

SUSTAINING EXCELLENCE • 2006/2007 Annual Report

iisd



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The International Institute for Sustainable Development contributes to sustainable development by advancing policy recommendations on international trade and investment, economic policy, climate change and energy, measurement and assessment, and sustainable natural resources management. Through the Internet, we report on international negotiations and share knowledge gained through collaborative projects with global partners, resulting in more rigorous research, capacity building in developing countries and better dialogue between North and South.

## OUR VISION AND MISSION

IISD's vision is better living for all—sustainably; its mission is to champion innovation, enabling societies to live sustainably. IISD is registered as a charitable organization in Canada and has 501(c)(3) status in the United States. IISD receives core operating support from the Government of Canada, provided through the Canadian International Development Agency (CIDA), the International Development Research Centre (IDRC) and Environment Canada; and from the Province of Manitoba. The Institute receives project funding from numerous governments inside and outside Canada, United Nations agencies, foundations and the private sector.

### ABOUT OUR WEB SPACE

This year, we refreshed and expanded our Web site at <http://www.iisd.org> to serve our growing global audience more effectively. A more personal and current approach has been designed, which provides space for IISD colleagues to discuss their work, their views and their commitments in their own words. We have strengthened our search and navigation functions and have launched a French interface for our research site to provide better access to our most current work.

From April 1, 2006, to March 31, 2007, IISD experienced an enormous amount of traffic on our research Web site at <http://www.iisd.org> and on our Reporting Services Linkages Web site at <http://www.iisd.ca>. Some highlights:



<http://www.iisd.org>

24,331,335 successful requests including 1,883,245 PDF downloads

<http://www.iisd.ca>

41,638,870 successful requests including 1,673,154 PDF downloads

<http://www.globalsubsidies.org>

IISD's Global Subsidies Initiative launched a unique site in 2006 and has enjoyed enormous success. From July 2006 to March 31, 2007, there were 1,025,800 total hits.

### MAILING LISTS

IISD runs a number of e-mail lists with subscribers from all over the world. Our current accumulated subscriber base is 40,253, an increase of over 5,000 since March 31, 2006.

To learn about—and subscribe to—our lists, visit

<http://www.iisd.org/maillinglists.asp>

The past year has seen a sea change in public awareness of sustainability and the health of the planet. Twenty years after Brundtland—and a few years into a series of increasingly pointed reports from the Intergovernmental Panel on Climate Change—we are moving past the talk of what we face, to discussion about how best to move forward to ensure economic vitality, human well-being and a healthy environment.

As the Chair of an experienced and knowledgeable Board of Directors, I continue to learn from the varied experiences of my colleagues—skilled researchers, environmentalists, international policy leaders and business executives from around the world. All are dedicated to the proposition that IISD, proudly headquartered in Winnipeg, Canada, should be driven by a spirit of innovation in our research. We continually demonstrate this spirit in important ways—as we did with our recent work on global environmental governance that was presented to an impressed international audience at President Chirac’s Citizens of the Earth Conference in Paris in February.

Lest we forget, the struggle to be sustainable and prosperous is not just a global issue. It’s a matter of deep concern to communities of all sizes. In Manitoba, our home province, IISD’s research project on the quality of Lake Winnipeg’s water and the identification of environmental hot spots on western grasslands is a seminal piece of work. Working with First Nations communities dedicated to minimizing their environmental footprint and protecting their natural heritage is another hallmark of how IISD reaches out to create value as a solutions provider in a fragile world facing uncertainty.

## FROM THE CHAIR

*One Lifeboat*, IISD’s report on China’s determination to tackle its sustainability challenges, is one of a kind. The ongoing work on climate change and what we should be doing when the Kyoto Protocol’s first commitment period expires in 2012, on the other hand, is significant insofar as it represents a long-lasting and determined effort to help find solutions and craft the right public policy and regulatory response. Throughout all of this, our Reporting Services team upholds and enhances the best traditions of conference scribes, providing an invaluable service in international negotiations and conferences.

In achieving these remarkable contributions, I know I speak for my fellow directors in recognizing the leadership of David Runnalls and the contribution of gifted and dedicated expert project leaders and staff. They are truly an amazing group of professionals on the edge of our collective quest for innovation and solutions to leave a better world for our children and for future generations.



Daniel Gagnier  
Chair of the Board

“...WE ARE MOVING PAST THE TALK OF WHAT WE FACE, TO DISCUSSION ABOUT HOW BEST TO MOVE FORWARD TO ENSURE ECONOMIC VITALITY, HUMAN WELL-BEING AND A HEALTHY ENVIRONMENT.”



As our Chair points out in his message, public interest in the environment has never been so high. The policy-makers' summaries of the working groups of the Intergovernmental Panel on Climate Change; the pictures of ever diminishing snow and ice coverage in the Arctic; and the easily observable changes in the day-to-day climate in most countries, have pushed green issues to the top of the public agenda. In Canada, pollsters are heralding the fact that environment is now the "top of mind" issue. Unprecedented, eh?

Well, not exactly. This Institute opened its doors in 1990, the last time the environment was number one on the agenda. The steady drumbeat of media stories that followed the publication of the Brundtland Report, the Exxon Valdez disaster and the Earth Summit in Rio in 1992, led to a kind of "eco-fatigue" that relegated green issues to the specialist journals for a decade.

I think that this time the awareness is different. It is more urgent and more connected in the public mind with the other great worries of our time: terrorism; the persistence of grinding poverty in much of the world; and a sense that what happens in one part of the world affects us all. In any case, we now have an unprecedented degree of policy space to develop solutions that promote more sustainable forms of development.

IISD is well suited to fill some of this space. We know that dealing with climate change is not just a matter of mitigation. It requires new approaches to development that help countries to eradicate poverty while they build the resilience necessary to adapt to the changes we already see. We know that certain trade and investment policies are more likely to promote more sustainable forms of development. We know that our failures to internalize costs and our willingness to subsidize many forms of unsustainable development distort the market and make matters worse. The programs described in this report provide practical solutions to these dilemmas.

## FROM THE PRESIDENT



Many of these problems are global and will require much more effective global mechanisms to deal with them. Our Reporting Services team continues to make the international negotiations on environmental issues more transparent and legitimate. And we are now moving to provide recommendations on the reform of

international environmental governance. Our Knowledge Communications program seeks new ways to mobilize Internet communications in support of sustainable development and to appeal to young Canadians who have a burning desire to be involved in these issues.

The North American prairies will become increasingly vulnerable to change, coping with higher temperatures and less water. The preservation of those areas, which provide vital ecological goods and services, has become a major public policy priority and we have new and innovative ways to deal with the problems.

And finally, we have ways of measuring progress on the road to more sustainable forms of development, whether it be at the community level in Winnipeg, or with aboriginal people, or at the global level.

We have always had the ideas. Now we have a more willing audience. The challenge is clear.

A handwritten signature in dark ink, reading "David Runnalls".

David Runnalls  
President and CEO

"IN CANADA, POLLSTERS ARE HERALDING THE FACT THAT ENVIRONMENT IS NOW THE 'TOP OF MIND' ISSUE. UNPRECEDENTED, EH?"

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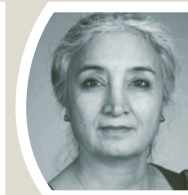
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## THE IISD TEAM

**The IISD Team is a growing group of talented, motivated men and women from around the world. While anchored in Winnipeg, Geneva, Ottawa and New York offices, IISD is a colourful, international tapestry of staff, associates, consultants and young interns who bring their unique experiences, perspectives and energy to our work. The individuals listed served with IISD in 2006–2007.**

Twenty years after the launch of the Brundtland Commission's report on sustainable development, IISD sat down with both of its Canadian commissioners—Maurice Strong and Jim MacNeill—to reflect on the report's legacy.

The report, *Our Common Future*, which MacNeill wrote, introduced the world to the concept of “sustainable development,” a phrase that has since become part of the everyday lexicon of humankind.

But it was far more than a phrase. Instead, it was seen as a wholly new way of viewing the human relationship to the other creatures of the world.

Before the Brundtland Commission, care of the environment typically meant trying to fix things after development had happened.

After the Brundtland Commission, it meant recognizing that the economy relies on a healthy environment and that, if properly managed, the environment and the economy can support each other.

The report, which also introduced the world to the emerging dangers of climate change, led directly to the Earth Summit in Rio de Janeiro in 1992; to the World Summit on Sustainable Development in Johannesburg in 2002; and sowed the seeds of scores of international agreements and national policies.

Governments all over the world now talk the talk of sustainable development: it has become the language of political rhetoric. The report led directly to the

establishment of institutes—including IISD—and conferences and university curricula on sustainable development. It galvanized civil society and much of industry with a bold new concept.

But what else did it lead to? Has anything really changed in 20 years?

Has the world lived up to the great promise that the Brundtland Commission report revealed?

“SUSTAINABLE DEVELOPMENT IS DEVELOPMENT THAT MEETS THE NEEDS OF THE PRESENT WITHOUT COMPROMISING THE ABILITY OF FUTURE GENERATIONS TO MEET THEIR OWN NEEDS.”

Definition from *Our Common Future*, the report of the Brundtland Commission (formally known as the World Commission on Environment and Development), April 1987.

By Alanna Mitchell

## LOOKING BACK; LOOKING AHEAD

[IISD FEATURE]

### IT'S BEEN 20 YEARS SINCE BRUNDTLAND. WHAT'S CHANGED?

Jim MacNeill still remembers the final all-night meeting of the Brundtland Commission. As Secretary-General of the Commission, it was his job to be the lead author and to help the 23 Brundtland Commissioners agree on the final report.

It was a hard slog. The Commissioners came from all over the world—industry, academia and politics. Their backgrounds were widely different, steeped, as MacNeill says, by “the rivers of misinformation and paranoia that flowed through the Cold War world of the '80s.”

That final night in Tokyo in February 1987, after 900 days of consultations with experts and the public over five continents, the discussions went all night in a session marked by “serious drama,” he said.

The sticking points were explosive and intractable: population and nuclear energy.

The stakes were high.

During the 900 days of the Commission's consultations, environmental disasters had abounded, leaving citizens around the world mired in anxiety: starvation in Ethiopia, the Sahel and other parts of Africa; the deadly chemical disaster in Bhopal, and other chemical spills in Mexico City and on the Rhine; the dying forests of Europe; an expanding ozone hole; early scientific findings on climate change; and the nuclear catastrophe at Chernobyl.

All of this meant that the report had to strike the right chord and that the Commissioners had to avoid dividing along the “Cold War fault lines”—East versus West, North versus South, planned economy versus free market—in order to make sure the report got its message across, he said.



1987 Commissioners Jim MacNeill, Gro Harlem Brundtland and Volker Hauff at a recent meeting.

In the end, they succeeded.

“Environmental awareness was on the upswing,” said MacNeill. “We caught that. People were looking for a new direction.”

The report came out with a flourish that April, having a far more intense effect on citizens, industry and government than any of the Commissioners had expected, says MacNeill.

“It was mind-bending and it changed mindsets,” he says, pointing to changes in boardrooms, scientific institutions, non-governmental organizations, university research programs and government policy. It continues to drive the thinking of much of civil society.



“It had the effect of causing chief executives to break ranks with their industries and take it up,” he says. “Those chief executives who forcefully applied the concept of sustainable development have found it not only profitable, but a spur to innovation.”

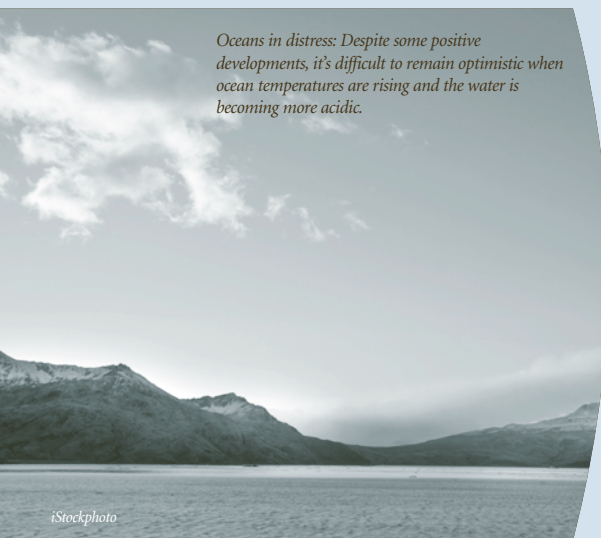
But what did it actually accomplish? That’s a far more unsettled question, says Maurice Strong.

The report was a “very important element at a key time,” he says. But it hasn’t been followed up by concrete action.

“The negatives were not so much in the report as in the fact that the world was not listening,” Strong says. “We’ve missed a lot of opportunities.”

He’s encouraged by the level of commitment to sustainable development in Europe, he says, “but they’re still not doing what they need to do.”

*Oceans in distress: Despite some positive developments, it’s difficult to remain optimistic when ocean temperatures are rising and the water is becoming more acidic.*



iStockphoto

“It does show that public attitudes can change,” he says.

MacNeill says that he pins his hopes on the strides made by civil society, business and industry. On the government side, though, it’s a different story, with several sterling exceptions, including the Scandinavian countries.

There are other reasons to be optimistic. Gro Harlem Brundtland, former Prime Minister of Norway and chair of the Commission that bears her name, was named one of three special United Nations envoys on climate change in May 2007. It’s a sign of how seriously UN Secretary-General Ban Ki-moon takes the issue.

Brundtland pointed out in a recent speech that doubt over the potential negative effects of climate change has been eradicated in the 20 years since her report. That marks a significant advance in thinking.

“It is irresponsible, reckless and deeply amoral to question the seriousness of the situation,” she said. “The time for diagnosis is over. The time to act is now.”

But the biggest problems, he says, have been the United States and Canada.

“Canada, I hate to say it, is one of the worst, in its greenhouse gas emissions and in its response to those emissions.”

It’s a bitter disappointment, given the prominence Canadians had in the Brundtland Commission and its report. Two of the 23 Brundtland Commissioners were Canadian and Maurice Strong went on to organize and lead the Earth Summit in Rio de Janeiro in 1992.

“Today, Canada has fallen into disrepute,” says Strong. “I would say that Canada has moved from leadership to laggardship.”

Jim MacNeill is even more blunt.

“Canada has gone from a massive disappointment beginning in 1993 to today an international embarrassment. I go to a lot of international meetings and I’m embarrassed when I’m asked about Canada’s (climate change) policy.”

