

Reaching for a Double Dividend, Forum on Global Climate Change and Biodiversity, São Paulo, Brazil

Remarks by President Wolfowitz
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Thank you, Mr. Feldmann. I asked for a little coaching on a few phrases in Portuguese and I guess I asked a São Paulino [São Paulo supporter] because I was told two phrases, one is Bom dia [Good morning] and the other is Parabéns aos São Paulinos [Congratulations to São Paulo fans]. [Laughter]

Before the great soccer win I am aware that I have a great deal of competition. And I am tempted, there is a practice in the United States of submitting speeches for the record, so that the constituents can read the speech and think you spent a lot of time making brave comments, but all you actually did was put it on record. But I could, I was thinking that maybe I could do that and we could all go watch the soccer team. But I will give my remarks, anyone who wants to go watch the team should not feel it's impolite to slip out and back in, we all know what you are doing, but that's ok.

It is really a pleasure to be with you at the forum today and share with you some thoughts about how the global community can face the double challenge of protecting our environment and strengthening our economies. Not too long ago, many people would have felt that these were conflicting goals. But I think that we know increasingly today that there are innovative ways to preserve this planet's precious natural resources, and to do so in a way that protects and expands livelihoods, not destroys them.

Brazil today is working toward a potential double dividend...to meet the energy needs that are essential for economic growth and fighting poverty...while at the same time leaving a smaller environmental footprint.

In the past week I was fortunate to travel extensively in your fascinating country and, quite frankly, I'm reluctant to leave tonight. I am not reluctant because it is colder up north, although it is much colder, but it's because it is so attractive here in Brazil and most of all because the people here are so warm and hospitable, fascinating and interesting to talk to. I saw inspiring examples of how poor communities in the semi-arid areas of the Northeast are trying to cope with the devastating effects of droughts...droughts which have also hit the rainforests of the Amazon hard this year, leaving communities stranded without food or transport.

I saw the effects of deforestation and I have to say that until you actually see it, reading about it doesn't quite get you there. And I think probably many Americans think 'well we hear about deforestation but we've seen forests come back again'—and to realize how complex the Amazon forest is and how different it is from a forest in North America or Northern Europe and how difficult it would be— or is in fact—to bring it back once you've lost it. You can read about it all you like but seeing it is firsthand much more compelling. And I learned about the challenges of reconciling development with the conservation of this vast region's rich biodiversity that Mr. Feldmann referred to.

Brazil's response to these enormous challenges has been impressive. I learned about how your active carbon trade market is generating methane from landfills and about your world-class agricultural research complex, EMBRAPA. I heard personally President Lula's enthusiasm for bio-fuels as a source of job creation and green energy. And this morning, I visited the world's largest ethanol plant in Ribeirão Preto...

Investing in the environment is investing in the future of the poor. Perhaps, more than any other country, Brazil, I think, understands that the costs of neglecting the environment are high, both in economic and social terms.

But despite the achievements there is an urgent need to do more, both at the global and local levels, to preserve a healthy Brazil for the future generations of Brazilians and frankly for all of us on this planet. Because as I said only half jokingly to the Governor in Ceará, there are many people outside Brazil who feel the Amazon is a little bit theirs, even though, it's yours. And I think this is both a challenge and an opportunity, I am going to talk later about how to take advantage of that opportunity. Because Brazil's environment is important not only to Brazilians but to all of us.

When poorly-managed development damages the environment, it is often the poor who suffer the most. They are often poor because they already live in fragile environments which makes them particularly vulnerable. I saw this in China, I saw this in Northeast Brazil and I saw it in Pakistan.

From Southern Africa to Latin America and from Bangladesh to Afghanistan, it is poor people who suffer most from climatic variability and environmental degradation. Seventy percent of the world's poor live in rural areas. When extreme weather hits, small farmers pay the price with failed crops and disrupted water supplies – hardships that are hard to recover from. These farmers need predictable weather to earn their living and feed their families.

This past year alone, we have seen a major drought in the Amazon destroy fish and crops—the lifeline for indigenous communities. Last week, I visited Ceará in the northeast, where the entire culture has been warped by having to deal with the vagaries of an erratic climate. It is no wonder that this is where one finds the largest concentration of poor people in Brazil.

Vulnerabilities like these are exacerbated by global warming. There has been much debate on the global community about the major causes of climate change and how best to curb carbon emissions. But while the world continues to debate long-term goals to protect the environment, it is the poor who suffer in the short-term – too often.

