



Sustaining Excellence > 2005/2006 Annual Report

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- 1 Our Mission and Vision
- 2 Feature: The Change I Seek
- 6 From the President
- 7 From the Chair
- 8 Board of Directors
- 9 The IISD Team
- 10 Feature: Turning the Spotlight on the Wealthy Cow
- 12 Feature: A Youthful Perspective on Governance
- 14 Feature: Valuing and Valuating the Essentials of Life
- 15 Measuring Our Own Performance
- 16 Trade and Investment
- 19 Economic Policy
- 20 Sustainable Natural Resources Management
- 22 Measurement and Assessment
- 24 Knowledge Communications
- 26 Climate Change and Energy
- 28 Reporting Services
- 30 Auditors' Report
- 31 Consolidated Statement of Financial Position
- 32 Consolidated Statement of Operations
- 33 Note on Funding Arrangements
- 34 Schedule of Operations by Activity Area
- 35 Schedule of Designated Grants Committed
- 36 Philanthropy for Innovative Thinking

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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 MISSION AND VISION



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.



IISD WEB STATISTICS

From April 1, 2005, to March 31, 2006, IISD experienced an enormous amount of traffic on its research Web site at www.iisd.org and on its Reporting Services Linkages Web site at www.iisd.ca. Some highlights:

www.iisd.org

Successful page requests: 23,816,265

Document downloads: 1,572,394 total files

www.iisd.ca

Successful page requests: 41,387,019

Document downloads: 2,757,654 total files

Mailing Lists

IISD runs a number of e-mail lists with subscribers from all over the world. Our current accumulated subscriber base is 35,140, an increase of over 5,000 since March 31, 2006. Visit <http://www.iisd.org/maillinglists.asp> to learn about—and subscribe to—our lists.

SOLUTIONS

FEATURE :

THE CHANGE I SEEK

IISD people share their passion

IISD's performance is driven by people. And our people are driven by deep convictions about correcting a troubled world. The collective passion of the IISD team is the foundation of an institute so sharply focused on achieving change. The following thoughts of IISD staff and associates capture the IISD spirit and the commitment to promoting change.



Aaron Cosby,
Associate and
Senior Advisor

I want more people to know what needs

to be done to make the world a better place. I'm not looking for consensus on my world view; **I'd be delighted if more people understood the issues, yet disagreed with me on solutions.** I want the guy next to me at the coffee shop to know that climate change is going to affect him and his kids, and that he and I, and the coffee shop owner, and the coffee growers and our public officials all need to do something about it. This is the ultimate challenge of our work: to go beyond understanding problems to raising awareness. Until we do, we are planting single trees, when what's needed is a forest.



Marlene Roy,
Research and
Learning
Resources

The world is full of

creative energy. Every day I see and hear about people harnessing their own energy and working with nature to create a better quality of life. I'm continually astonished by what people are able to accomplish. Yet, in many places, destructive forces dominate, many of them wielded by powerful people against others and nature. I believe that in our increasingly populated and interconnected world that human-induced destruction—especially of fragile ecosystems—is a luxury we can no longer afford. **I would like to see a world where ordinary people everywhere have the freedom to tap into their own creative energy and bring about the changes they would like to see to improve their quality of life.**



Darren Swanson,
Project Manager/
Officer

As societies, we tend to manage

what we measure, and we measure what we care about. Imagine a future where governments, be they local or national, operate an Internet-based system of information continually tracking the current state of our economic, social and environmental well-being. **Imagine that with a click of the mouse, you could view trends of conditions that your community has collectively identified as important to your current and future well-being.** And imagine that your government plans and manages their programs and projects based on the ability to affect improvement in these very conditions. Experience over the past 25 years tells us that progress toward sustainable development cannot be charted in advance, but rather it must be navigated through a process of learning and adaptation.* To navigate this critical journey we need real-time information on the direction we are going and how fast we are getting there. This is the world I imagine and the change I seek.