And in the 20 years since the report came out, damage to the world environment has only become more intense and more rapid. Carbon concentrations in the atmosphere have reached levels high enough to raise the average world surface temperature by a full degree Celsius. In the Arctic, the increase is four degrees on average. Hundred-year anomalies in weather are becoming commonplace.

Already, plants and animals are moving further north and south of the equator, searching for suitable living conditions. Many are threatened with extinction.

The greenhouse effect is also raising the temperature and volume of the global ocean and making it more acidic.

At the same time, the gross world product has nearly doubled. China, India, Brazil and other developing countries are growing faster than nations at any other time in history, says MacNeill.

The need for development to be sustainable is more acute than it has ever been. In other words, the world needs today exactly what it needed 20 years ago when the Brundtland Commission report came out, except that it needs it more urgently.

Strong, whose optimism is legendary, struggles to find hope.

“Analytically, it’s hard to escape some pessimism,” he says. “But operationally, I’m an optimist.”

He points to encouraging social trends on the public health front. People used to be considered eccentric if they read food labels in grocery stores, he says. Today, it’s considered irresponsible not to. Smoking, once *de rigueur*, is now banned in many public places and smokers are pariahs.

She pointed to the need to improve energy efficiency, increase the use of renewable energy, improve forestry and agricultural practices, and establish a truly global carbon market as critical steps.

“Today I believe we stand on the threshold of a new, green economy,” she said. “A low-carbon economy can rid the world of poverty and save the climate. This is our calling. And it can be done.”

Strong agrees. He says it is “quite clear” that change for the better is possible.

“The question is: ‘Will we do it?’” he says. “It’s a very, very big question.”

*Alanna Mitchell is a journalist, author and IISD Associate. She is currently working on a book about the ecological problems in the global ocean.*

“THOSE CHIEF EXECUTIVES WHO FORCEFULLY APPLIED THE CONCEPT OF SUSTAINABLE DEVELOPMENT HAVE FOUND IT NOT ONLY PROFITABLE, BUT A SPUR TO INNOVATION.”

What will the international climate regime look like after 2012 when the first commitment period of the Kyoto Protocol draws to a close? No one really knows. The one thing we do know is that progress is very slow—likely due to the disproportionate focus on reaching emissions reduction targets.

*There's more to solving climate change than reducing greenhouse gas emissions, writes John Drexhage.*

By John Drexhage

## HOW TO BUILD A SUSTAINABLE CLIMATE REGIME MUCH MORE THAN SETTING TARGETS

Kyoto's major accomplishments were not so much in the area of targets—in fact, there are, as we all know, real problems with the established targets. Significant developed countries decided not to sign on, mostly as the result of the decision about two years prior to Kyoto to exclude all developing countries from any such commitments regime. Some targets were much too lenient, allowing for the very misunderstood issue of “Russian hot air” to raise its ugly head. And political maneuvering within the G8, rather than any credible economic modelling work, served as the basis for countries' reduction targets.

No, the real accomplishments of the Kyoto were threefold. First of all, it worked to galvanize actions at national and regional levels, *regardless of whether countries had actual reduction commitments under the Kyoto Protocol*. Second, it launched a global carbon market which, through fits and starts, will continue and strengthen its profile in the global economy (and has already garnered the attention of corporate boards around the world—particularly in investment circles). And finally, it established critical multilateral institutions and rules around the many complex aspects of climate change, including: registries for the accounting of greenhouse gas emissions; monitoring, reporting and validating international offsets; and elaborating on the Protocol's legal character and force.

But targets are on everyone's mind and, as a result, it would probably be overly-positive to describe current progress on a post-2012 regime as glacial. It's not that targets don't need to be addressed in some form or other—of course they do—but it appears that the fixation on them is affecting other areas just as critical to a successful and effective future response to global warming. As the almost weekly scientific reports of climate change impacts confirm, it is clear that a strong program of action on adaptation, particularly for Least Developed Countries, is required.

I had the special privilege of visiting Mozambique in April and I won't forget the feeling of visiting a country very much on the “front lines” of the real, current and impending climate change onslaught. Northern Mozambique suffers droughts, while its southern provinces are faced with surging

“I HAD THE SPECIAL PRIVILEGE OF VISITING MOZAMBIQUE IN APRIL AND I WON’T FORGET THE FEELING OF VISITING A COUNTRY VERY MUCH ON THE ‘FRONT LINES’ OF THE REAL, CURRENT AND IMPENDING CLIMATE CHANGE ONSLAUGHT.”

sea levels and salinization. The country also faces a growing number of cyclones that hit land every year and an increasing number of wildfires. And they have to face this all with a per capita gross national income of just over US\$300. They have made some progress: a recently developed early warning program for cyclones (developed with USAID money) helped prepare some 400,000 residents for the worst, with far, far fewer casualties than was the case so many times before. But, of course, much more is needed—not only for Mozambique but for all vulnerable communities. Despite this urgency to help victims now, adaptation continues to enjoy second-tier status to the much more “compelling” issue of the ongoing battle between environmentalists and large industry.

I’m not suggesting some separate agreement or negotiations on adaptation. What I am suggesting is the urgent development and deployment of tools helping those in the development community ensure that their priorities will not be compromised by the spectre of significant climate impacts. It means galvanizing a strong and meaningful dialogue with the development community, showing why climate change can make a real difference to their current investments and help them to discover what can be done to prepare. IISD is a recognized leader in the field, particularly in promoting the integration of climate change considerations into development, and developing tools for that specific purpose.

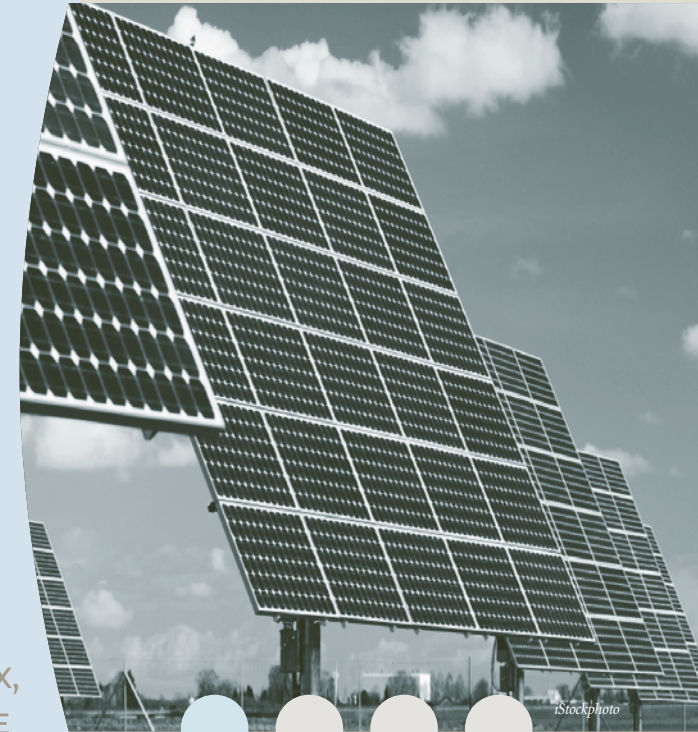
Technology transfer is another issue that gets almost no attention, and yet its resolution is absolutely necessary if we are to have any chance of getting a broader community of nations aboard the mitigation commitments train. Clearly, OECD countries have an obligation to help developing countries meet their development priorities in as sustainable a path as possible. Just as clearly, the major developing countries for whom real reductions will be required, will soon represent the West’s new competition in the global marketplace. Further complicating matters is the fact that these technologies are typically not the property of governments. So how do we get these climate-friendly technologies up and implemented in developing countries as efficiently and fairly as possible? No one, to be frank, has come very close to the answer.

The problems are complex, no doubt, but part of the blame lies in the fact that too little attention is being paid to technology transfer, leaving it at the sidelines of the negotiations. Kyoto and its progeny, at the end of the day, must be about the signals it sends on investment, both at home and abroad. IISD has only started to look at this issue, but we look forward to being an important contributor to a clean future that also meets the energy development needs of the more than two billion people without current access to those services.

Adaptation and technology transfer—it’s time we paid as much attention to these critical components of climate change as we do to mitigation targets. And that doesn’t mean only in the negotiations. It also means resources—the money, tools and capacity to implement on the ground. We owe it to the environment and to vulnerable communities to find these resources and get to work. A tall order, no doubt—which is why the current obsession with targets is even more unhelpful.

*John Drexhage is IISD’s Director of Climate Change and Energy.*

*Technology transfer is a key component to addressing climate change, notes John Drexhage.*



“THE PROBLEMS ARE COMPLEX, NO DOUBT, BUT PART OF THE BLAME LIES IN THE FACT THAT TOO LITTLE ATTENTION IS BEING PAID TO TECH TRANSFER, LEAVING IT AT THE SIDELINES OF THE NEGOTIATIONS.”

Perhaps no other economy in human history has grown as quickly as China's has in recent years. But with growth, comes challenge. What does China's expanding economy mean for sustainable development, and what can be done?

China is by far the fastest growing economy in the world; perhaps the fastest in human history. China's gross domestic product (GDP) was up 11.1 per cent in the first quarter of 2007—0.7 per cent higher than for all of 2006.<sup>1</sup> Growth and rapid urbanization will continue until at least 2020, when China expects to quadruple its GDP over the year 2000.

China's environmental problems are also among the most serious in the world. Ninety per cent of urban groundwater supplies and 70 per cent of rivers and lakes are contaminated; 16 of 20 of the most polluted cities in the world are in China; about 200 Chinese cities fall short of World Health Organization standards for airborne particulates; and more than 30 per cent of China's cropland is suffering from acidification.<sup>2</sup> Sulphur dioxide (SO<sub>2</sub>) emissions alone are causing an annual 12 per cent loss in gross national product, an amount about equal to the country's phenomenal annual growth.<sup>3</sup>

Rapid growth has created complex ecological ties with the rest of the world. Some environmental problems, started in China, already extend beyond the country's borders.

*A polluted river at Humen town, South China: China acts as the world's "largest workshop," writes Wanhua Yang.*



iStockphoto

“GROWTH AND RAPID URBANIZATION WILL CONTINUE UNTIL AT LEAST 2020, WHEN CHINA EXPECTS TO QUADRUPLE ITS GDP OVER THE YEAR 2000.”

By Wanhua Yang

## SUSTAINABLE CHINA? MEETING THE CHALLENGES OF RAPID GROWTH

Airborne pollution and dust from Chinese industry, for example, carry to nearby countries such as Korea and Japan. China provides the headwaters for several international rivers including the Yangtze, Yellow, Mekong and Brahmaputra. Some of these rivers are being dammed and diverted. And climate change is threatening the glaciers that feed these rivers.

China acts as the world's largest workshop, producing 30 per cent of the world's televisions; 30 per cent of the world's furniture; 50 per cent of the world's cameras; and 70 per cent of the world's photocopiers.<sup>4</sup> While providing cheap goods to many parts of the world, China absorbs the pollution and bears the related health costs. China's quest for natural resources through global investment and acquisition has led to surging commodity prices, as well as international concerns about China's voracious appetite for natural resources and its growing impacts on the global environment. At the same time, China has become the largest dumping ground for the world's garbage, including paper and electronic waste.

Currently, China is the world's second biggest emitter of greenhouse gases after only the United States. The International Energy Agency recently said that China could overtake the U.S. as the world's largest emitter as soon as late 2007, and certainly by 2008.<sup>5</sup> Meanwhile, China will be hit especially hard by climate change, with longer droughts in the north leading to falling farm production; heavier rainfall in the south, leading to more flooding and heavy economic losses; and rising sea levels in China's wealthy coastal cities in the east.

[ISSUE FEATURE]

“CHINA ACTS AS THE WORLD’S LARGEST WORKSHOP, PRODUCING 30 PER CENT OF THE WORLD’S TELEVISIONS; 30 PER CENT OF THE WORLD’S FURNITURE; 50 PER CENT OF THE WORLD’S CAMERAS; AND 70 PER CENT OF THE WORLD’S PHOTOCOPIERS.”

The Chinese leadership has recognized the severe development and environmental challenges and have responded. In 2004, the Chinese government proposed a new scientific development approach aimed at achieving “five balances” between rural and urban development; interior and coastal development; economic and social development; people and nature; and domestic and international development. China’s macroeconomic plan for 2006–2010 (the 11th Five-year Plan) is the first to place more emphasis on innovation to achieve sustainable development goals, including stringent targets for energy efficiency and pollution reduction, and becoming a “harmonious, environmentally friendly, resource-efficient society.” The government also plans to spend over US\$240 billion during 2006–2010 on the environment. Various new approaches are also under experiment including “circular economy,” “Green GDP,” and indicators for measuring the environmental performance of senior and local officials. Most recently, Premier Wen Jiaobao stressed that China’s “economy could hardly be sustainable if China failed to adjust the economic structure, transform the (extensive) growth mode, and reduce energy consumption. We are left with no choice but to develop in an economical, clean and safe way.”<sup>6</sup> China’s recent White Paper on Environmental Protection has also re-affirmed China’s international commitment to ratify and implement international environmental obligations. All these are significant because it shows that China has the potential to be part of its own solution and contribute to global sustainability.

However, the combination of a huge population; limited resources (with only seven per cent of world’s arable land feeding almost 20 per cent of the world’s population) and an energy-intensive, inefficient industrial sector, makes the translation of the above political will into

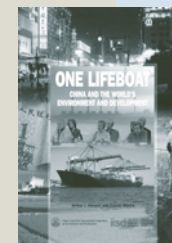
implementation extremely difficult. China already has a comprehensive set of environmental laws and policies, but the ability to monitor and report accurately on their progress and to carry out innovative work related to institutional change, management and enforcement of policies is needed. The involvement of the financial sector and the private sector in environmental issues is still very limited. The integrative thinking required for sustainable development is in short supply.

IISD has worked in China through the China Council for International Cooperation on Environment and Development and the Ministry of Commerce for many years. We are now looking to expand our work in China. IISD has several strengths for future collaborative efforts in the country. As IISD’s President David Runnalls points out, IISD’s focus on innovation is consistent with China’s efforts to improve institutional and management performance based on the “scientific development approach”; the Institute’s knowledge and experience with multilateral environmental agreements and trade and investment agreements is what China needs to support domestic policy-making; and IISD’s work on fiscal reform and measurement and indicators of performance—which are key to building integrative approaches for sustainable development—is also relevant to China’s interests.

