

Chapter 7

Policy Integration for Sustainable Development Areas

Sustainable development requires that policy decisions aimed at a specific goal take proper account of their effects in the environmental, economic and social dimensions. All country reviews of sustainable development have briefly reviewed the arrangements in place to promote policy integration. The chapter reports on the main findings and recommendations from the reviews which examined the extent to which sustainable development plans and institutions facilitate policy integration. It includes specific analysis on the role of various instruments such as cost-benefit analysis, cost-effectiveness analysis, systematic evaluation of legislation and environmental impact assessment.

1. Introduction

The integration of economic, environmental and social policies is necessary to ensure that policy settings aimed at reaching a goal in one domain of sustainable development take into account the effects on other domains. The country surveys briefly reviewed policy integration for all 30 member countries, focusing on the integration of economic and environmental concerns. The reviews looked at three types of methods to integrate cross-domain concerns in overall policy settings: cost-benefit analysis, other integration tools and sustainable development strategies. Within the environmental and economic domains of sustainable development it is, arguably, the absence of markets for many environmental services that creates the need for specific actions to integrate policies. Cost-benefit analysis represents one method of trying to mimic market conditions in the absence of markets. In principle, this evaluation tool is well suited to assessing the trade-offs between economic, environmental and social outcomes of policies in a systematic manner and so the extent of its use was reviewed in all countries. The prevalence of more procedural instruments was also documented. Finally, the reviews looked at the characteristics of countries' sustainable development strategies and related institutional arrangements.

On the basis of the information published in the OECD Economic Surveys, it appears that there is considerable scope for further improvement in the process of policy integration in governments. In particular, despite its limitations, cost-benefit analysis has offered a valuable framework for policymaking in the countries where it is used extensively. However, in most countries the use of such techniques continues to be the exception rather than the rule. While there are many factors that can lead to the adoption of policies that have unfavourable benefit-cost ratios, the more general publication of independently reviewed cost-benefit analyses would represent a significant improvement in the transparency of policymaking. Other instruments, such as environmental impact assessments, can offer a means to improve integration in decision making, but the impact of these approaches is often diminished by limited scope and failure to assess systematically the trade offs between the pillars of sustainable development. Sustainable development strategies have been issued in many countries with a view to integrating economic, social, and environmental concerns, but in many cases only establish a lengthy list of general objectives without any prioritisation or assessment of trade-offs.

Accompanying institutional arrangements can facilitate co-ordination across different ministries and levels of government, but their effectiveness seems to depend on the support of the centre of government.

2. Cost-benefit analysis

2.1. Cross-country utilisation

Few countries systematically require formal cost-benefit analysis for policies and projects (Table 7.1), though there has been increasing use of this technique. Cost-benefit analysis must be undertaken as part of a broader regulatory impact assessment in Canada, New Zealand, the United Kingdom, and the United States. In addition, the treaty governing the European Union requires that costs and benefits of policies be taken into account *ex ante*. Despite these requirements in various countries, cost-benefit analysis is not always used even though it is mandatory. Indeed, this often appears to be the case when new regulations are issued in Canada. In other countries, the adoption of policies in the absence of a cost-benefit analysis or when formal analysis shows that costs exceed benefits can require a minister to affirm that the benefits warrant the costs (United Kingdom) or lead to considerable debate (United States). The requirement by the European Union that EU-financed projects be accompanied by cost-benefit analyses has led to the spread of such techniques in Hungary, the Czech Republic and the Slovak Republic. Cost-benefit analysis cannot always quantify all the benefits flowing from a policy in an objective way and the conclusions of formal cost-benefit analyses are sometimes rejected because they are judged to ignore some benefits or attach low values to them. For example, end-of-life treatment of electrical and electronic waste in the EU was adopted despite costs being estimated to outweigh benefits by a ratio of five to one. A number of countries were found to use cost-benefit analysis on an *ad hoc* basis (Austria, Belgium, Spain, Korea) while a few countries mainly restrict the use of such analysis to transport and infrastructure policies and projects (Netherlands, Japan). In the case of Netherlands, parliamentarians are asking for greater use of such analysis. In Japan environmental costs and benefits are often omitted from formal cost-benefit analyses out of concern that net costs could provoke claims for compensation.