* National Academy of Science 1999. *Our common journey: A transition towards sustainability*. National Academy Press: Washington, D.C.



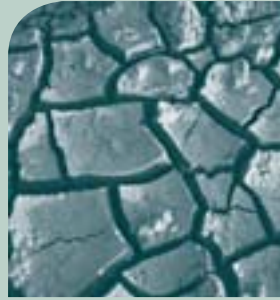
Jason Potts,
Associate

The combined forces of globalization and trade liberalization have established economic rationality as the supreme authority in international relations. When the very institutions that define “who we are” absorb and embody the vision of humans as *homo economicus*, we risk losing the capacity to care for those who lack economic “voice,” of which the poor and the environment are only too evident as examples. **The effort to build a sustainable trading system fundamentally rests on asserting the primacy of care and compassion for others**, which is to say, the primacy of the very thing which makes us human—this is the change I seek.



Damon Vis-Dunbar,
Communications
Assistant, Global
Subsidies Initiative

In the summer of 2005, I spent a number of weeks in an elementary school in Vancouver, while producing a radio documentary on democratic habits in Canada. A grade five class on the east side of Vancouver was making a special effort to master the art of citizenship. Day one of my visit began with a lively debate on the environmental costs and economic benefits of fish farms in British Columbia. Some children talked more than others; a few spoke eloquently while others struggled to make sense. But all spoke with passion and all listened with interest. **A change akin to the chemistry taking place in that class of nine-year-olds would do much to foster the more specific goals IISD advocates** in the name of sustainable development. It’s a change we seek when we communicate our work in a way that sparks a response, and then listen carefully to the reply.



“I WANT THE GUY NEXT TO ME AT THE COFFEE SHOP TO KNOW THAT CLIMATE CHANGE IS GOING TO AFFECT HIM AND HIS KIDS...”



“...WHEN WE TALK ABOUT SUSTAINABLE DEVELOPMENT, WE MUST THINK NOT OF A COUNTERMEASURE TO THE DAMAGE DONE, BUT OF THE CHARACTER OF OUR ERA.”



Wanhua Yang,
Senior Advisor
(China)

To me, it's clear that **there will be no sustainable development without development in the South; and sustainable development cannot be achieved without changes in production and consumption patterns in the North**, or without significant changes in the world economy and world system. I am very proud to work with a group of very dedicated people at IISD. Through working with our global and local partners, we contribute to sustainable development by influencing policy towards changes by governments and in the world system, we seek a better dialogue between North and South, and we share best sustainable development strategies, experience, practice and information worldwide.



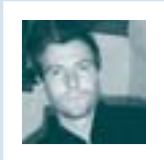
Carissa Wieler,
Project Officer

The change I seek in the world is similar to the change I seek in myself—that we become better at observing and listening before making complex and far-reaching decisions. Globally, our diverse planetary life conditions and value systems contribute to unique situations and challenges. Responses that appropriately address complex interactions and, at the same time, are simple to implement, are most needed. **These solutions are far from ready made, and I believe the turning point comes as we grow in conscious awareness—of the world around us and in us.** And this calls for observing, listening to and even embracing ourselves, each other and all life on our very dynamic and beautiful planet.



Maja Andjelkovic,
Associate

The twentieth century brought modernization, industrialization and inspiration to science, business, art and culture, but not without serious harm to the environment and billions of people. Today, everyone seems aware of the need to appropriately respond to these harmful developmental effects. Sustainable development is often considered to be such a response. **But when we talk about sustainable development, we must think not of a countermeasure to the damage done, but of the character of our era.** Our time should not simply be known as a post-industrial, or an information age. If we are to develop further scientifically, economically and culturally, we must move toward a time of sustainable and responsible development. Only then will our century and our millennium have a distinct character and an enduring purpose.