As a significant player in global trade and global environmental issues, China has become crucial to global efforts to achieve sustainable development. China not only needs technology, investment and know-how to help mitigate the environmental consequences of its rapid growth; it also needs international understanding as well as constructive engagement and cooperation to promote sustainable development in the country and around the world.

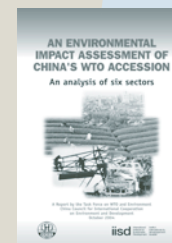
*Wanhua Yang is IISD’s Senior Program Manager, China.*

For more on China, read the following IISD publications:



**One Lifeboat: China and The World’s Environment and Development**

Arthur J. Hanson and Claude Martin (2006)  
[http://www.iisd.org/pdf/2006/china\\_one\\_lifeboat.pdf](http://www.iisd.org/pdf/2006/china_one_lifeboat.pdf)



**An Environmental Impact Assessment of China’s WTO Accession: An Analysis of Six Sectors (2004)**

[http://www.iisd.org/pdf/2004/cciced\\_env\\_impact\\_assessment.pdf](http://www.iisd.org/pdf/2004/cciced_env_impact_assessment.pdf)



**International Experience in Establishing Indicators for the Circular Economy and Considerations for China**

László Pintér (2006)  
[http://www.iisd.org/pdf/2006/measure\\_circular\\_economy\\_china.pdf](http://www.iisd.org/pdf/2006/measure_circular_economy_china.pdf)

For additional titles, go to <http://www.iisd.org/publications> and search for “China”

<sup>1</sup> Xinhua News Agency, GDP grows 11.1 per cent in first quarter, April 19, 2007.

<sup>2</sup> Worldwatch Institute, State of the World 2006: China and India, 2006, Washington, DC.

<sup>3</sup> Orville Schell, “Clearing the air with China,” ChinaDialogue: China and the world discuss the environment, April 25, 2007.

<sup>4</sup> The Economist, July 30, 2005.

<sup>5</sup> Economics Intelligence Unit, the Economist, “China economy: the dirty dragon?” May 7, 2007, ViewsWire available at: [http://www.viewswire.com/index.asp?layout=VWPrintVW3&article\\_id=1552161140](http://www.viewswire.com/index.asp?layout=VWPrintVW3&article_id=1552161140)

<sup>6</sup> Xinhua, “Wen calls for reduction in pollution” (in a speech at the national working teleconference on energy saving and pollutants reduction late April), May 17, 2007.

IISD no longer runs a program called “Economic Policy.” We don’t have to. The promotion of sound, sustainable economic development is at the core of much of our work.

The most incisive conclusion of the Brundtland Commission report 20 years ago was that the earth’s environment and its economy are so closely intertwined that policies in one area that ignore the other are bound to fail.

For years, IISD has been studying and developing tools that integrate the environment into mainstream economic and social policy. We have examined expenditures that ultimately harm the environment and compromise well-being. We are producing tools to help the newly emerging carbon markets work better. We are following up our groundbreaking work on the Millennium Ecosystem Assessment with recommendations for the creation of markets for ecosystem goods and services and continuing work on the relationships between poverty and the environment. We are also trying to get at the costs of regulations in certain sectors. Finally, we continue our work on poverty and the environment. All this without continuing to run a formal program focusing specifically and exclusively on “economic policy.”

*IISD continues to examine the linkages between poverty and environment in the developing world.*



*iStockphoto*

By David Runnalls

## THE SCALE OF ECONOMY ECONOMIC POLICY AND PRINCIPLES CUT ACROSS ALL OF IISD’S PROGRAMS

[IISD FEATURE]

### WORK ON SUBSIDIES EXPANDS; GAINS INTERNATIONAL ATTENTION

Often, for perfectly legitimate reasons, governments subsidize sectors of the economy to preserve jobs, or to promote new technologies or even to protect vulnerable sectors. IISD’s Global Subsidies Initiative, under the auspices of the Trade and Investment program, has been designed to identify those subsidies that are also trade-distorting and environmentally perverse. Our pioneering study on the U.S. biofuels industry has rapidly become the standard reference on the subject and has been quoted twice in reports from *The Economist*.

We have been exploring the potential for market-based mechanisms to supplement environmental regulations. Whatever one thinks of the Kyoto Protocol, it has made carbon into a commodity that can be bought and sold like any other commodity. Some U.S. states and Canada have followed the European Union in the creation of emission trading regimes; and the Protocol’s Clean Development Mechanism (CDM) has proven to be a much greater success than originally envisioned. IISD’s Climate Change and Energy program has been working to improve the functioning of the CDM, especially to ensure that CDM projects act to promote sustainable development in recipient countries.

“WHATEVER ONE THINKS OF THE KYOTO PROTOCOL, IT HAS MADE CARBON INTO A COMMODITY THAT CAN BE BOUGHT AND SOLD LIKE ANY OTHER COMMODITY.”

The Millennium Ecosystem Assessment argued that the foremost priority for integrated agro-ecosystem management should be establishing “payments for ecosystem services” schemes on a watershed basis. New York City, for example, negotiated agreements with agricultural producers and municipalities in the Catskill-Delaware Watershed where its drinking water recharge area is found, thus avoiding massive water treatment infrastructure costs. We are exploring the potential to create such novel and high value rural–urban institutional linkages on the Canadian prairies. IISD has developed an analytical framework for quantifying the public benefits of watershed-based beneficial management practices. This research will address fundamental questions related to the value of ecological goods and services generated through on-farm actions.

Clarity on what ecosystem services need protection and restoration, and on what institutions need to be involved, is a necessary condition for sound agro-environmental policy. The sufficient condition is that delivery programs be sustainable and therefore economically efficient. Payments for ecosystem services schemes suffer a widely observed weakness wherein landholders have information about their implementation costs, but this cost is hidden from the funding agency, resulting in unnecessary and unsustainable program expense. The *EcoTender* project recently piloted in Australia demonstrates a novel approach that overcomes this type of information asymmetry using an auction and integrated modelling approach to ensure that only highest-value ecosystem services are procured. The technical and institutional potential for *EcoTender*-type applications in Canada deserves careful scrutiny.

But markets are only part of the answer. Regulation still has an important role to play in the achievement of sustainable development. I served as a member of the Canadian government’s Smart Regulation Committee, which recommended streamlining the country’s regulatory system. That Committee pointed out the need to assess the costs of regulation. While analyzing

“BUT MARKETS ARE ONLY PART OF THE ANSWER. REGULATION STILL HAS AN IMPORTANT ROLE TO PLAY IN THE ACHIEVEMENT OF SUSTAINABLE DEVELOPMENT.”

potential regulatory impacts before new legislation is introduced is common practice, reviews of regulatory impacts *after* regulations have been implemented are less common.

Such *ex post* assessments of the costs of regulation are carried out much less frequently than their *ex ante* counterparts for many reasons, including the difficulty in untangling the specific impacts of a regulation from all the other potential influences in the economy and environment. Despite the challenges, *ex post* assessments can aid in developing better regulatory processes and design by identifying what works and by teasing out unintended and undesirable outcomes. IISD is working with Environment Canada to establish a systematic approach to conducting *ex post* analysis of the economic costs of environmental regulations.

“Sustainable development” was forged, in large part, out of a need to find ways to alleviate poverty while protecting the environment. IISD has produced seminal work on sustainable livelihoods and poverty and ecosystem services, which continues in our current work on how climate change and natural disasters are impacting livelihoods; and the identification of policies that promote local resilience and adaptive management so that vulnerability is reduced. IISD Innovation Fund grants are funding research on how the Rio Conventions can be linked to poverty alleviation efforts though local-level natural resources management, and the development of a poverty and ecosystem services prototype report, which will soon be published.

As businesses and governments begin to pay more attention to the issues of a troubled planet, a keen understanding of the relationships among environment, society and economy is required. With insightful analysis, sharp policy tools and recommendations, and sincere implementation, we can build economies that flourish while the planet and its people recover.

*David Rummalls is the President and CEO of the International Institute for Sustainable Development.*

*Sound agro-environmental policy requires clarity on what ecosystem services need protection, writes David Rummalls.*



*iStockphoto*

The challenges of managing the global environment grow increasingly complex over time. Our global institutions and systems to govern environmental law and policy are not keeping pace.

Adil Najam has a simple analogy for the state of global environmental governance. “I have kids,” he says, “and every year or so they have this habit of growing out of their clothes and needing new ones. Now I could stand there and shout at them for growing bigger, but it really wouldn’t be that productive. It would be silly for parents to design their children around the clothes they already have. We need to find clothes that fit our children.”

In essence, he says, global environmental governance has outgrown its institutional clothes. “There’s no use finding fault with a system just because the issues and challenges have outgrown the original institutional architecture. The institutions did not fail; the challenges became bigger.”

What is global environmental governance (GEG) and why does it matter? GEG is the sum of organizations, policy instruments, financing mechanisms, rules, procedures and norms that regulate the processes of global environmental protection. The end goal is to improve the state of the environment and to eventually reach the broader goal of improved human well-being.

The problem is we now have over 30 UN agencies with a stake in environmental protection as well as other large international bodies such as the World Trade Organization and the World Bank declaring that the environment is among their overarching principles. With such a wide range of international organizations involved, there is a need to ensure that these groups and others coordinate effectively, otherwise we fall into the trap of having multiple agencies working on the same issue while no one is working on other equally critical issues.

## MAKING GLOBAL ENVIRONMENTAL GOVERNANCE FIT

By Donna Huffam

### LOOKING FOR LEADERSHIP

[IISD FEATURE]

In addition, as David Runnalls explains in his preface to IISD’s *Global Environmental Governance: A Reform Agenda*, we have a conglomerate of widely divergent environmental treaties. “My late colleague, Konrad von Moltke, had a list of more than 500 different agreements and even he was not sure that he had identified them all,” writes Runnalls. Multilateral environmental agreements (MEAs) have proliferated over the past three decades and their secretariats are scattered throughout the world. Coherence and coordination of these treaties are critical to ensure adherence to a global environmental standard.

Finally, the globe has seen three major world summits focusing on the environment and the birth of countless civil society organizations devoted to environmental issues. Yet, despite this high profile, the state of the environment is considerably worse now than it was in 1972 when the first major “Earth Summit” took place. If the end goal of global environmental governance has been to improve the state of the environment, then some might argue that we have failed magnificently.

But Najam would disagree. He teaches international negotiations and diplomacy at the Fletcher School of Law and Diplomacy at Tufts University, and is also an Associate with IISD. Originally from Pakistan, Najam is also active in climate change circles, having served as one of the lead authors (along with IISD Climate Change and Energy program director, John Drexhage) for the Intergovernmental Panel on Climate Change’s Working Group 3 Report on Mitigation in May 2007. His area of focus and work for many years has been international environmental policy and the role of developing countries.

“IF THE END GOAL OF GLOBAL ENVIRONMENTAL GOVERNANCE HAS BEEN TO IMPROVE THE STATE OF THE ENVIRONMENT, THEN SOME MIGHT ARGUE THAT WE HAVE FAILED MAGNIFICENTLY.”



“It’s not that the system is broken,” Najam insists. “It’s mostly that it’s grown larger than it ever was expected to be. In 1972 we had no idea what climate change was. By 1992 we knew what it was but we weren’t sure what the impact would be. In 2002 we had a better idea of what it was that we didn’t know about the environmental impact. And I suspect in 10 years we will know more things about it that we now do not.”

“In the beginning, we figured out what laws and treaties we needed,” he explains, “and we had kind of a treaty frenzy. It was an important step. But we now see more and more that the answer is governance. It’s one thing to say what should happen. It’s a completely different thing to *make* it happen. The difference between the two, often, is governance.”

So exactly how does one approach such a large and complex issue as governance of the global environment? Najam’s mentor, the late Konrad von Moltke, a Senior Fellow with IISD, called it “The Organization of the Impossible” in response to suggestions for an uber-environmental global organization called the World Environmental Organization. For Najam and others at IISD, a complete re-jigging of the UN and the establishment of yet one more environmental organization is not the immediate answer. It is much better, Najam argues, to focus on those sets of reforms that are both desirable and doable. Completely reforming the UN may be desirable, but it clearly isn’t doable. And sometimes what is easily doable may not be desirable.

One of the first and most important pieces of the reform agenda is leadership, Najam says bluntly. “Ideally, we need an Angelina Jolie for the environment.” Failing a significant celebrity endorsement, the mobilization of a coalition of high-profile, well-known and respected world leaders who can visibly and consistently champion the cause of global environmental governance reform could not only keep the topic alive in the public view, but inspire other less-motivated countries to get on board. Other leadership suggestions include a need to invest in the wise selection of leaders for global environmental organizations, including those who can lead clusters of Multilateral Environmental Agreement (MEA) Secretariats and the diverse environmental elements of the numerous UN agencies. Finally, once selected, the leaders should be given the independence and resources to lead their institutions to implement plans, not just make them.

In the final analysis, treaties, governance, MEAs, UN agencies and celebrity attention, are not the sole answer on their own. It is in the weaving of these elements together that global environmental governance will emerge. Perhaps the most essential thing we could learn now is the process of how to sew things together. Then we may finally have clothes that fit.

*Donna Huffam is IISD’s Media and Communications Officer.*

“IDEALLY, WE NEED AN ANGELINA JOLIE FOR THE ENVIRONMENT.”

*More than 30 UN agencies claim a role in environmental protection, as do a few other large international bodies, comments Adil Najam. That contributes to the tattered state of global environmental governance.*



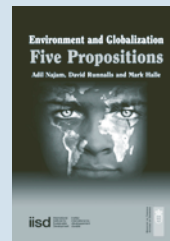
*iStockphoto*

**Additional IISD resources on global environmental governance:**



**Global Environmental Governance: A Reform Agenda**  
Adil Najam, Mihaela Papa and Nadaa Taiyab (2006)

<http://www.iisd.org/pdf/2006/geg.pdf>



**Environment and Globalization: Five Propositions**  
Adil Najam, David Runnalls and Mark Halle (2006)

[http://www.iisd.org/pdf/2007/trade\\_environment\\_globalization.pdf](http://www.iisd.org/pdf/2007/trade_environment_globalization.pdf)



**The Organization of the Impossible**  
Konrad von Moltke (2001)

[http://www.iisd.org/pdf/trade\\_organization\\_the\\_impossible.pdf](http://www.iisd.org/pdf/trade_organization_the_impossible.pdf)

## IISD studies an increasingly troubled lake 60 km from the Institute's head office.

When Dimple Roy began working with IISD last year, she wasn't familiar with the term "integrated water resources management." But looking back over the last eight months, she says, "my learning curve has been absolutely incredible."