2.2. Problems with its utilisation

The country reviews detected three problems with the use of cost-benefit analysis as an integration tool.¹ Firstly, the analytical difficulties faced in quantifying some forms of environmental damage. Secondly, the often resource-intensive nature of quantifying damages. This was seen as a drawback in Australia and the United Kingdom. One means of speeding the process, though at the expense of a possible reduction in accuracy, is to

Table 7.1. The use of cost-benefit and environmental impact analyses in OECD countries

	Australia	Austria	Belgium	Canada	Czech Republic	Denmark	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Italy	Japan	Korea	Luxembourg	Mexico	Netherlands	New Zealand	Norway	Portugal	Slovak Republic	Spain	Sweden	Switzerland	United Kingdom	United States
Environmental impact assessment of public projects (EIA)	X	XX	XX	XX	XX	XX	XX	XX	XX	XX	X	X	X	XX	X	XX	XX	X	XX	XX	XX	X	XX	X	XX	XX	XX	XX
Strategic environmental assessment of policies (SEA)	X	X	X	X		XX	X	X	X					X		X	X		XX		X			X		XX		
Monetary valuation of environmental effects in EIA or SEA	X		X					X							X					X							X	
Cost-benefit analysis of environmental policies (CBA)	X	X		X		X								X					X	XX	X			X	X		XX	XX
Statutory independent review of CBAs						X																					X	

Note: XX = quasi-systematic; X = frequent.

employ information on benefits from other studies that have been undertaken in more depth. The European Commission has used this approach extensively, through the air pollution and life-valuation estimates generated by its ExterneE project. Thirdly, cost-benefit analyses are often undertaken by, or on behalf of, the sponsoring ministry or agency with little external review. In general, the auditing of proposals independently from the sponsoring ministry through either centralised auditing or review by an independent body can help raise the credibility of cost-benefit analysis. Examples where independent review might have been beneficial were found in Austria, Denmark, Spain and the United States.

3. Alternative integration tools

3.1. Cost-effectiveness analysis

A somewhat more common approach to the evaluation of policies is to examine the cost effectiveness of various policy options, as in Belgium and Norway. In these cases, the original policy target is often set on the basis of human or eco-system health and conservation objectives. The objective may also be set with reference to financial affordability, as is sometimes the case in Norway. While cost-effectiveness analysis in these cases should prevent highest cost policy options being chosen in meeting an already determined target, they do not ensure that the chosen policy targets reflect social preferences accurately. The priority given to the achievement of environmental goals is also sometimes incorporated into the constitution. For example, in Greece, the government has “a duty to protect the natural and cultural environment”. As no trade-off is mentioned in the law, costs are not required to be taken systematically into account in specifying targets.

3.2. Systematic assessments of legislation

An additional method of attempting to integrate policies has been to require that all legislation include an assessment of economic and environmental impacts of proposed policies at an early stage of the legislative process. This route has been adopted by Denmark, France, Italy and Switzerland in order that the legislator or cabinet be well informed before decisions are taken. In practise, this process appears to have fallen short of expectations. A common experience has been that the assessments tend to focus on the cost to the government budget, rather than providing a fully integrated analysis. In any case, when such analyses are undertaken it is important that they use a common framework and a set of stable economic assumptions. The reviews suggested that this was not the case in Italy. In Denmark the requirement that the Finance Bill evaluate the environmental consequences of economic policy was eventually dropped.

