confusion – as Fairtrade incorporates environmental criteria, organic certification looks to include social criteria.

2. Formal environmental service markets in established sectors such as alternative energy and energy efficiency, water treatment and pollution control, and waste technologies and resource management

By some measures, these markets are already large (\$500 billion annual revenues) with sustained annual growth rates of 10-20%. Many advisors, e.g. Impax, predict that the companies active in such environmental markets will continue to grow at higher rates (5-10% faster) than the overall economy. A sign of how such environmental markets are developing is reflected in the FTSE's implementation of two new indices:

FTSE Environmental Technology Index Series: This measures the performance of companies globally whose core business is in the development and deployment of environmental technologies (including renewable & alternative energy, energy efficiency, water technology and waste & pollution control). To be included in the index, companies must have at least 50% of their business derived from environmental markets and technologies (as opposed to at least 20% for the FTSE Environmental Opportunities Index Series below).

FTSE Environmental Opportunities Index Series: This measures the performance of global companies that have significant involvement in environmental business activities cited above. The index requires companies to have at least 20% of their business derived from environmental markets and technologies.

One issue is active **participation of the poor** in those markets that are increasingly dominated by corporations. IIED is exploring ways to bridge a rights-based approach to e.g. water supply with effective market means of delivery. We also note the significant potential in the informal sector in poor countries to deliver environmental services e.g. solid waste services that involve poor groups, and sanitation through social enterprise. IIED has studied many examples that are achieving real scale and present viable alternatives to corporate delivery.

IIED is also looking at models for adoption and diffusion of affordable, low-carbon technology, including renewable energy technology. We are looking particularly at issues of ownership, participation and power relations that affect the effectiveness of implementing these models.

3. Markets for (new) ecosystem services:

The market sizes of ecosystem services – apart from carbon – currently remain low relative to potential, and much of the current effort by stakeholders is in shaping the regulations that both create and stabilise the markets, as well as in packaging useful products and accessing technologies.

Carbon markets – Voluntary markets, once the leader in carbon, are now much smaller than regulated markets e.g. under the EU Emissions Trading Scheme. There are both exchange-traded and over-the-counter (OTC) products, including European Union Allowances (EUAs), Certified Emission Reductions (CERs) and Verified Emission Reductions (VERs):

Markets	Volume (MtCO ₂ e)		Value (US\$ million)	
	2008	2009	2008	2009
Voluntary OTC	57	51	420	326
CCX	69	41	307	50
Other Exchanges	0.2	2	2	12
Total Voluntary Markets	127	94	728	387
EU ETS	3,093	6,326	100,526	118,474
Primary CDM	404	211	6,511	2,678
Secondary CDM	1,072	1,055	26,277	17,543
Joint Implementation	25	26	367	354
Kyoto [AAU]	23	155	276	2,003
New South Wales	31	34	183	117
RGGI	62	813	241	2,667
Alberta's SGER	3	5	34	61
Total Regulated Markets	4,713	8,625	134,415	143,897
Total Global Markets	4,840	8,719	135,143	144,284

Source: Ecosystem Marketplace, Bloomberg New Energy Finance, World Bank.

The forest carbon market is potentially highly relevant for developing countries. ForestTrends, in 2010, estimated that forest carbon projects transacted more than 20.8 million tons of carbon dioxide (MtCO₂) over the past 20 years, through over 200 forest carbon projects. Ecosystem Marketplace identified *numerous challenges* surrounding the future growth of forest carbon markets. These include: (1) uncertainty around whether regulatory markets will include forest carbon, which has adversely affected demand, (2) a lack of clarity on legal issues associated with project design and transactions, (3) a lack of approved methodologies for measuring forest carbon in the voluntary market, and (4) difficult cash requirements, with high pre-development costs for carbon measurement and forest management plans that are borne prior to an accurate assessment of potential revenues. However, new standards and methodologies are in development; price discovery is in process; the necessary forest governance improvements are beginning to become clear; and there are new forest carbon investments being made by multilateral and public sector, particularly related to REDD. IIED's research has cautioned that REDD could have a negative impact on forest dependent communities if it weakens land and resource rights or undermines local forest

governance. Ensuring that benefits are shared equitably will be vital to ensure REDD does not undermine development.ⁱⁱⁱ

Financing mechanisms that offer investors appropriate incentives to take the risk of providing early forest carbon project funding, and in support of good governance, are now needed. This could help forest carbon to progress from an emerging to an established market

Watershed service payments – In 2010, the Ecosystem Marketplace identified a total of 288 payments for watershed services (PWS) and water quality trading (WQT) programmes in varying stages of activity around the world. Of the programs identified, 127 were actively engaged in transactions in 2008. Programmes are developed and implemented by various sectors including government, private, non-governmental and community groups. In 2008, the transaction value from all active programmes is estimated at US\$9.3 billion. Over the entire span of recorded activity, total transaction value is estimated at slightly more than US\$50 billion, impacting some 3.24 billion hectares.^{iv}

IIED's *Shaping Sustainable Markets flagship initiative* – about to be launched – keeps track of the market governance instruments that can work for poor groups and for the environment, and assesses the potential of new instruments to promote, rather than undermine, sustainable development.

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ⁱ This perspective was evident in, for example, the World Bank's *World Development Report: Reshaping economic geography* (2009), supported by DFID, which made a very strong case for supporting urbanization as a means of achieving economic growth, but explicitly chose not to consider the social and environmental aspects (page 34)

ⁱⁱ <http://pubs.iied.org/G03066.html?k=2010%20State%20of%20Sustainability%20Initiatives>

ⁱⁱⁱ <http://www.iied.org/natural-resources/key-issues/forestry/redd-protecting-climate-forests-and-livelihoods>

^{iv} See e.g. <http://www.watershedmarkets.org> and <http://pubs.iied.org/pdfs/13542IIED.pdf> - which offers lessons on design, operation and impacts for payments for watershed services in developing countries