Roy, a Project Officer in the Sustainable Natural Resources Management (SNRM) program, has a background in environmental design and previous experience managing the Manitoba Round Table for Sustainable Development. Since joining IISD, she has gained new expertise in watershed governance, has become the lead researcher on a Lake Winnipeg management project and has co-authored a report on the subject.

Roy is looking at ways to improve water quality in the watershed. Underlying this work—the first output of a three-year partnership between IISD and Environment Canada—is a desire to apply the principles of integrated water resources management to a watershed facing many human pressures.

"Integrated water resources management is a concept similar to sustainable development," explains Roy. "It takes into account the social, environmental, economic and biophysical management of water and related resources."

Roy says the Lake Winnipeg Watershed is facing "acute" environmental challenges.

The lake is suffering from eutrophication, a state characterized by the excessive growth of aquatic plants, particularly blue-green algae.

As algal blooms grow large and die, they settle on the lake bed, monopolizing oxygen as they break down.

The blooms are fed by increasingly high levels of phosphorous and nitrogen in the water, themselves a product of municipal sewage, household wastewater, fertilizers and manure.

The net result is a rapid decrease in water quality.

# SHEDDING NUTRIENTS, GAINING GROUND

## IISD BRAVES LAKE WINNIPEG'S TURBID WATERS

By Michelle French

The Lake Winnipeg Watershed is about 953,000 square km and spans from the Canadian Rockies to about 20 km from Lake Superior. The watershed covers parts of Alberta, Saskatchewan, Manitoba and Ontario in Canada; and Montana, North Dakota, South Dakota and Minnesota in the U.S. It has the largest land drainage to lake surface area ratio of any great lake in the world. This means that for every square km of lake surface, there are about 40 square km of watershed. In water quality terms, this raises the potential for pollution problems, as the watershed is home to some 6.6 million people, and river systems wind along heavily developed agricultural areas.

According to research compiled in the Lake Winnipeg Water Stewardship Board report (2006), Lake Winnipeg "appears to be the most eutrophic" among the world's 10 largest lakes.

Over the past three decades, phosphorous loading has increased by about 10 per cent; while nitrogen has increased by 13 per cent.

While the province of Manitoba would like to return those numbers to their 1970s levels, getting there is the subject of much deliberation.

Roy's research has brought her into the heart of this challenging situation.

She says water management success stories usually contain the following characteristics: the involvement of all players; incentives to help farmers adapt their agricultural practices; sustained funding; and the presence of a non-biased mediating body to address conflicting interests.

Over the next year, Roy will take her research a step further, proposing concrete policy instruments to reduce the load of nutrients flowing into Lake Winnipeg.

*Harvesting in Netley-Libau Marsh. The Marsh is a candidate for the heritage designation under Manitoba's Heritage Marsh Program.*



## “THERE IS AN INCREDIBLE OPPORTUNITY TO ADDRESS ENVIRONMENTAL IMPACTS THROUGH THE PRESERVATION AND RESTORATION OF NATURAL CAPITAL ON THE LANDSCAPE,”

### NATURAL CAPITAL

While governance plays a large role in IISD's Lake Winnipeg work, other SNRM team members are exploring how ecosystems can be harnessed to reduce pollution within the Lake Winnipeg Watershed.

Vivek Voora, Project Officer with SNRM, is working on the Natural Capital Approach.

Natural capital refers to the natural environment, and the goods and services they provide, such as climate regulation, water filtration and soil renewal, to name a few.

The multi-year study for Environment Canada will quantify and determine the value that ecosystems in the Manitoba portion of the Lake Winnipeg Watershed provide.

“By identifying the natural capital of the landscape, we can quantify the benefits received from healthy and functioning ecosystems that are essential for mitigating nutrient flows into water bodies,” he explains.

As Voora's research progresses, he will work on landscape modelling, a process he hopes will reveal the best mix of natural and human-altered landcover to maximize the removal of nutrients from the watershed.

“There is an incredible opportunity to address environmental impacts through the preservation and restoration of natural capital on the landscape,” he says.

### NUTRIENT SINKS AND BIOENERGY

Wetlands are one of several ecosystems within the Lake Winnipeg Watershed with nutrient uptake potential.

As the Director of SNRM, Henry David Venema is coordinating the cutting-edge wetlands research of PhD student and IISD Project Officer Richard Grosshans.

With funding from IISD and the Natural Sciences and Engineering Research Council of Canada (NSERC), Grosshans' work involves evaluating the ability of certain wetlands plants—particularly cattails, bulrushes, reeds and sedges—to absorb excess nutrients.

Grosshans is working in the Netley-Libau Marsh just north of Winnipeg, a wetland that has been significantly degraded over time from dams and dredging.

However, its strategic location along the path of the nutrient-rich Red River could prove useful.

Venema says if the marsh can be suitably restored with the help of ecological engineering—a process that could involve building up the landscape and monitoring flooding through a series of dikes and hydraulics—it could be a very successful nutrient sink.

But it will require regular “harvesting,” or cutting back vegetation, so plants can renew their nutrient uptake.

“The nutrient sink potential provides a real economic benefit,” Venema explains.

But it's not the only economic spinoff.

Venema believes the marsh harvest could be used to produce bioenergy that has the potential to be carbon neutral. For one, unlike canola, marshes are self fertilizing; they don't require fertilizers or energy to grow. Second, they have the potential to offset fossil fuel use. Third, they provide a needed ecological service as a nutrient sink.

“Rather than causing more environmental problems, using resource-intensive methods to produce bioenergy, we're fixing an existing nutrient overload problem passively without further input,” he says.

But he cautions that the nutrient sink can only remain active if it's managed carefully; which brings SNRM's research back to governance and integrated water resource management.

For Venema, his role as Director is to ensure the high policy principles of sustainable development are at work in each research project.

“An institute like ours—pro-internationally—needs to demonstrate how these high policy principles manifest in real practical examples” like the iconic and threatened lake in Manitoba's own backyard, he says.

With the Manitoba provincial government's renewed mandate and their emphasis on cleaning up Lake Winnipeg, Venema is confident his research team will develop the ecosystem and economic instruments to help.

“We have some extremely solid ideas that will contribute directly to this key policy area,” he says.

*Michelle French is IISD's Publishing Officer.*

*Algae in Lake Winnipeg, a body of water suffering from acute environmental stress.*



*Photo courtesy of Lori Volkart.*

“AN INSTITUTE LIKE OURS... NEEDS TO DEMONSTRATE HOW THESE HIGH POLICY PRINCIPLES MANIFEST IN REAL PRACTICAL EXAMPLES.”

**Launched at the end of 2005, IISD's Global Subsidies Initiative (GSI) is already influencing the debate on subsidy reform** by providing policy-makers with the tools to effect real, tangible change. Through research that quantifies the extent and scale of subsidies, the GSI highlights the magnitude and the cost-effectiveness of public subsidies, and the corrosive effects certain subsidies have on sustainable development. The GSI's targeted communications and political outreach program is raising awareness among the public and key decision-makers. We are currently finalizing a series of studies on subsidies to the domestic production of liquid fuels, following publication of the U.S. study in October 2006. That study has been widely cited as the principal reference point in the debate on American subsidies to biofuels. New research will examine the different incentives governments provide to attract investment, especially foreign direct investment. The first of a series of regional media fora designed to increase the interest in and capacity of journalists to report on subsidies was held in Mumbai, India, in March 2007; four more fora are planned. See <http://www.globalsubsidies.org>

**Some US\$17 trillion in energy investment is needed in the next 25 years, most of it in developing countries**, and most of it with lifespans counted in decades. The Clean Energy Investment project, run in cooperation with IISD's Climate Change and Energy program, focuses on how we can help ensure that energy investments contribute to solving, rather than compounding, climate change concerns. It will look first at the domestic barriers that exist to clean energy investment in developing countries, and will ask what sorts of obstacles or opportunities are presented by existing international investment agreements, making recommendations for best practice in crafting such agreements in the future.

Director, Mark Halle

## TRADE AND INVESTMENT

**In 2006–2007, IISD continued to publish and grow its audience for *Investment Treaty News (ITN)***, an electronic newsletter on investment agreements and investment disputes aimed at tracking, analyzing and publicizing the policy implications of these agreements and disputes. (See <http://www.iisd.org/investment/itn/>). With a subscriber list approaching 2,000, ITN has also broadened its scope, now issuing a parallel Spanish language version with a special focus on Latin America, and a quarterly summary aimed at parliamentarians and their staffs. The investment team has also just launched work on the first in a series of Year in Review publications, analyzing trends in investment agreements, significant disputes with public policy implications, and signalling interesting trends in the investment world.

**IISD is carrying out rapid assessments of the environmental implications of current and contemplated trade negotiations for Thailand and Laos.**

The goal is twofold. First, on a substantive level, the results from this Rapid Trade and Environment Assessment (RTEA) project will inform trade policy-making in those countries by highlighting the costs and benefits that are likely to arise from the flurry of trade and investment liberalization initiatives they are experiencing. Second, IISD hopes that the RTEA methodology will become a replicable tool, and that its application in these countries will help sharpen it for use in other contexts. See [http://www.iisd.org/trade/ldc/rapid\\_trade.asp](http://www.iisd.org/trade/ldc/rapid_trade.asp)

*International trade has enormous potential to foster or frustrate sustainable development.*



**IISD has been planning for October 2007, when we will bring developing country investment negotiators together in Singapore for the first of what we hope will become an annual Investment Negotiators' Forum.** In the current rush to sign regional and bilateral agreements with investment provisions, developing country negotiators have no forum in which they can discuss common challenges, assess legal developments and develop strategies to help ensure that they attract investment that will contribute to sustainable development. Led by a high profile Steering Group of negotiators, and in partnership with the Centre for Asia and Globalization (National University of Singapore), IISD will provide such a forum.

**IISD is providing technical assistance to developing countries involved in investment negotiations and investment disputes.** The level of activity in this area has greatly increased in recent years as countries come under pressure to reinforce investor protections and to respond to complaints about actions they have taken that might affect investors' returns. Based on IISD's *Model Agreement on Investment for Sustainable Development*, IISD has become a key partner to developing countries as they seek to achieve a balance between the action taken to

attract investors, and the action they need to take to ensure that they develop sustainably. See [http://www.iisd.org/investment/model\\_agreement.asp](http://www.iisd.org/investment/model_agreement.asp)

**In 2006–2007 the Trade, Aid and Security initiative entered its final stage** with the publication of the book, *Trade, Aid and Security: An agenda for peace and security*. With a foreword by former Canadian Foreign Minister, Dr Lloyd Axworthy, contributions from nine experts and careful review from a high-level advisory committee, this volume introduces the linkages among trade, aid and security,

and exposes how inappropriate or misused trade and aid policies can—and do—undermine security and contribute to violence and the disintegration of nation states. On a practical level, it demonstrates how six key areas of trade and aid policy can be used to help forge stability and security; reduce the likelihood of armed conflict; and assist post-conflict recovery. The book was launched in Geneva, Strasbourg, Ottawa and Washington and has been supported by a stream of media commentaries and op-eds to spread the key messages and recommendations.

## WHY THIS WORK MATTERS



SIMON UPTON  
PROJECT DIRECTOR  
GLOBAL SUBSIDIES INITIATIVE

Nudging the world onto a genuinely sustainable path isn't easy. There's a qwerty-ness about human affairs. We're creatures of habit and we tend to hard-wire our lives in a way that makes it hard to change direction. That's why climate change, for example, is so difficult. So much has been invested in lifestyles based around cheap energy and a limitless atmospheric sink for emissions that it is extremely hard to change course.

That's also why I find myself so impatient to take an axe to public subsidies that perpetuate grotesque waste, damage the environment and destroy development opportunities for hundreds of millions of people. Subsidies matter not just because they do this damage—they matter because eliminating them should be the first and easiest step we take to tackle some of our most serious environmental problems.

I can sympathize with business people who face some costly technical challenges or consumers who face significant adjustment costs. But I have not a shred of sympathy for the leaders who buy votes with subsidies or the lobbyists who campaign to perpetuate them.

We have enough really tough challenges before us without squandering vast sums of money making our problems worse. That's why the Global Subsidies Initiative matters.



SABRINA SHAW  
IISD ASSOCIATE; WRITER/EDITOR.  
EARTH NEGOTIATIONS BULLETIN

A key element of IISD's work on sustainable development is to raise awareness of the environmental impacts of trade and investment liberalization. This task has become increasingly vital as the nature and extent of liberalization becomes more complex and rapid. In assessing the ever-expanding web of liberalization scenarios, our work has highlighted the potential environmental consequences of trade and investment commitments and flagged areas of concern or opportunity. Our task is not a simple one—export-led growth involves dynamic processes and entails economy-wide impacts. Albeit complex, the process of trade and investment liberalization can deliver development gains if set in a sound domestic framework. IISD projects contribute key pieces of this complex puzzle by showing how to harness the potential benefits and mitigate the potential harm of trade and investment liberalization. While there may be “no turning back” on the commitments to increasing openness and trade, IISD is shaping a revitalized agenda for trade that is firmly rooted in sustainable development.

This agenda is all the more relevant as trade is the currency of cooperation. The proliferation and overlapping of bilateral and regional trade and investment agreements are complicated to navigate, and their environmental implications are just beginning to be understood. Our proactive and positive agenda matters because it stimulates policy-makers to think about trade and investment policy in a wider context—sustainable development. It matters because it seeks to place economic development on a sustainable path and unravel some of the complexities involved in the policy linkages among trade, investment and environment.