3.3. Environmental impact analysis

In contrast to the limited use of cost-benefit analysis, the use of environmental impact analysis (EIA) has become a very common decision-aiding tool at the project level. However, within EIAs there is often only a limited attempt, or indeed no attempt at all, to quantify environmental or other impacts. The reviews noted this was a feature of such procedures in Finland, Germany, Greece, Iceland, Ireland, Italy, Korea, Luxembourg, Portugal, Slovak Republic, Spain and Sweden. As a result, projects that are costlier than the likely benefits can and do emerge from this type of decision making.

4. National sustainable development policy frameworks

4.1. Different approaches to sustainable development policy frameworks

In the follow-up to the 1992 World Summit on Sustainable Development in Rio, many countries have adopted, or have prepared, overarching sustainable development strategies that are designed to integrate economic, social, and environmental concerns. This has been the case in Austria, Belgium, Finland, Germany, Iceland, Ireland, Luxembourg, New Zealand, Norway, Portugal, Slovak Republic, Sweden, Switzerland and the United Kingdom, while in Mexico and Turkey, sustainable development issues are now incorporated into national development plans. Some governments have limited their frameworks to facilitating the integration of environmental concerns into decision making (Czech Republic, Hungary, Italy, Japan, Korea, the Netherlands and the United States), partly because it was felt that legislators at the national level were already taking into account the social pillar of sustainable development and also because some had faced difficulty in identifying tractable goals for the social pillar of sustainable development. Another approach to incorporating sustainable development concerns into policy making is to enshrine them in the constitution (Greece, Switzerland). France is currently in the process of consultation about whether sustainable development concerns should be incorporated into the constitution.

4.2. Improving sustainable development plans

A general weakness of many national sustainable development strategies is that they often establish a lengthy list of desirable and general objectives without either a prioritisation of policies based on an analysis of the trade-offs between economic, social and environmental concerns, or an identification of appropriate policy instruments to address these objectives cost-efficiently. On the other hand, there have been attempts to develop indicators of progress towards goals in a number of countries. The reviews noted that Australia and Korea had mechanisms in place to ensure that such indicators feed back into the policy process. In other cases, an official standing committee or a national council

monitors progress towards goals (Austria, Japan and Luxembourg). In Canada, a commissioner for the environment and sustainable development monitors sustainable development plans and presents annual reports to parliament.

A number of countries have found that an improvement of their analytical and data bases was necessary to provide accurate indicators of movement towards sustainable development and thus strengthen policy making. For example, Canada has established an information base to assess past policies and highlight areas where change is needed. In France, the Ministry of the Environment strengthened its own economic analysis of environmental measures by establishing an economic department within the ministry. This should complement the traditional *ex post* analyses of policies carried out by the General Planning Commission (attached to the Prime Minister's office).

4.3. Institutional arrangements for policy integration

Institutional arrangements to ensure that policy integration takes place across the pillars of sustainable development are diverse. In a few countries, the early links between sustainable development and environmental issues have led to ministries of environment being assigned primary responsibility for sustainable development policy (Hungary, Spain, and the United Kingdom). In these cases, institutional backing is given to these arrangements by either the cabinet (Hungary and the United Kingdom) or sectoral conferences (Spain). Overall, it appears that policy integration is better ensured with the involvement of the centre of government, though the mechanism for achieving this varies across countries. In some, the office of the president or prime minister takes a leading role in efforts to integrate sustainable development policy (Germany and Korea; Sweden is considering taking this route). In others, governments rely on inter-ministerial co-ordination that varies in its degree of formalism. Thus, Norway and Sweden have long-standing traditions of the "collegiate approach" to government. A similar approach is used in the Netherlands, though in certain key areas legislation mandates consultation among certain ministries. In Hungary, Italy, and the Slovak Republic, standing commissions or councils serve as the fora for bringing together the various parties. In Finland a National Council, chaired by the Prime Minister, sets the agenda, through the preparation of "guidance" documents rather than through formal legislative powers. Finally, an alternative approach is to rely on *ad hoc* committees that are established when a cross-cutting issue arises (Czech Republic, Germany, Greece, Luxembourg). Some rely on different mechanisms simultaneously (Canada and Ireland).