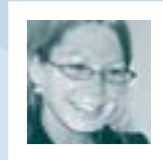
Chris Spence,
Deputy Director,
Reporting Services

The old adage, “knowledge is power,” has become so overused in recent years it has almost ceased to hold any meaning. Which is a shame, really, because it’s more relevant now than when Francis Bacon first penned it five centuries ago. **But in the modern age of “information overload,” “spin” and “hype”, it can often be hard to identify whether so-called “knowledge” is real, or just smoke and mirrors.** For the past 14 years, IISD’s Reporting Services has been on a mission to create transparency, openness and genuine understanding about key UN negotiations on environment and development. As the manager of its climate team and editor of its *Linkages* publication, I am committed to providing our 45,000 readers with the highest quality information and analysis. The people who read our reports are not just anyone. They are decision-makers and power brokers in governments, the private sector, academia, and intergovernmental and non-governmental organizations. Our reports inform these people. And with climate change now viewed as the greatest threat of the 21st century, real knowledge on this topic is crucial. We may not have visited the world’s “danger zones” or post-disaster areas lately, but the work we do to ensure that decision-makers have neutral, balanced, and independent information and analysis does make a difference. We inform and educate. And when it comes to a threat as terrifying as climate change, understanding is everything. Francis Bacon has never been so right.



Deborah Murphy,
Associate

Mahatma Gandhi is reputed to have said, “I must first become the change I seek in others.” And this is the change I seek in the world—a commitment to change at the individual level, which in turn can be a force for positive transformation at the societal level. It’s easy to opt for convenience over the more environmentally-friendly alternative; especially in Canada where life is easy and the “right” choice can involve time, effort and expense. **I can’t change the world—a sad realization gained over time—but I, and all individuals, can make change at the personal level and work toward increased community, national and global consciousness** of the environmental and societal effects of our actions and choices.



Michelle McLaren,
Project Officer

The change I seek around the world will take the awareness, belief and caring conscious choices of each individual. It will require the necessity of finding a balance between work and personal life. With peace of mind, we are healthier and better able to value the simple things and to appreciate our surroundings, which are made up of complex interdependent relationships both in nature and at home. This may lead to a greater willingness to decrease our footprint, promote equality and improve our environment by consuming less and conserving more. Those who influence change will need to acknowledge repercussions and make decisions with integrity, focusing on the benefits of sustaining the well-being of all things. **With each careful choice that we make we may be able to realize the changes that will save our world.**

“AND THIS IS THE CHANGE I SEEK IN THE WORLD—A COMMITMENT TO CHANGE AT THE INDIVIDUAL LEVEL...”

FROM THE PRESIDENT



This has been a turbulent year. Oil and other commodity prices appear set to stay at, or near, historic highs. International trade negotiations hit a major bump in Hong Kong and appear to be stalled. And the progress that was made at the climate talks in Montreal in late 2005 could only be described as a success because expectations were so low.

The special session of the United Nations last fall pointed out how far behind the world is in meeting the Millennium Development Goals. And the Millennium Ecosystem Assessment, published in 2005, illustrates the magnitude of the threats faced by the world's natural systems.

Faced with the enormity of these problems, what can a small institution like IISD do to make the world a better place? The answer is to think strategically.

More than 10 years ago, we chose to invest in making the international environmental negotiations process more transparent and more effective. You can see the results of these efforts in the section of this report outlining the accomplishments of

the Reporting Services team at IISD: 240 editions of the *Earth Negotiations Bulletin*; an audience of 45,000 readers of the *ENB* and other Reporting Services products; and the launch of a new service funded by South Africa—a developing country—to report on developments in Africa. We are also working with the Danish government to develop and promote suggestions to reform the international environmental governance system.

In our work on Trade and sustainability, we have long argued that the trading system is biased in favour of developed countries and that the trading system would not be able to promote sustainable development until more equitable agreements were reached. Our Global Subsidies Initiative will reveal the extent to which subsidies are creating an unlevel playing field for poorer countries and will make recommendations for improvement. Our *Model International Agreement on Investment for Sustainable Development* sets out the basis for a new relationship between investors and host governments. And the services we are providing to developing countries will help them in their negotiations with developed countries for fairer bilateral investment agreements.