IISD GRATEFULLY ACKNOWLEDGES THE GENEROSITY OF THE FOLLOWING SUPPORTERS OF OUR TRADE AND INVESTMENT WORK IN 2006–2007:

International Development Research Centre > Industry Canada > Netherlands Ministry of Housing, Spatial Planning and the Environment > Norwegian Agency for Development Cooperation > Norwegian Ministry of Foreign Affairs > Danish Ministry of Foreign Affairs > Organisation Internationale de la Francophonie > Swiss Agency for Development and Cooperation > Swiss State Secretariat for Economic Affairs > United States Agency for International Development > Swedish International Development Cooperation Agency > New Zealand Ministry of Foreign Affairs and Trade > United Nations Environment Programme > United Nations Office for Project Services > United Nations Development Programme > Organisation for Economic Co-operation and Development > Cordaid > Sustainable Development Policy Institute > FES – Friedrich Ebert Stiftung > The Rockefeller Foundation > Mott Foundation > Hewlett Foundation > Citigroup Foundation > The Foundation for Strategic Environmental Research, Mistra > Sustainable Agriculture Guarantee Fund > Simon Fraser University > Misc. – ISP Advising / Earl Noelte

**Learning from the past is effective only if it influences the way we shape our future.** Like Janus, the two-faced Roman deity with the ability to look back as well as ahead, societies need to view environment and development issues from both a retrospective and forward-looking perspective. The work of the Measurement and Assessment (M&A) program relating to integrated environmental assessment is like Janus—it assesses the current and historic state and trends of environmental conditions (e.g., water and air quality) and their links to human well-being. But it also uses scenario analysis techniques to provide forward-looking assessment, or environment outlooks as they are often called, to better understand where we are heading and what actions could be taken now for a more sustainable future. See <http://www.iisd.org/measure/learning/assessment/>

**Our ongoing collaboration with UNEP-DEWA (Division of Early Warning and Assessment) on the Global Environment Outlook focuses on the types of assessments mentioned above. For example, the M&A program played a key role in creating the scenarios used in the fourth Global Environment Outlook report to be published by UNEP later this year.** This work involved overseeing and integrating a series of qualitative and quantitative stories about plausible future states and trends of environment and development, carried out in collaboration with numerous international partners. The scenarios will be presented formally as “Chapter 9 – The Future Today” of the GEO-4 report. See <http://www.iisd.org/measure/knowledge/global/geo.asp>

**Also part of our collaboration with UNEP-DEWA, we led the preparation of the *GEO Resource Book*, a training manual for national governments and others interested in preparing a policy-focused report on the environment using an integrated assessment approach.** Launched by UNEP and IISD in the spring of 2007, our goal is to help build capacity for forward-looking integrated analysis based on the methods of UNEP’s Global Environment Outlook. The eight modules in the Resource Book were co-written by over 40 experts and will serve as a reference manual for practitioners and trainers of integrated environmental assessment. Three regional training workshops were held in Uruguay, Egypt and Kenya over the past two years, with several others in the planning stage. For a synopsis booklet, see [http://www.iisd.org/pdf/2007/geo\\_resource.pdf](http://www.iisd.org/pdf/2007/geo_resource.pdf)

Director, László Pintér

## MEASUREMENT AND ASSESSMENT

**The counterpart to any assessment is a strategy for action. The M&A program is paying close attention to innovative practices in the creation of national sustainable development strategies (NSDS). The NSDS emerged out of the Earth Summit in 1992 and called on governments “to improve or restructure the decision-making process” to better integrate socio-economic and environmental issues and to ensure a broader range of public participation.** Unfortunately, the transformation of the decision-making process to incorporate the principles of sustainable development has been slow and cumbersome. In most instances environment departments continue to advance new processes for priority setting, planning, and monitoring that are largely divorced from existing planning and budgeting systems coordinated by planning or finance departments. This was the observation that IISD made to open up an international workshop on “Institutionalizing Sustainable Development,” hosted by the Organisation for Economic Co-operation and Development (OECD) and the United Nations Division for Sustainable Development in Stockholm in late 2006. This observation was based on the M&A program’s second multi-country NSDS study, the first of which was IISD’s most downloaded document over the past year.

IISD’s Stockholm presentation opened up a range of opportunities for promoting sustainable development governance. In December 2006, IISD

was asked by the United Nations to travel to Tehran to assist the Economic Cooperation Organization, a 10-country organization in Central Asia, in developing a multi-year work program for promoting and building capacity in the preparation of NSDSs among its member states.

In March of 2007, IISD participated in a regional NSDS workshop in Bangkok and explored the potential for creating an *NSDS Practitioner Network* in the Asia-Pacific Region. The niche for such a network in the region was confirmed, and the idea was included in the recommendations coming out of the workshop. See <http://www.iisd.org/measure/principles/sd/>

As societies we manage what we measure, and we measure what we care about. Indicators are specific measures which are necessary for assessing and navigating progress toward sustainable development. Improving the capacity of society to design and use indicators is at the core of M&A program efforts. **Key to this capacity building is providing the opportunity for those persons and groups developing indicators to network, exchange knowledge, share best practices, and to collaborate.** Practitioner networks help us connect the dots in more coherent ways, and thus develop broader visions for sustainability.

The breadth and depth of knowledge in the design and use of indicators has increased markedly over the past 15 years, and IISD continues to provide leadership in the field. *The Canadian Sustainability Indicators Network (CSIN)*

hosted by the M&A program is in its fifth year of operation. A cornerstone of the network's success and growth to over 300 members has been regular virtual learning events. Participants give presentations using online technology and use traditional conference calling to dialogue. In 2006–2007, over 100 practitioners participated in events on topics such as setting indicator targets, developing cultural indicators, influencing decision-making with indicators and indicators of traditional ecological knowledge. Practitioners from all levels of government, along with First Nations, NGOs, consultants and communities, consistently participate. The newly designed CSIN Web site and active listerv are also central to CSIN's momentum as a network. See <http://www.csin-rcid.ca/>

**There continue to be clear signs that China recognizes indicators and performance measurement as critical leverage points for sustainability.**

While China scaled back its expectations with regard to the near-term development of a “green GDP” there is high interest in using measurement and assessment as a tool to initiate and manage progress toward China's environmental and social goals and targets. Through the China Council's Task Force on

Economic Growth and the Environment, we made the case for adopting a system of integrated economic and environmental accounts and the use of environmental indicators in the report card of local government officials.

Also important, both nationally and globally, is the ability for China to track its material consumption and production patterns. The M&A program is helping the World Bank and Tsinghua University to develop indicators and an accounting system for tracking material consumption and production patterns in some key economic sectors. Conducted for the National Development and Reform Commission (NDRC) of China, the system would help to diagnose inefficiencies in material consumption and production and help track progress towards established goals. See <http://www.iisd.org/measure/knowledge/national/china.asp>



*Meeting in Bahrain: IISD's work on integrated environmental assessment and reporting is reaching the far corners of the world.*

**WHY THIS WORK MATTERS**



DALE ROTHMAN  
SENIOR RESEARCHER

At the start of every journey it is good to ask a few questions: Where are we now? In what direction are we headed? Where do we want to go? And what is the best way to get there? This is no different for the journey toward sustainability.

Ah, but the devil is in the details. With a multitude of definitions of, and perspectives on, sustainability, come a seemingly endless number of answers to these questions. Much of what we want to measure does not lend itself to traditional methods and tools. Even where it does, the lack of consistency in data collection and the simple lack of data in any form can make it difficult to paint a clear picture of where we are or how far we are from where we want to be. Furthermore, given the inherent complexity of socio-ecological systems, we often find ourselves at a loss as to how to determine where we are headed and how our actions may steer us in a more desirable direction.

This is not a challenge to be ignored, however, but one to be embraced. For the journey is ours to make; the ultimate destination is ours to reach.

IISD GRATEFULLY ACKNOWLEDGES THE GENEROSITY OF THE FOLLOWING SUPPORTERS OF OUR MEASUREMENT AND ASSESSMENT WORK IN 2006–2007: International Development Research Centre > China Council for International Cooperation on Environment and Development (CIDA) > Environment Canada > Agriculture and Agri-Food Canada > Province of British Columbia > Province of Manitoba > United Nations Environment Programme > United Nations Department of Economic and Social Affairs > World Bank > Lake Balaton Development Coordination Agency > FUNDEVI – Foundation of the University of Costa Rica for Research > University of Denver > University of Aberdeen > Scott Wilson Group plc > United Way of Winnipeg > Fraser Basin Council > Thompson Rivers University

## IISD Reporting Services expanded its activities in three areas during the last year as demand for its information products grew.

**MEA Bulletin:** With funding from the UNEP Division of Environmental Law and Conventions (DELIC), Reporting Services began publishing a fortnightly update on activities within the myriad of multilateral environmental agreements. This very useful electronic newsletter has been the fastest growing of the several products published by the writers who also publish the *Earth Negotiations Bulletin*. See <http://www.iisd.ca/email/mea-l.htm>

**Africa Regional Coverage:** In cooperation with the South African Department of Environmental Affairs and Tourism and the UNEP Regional Office for Africa, IISD has begun providing coverage of regional meetings in Africa related to environment and sustainable development, and providing briefing materials for African governments on international negotiations. Working together with the New Partnership for Africa's Development (NEPAD) Secretariat we are assisting them in managing information flows from Africa to the international policy community.

**Your Meeting Bulletin:** IISD's expertise in providing timely and authoritative reports and our capacity to deliver those reports through our extensive e-mail and online networks has led to an expansion in our sales of reporting services to a growing list of clients. During the last year, we provided summary and digital coverage from 22 meetings over and above the 30 meetings where we published the *Earth Negotiations Bulletin*. IISD Reporting Services readily provides quotes to organizations and governments for reporting at conferences, workshops and symposia.

VISIT THE IISD REPORTING SERVICES LINKAGES WEB SITE AT [HTTP://WWW.IISD.CA](http://www.iisd.ca)

*The IISD Reporting Services team hard at work keeping processes transparent and readers informed.*



*Photo courtesy IISD Reporting Services.*

# REPORTING SERVICES

Director, Langston James Goree VI ("Kimo")

## WHY THIS WORK MATTERS



RICHARD SHERMAN ●●●●  
AFRICA PROGRAM MANAGER  
IISD REPORTING SERVICES

If one traces the path from Rio to Johannesburg, the *Earth Negotiations Bulletin* (*ENB*) has revolutionized the notions of transparency and openness of the intergovernmental process. For the smaller and under-resourced delegations and, in fact, all delegations, the *ENB* provides a neutral, authoritative and substantive source on country positions and the political dynamics behind the intergovernmental process. This source is often an essential component in the process of reporting and communicating with capitals and formulating a national mandate. By decoding the myriad of acronyms and political viewpoints, the *ENB* assists delegates and non-state actors to participate more fully in the design of international agreements, and to communicate the state of play to a wider audience outside of the UN's hallways. The *ENB* also serves as a valuable institutional reference point, enabling participants to chart the evolution of ideas and country positions on some of the most challenging issues of our age. In essence, the *ENB* is a mirror that reflects how the UN addresses the state of world politics on environment and development.

IISD EXPRESSES ITS GRATITUDE TO THE FOLLOWING REPORTING SERVICES DONORS AND FUNDERS: **Sustaining Donors:** United Kingdom (through the Department for International Development – DFID) > United States of America (through the Department of State Bureau of Oceans and International Environmental and Scientific Affairs) > Canada (through CIDA) > Denmark – Ministry of Foreign Affairs > Germany (through the Federal Ministry of Environment and the Federal Ministry of Development Cooperation) > Netherlands – Ministry of Foreign Affairs > European Commission (DG-ENV) > Italy – Ministry for the Environment, Land and Sea | **General Supporters:** Switzerland – Federal Office for the Environment > Norway – Ministry of Foreign Affairs and the Ministry of Environment > Australia – Department of the Environment and Water Resources > Austria – Federal Ministry for the Environment > Sweden – Ministry of Environment > New Zealand – Ministry of Foreign Affairs and Trade > Taiwan – Conservation Division, Forestry Bureau, COA through SWAN International > Japan – Ministry of Environment (through the Institute for Global Environmental Strategies) and the Ministry of Economy, Trade and Industry (through the Global Industrial and Social Progress Research Institute) > UNEP – Division for Environmental Law and Conventions | **Funding Donors:** International Organization of the Francophonie (IOF) and the French Ministry of Foreign Affairs (funders of the translation of the *Earth Negotiations Bulletin* into French) > Ministry of Environment of Spain (funder of the translation of the *Earth Negotiations Bulletin* into Spanish) | **African Regional Meetings:** South Africa – Department of Environmental Affairs and Tourism (funder of our coverage of African regional meetings)



Since adopting Web technologies in 1994, Knowledge Communications has principally been interested in the use of the technology to communicate IISD's messages more broadly and effectively, and to help our partners to do likewise. But as the Internet becomes entrenched as a unique and critical global infrastructure, new public policy challenges are emerging, as are new opportunities to effect change through technology-enabled collaboration. Over the next year and beyond, the Knowledge Communications group will be advancing three issues critical to sustainable development: policy analysis on how information and communications technologies and good Internet governance can support sustainable development; understanding how to influence change through managing relationships and communications; and building the next generation's capacity to effect change.

**The Internet is considered by many to be the global infrastructure of the information society—the most critical piece of the economic, social and cultural foundation of our time.** This year, IISD began to explore the relationship between Internet governance and sustainable development. One of IISD's strategic objectives is to advance sustainable development by contributing to institutional transformation, particularly through promoting the principles of accountability, participation and legitimacy. The emerging Internet governance regimes are no exception. IISD is working to promote a decentralized approach based on common trends and characteristics in other multistakeholder, multi-level, international issue areas. See <http://www.iisd.org/infosoc/gov/>

**Changes in the level of funding of IISD's internship programming led us to step back for a moment to review what we have learned from a decade of championing new leaders.** Since 1997, IISD has placed 311 interns with over 90 partner institutions in nearly 40 countries, and maintains contact with over 93 per cent of our alumni. In a study of these alumni, 78 per cent noted that their IISD internship played a role in inspiring them to continue working in the sustainability field. Of the remainder, many reported that they are making a contribution through personal, sustainable lifestyles. In asking what defines sustainability leadership for the future, our alumni suggested that leadership is a team endeavour rather than an individual pursuit. Values are what set apart sustainability leaders and in particular, personal commitments to sustainability. The top skill considered to be essential for working in sustainable development is communications. See <http://www.iisd.org/leaders/>

**As always, the Knowledge Communications team works with other organizations to strengthen their knowledge sharing, communications and partnership practice.** This year, we worked with the International Development Research Centre (IDRC) on a review of the sustainability of IDRC-supported networks; we reviewed the work of the Secretariat of the Mountain Partnership; and we explored knowledge transfer approaches across communities with the Federation of Canadian Municipalities. We also worked closely with our own Measurement and Assessment program as we continue to explore how to help organizations increase their influence and impact. Together with M&A, we designed "influencing strategies" for the Lake Balaton Coordination Agency; we provided guidance to UNEP's GEO communications working group; and we incorporated our impact strategy into the Ecological Monitoring and Assessment Network's work on communicating more effectively with decision-makers. See <http://www.iisd.org/networks/>

Director, Heather Creech

## KNOWLEDGE COMMUNICATIONS

### WHY THIS WORK MATTERS



DON MACLEAN, IISD ASSOCIATE

than half of one per cent of the world's population had Internet access. Today, more than a billion people—roughly one in six worldwide—are Internet users.