Policy co-ordination across levels of government, particularly in federal states, is another important dimension. In Australia, Belgium, Canada, the Czech Republic, Germany, Italy, Spain, and Switzerland, addressing environmental (or less frequently other sustainable development) issues has been complicated by

the allocation of responsibility across levels of government. In these cases, decisions of bodies that bring together representatives of the different levels of government (Switzerland, Netherlands), new legislation (Australia) or constitutional changes (Spain) may be required to determine which level of government is best suited to responding to particular policy issues. In some cases forging sufficient sub-national government agreement is a prerequisite for adopting the most cost-effective policy instruments. In both Korea and Mexico, the weak presence of the central authorities coupled with the orientation of local governments towards economic development has lowered the attention given to environmental concerns.

Note

1. An additional problem was noted in the case of the United States: policies governed by the Clean Air Act may not be set on the basis of formal cost-benefit analysis.

Table of Contents

Executive Summary	9
Chapter 1. Achieving Environmental Objectives in a Cost-efficient Way	15
1. Performance	16
2. Policies	26
Notes	44
References	45
Chapter 2. Attaining Social Objectives in a Cost-efficient Way	49
1. Ensuring adequate and sustainable retirement income	50
2. Improving living standards in developing countries	65
Notes	75
References	76
Chapter 3. Reducing Emissions of Greenhouse Gases	79
1. Introduction	80
2. Objectives and performance	80
3. Policies	89
Notes	104
References	105
Chapter 4. Reducing Air Pollutants	107
1. Introduction	108
2. Objectives and performance	108
3. Policies	118
Notes	130
References	132
Chapter 5. Reducing Water Pollution and Improving Natural Resource Management	135
1. Introduction	136
2. Objectives and performance	136
3. Policies	140
Notes	152
References	152

<i>Chapter 6. Reducing and Improving Management of Waste</i>	153
1. Introduction	154
2. Performance	154
3. Policies	154
Notes	167
Reference	168
<i>Chapter 7. Policy Integration for Sustainable Development Areas</i>	169
1. Introduction	170
2. Cost-benefit analysis	171
3. Alternative integration tools	173
4. National sustainable development policy frameworks	174
Note	176
<i>Annex A. Sustainable Development Indicators</i>	177

List of Boxes

3.1. Estimating the marginal benefit of reducing greenhouse gas emissions	81
3.2. The EU trading scheme	102
4.1. Integrating social and environmental concerns in air policy through cost benefit analysis	109
5.1. OECD countries' policies to tackle nitrate pollution from agriculture	144
5.2. Sustainability issues in fisheries management	149
6.1. The externality costs of landfills and incineration	161

List of Tables

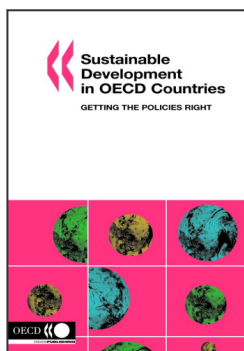
0.1. Country coverage of topics for sustainable development reviews ...	11
1.1. Reducing greenhouse gas emissions: policy recommendations ...	17
1.2. Reducing air pollution: policy recommendations	19
1.3. Reducing water pollution: policy recommendations	21
1.4. Waste management: policy recommendations	22
1.5. Selected environmental performance indicators	23
1.6. Selected future targets for environmental policy	24
1.7. The use of voluntary agreements	28
1.8. The use of environmental taxes	34
1.9. The use of cost-benefit and environmental-impact analyses in OECD countries	40
2.1. Ensuring sustainable retirement income: summary of policy recommendations	51
2.2. Performance indicators: sustainable retirement income	52
2.3. Reforms to retirement income systems	56