Much has been written about the emergence of China and India on the world stage. We have been working closely with the Chinese government and with Chinese academic institutions to build China's capacity to develop trade policies that promote sustainable development. Our most recent project will articulate a sustainable trade policy for China's Ministry of

Commerce and will examine the environmental impacts of China's trade in certain sectors on the rest of the world.

As energy prices rise and science becomes even more certain about the impact of our activities on the global climate system, the need for decisive action on climate change becomes more urgent. No matter what one thinks of the Kyoto Protocol, it is at its best, a baby step on the road to serious emissions reductions. Our Climate Change and Energy team is working to develop new paths after Kyoto expires in 2012. They are working to integrate climate and energy issues more deeply into foreign policy and to integrate concerns for energy security into climate policy. And they are working to help developing countries adapt to the realities of a changing climate.

The Millennium Ecosystem Assessment pointed out that the world's drylands will be under increasing pressure from climate change and increased population. IISD's head office lies at the edge of the prairie drylands. Rising temperatures; and increasing demand for water from the energy industry, urban areas and agricultural intensification, combine with negative farm incomes to create a growing crisis of water management on the Great Plains. Our Sustainable Natural Resources Management team is developing new techniques for community management of natural resources through integrated water resources management and the valuation and purchase of ecosystem services from farmers.

Our Measurement and Assessment team is working to design better social indicators for Canada's rural areas and to develop robust techniques to measure the costs and

PROGRESS

INFORMATION

benefits of new agricultural practices. It is cautiously opening the door to a dialogue on sustainable development with the hermit kingdom—North Korea.

Many have pointed out that the distinguishing factor in sustainable development is its intergenerational aspects. We continue our program to involve Canada's youth in the solution of these global problems through our internship program, now in its tenth year, housed in our

Knowledge Communications program. We have worked with young people to involve them in the World Summit on the Information Society and its 2005 event in Tunis.

I remain convinced that we can make a difference. I remain skeptical about the ability of formal international institutions to make progress on these issues without a lively and critical mass of institutions such as IISD to do the applied research, to apply the pressure and

to make the process as open and transparent as it can be.



David Runnalls
President and Chief Executive Officer



FROM THE CHAIR

In June 2005, I was honoured to be appointed Chair of IISD. Since then, I have gained a deeper appreciation of the talent and dedication of the executive staff and my fellow Board members.

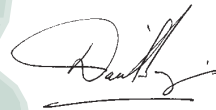
IISD has become a unique and important fixture on a crowded institutional landscape. There are many co-existing NGOs, civil society organizations and organizations who deal with stresses produced by demographic change, environmental degradation and social inequity. Into this mix IISD adds the realities of globalization and the challenges to our world resulting from conflict, religious intolerance and human exploitation.

IISD and its allies are making a difference by building capacity to advance the sustainability agenda; lending clarity and definition to the issues; and assessing pathways to addressing the challenges of trade and the environment, climate change and global warming. We also make a unique contribution by providing reporting services for a number of multilateral forums. I have personally witnessed what a valuable service IISD provides with the dedication of graduate students from different countries in covering these meetings for the *Earth Negotiations Bulletin*. Their effectiveness at the Montreal Conference of the Parties in December 2005 in recording and communicating the daily results of meetings was a *force majeure*.

I want to acknowledge the leadership of David Runnalls—an individual of intellectual integrity and a tireless advocate for IISD and its priorities. Also to my fellow Board members who have, to the last man and woman, impressed me with their individual passion and contributions. I extend my special thanks to Elizabeth May and my predecessor as Chair, Jacques Gérin, who retired from the IISD Board this year after years of enthusiastic service.

I would be remiss were I not to thank my Vice-Chair, Jim Carr, and the fundraising staff of Nancy Folliott and Sue Barkman for their particular contribution in successfully raising the funding to match the core funding provided by governments and agencies.

A job well done in achieving another successful year.