The Internet can become a powerful tool for helping achieve the economic, environmental and social objectives that are part of the sustainable development agenda. The Internet has the potential to help transform scientific research, economic production, environmental management, consumer behaviour, the delivery of public services and the exercise of citizenship. However, the Internet currently lacks the kinds of governance mechanisms that are needed to link its potential as a knowledge and communication tool with the challenges of sustainable development.

There is still time to make these connections—but as in the case of climate change, it is rapidly running out.



*There are more than 300 intern alumni. The top skill considered by them to be essential for working in sustainable development is communications.*

The 1992 Earth Summit elevated sustainable development to the top of the international policy agenda. Fifteen years later, the challenge of reconciling economic growth, social development and preservation of the natural environment is widely seen as the single greatest issue facing the global community.

In 1993, the open availability of the World Wide Web and the development of the first graphical Web browser triggered a period of remarkable Internet growth. At the time, less

IISD GRATEFULLY ACKNOWLEDGES THE GENEROSITY OF THE FOLLOWING SUPPORTERS OF OUR KNOWLEDGE COMMUNICATIONS WORK IN 2006–2007:

International Development Research Centre > Canadian International Development Agency > Canada World Youth > Department of Foreign Affairs and International Trade > Indian and Northern Affairs Canada > Province of Manitoba > Swiss Agency for Development and Cooperation > The Food and Agriculture Organization of the United Nations > The Walter and Duncan Gordon Foundation > World Business Council for Sustainable Development > Oxfam – Quebec > Canadian Internet Registration Authority > Federation of Canadian Municipalities > Manitoba Council for International Cooperation > Nuclear Waste Management Organization

Over the past year, concern about climate change has burst out from the realm of debate between policy-makers, scientists and environmental organizations into mainstream public consciousness in Canada and around the world. This fundamental shift could mark a turning point in the international community's efforts to address what is now widely recognized as one of the fundamental global challenges of the 21st century.

Within these turbulent times, IISD has continued to provide leadership within Canada and internationally in identifying and promoting innovative policies and measures for mitigating and adapting to the increasingly noticeable impacts of climate change. In doing so, IISD is emphasizing the need to take an integrated approach to addressing climate change—to move discussions on mitigating and adapting to climate change out of environmental circles and into the broader development debate that includes energy, finance, natural resource management, agriculture and international relations.

**Our approach is typified by IISD's groundbreaking study *Climate Change and Foreign Policy: An exploration of options for greater integration***, undertaken in partnership with the Government of Denmark. In this publication, IISD examines how climate change concerns can be more fully integrated into diplomacy and international relations; energy security; peace and security; trade and investment; and development cooperation. In the project's ongoing second phase, IISD will explore how to further the European Union's objectives on climate change and clean energy, and examine in greater depth the relationship between climate change and security. See [http://www.iisd.org/pdf/2007/climate\\_foreign\\_policy.pdf](http://www.iisd.org/pdf/2007/climate_foreign_policy.pdf)

Director, John Drexhage

## CLIMATE CHANGE AND ENERGY

**IISD has also continued to advance the Development Dividend project.**

Now in its third phase, the project is helping to find a meaningful place in the international carbon market for Clean Development Mechanism projects that provide significant benefits beyond greenhouse gas reductions. Findings from the project's second phase of analysis, released in November 2006, provide a greater understanding of how to define, measure, foster and finance the Development Dividend. Most recently, the project concluded an initial scoping study of possible scenarios for the future of market mechanisms of direct relevance to developing countries. See <http://www.iisd.org/climate/global/dividend.asp>

**Our work on the development of a post-2012 climate regime (when the Kyoto Protocol's first commitment period comes to an end) continued this year** with the launch of a multi-stakeholder-supported, two-year project called "Climate Change Policy Post-2012: Fostering a Dialogue on Canada's Role." As part of this initiative, IISD has developed a draft comprehensive assessment of the four "pillars" of a post-2012 climate regime from a Canadian perspective: development and greenhouse gas reductions; technology; market opportunities; and adaptation. The team has also initiated the development of potential post-2012 climate change regime scenarios that could be modelled in the near term. This analysis will continue over the coming year, culminating in a national workshop in February 2008.

**IISD's profile with respect to identifying and promoting innovative, integrated approaches to reducing vulnerability to climate change** in the short and long term grew significantly in 2006–2007. After several years of development and testing as part of the "Livelihoods and Climate Change" project, IISD and its partners released the project screening tool CRiSTAL (Community-based Risk Screening Tool – Adaptation and Livelihoods). CRiSTAL seeks to help project planners and managers to integrate climate risk reduction and climate change adaptation into community-level projects by enabling them to gain an understanding of the links among climate stress, livelihoods and their work. IISD is now undertaking a series of "train-the-trainer" workshops in Africa—putting the tool into the hands of development workers, encouraging its uptake and enhancing CRiSTAL in response to feedback received. See [http://www.iisd.org/security/es/resilience/climate\\_phase2.asp](http://www.iisd.org/security/es/resilience/climate_phase2.asp)

*IISD is working with partners in Kenya, Mozambique and Rwanda in an effort to reduce the climate change vulnerability of key sectors.*



*Photo by Frédéric Gagnon-Lebrun.*

Progress also continues to be made on the exploration of “Adaptive Policies,” or those policies that are robust across a range of anticipated conditions but which also have the ability to adapt to unanticipated circumstances. The project published four case studies that analyzed policies from Canada and India’s water and agricultural sectors with respect to the features that made them adaptive or maladaptive. Based upon this analysis, the project is now undertaking community-level surveys to test the project’s hypothesis and help develop a “toolbox” of adaptive policy approaches. See [http://www.iisd.org/climate/canada/adaptive\\_policy.asp](http://www.iisd.org/climate/canada/adaptive_policy.asp)

IISD is also continuing to work with partners in Kenya, Mozambique and Rwanda to implement the four-year project, “Integrating Vulnerability and Adaptation to Climate Change into Sustainable Development Policy Planning and Implementation in Eastern and Southern Africa.” Field-level interventions that aim to reduce the climate change vulnerability of key sectors—agriculture, forestry and energy production—have been initiated, and efforts to support the integration of climate change adaptation into policy- and decision-making are ongoing. See <http://www.iisd.org/vulnerability/adaptation.asp>

In Canada, the “Prairie Resilience” project came to a close in the spring of 2007. This three-year project explored how agricultural communities on the Canadian Prairies that historically have been highly exposed to climate variability have coped, or not, with these changes. A GIS-based set of indicators of adaptive capacity was used in combination with farm-level studies of successful adaptive behaviours to identify policy interventions that support farm- and community-level adaptation to climate variability and change. See <http://www.iisd.org/climate/canada/prairies.asp>

Along with these various projects, members of the Climate Change and Energy team have remained actively engaged in providing informal advice to politicians, policy-makers, provincial governments and corporate leaders on different aspects of the climate change issue. More formally, Program Director John Drexhage testified twice before House of Commons Legislative Committees. See [http://www.iisd.org/pdf/2007/com\\_bill\\_c30.pdf](http://www.iisd.org/pdf/2007/com_bill_c30.pdf) and [http://www.iisd.org/pdf/2006/climate\\_drex\\_statement\\_nov\\_2006.pdf](http://www.iisd.org/pdf/2006/climate_drex_statement_nov_2006.pdf)



*IISD is promoting the use of the CRiSTAL tool at the community level as a way to help policy-makers to integrate climate risk reduction and climate change adaptation into community-based projects.*

## WHY THIS WORK MATTERS



ANNE HAMMILL  
IISD PROJECT MANAGER

We know that climate change is one of the biggest threats to sustainable development. Yet it is also an opportunity to call upon decades of research, innovation and partnerships and revisit some intractable problems in environment and development. The challenge of addressing the cause of climate change—i.e., reconciling greenhouse gas emission reductions with rising energy needs—has given rise to tangible opportunities in markets, technology and environmental policy. Impacts are already being felt, particularly in the Arctic and developing countries, calling for adaptation action based on more robust and innovative development strategies to reduce peoples’ vulnerability. And after years of skepticism and outright dismissal, public support and political momentum behind the issue are at a critical high.

IISD’s work in Climate Change and Energy recognizes both the challenges and opportunities of addressing the problem. Our approach is one that emphasizes integration and linkages between mitigation and adaptation responses; policy and practice; as well as domestic and international priorities. Using lessons from Manitoba Hydro to develop recommendations on how Rwanda might manage and protect its own hydro-power potential in the face of climate change is a powerful example of this approach, and one that shows promise for a transition to a secure, low-carbon future.

IISD GRATEFULLY ACKNOWLEDGES THE GENEROSITY OF THE FOLLOWING SUPPORTERS OF OUR CLIMATE CHANGE AND ENERGY WORK IN 2006–2007:

International Development Research Centre > Environment Canada > Natural Resources Canada > Department of Foreign Affairs and International Trade Canada > National Round Table on the Environment and the Economy > Province of Alberta > Province of Nova Scotia > Province of Ontario > Province of BC > Province of Manitoba > The Netherlands Ministry of Housing, Spatial Planning and the Environment > The Norwegian Agency for Development Cooperation > The Norwegian Ministry of Foreign Affairs > The Danish Ministry of Foreign Affairs > The Swiss Agency for Development and Cooperation > United Nations Environment Programme > IUCN – The World Conservation Union > Chatham House > Stockholm Environment Institute > The African Centre for Technology Studies > Anglo American > Winnipeg Airports Authority > Suncor Energy Inc. > Margaree Consultants Inc. > TransCanada PipeLines Limited > Climate Change Central > Manitoba Hydro

**The goal of IISD’s SNRM program is to build resilient communities and ecosystems that are able to cope with nature’s surprises and uncertainties.** Climate change, resource extraction and mismanagement are the sources of impacts that trigger efforts towards sustainable natural resource management. Our work applies the principles of adaptive management in an effort to build systems that are less vulnerable to these impacts. Adaptive management is based on the principle of flexibility—the ability and willingness to change policy and action based on what’s learned from current outcomes.

The SNRM program is currently involved in two synergistic streams of work: one around **environment and security** in the international context; and the other based on the principles of **integrated water resources management** on the Canadian Prairies. A significant portion of the work contributes to effective management of the Lake Winnipeg Watershed, an iconic lake experiencing pollution stresses from nutrient loads from its enormous, multi-jurisdictional drainage basin.

**The SNRM program’s current projects on the Canadian Prairies are based on the premise that we must work towards conserving and strengthening the existing wealth of environmental and ecosystem resources** (or “natural capital”) that are crucial to the viability of our economy and well-being. Similar to financial capital, the value of natural capital can be depreciated and this process has accelerated in the last few decades with our increasing demand for natural resources. The SNRM program’s current work on natural capital in the context of watersheds is focused on identifying and quantifying natural resources and associated ecosystem goods and services for better decision-making. Our project focuses on an analysis of the natural capital within the Red River Basin, a characteristic basin of the Canadian prairie region with the complexities of trans-boundary management, and is intended to demonstrate potential solutions for the management of nutrients to Lake Winnipeg. For further details, see <http://www.iisd.org/natres/agriculture/capital.asp>

**Based on the concept of natural capital, ecosystem goods and services are, simply, the benefits that people receive from ecosystems.** These include “provisioning services,” such as food and clean water; “regulating services,” such as climate and water regulation; “cultural services,” such as a sense of place and education; and “supporting services,” such as soil formation and nutrient cycling. While ecosystems have always provided these services, it is only in recent times that the concepts of “value of” and “payments for” such services have been recognized. IISD’s work on promoting payments for ecosystem services (PES) on a watershed basis is based on the belief that payments for such services will instigate effective management of the ecosystem on which they are based—this was in fact a central recommendation of the Millennium Ecosystem Assessment for cumulatively stressed dryland agro-ecosystems like the Canadian Prairies. The SNRM program is therefore working on developing

Director, Henry David Venema

## SUSTAINABLE NATURAL RESOURCES MANAGEMENT

systems and designs for PES schemes for integrated water resources management in the Canadian Prairies and in the Lake Winnipeg Watershed. The projects focus on the institutional and technical requirements for integrating watershed management with PES. In collaboration with IUCN – The World Conservation Union, IISD also hosted two delegations from Hainan, China, and held workshops with other local actors interested in integrating PES with integrated water resources management.

**In February 2007, IISD also co-hosted a workshop on Lake Winnipeg governance, where the Institute advanced the concept of PES as a key element of a basin governance model** for the Lake Winnipeg Watershed. As this Annual Report goes to press, the Manitoba Department of Water Stewardship has requested IISD’s assistance to design a PES scheme based on the Australian EcoTender concept. See [http://www.iisd.org/natres/water/water\\_resource.asp](http://www.iisd.org/natres/water/water_resource.asp)

**With funding through the Manitoba Water Stewardship fund, IISD is developing solutions for water resources management for the province of Manitoba using a water soft paths approach.** Based on the energy soft path approach developed by Amory Lovins, the water soft path approach is a planning approach for fresh water that differs fundamentally from conventional supply-focused water planning. A water soft path approach resolves water supply-demand gaps through reducing demand-side inefficiency and promoting more economic water use. A prerequisite to implementing the soft path approach, however, is an

accurate water budget, ideally on a watershed basis. IISD is constructing a watershed-based hydrologic budget for all of southern Manitoba. A key future research direction will be linking demand-side water conservation strategies with payments for ecosystem services. See [http://www.iisd.org/natres/water/soft\\_paths.asp](http://www.iisd.org/natres/water/soft_paths.asp)

*For more information about our extensive work on Lake Winnipeg, see the feature story on page 16 of this report.*

**IISD continues to assist with Pimachiowin Aki proposed UNESCO-designated World Heritage Site on the east side of Lake Winnipeg.**

Pimachiowin Aki is a unique partnership among four First Nations that straddle the Manitoba-Ontario border (Pikangikum, Poplar River, Pauingassi and Little Grand); the Manitoba Department of Conservation; and the Ontario Ministry of Natural Resources. Through 2006–2007 IISD acted as interim secretariat for Pimachiowin Aki, supporting their goal of safeguarding one of the planet’s most significant remaining living cultural landscapes in the boreal forest. IISD played a critical role in guiding Pimachiowin Aki to formal incorporation, and will continue to assist in a research capacity.