2.4. Expected gross replacement rate in pension system over next five years	57
2.5. Standard and early ages of entitlement to old-age pension benefits . . .	62
2.6. Implicit tax rates on continued work at older ages in old-age pension systems	64
2.7. Development indicators by geographical area and income level	66
2.8. OECD non-energy imports from developing countries	69
2.9. Official development assistance (ODA)	70
2.10. Domestic spending and donor assistance on health	71
2.11. Preferential tariff rates for developing countries	72
3.1. Countries' performance towards adopted objectives	83
3.2. Main indicators: climate change	86
3.3. Greenhouse gas emissions and sectoral indicators	87
3.4. Policy recommendations in Country Surveys	90
3.5. National climate change policies: a summary	92
3.6. Abatement costs of measures promoting renewable sources of energy	95
3.7. Rates of CO ₂ taxation in OECD countries that introduced carbon taxes	98
4.1. OECD countries' performance towards internationally agreed emission targets	112
4.2. Health-related air quality standards in selected OECD countries . . .	115
4.3. Main indicators: air pollution	116
4.4. OECD countries performance in curbing urban air pollution	117
4.5. Main policy recommendations in country surveys	119
4.6. Main policy instruments used to reduce air pollution	120
4.7. Permit prices and tax levels for air pollutants	123
5.1. Water pollution: main indicators	137
5.2. International water supply use comparison	138
5.3. Policy recommendations in country surveys	141
5.4. Main policy instruments used to reduce water pollution	142
5.5. Water management policies: a summary	146
5.6. Water management: policy recommendations in country surveys . .	147
5.7. Main indicators: fisheries	149
5.8. Fisheries management policies: a summary	150
5.9. Fisheries management: recommendations in country surveys	150
6.1. Performance indicators: municipal waste	155
6.2. Recycling rates for different categories of raw material	157
6.3. Recommendations on waste management in country surveys: a summary	158
6.4. Recycling targets in Europe	159
6.5. Waste disposal policy instruments	160

6.6. Recycling of packaging material: fees and operational characteristics	163
7.1. The use of cost-benefit and environmental impact analyses in OECD countries	172
A.1. Reducing emissions of greenhouse gases: main indicators	178
A.2. GHG emissions and sectoral indicators	179
A.3. Reducing air pollution: main indicators	181
A.4. Reducing air pollution in cities: performance indicators	182
A.5. Reducing water pollution: main indicators	183
A.6. Improving natural resource management: main indicators for water supply	184
A.7. Improving natural resource management: main indicators for fisheries	185
A.8. Improving natural resource management: main indicators for forestry	186
A.9. Reducing and improving the management of municipal waste: main indicators	187
A.10. Improving living conditions in developing countries: OECD non-energy imports from developing countries	189
A.11. Improving living conditions in developing countries: official development assistance (ODA)	190
A.12. Ensuring adequate and sustainable retirement income: main indicators	191

List of Figures

2.1. Bilateral development assistance, poverty and shortfall in life expectancy	67
2.2. The share of developing country groups in world trade	68
2.3. Average tariff rates by country	71
4.1. The damages from air pollution in OECD countries as a share of GDP	111
4.2. The pattern of marginal abatement costs with command-and-control regulation	122
4.3. The sulphur content of motor fuels	126
4.4. Vehicle emission standards	127
4.5. New standards for vehicles and fuels: impact on air pollutant emissions and concentrations	128
4.6. Car acquisition taxes and the average age of vehicles	129
4.7. Annual air pollution external costs of on-road vehicles registered in EU countries from 2004	130
5.1. Water abstraction by final use	139
5.2. Expenditure on wastewater	143
6.1. Waste disposal costs and recycling rates	165



From:
Sustainable Development in OECD Countries
Getting the Policies Right

Access the complete publication at:
<https://doi.org/10.1787/9789264016958-en>

Please cite this chapter as:

OECD (2005), "Policy Integration for Sustainable Development Areas", in *Sustainable Development in OECD Countries: Getting the Policies Right*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264016958-9-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.