Here in Latin America, around 7 million cubic meters of ice cover disappeared from the tropical glaciers of the Andes over the last three decades, jeopardizing water supplies in the area. Sea levels in the Caribbean basin are rising at a rate of 3 millimeters per year, and threaten to displace people, damage infrastructure, and affect fresh water sources on islands and coastal areas. Tropical diseases, such as malaria and dengue fever, have become more common and have started to appear even under mild temperatures.

We may not be able to link all of these changes directly with global climate change, but we know the pressure on the environment is serious and the livelihoods of the poor are at risk. We must collectively work on mitigating the consequences for the most vulnerable among us. But doing so is treating the symptoms. We also need to address the underlying causes.

There is no doubt that the use of greater quantities of higher-quality energy is absolutely essential for developing countries to grow and fight poverty. For a country like Brazil, where tens of millions of people still live in extreme poverty, on less than a dollar a day, there is much work to be done.

So how can we address the increased pressure on our environment and the rising demand for energy? How do we protect the most important natural asset of the poor—their land—from being ravaged by droughts and floods? I don't claim by any means to have the answer but I don't think the answer lies in a futile effort to halt energy consumption. It does include generating energy with a smaller environmental footprint, and using energy more efficiently.. And Brazil has made strides on these fronts.

The poor cannot improve their living conditions without shifting from inefficient energy sources like fuel wood or raw coal to modern forms like electricity and gas.

Without adequate energy services, the poor have to walk or rely on animals rather than travel by motorized transport. They must live in poorly lighted and badly heated homes, and work without the benefit of powered machinery. They have to cook with dangerously polluting fuels like wood and crop residues in inefficient and often unvented stoves. It is estimated that exposure to soot and smoke causes about 4 million premature deaths and 40 million new cases of chronic bronchitis every year. And the returns from a day's work will be much lower if people do not have access to electricity.

So to improve the lives of the poor and to create job opportunities for them, the developing countries need much more energy than they do today.

Poor countries consume on a per capita basis, only 5 percent of the modern energy consumed by rich countries. In rural areas of the developing world, particularly in South Asia and sub-Saharan Africa, four out of five people live without electricity. Rich countries have developed more than 70 percent of their economically-viable hydroelectric potential. For developing countries overall the corresponding figure is only 20 percent, and for Africa it is just three percent.

The world's billion poorest people use only one fifth of a ton of oil equivalent of energy per capita annually, while the billion most prosperous use nearly 25 times as much.

I think the bottom line is clear. Developing countries need more energy but they need to use it wisely, if they want improve their living standards. The big question is whether it is possible to expand access to energy in a way that leaves a sustainable environmental footprint—both at the local and global levels?

As a global leader on clean energy, Brazil has much to share with the world about how developing countries can use more energy, but with a reduced environmental footprint.

The industrial world is overwhelmingly responsible for today's greenhouse gas emissions—which means that it's those countries that must take the lead in doing something about it. Rich countries' per capita greenhouse gas emissions today are five times higher than those of poor countries.

That said, many of these poor countries are catching up. It is clear that as developing countries grow, their demand for energy is growing dramatically.. China is already the world's second largest emitter of greenhouse gases, after the U.S. Its high resource consumption is partly driven by inefficiencies—China uses about twice as much energy per unit of Gross Domestic Product (GDP) as Western economies do—there is great opportunity there for improvement.

As rich and poor countries invest in energy infrastructure, they will need to apply energy-efficient technology to cut future greenhouse gas emissions. Yet power plants in developing countries and even in the OECD countries—who are about to embark on a major power plant renewal program—have yet to adopt clean technologies that are readily available. This is a serious concern but it also provides a great opportunity to do better, to make climate-friendly investments.

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Increasing energy generation and decreasing greenhouse gas emissions represents a double challenge. Brazil is developing innovative ways to turn this double challenge into a double dividend.

Brazil has long understood the importance of maintaining a balance between development and conservation—and I think I would say from what I learned increasingly understands. And it is increasingly using the route of innovation to tackle this challenge. Today 42 percent of Brazil's energy use comes from renewable sources, compared with 6 percent for OECD countries, the most developed countries. Around 90 percent of Brazil's electricity comes from hydropower. And Brazil is also the world's largest producer and consumer of fuel ethanol from sugarcane as a transportation fuel, an achievement possible because it is the world's most efficient producer of cane sugar. Today, the ethanol program is saving around 180,000 barrels per day of gasoline, this comes out as the equivalent of about US\$4 billion per year. That means that about 24 million tons less CO₂ are added to the atmosphere every year because of that program already.

Green energy also has a huge pay-off with its potential to earn Carbon Credits under the growing public and private carbon emission reduction markets. It is not a surprise that President Lula, Minister Palocci, Minister Rodriguez and many others are excited about the economic, employment and environmental possibilities of bioenergy in Brazil.