**Much further afield, though linked to our work on the Canadian Prairies, SNRM continues its four-year project on Adaptation as Resilience-building in collaboration with IISD’s Climate Change and Energy team.** The Energy and Resources Institute (India) is our partner in the work, which is funded by

Canada's International Development Research Centre (IDRC). Through the project, "Adaptive Policy-making: Linking Climate Change, Agriculture and Water Resources," IISD is conducting comparative case studies in Canada and India to examine policies promoting and impeding adaptive management of resources such as agricultural land and water in areas historically vulnerable to climate change. See [http://www.iisd.org/climate/canada/adaptive\\_policy.asp](http://www.iisd.org/climate/canada/adaptive_policy.asp)

**SNRM continues its groundbreaking work in Environment and Security, through a MacArthur Foundation-funded project in the Albertine Rift Region also known as the Great Lakes Region of Africa.** Straddling the countries of Uganda, Rwanda, the Democratic Republic of Congo, Burundi and Tanzania, the Albertine Rift is one of Africa's most biodiverse regions and an important home of species native

*On the shore's of Rwanda's Lake Kivu: IISD is working to build the capacity of conservation actors.*



*Stockphoto*

and exclusive to the region. Sadly, it has also been the site of some of the world's worst violent conflicts in recent history. Conservation in conflict zones inevitably involves a range of challenges that call for new approaches in program implementation. IISD, with technical support from the Centre for Development and Conservation (Nairobi), is working with conservation partners in DRC and Uganda to build the capacity of conservation actors to analyze conflicts and use this information to develop conflict-sensitive programming.

**IISD also brings the benefit of extensive international Environment and Security research back to Canada.** In 2006–2007, SNRM completed a scoping study for Environment Canada with two major sub-themes; a survey of environmentally influenced security risks with impacts in Canada, and conversely how the post-9/11 emphasis on conventional security risks may be creating unexpected environmental impacts.

## WHY THIS WORK MATTERS



DIMPLE ROY ●●●  
IISD PROJECT OFFICER

Having lived most of my life in New Delhi, a metropolis of 15 million people, and having spent considerable time in small-town Gujarat, I began to consider the importance of conservation in preserving not only the environment but the livelihoods of rural populations. Upon arriving in Canada, I was amazed by the vast tracts of uninhabited and seemingly pristine land throughout the country. However over time, I realized that these seemingly "pristine" surroundings were vulnerable to the same pressures that threaten more densely populated urban areas. It became obvious to me early on that areas understood as "wilderness," "natural" and "agricultural" required intensive management and oversight. As these areas serve to sustain urban populations through meeting our seemingly insatiable demand for services such as food, clean water, clean air and an escape from the urban lifestyle, systems that monitor, protect and control their exploitation are required. We currently face impending water shortages, climate change and growing demands for natural resources and the services they provide. These issues require immediate action to protect natural systems for ourselves, future generations and millions of people around the world—not to forget the countless species with whom we share the planet. It is this belief and a sense of responsibility that drives my work in IISD. Choosing priority issues—such as resource management in areas of conflict and the management of water resources in drought and flood-prone Canadian provinces—SNRM focuses on multistakeholder solutions that incorporate economic concerns while holding conservation as our guiding principle. Barring a paradigm shift in consciousness—or the ability to turn back time—I truly believe that our work will serve as a benchmark for conservation efforts in the twenty-first century. Although much needs to be done to change the general approach towards the environment as something to be exploited for personal gain, IISD plays an integral role in defining the current discussion of resource management in Canada and around the world. I am honoured to be a part of this exciting and progressive team.

IISD GRATEFULLY ACKNOWLEDGES THE GENEROSITY OF THE FOLLOWING SUPPORTERS OF OUR SUSTAINABLE NATURAL RESOURCES MANAGEMENT WORK IN 2006–2007: [International Development Research Centre](#) > [Environment Canada](#) > [Agriculture and Agri-Food Canada](#) > [Province of Manitoba](#) > [Sweden International Development Cooperation Agency](#) > [Organisation for Economic Co-operation and Development](#) > [International Peace Academy](#) > [IUCN – The World Conservation Union](#) > [WWF – International Gorilla Conservation Programme](#) > [Max Bell Foundation](#) > [MacArthur Foundation](#) > [Winslow Foundation](#) > [Nuclear Waste Management Organization](#) > [BC Hydro](#)

The agenda for achieving sustainable development is an agenda for change. But to achieve the changes we need—in industry practice, government policy and individual behaviour—we need new ideas and new ways of doing things.

After all, the environmental movement has been around for at least 40 years and the “sustainable development” banner has been waving since the late 1980s, but still, the world is battered by environmental degradation, crippled by abject poverty and threatened by catastrophic climate change. And this despite great minds, great ideas and great passion coming together.

Although there have been some successes along the way, business-as-usual has meant results-as-usual. To achieve change, what’s needed is innovation.

IISD takes great pride in our celebration of innovation. It permeates everything that we do. We’re always on the lookout for novel ways to achieve momentous change.

In 2004, though, we realized that we needed to raise the bar. We needed to find ways to test and incubate the new ideas resting in the minds of our researchers. Ideas that might be a bit off the beaten path, even a bit risky; ideas that might not be fundable through traditional means. In response, we launched the IISD Innovation Fund, an internal mechanism to support investment in new ideas.

Since 2004, we’ve raised over CDN\$400,000 for the Fund. We are grateful to the companies and individuals who have supported our vision with their financial contributions and enthusiasm.

About two-thirds of the funds have been committed to date to 14 projects covering a range of initiatives that won the approval of an internal review committee after a rigorous application process. By the time you read this, two more Innovation Fund projects will be underway. Below are three short snapshots of approved Innovation Fund projects.

IISD is extremely proud of the success of the Innovation Fund and expect that our work will make a difference in promoting the changes the world needs to achieve sustainable development.

To learn how to contribute to the fund, see <http://www.iisd.org/innovation/>



## IISD’S INNOVATION FUND

### INVESTING IN AN AGENDA FOR CHANGE

*After the tsunami: Funded by the Innovation Fund, this IISD project looks at the issue of resource rights in periods following natural disasters.*

“ALTHOUGH THERE HAVE BEEN SOME SUCCESSES  
ALONG THE WAY, BUSINESS-AS-USUAL HAS  
MEANT RESULTS-AS-USUAL.”

#### ACTIVITY IN 2006–2007

Innovation Balance, April 1, 2006	\$222
Contributions during 2006–2007	
E.I. duPont Canada Company	20
Grants awarded to projects during 2006–2007	
Health Dimensions of Climate Change	17
Advisory Centre for International Investment Law	29
Sustainable Procurement	25
Commonwealth and Francophonie Dialogue	30
<hr/> Total grants awarded to projects during 2006–2007	<hr/> 101
<hr/> Innovation Fund balance, March 31, 2007	<hr/> \$141

(\$000’s, Canadian dollars)

## PROJECT SNAPSHOTS

### SNAPSHOT 1: POVERTY – ECOSYSTEMS REPORT

*Proposed by Anantha Duraiappah (former Director, Economic Policy) and Marlene Roy (Research and Learning Resources)*

Until this project, there had never been a report that fully conveyed the relationship between ecosystem services and human development for specific populations. By using a comprehensive set of statistics, this report provides an overview of the ecosystem services under stress, and the state of human well-being in Kenya, and analyzes whether this country's recent poverty reduction strategy will help. We expect that the report will contribute to sustainable development by demonstrating with clarity the inter-dependency between human development and ecosystem services. A prototype report will be released in 2007.

### SNAPSHOT 2: NATURAL DISASTERS AND RESOURCE RIGHTS

*Proposed by Oli Brown (Project Manager) and Alec Crawford (Project Officer)*

“Natural disasters such as hurricanes, tsunamis and earthquakes damage and destroy the land, sea, forest and other resources vital to peoples’ livelihoods,” write Brown, Crawford and co-author Anne Hammill. “They kill titleholders, destroy documentation and erase demarcations. Compensation after such disasters is often inadequate, and movements of refugees can increase competition over scarce resources.”

Using the Asian tsunami of 2004 as an example, this project set out to analyze how resource rights are re-allocated after disasters. The resulting paper demonstrates how better-defined and fairly-enforced resource rights can strengthen livelihood security and biodiversity conservation, while helping to avoid conflict and promote resilience to future disasters. Until this project, very little work was being done on the matter.

### SNAPSHOT 3: SUSTAINABLE PROCUREMENT

*Proposed by Mark Halle (Director, Trade and Investment) and Oshani Perera (IISD Consultant)*

On average, public expenditure and consumption accounts for 16 per cent of national GDP—presenting an important opportunity to promote sustainable public procurement (i.e., public sector purchases that favour goods and services that are favourable from an environment or development perspective). This project set out to analyze laws, guidelines and voluntary initiatives that promote and enable sustainable procurement by state authorities, local governments and public institutions across the world. The project also sought to develop ideas on how to advance sustainable procurement in developing countries and in economies in transition. Until this project, there had been no comprehensive critical process designed to assess and report on ongoing sustainable procurement initiatives.

## TWO NEW INITIATIVES

Collaboration is key—within our growing Institute and beyond—in the global environment. By combining our knowledge, expertise and resources across IISD’s programs, we can contribute to sustainable development in new and exciting ways. Recognizing this, IISD’s Fund Development department has launched two major campaigns for 2007–2008 to complement the efforts behind the IISD Innovation Fund.

The world is becoming increasingly aware of the dramatic impacts of climate change. Therefore, our first campaign will allow the Climate Change and Energy team to develop innovative cross-cutting projects that incorporate other IISD program areas such as Sustainable Natural Resources Management and Measurement and Assessment. Our second major campaign addresses Young Leaders in Sustainable Development. This new program offers young professionals the opportunity to learn critical international communication skills and enhance their future work in sustainable development. By focusing our efforts on programs that encompass the entire Institute, we will be able to share knowledge and capacity as we tackle the complex issues facing the world today.

#### For more information, please contact:

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sbarkman@iisd.ca

Nancy Folliott,  
Development Coordinator  
nfolliott@iisd.ca

## OUR THANKS TO SUPPORTERS OF THE IISD INNOVATION FUND

Since the IISD Innovation Fund was launched in 2003, our corporate and foundation funders have committed \$410,000—and the Fund continues to grow. We are grateful to those who have supported us. They’ve invested in a proud, Canadian-based institution. And they’ve invested in the future of our planet.

Alcan Inc	\$90
E.I. duPont Canada Company	20
The Great-West Life Assurance Company	75
Investors Group	75
Manitoba Hydro	75
The Kathleen M. Richardson Foundation	75
(\$000’s, Canadian dollars)	

## IISD's SD reporting initiative piques NGO interest

In the six years since IISD jumpstarted a renewed drive to measure its own sustainability, the Institute has made a lot of progress, capturing the attention of other SD-minded NGOs in the process.

From greening offices, to venturing into the emerging carbon market, IISD has tried to set an example others might follow.

In 2006–2007, IISD's efforts might have begun to pay off.

Leading Canadian NGOs like Katimavik, the Pembina Institute, Canadian Food Grains Bank and CARE Canada are a few of the 10 NGOs that contacted the Institute about how to become carbon neutral. They want to know what IISD is doing, and how they can learn from the Institute's experience.

## SETTING AN EXAMPLE

By Michelle French

Internal Sustainable Development Assessment and Reporting (ISDAR) Team Leader Marlene Roy says she was surprised by the amount of attention, but says it's a sign that IISD has built a solid track record on sustainability reporting, particularly in carbon emissions tracking and offset purchases.

"The fact is that we have this early experience. We're just going to start reaping the benefits now," she says. "I'm confident that we will start to see more organizations looking to make their operations more sustainable."

In another display of support for the Institute's self-reporting, award-winning author and University of Toronto political scientist Thomas Homer-Dixon partnered with IISD in greening his North American book tour for *The Upside of Down: Catastrophe, Creativity and the Renewal of Civilization*, a book that explores environmental and political-economic stresses in the global order.

IISD reviewed Homer-Dixon's green tour plan and offered promotional assistance.

While Roy counts all the attention as a success for the Institute, she also says ISDAR has been challenged this year by negotiating the new and sometimes unwieldy international carbon market.

Representing a global institute, the ISDAR team felt it was appropriate to buy offsets from the international market. However, while promising development projects did turn up, it was difficult to find purchases that met the Institute's newly minted carbon offset guidelines, which highlight the need for a development, as well as environmental impact. As a result, ISDAR returned to the Canadian carbon market.

"In the Canadian market, there are currently a few more checks and balances. The offsets that we've purchased have been certified, or at least have been verified," she says.

The international voluntary market is still very new and will take time to mature.

"We obviously want to make a good investment and we need information to make that investment and that information isn't always available," Roy explains.

Despite the setback of not being able to purchase credits on the international market, other goals have been achieved.

For one, carbon offset guidelines will help IISD streamline its carbon purchases.

As well, the Institute met its goal of buying a video conferencing unit to reduce air travel.

As a new fiscal year begins, the ISDAR team will continue monitoring the international carbon market. The team also plans to patiently test the feasibility of pooling carbon emissions with like-minded NGOs, a move that could help the Institute to get more bang for its carbon-offset buck. Roy would also like to work towards harmonizing IISD's carbon offset guidelines with carbon brokers or consolidators, which could make purchasing offsets easier.

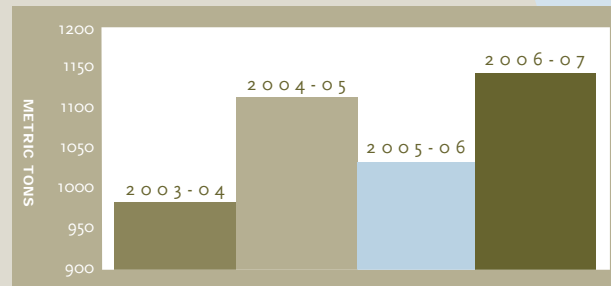
While it's not clear whether IISD's sustainability reporting will continue to generate as much buzz as it did in 2006–2007, Roy is committed once again to "walk the talk," set an example and build the supporting institutional culture.

IISD prepares its Sustainable Development Report using Global Reporting Initiative (GRI) guidelines. Currently, IISD is one of only a handful of NGOs using GRI to prepare internal sustainability reports.