Daniel Gagnier
Chair of the Board



IISD BOARD OF DIRECTORS 2005 | 2006



Daniel Gagnier
Chair (Canada)



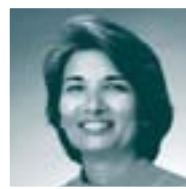
David Runnalls
President (Canada)



Stephanie Cairns
(Canada)



James Carr
(Canada)



Angela Cropper
(Trinidad & Tobago)



John Forgách
(Brazil)



Christian Friis Bach
(Denmark)



Jacques Gérin
(Canada) Retired June 2005



Chuck Hantho
(Canada)



Nicolas Imboden
(Switzerland)



Huguette Labelle
(Canada)



Laxanachantorn
Laohaphan
(Thailand)



Elizabeth May
(Canada) Retired June 2005



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Mark Moody-
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TEAM TRULY REFLECT A
DIVERSITY OF BACKGROUNDS,
TALENTS AND INTERESTS.
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Stephan Barg
Lori Beattie
Sue Bertrand
Oli Brown
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Damon Vis-Dunbar
Susan Weston

**Konrad von Moltke
passed away in May 2005.
A collection of tributes was
prepared in his honour
and is available at
[http://www.iisd.org/pdf/2006/
remembering_konrad.pdf](http://www.iisd.org/pdf/2006/remembering_konrad.pdf)*

IISD's Global Subsidies Initiative examines the impact of subsidies on sustainable development

It's an uncomfortable fact that cows in the EU earn more than millions of farmers in the developing world—a fact that makes plain the sheer levels of inequality that exist between countries. And, perhaps even more important, it is one explanation for why many poor countries are developing more slowly than they could be, or failing to develop altogether. It's partly a problem of subsidies.

One effect subsidies can have is overproduction. In the absence of subsidies, producers would do their best to gauge the market's appetite. Yet subsidies often create an incentive to produce more than this, even when the market cannot absorb the excess.

That excess is often sold overseas, cheaply, undermining local producers: a practice termed "dumping." In West Africa, for example, cheap beef and dairy products from the EU have seriously hindered the ability of local farmers to raise and sell beef at a profit—even as Western aid agencies are engaged in trying to encourage meat production in these countries.

This is just one instance of the negative impact government subsidies are having on the economy. Subsidies can also work to undermine the environment. Moreover, there is often very little transparency—and therefore little scrutiny and debate—in the way these billions of dollars of public funds are spent.

THE GSI – PROMOTING SUSTAINABILITY THROUGH SUBSIDY REFORM

Building upon IISD's earlier work on subsidies, the Global Subsidies Initiative (GSI) will be taking a

comprehensive approach to addressing the problem of harmful subsidies through wide-ranging research, and targeted communications and political outreach.

"Much of what we do at the GSI involves promoting greater transparency," says Research Director, Ronald Steenblik. "This is really our starting point. In many cases, data on subsidies are simply not made available by governments."

The second step is asking whether these subsidies are sustainable, either in terms of trade, the environment or public finance. If the answer is no, then the GSI will also ask how governments should go about reforming them. As such, the GSI's research will not sit on the shelf—it will be put into the hands of the public and policy-makers in order to effect real, tangible reform.

Subsidy reform can be immensely challenging. Subsidies quickly become viewed as entitlements, and get built into the assumptions farmers, fishers or industries make when investing in their businesses.

"While issues like corruption or the evasion of environmental regulations attract immediate and easy condemnation, the sheer ordinariness of handing over subsidies seems to blunt public concern about what's at stake," says Simon Upton, GSI Project Director. "But the environmental damage and

FEATURE :

TURNING THE SPOTLIGHT ON THE WEALTHY COW

By Damon Vis-Dunbar

lost development opportunities that subsidies can leave in their wake are too profound to be ignored. The Global Subsidies Initiative is all about turning a spotlight on the real damage subsidies can do."

"While there is huge potential to raise public awareness about harmful subsidies," says Javed Ahmad, GSI's Director of Communications, "the GSI's goal is to act as a fair broker of public information as well as a convener for balanced public debate."