But it serves little purpose to be too starry-eyed about Brazil, let's be straightforward about two challenges that Brazil continues to face.

First, in spite of Brazil's great concern for the environment and huge potential to expand its renewable energy options, environmental legislation is sometimes pushing investors away from where they ought to be. It is ironic that it is apparently easy to get environmental clearance for thermal power plants, yet very difficult to get the necessary licenses for renewable hydropower. It is also unfortunate that Manaus, which lies in the heart of the world's biggest source of hydropower, relies on diesel fuel, shipped across hundreds of kilometers along the Amazon River.

These cases, I think, demonstrate the need for broad, consistent environmental policies that balance the need to encourage development and protect natural resources—to reap the double dividends that may be possible. It is not an easy task, but I was pleased to hear that progress is being made in issuing environmental licenses in the recent energy auctions, and in the use of strategic environment assessment tools.

The second and much greater challenge lies in slowing the threat of deforestation. In just the last five years, approximately 112,000 km² have been deforested in the Amazon. The Amazon, the pride of Brazil, the world's richest reservoir of biodiversity, and a vital economic asset for the indigenous population is threatened by potentially irreversible deforestation.

I have seen maps of the Amazon, with all the countries of Western and Central Europe fitting inside just the territory of the Brazilian Amazon. I have to ask my staff what country is 112,000 km², that deforestation I bet is as large as some countries in Europe. Being on one small edge of the Amazon after traveling a couple of hours up a river on a boat just brings home the immensity of the region and I am equally impressed by the immensity of the challenges. I met with rubber tappers, with representatives of civil society organizations, business people, government leaders. I saw that the challenges are as enormous as the Amazon itself. But I was deeply impressed by the vision of some leaders, and by the commitment of so many people to address the causes of deforestation. I am also encouraged by to hear about the substantial 31% drop achieved in the rate of deforestation last year, despite – as Minister Palocci informed me – an increase in the sown area.

But much remains to be done. Brazil is one of nine countries, and the biggest on that hosts, the extraordinary treasure of that river. It is not only a national heritage for the people of Brazil, but as I said earlier, it is also an asset for the entire region and for the global community. Brazil will need to apply the same creativity towards the Amazon as it did towards clean energy—to benefit from the ecosystem without destroying it. And the whole world has an interest in helping manage those resources in a way that both maximizes the contribution to development and preserves the environment.

Let me say a little about where I believe the World Bank fits into this picture.

Our mission at the World Bank Group is to support economic development and policies that help the poor. In a middle-income country like Brazil, the Bank is providing this support in a number of ways.

First, Brazil has an enormous amount of knowledge and technology related to energy and the environment that Brazil can share with the rest of the world. One of the important roles that the World Bank plays in the developing world is to facilitate the sharing of knowledge for development. From my week here, it is obvious to me that the potential for partnerships between the World Bank and Brazil in exporting Brazilian know-how is large and only beginning to be tapped.

Last year, we signed the first Reform Loan for Environmental Sustainability aimed at helping Brazil balance economic growth with social development and environmental management. The reforms supported by that loan will ensure that environmental concerns are integrated in Brazil's economic planning.

And on another front, earlier this month, the IFC – the International Finance Corporation, the private sector arm of the Bank Group – perhaps it's worth explaining for just a minute. I used the phrase Bank group because the World Bank is more precisely the public sector arm of the so called International Reconstruction and Development Bank that lends to governments. The IFC lends to private businesses. We are one group, one team, we are working together to get the synergies out of that here in Brazil.

Earlier this month the IFC and its partners at Bovespa and the Getúlio Vargas Foundation launched the first ever in the world-- no – first ever Sustainability Index in Latin America, sorry. This index includes up to 40 local companies and tracks not only their financial performance, but also their environmental and social performance. The index is part of a wider trend to promote environment-friendly business practices.

Second area where can work is in partnering with developing countries to improve the supply of what we call “global public goods”. Trade liberalization is one example. It is an issue of vital importance to the world's poorest people, and one on which Brazil has played a leading role. It is one in which Brazil and the World Bank will continue to work closely together..

We are also looking at ways to support clean and efficient technology and protect vulnerable communities from extreme climate variability and change. At the Gleneagles Summit, attended by President Lula earlier this year, the leaders of the G-8 asked the World Bank to develop what they called an “investment framework” to promote climate-friendly technologies for developing countries. We have held meetings already with the reinsurance industry, investment banks and cutting-edge technology companies and we have dispatched teams to consult with the governments of Brazil, India, China, Mexico and South Africa. There is much more work to be done and I think some

great opportunities to use new financing mechanisms, technology transfer mechanisms, and even some degree of subsidies from rich countries to promote more efficient energy use in the rapidly-growing developing countries.