*Michelle French is IISD's Publishing Officer.*

"IN THE CANADIAN MARKET, THERE ARE CURRENTLY A FEW MORE CHECKS AND BALANCES. THE OFFSETS THAT WE'VE PURCHASED HAVE BEEN CERTIFIED, OR AT LEAST HAVE BEEN VERIFIED."

For an interim report of 2006–2007 activities, see <http://www.iisd.org/about/sdreporting/>



### METRIC TONS OF CARBON EMISSIONS FROM OPERATIONS / OPERATING YEAR

Since last year our carbon emissions increased 97 metric tons due to higher electricity consumption in the Winnipeg office building generally, and from business travel. As IISD occupies one and a half floors of an eight-storey building the electricity consumption increase may be due to activities elsewhere in the building. Carbon emissions from business travel rose in proportion to increases in our total expenses.



# AUDITORS' REPORT

## To the Members of The International Institute for Sustainable Development

We have audited the consolidated statement of financial position of the International Institute for Sustainable Development as at March 31, 2007 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

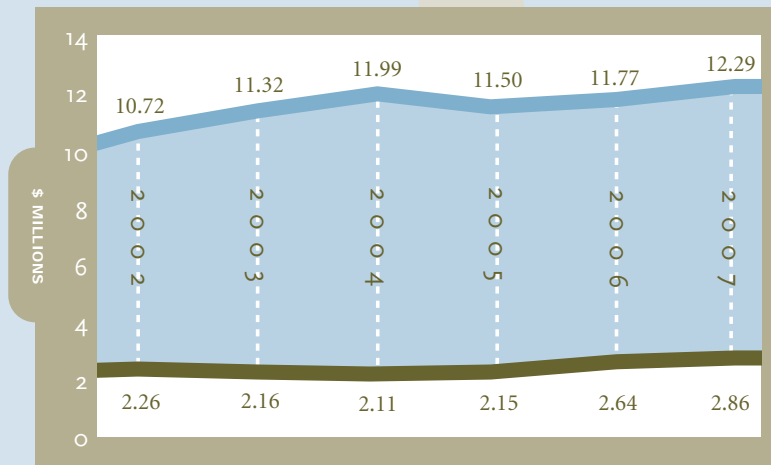
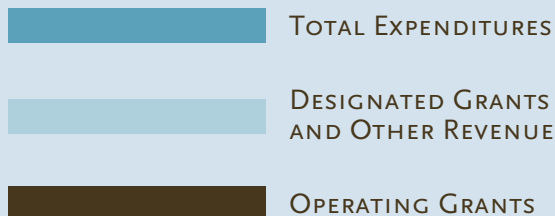
We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Institute as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte + Touche LLP*

Chartered Accountants  
Winnipeg, Manitoba  
May 29, 2007

### 2002–2007 IISD FINANCING TREND



Fiscal years ended March 31

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2007

	2007	2006
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 1,861,681	\$ 1,347,469
Marketable securities	7,386,657	6,782,977
Accounts receivable	7,768,092	7,988,400
Prepaid expenses and deposits	89,456	122,662
	17,105,886	16,241,508
<b>CAPITAL ASSETS</b>		
	464,596	354,857
	\$17,570,482	\$16,596,365
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 1,635,850	\$ 1,363,668
Deferred revenue	8,389,952	8,286,655
	10,025,802	9,650,323
<b>NET ASSETS</b>		
Net assets invested in capital assets	464,596	354,857
Reserve for program development	4,836,664	3,471,906
Reserve for long-term development	1,003,136	1,318,802
Innovation Fund	141,137	221,937
Unrestricted net operating assets	1,099,147	1,578,540
	7,544,680	6,946,042
	\$17,570,482	\$16,596,365

# CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended March 31, 2007

	2007	2006
<b>REVENUE</b>		
Designated grants	\$ 9,319,176	\$ 9,024,212
Operating grants	2,857,130	2,642,130
Innovation Fund	46,213	79,123
Interest	316,899	229,015
Other revenue	433,086	153,473
<b>TOTAL REVENUE</b>	<b>12,972,504</b>	<b>12,127,953</b>
<b>EXPENSES</b>		
Projects		
Trade and Investment	3,916,182	2,993,409
Reporting Services	2,685,514	2,938,892
Climate Change and Energy	1,488,547	1,664,175
Knowledge Communications	807,656	984,379
Sustainable Natural Resources Management	788,649	788,472
Measurement and Assessment	677,515	681,225
Economic Policy	68,817	256,620
New Project Development	135,242	93,402
Innovation Fund	46,528	79,479
	10,614,650	10,480,053
Administration	877,591	771,462
Fund Development and Outreach	668,580	395,909
Board	132,245	125,485
<b>TOTAL EXPENSES</b>	<b>12,293,066</b>	<b>11,772,909</b>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>679,438</b>	<b>355,044</b>
<b>APPROPRIATION FROM (TO) NET ASSETS</b>		
Net assets invested in capital assets	(109,739)	(46,106)
Reserve for program development	(1,364,758)	93,395
Reserve for long-term development	315,666	138,195
<b>(DECREASE) INCREASE IN UNRESTRICTED NET OPERATING ASSETS</b>	<b>(479,393)</b>	<b>540,528</b>
<b>UNRESTRICTED NET OPERATING ASSETS, BEGINNING OF YEAR</b>	<b>1,578,540</b>	<b>1,038,012</b>
<b>UNRESTRICTED NET OPERATING ASSETS, END OF YEAR</b>	<b>\$ 1,099,147</b>	<b>\$ 1,578,540</b>

## NOTE ON FUNDING ARRANGEMENTS

### Designated Grants

IISD receives funding from a variety of public and private sources to finance specific projects relating to its strategic objectives. Projects may carry on over more than one year. The related designated grants are recorded when the funding commitment is made and recognized in revenue as the projects progress. A comparative summary of designated grant funding committed during the year is as follows:

	Funding Commitments	
	2007 (\$000's)	2006 (\$000's)
Governments and agencies		
Canada	\$ 2,115	\$ 2,287
International	4,514	7,400
	6,629	9,687
United Nations agencies	667	876
International organizations	445	370
Philanthropic foundations	1,249	694
Private sector and other	489	287
	<b>\$ 9,479</b>	<b>\$11,914</b>

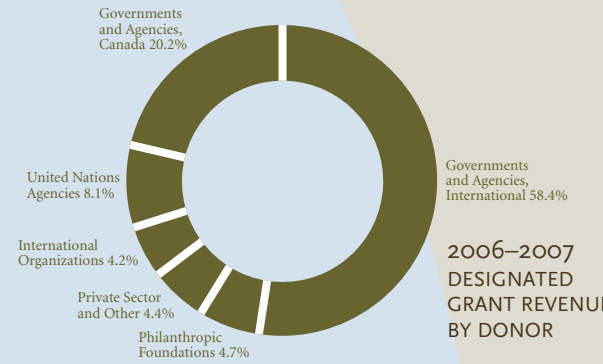
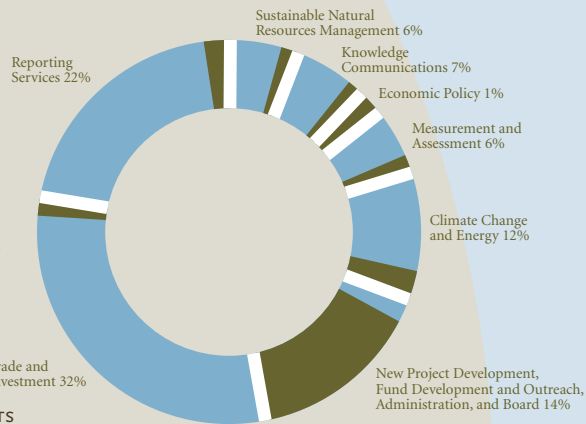
Designated grants and other revenue which includes publication sales, cost recoveries and, in the case of Administration, Fund Development and Outreach the unrealized foreign exchange gain recognized at March 31 in the amount of \$201 thousand (2006 – \$96 thousand loss), are summarized by activity area as follows:

Activity Area	Other Revenue (\$000's)	Innovation Funds (\$000's)	Designated Grants (\$000's)	Total (\$000's)
Trade and Investment	\$ 24	\$ –	\$3,832	\$3,856
Reporting Services	–	–	2,393	2,393
Climate Change and Energy	127	–	1,119	1,246
Sustainable Natural Resources Management	20	–	691	711
Knowledge Communications	4	–	685	689
Measurement and Assessment	31	–	534	565
Economic Policy	–	–	26	26
Administration, Fund Development and Outreach	227	–	39	266
	433	–	9,319	9,752
Innovation Fund	–	46	–	46
	<b>\$ 433</b>	<b>\$ 46</b>	<b>\$9,319</b>	<b>\$9,798</b>

2006–2007  
REVENUE AND  
EXPENSES BY  
ACTIVITY AREA

Total expenses of  
\$12,293,066

FINANCED BY:



2006–2007  
DESIGNATED  
GRANT REVENUE  
BY DONOR

Total designed grant  
revenue of \$9,319,176

SCHEDULE OF OPERATIONS BY ACTIVITY AREA (\$000's) For the Year Ended March 31, 2007

	Trade and Investment	Reporting Services	Climate Change and Energy	Sustainable Natural Resources Management	Knowledge Communications	Measurement and Assessment	Economic Policy	New Project Development	Innovation Fund	Administration	Fund Development and Outreach	Board	2007 Total	2006 Total
Revenue	\$3,856	\$2,393	\$1,246	\$ 711	\$ 689	\$ 565	\$ 26	\$ –	\$ 46	\$ 230	\$ 36	\$ –	\$9,798	\$9,257
Personnel	1,891	820	913	481	313	455	51	81	33	693	392		6,123	5,399
Collaborators	1,041	753	150	134	337	44	2	13	6	25	43		2,548	2,532
Travel	472	796	230	72	72	87	7	34	8	48	25		1,851	2,214
Rent	107	87	41	22	14	22	2	–	–	31	18		344	336
Supplies and other	125	64	47	37	20	24	3	1	–	44	45		410	375
Publishing	66	29	7	1	5	9	–	5	–	–	98		220	199
Amortization of capital assets	54	59	23	23	13	16	4	–	–	17	18		227	172
Meetings	94		31	6	22	1	–	–	–	1	10		165	162
Telecommunications	51	70	39	9	10	15	–	1	–	13	16		224	209
Board	–	–	–	–	–	–	–	–	–	–	–	132	132	125
Research materials	15	7	7	4	2	4	–	–	–	6	4		49	50
Total expenses	3,916	2,685	1,488	789	808	677	69	135	47	878	669	132	12,293	11,773
Excess of (expenses over designated grants and other revenue) designated grants and other revenue over expenses	\$ (60)	\$ (292)	\$ (242)	\$ (78)	\$ (119)	\$ (112)	\$ (43)	\$ (135)	\$ (1)	\$ (648)	\$ (633)	\$ (132)	(2,495)	(2,516)
Excess of expenses over designated grants funded by:														
Operating grants													2,857	2,642
Interest													317	229
Excess of revenue over expenses													\$ 679	\$ 355

# SCHEDULE OF DESIGNATED GRANTS COMMITTED (\$000's)

For the Year Ended March 31, 2007

<b>Government of Canada (and Agencies)</b>		<b>Governments of other nations (continued)</b>	
Environment Canada	\$ 654	Japan	
International Development Research Centre (IDRC)	397	Institute for Global Environmental Strategies (IGES)	47
Department of Foreign Affairs and International Trade	250	Global Industrial and Social Progress Research Institute (GISPRI)	29
Agriculture and Agri-Food Canada	199		76
National Round Table on Environment and Economy	27		
Other	9	Germany	64
	1,536	Austria	53
		Taiwan	41
<b>Governments of provinces</b>		Indonesia	34
Manitoba	530	Kingdom of Saudi Arabia	14
Alberta	21	Other	3
British Columbia	13		4,514
Ontario	10	<b>United Nations agencies</b>	
Nova Scotia	5	United Nations Environment Programme (UNEP)	478
	579	United Nations Food and Agriculture Organization (FAO)	72
		United Nations Office for Project Services (UNOPS)	47
<b>Governments of other nations</b>		United Nations Industrial Development Organization (UNIDO)	29
Switzerland		United Nations Development Programme (UNDP)	23
Swiss Agency for Development and Cooperation (SDC)	819	Other	18
State Secretariat for Economic Affairs (SECO)	418		667
Federal Office for the Environment and International Affairs	94	<b>International organizations</b>	
	1,331	The African Centre for Technology Studies (ACTS)	118
		Lake Balaton Development Coordination Agency	107
Denmark		World Bank	75
Royal Danish Ministry of Foreign Affairs	1,019	Other	46
		CIRAD / IMOSEB Sec.	35
		The World Conservation Union (IUCN)	33
Norway		CORDAID	17
Norwegian Agency for Development Cooperation (NORAD)	348	Stockholm Environment Institute (SEI)	14
Ministry of Foreign Affairs	146		445
Ministry of the Environment	15	<b>Philanthropic foundations</b>	
	509	The William and Flora Hewlett Foundation	580
		The Swedish Foundation for Strategic Environmental Research (MISTRA)	379
Sweden		The GLOBE Foundation of Canada	68
Swedish International Development Agency (SIDA)	218	Max Bell Foundation	60
Ministry of Foreign Affairs	113	Charles Stewart Mott Foundation	58
Ministry of Sustainable Development	45	CitiGroup Foundation	58
	376	Walter & Duncan Gordon Foundation	35
		Foundation of the University of Costa Rica for Research	11
United Kingdom			1,249
Department for International Development	203	<b>Private sector and other</b>	
		Oxfam – Quebec	138
France		Other	55
Ministry of Foreign Affairs	112	BC Hydro	46
Institut de l'Énergie et de l'Environnement de la Francophonie	68	Scott Wilson Group plc	44
Organisation Internationale de la Francophonie (OIF)	20	PEMSEA	41
	200	Suncor Energy Inc.	40
		University of Aberdeen	33
Netherlands		Alcan	26
Ministry of Housing, Spatial Planning and the Environment	123	Transcanada Corporation	24
Department of International Affairs, Ministry of Agriculture	12	Federation of Canadian Municipalities	22
	135	Canadian Internet Registration Authority	20
			489
European Commission	150		\$9,479
Spain	132		
Australia	93		
New Zealand	81		