Third, there is the traditional but still important role of the World Bank Group in financing. We have two major lending instruments...I skipped over a paragraph, I think I want to say it. It is a little bit technical but I think it is important.

The IFC has developed over the last 3 or 4 years a very valuable report called the Doing Business report, that calls attention to the business environment in nearly 180 countries around the world. And it also helps countries identify where they have challenges to create a more favorable business environment. We are also, on that model, developing a conservation index, in consultation with our partners, that will help countries to look at how they manage their natural resources and at the opportunities created for indigenous communities. These tools include rankings. And sometimes countries get upset at how they get ranked on these lists. And there is always some room to argue about how you put the list together and how you weigh the various scores. But I think that there is no question in my mind that focusing people's attention on where there are problems and focusing on where other countries are doing better than they are, in this area of environmental management, could be a very important way to fix problems and improve performance everywhere.

Third area where we can work as the traditional but still important role of the World Bank Group in financing and lending. As I explained we have to main lending instruments for financing projects in Brazil—IBRD loans to the public sector and IFC loans to the private sector.

We also developed a wide range of lending and grant instruments, including investment guarantees from another sector of the Bank called MIGA and IBRD and the IFC, and grants from something called the Global Environment Facility. We have several carbon finance funds—grant funds-- totaling nearly \$1 billion.

Let me use the example of the Amazon to suggest how the World Bank might play a role in addressing that great challenge and perhaps other environment and development challenges of our time.

Over the past decade the World Bank has had little involvement in the Amazon, aside from a donor-funded grant program of roughly \$400 million. You may say \$400 sounds like a lot of money. It is in a way, but if it is spread over ten years and over that vast region it is actually very modest compared to the challenges – and the importance – of the Amazon..

During my trip this week, I came away with the impression that Brazilians are increasingly coming to grips with the challenge of how to proceed with much-needed economic development while simultaneously protecting the forests and environmental treasures of the Amazon region. While-- as you know better than I—they don't all have the same vision about the future, I think that the differences among people are narrowing. In some cases – such as in the state of Pará – this vision has been endorsed very broadly by elected public officials.

The development and environment issues of the Amazon need to be addressed on a scale commensurate with the vastness of the area, and the complexity of the problems. Many Brazilians asked me for a larger, more comprehensive engagement by the World Bank as a partner to the national and state-level political leaders who are developing a Brazilian vision for the future and who need support to translate this vision into action. I was told frequently that the World Bank Group could play an important role, partly as a financier, but even more because of first our substantial expertise in this area and second because we are sometimes able to bring people together in unique ways to catalyze both local and international cooperation to address this challenge.

In response to such requests, we are prepared to look at how to enhance our efforts in the Amazon. We are also working on the national stage providing advice on designing policies that are pro-poor, pro-growth and pro-environment. As I think I mentioned already, last year, we signed the first Reform Loan for Environmental Sustainability and we are working with the State of Pará to develop a \$100 million project to help implement the promising vision of forest conservation and economic development which was explained to me by Governor Simão Jatene in Belém.

I see many opportunities for us, working with partners, to make a real difference. In the right policy and legal framework, the World Bank Group and other international donors could work on a much larger scale on forest conservation, on projects with farmers and agro-industries, on helping to analyze and finance appropriate forms of energy generation and distribution, and on transport to achieve the twin goals of development and environmental protection.

Obviously it is the Brazilian national and state governments which would necessarily and appropriately be the primary partners for the Bank. But through and with government we would work with other Brazilian partners – with research institutions, with civil society and with the private sector. And I believe the international community would be prepared to bring additional international resources to address these twin challenges.

To conclude, as Brazil develops, the World Bank is becoming an increasingly small actor on the large stage that is Brazil. Our lending is only about 0.3 percent of Brazil's GDP and less than 6 percent of total external financing. So our strategy must be realistic and we must focus on those issues where we have a comparative advantage, and where we can add real value.

What I heard before I came to Brazil has been confirmed by what I have seen in my six days here. The Bank can and should continue to engage with conservation activities, but also needs to engage with the major forces of development in an integrated approach.

Doing so can contribute to important global issues such as biodiversity and climate change, but it is fundamental for the domestic balance which Brazilians seek to achieve between development and environment.

For the World Bank, Brazil is more than a borrower. It is increasingly a major global player and a donor, an exporter of knowledge and a leader on environment.

We can and will continue to work with Brazil to raise global consciousness about our shared responsibility toward our environment. We owe it to the children and grandchildren of Brazil...and of the world...to demonstrate that the coming decades can be different. That we can reap the double dividend of robust growth on a healthy planet.

Thank you.