A new GSI Web site will be inaugurated this summer, designed to reach a broad audience of experts, journalists and concerned citizens. The GSI is also re-launching the *Subsidy Watch* news bulletin. This monthly collection of news, commentary and research will keep an audience of experts and concerned citizens informed on the latest developments in policy and research on subsidies.

Meanwhile, an ongoing effort is being made to help journalists—both those familiar with the issue and those new to it—to report on harmful subsidies. The former will be provided with expert contacts and data. For the latter, the GSI is developing an international journalists' training program on how to understand subsidies and their effects, designed and taught by professional journalism instructors, and tailored both to geographic regions and levels of expertise. These

will help reporters from around the world tackle the issues, ask the right questions and uncover new stories.

INTERNATIONAL ACTION TO PROMOTE DOMESTIC CHANGE

The key to effective subsidy reform in favour of sustainable development is to match action at the international, multilateral level with coordinated effort at the domestic level. The GSI receives invaluable guidance and support from a 13-member high-level Advisory Group (see sidebar). These people are in tune with the political climates in their home countries, while enjoying respect and influence on the international stage.

The GSI also engages inter-governmental organizations in an effort to promote effective subsidy reform, particularly the World Trade Organization (WTO), which, with a membership of 149 countries, is the only global organization that



deals in the international rules that govern the use of subsidies.

In June 2006, the GSI and WTO co-hosted a successful workshop on what models can tell us about the welfare gains from liberalizing trade. As the WTO's Doha round of negotiations lumbers slowly towards a consensus on new rules for liberalizing trade, such as reductions

in tariffs, domestic support and export subsidies, there is significant debate over whether developing countries can expect to benefit from an agreement.

"The models provide answers to this question, but there is a lot of confusion and uncertainty about what those answers are," says Steenblik. "By bringing together the world's top modellers and trade negotiators, we hoped to bring some clarity to the debate."

Notably, this meeting of modellers marked the first time the WTO has co-hosted a workshop with a non-governmental organization.



Given its mandate to act as an honest broker, bringing together diverse



strands of research, political persuasion and public opinion, the Global Subsidies Initiative hopes to build the critical mass of consensus needed for

widespread reforms to subsidy regimes across economic sectors, political spectrums and geographic areas.

For more information, see <http://www.iisd.org/subsidies/>

Damon Vis-Dunbar is the Communications Assistant for IISD's Global Subsidies Initiative.



HIGH-LEVEL ADVISORY GROUP: IISD'S GLOBAL SUBSIDIES INITIATIVE

Dr. Isher Judge Ahluwalia

Chair of Board of Trustees of the International Food Policy Research Institute

Ambassador Nobutoshi Akae

Former Japanese Ambassador to WTO; Chairman of the ASEAN-JAPAN Centre

Dr. Kwesi Botchwey

Executive Chairman of the Africa Development Policy Ownership Initiative; Former Minister of Finance, Ghana

Dr. Rebeca Grynspan

Director of the United Nations Development Programme's Regional Bureau of Latin America and the Caribbean; Former Second Vice-President of Costa Rica

H.E. Mats Hellström

Governor of Stockholm Province; Chair of the Swedish Institute for European Policy Studies; Former Minister of Trade, Sweden

Dr. Prof. Celso Lafer

University of São Paulo; Former Minister of Foreign Affairs, Brazil

Dr. Norman Myers

Scientist-Economist, University of Oxford, U.K.

Dr. Sylvia Ostry

Distinguished Research Fellow, Munk Centre for International Studies, University of Toronto

Dr. Ismail Serageldin

Director General of Bibliotheca Alexandrina; Former Vice-President of the World Bank for Environmentally and Socially Sustainable Development

Prof. Dr. Dr. h.c. Horst Siebert

AGIP Professor at the Johns Hopkins University Centre in Bologna; President Emeritus of the Kiel Institute; Member of the EU Council of Economic Advisers

The Honourable Paula Stern

Former Chair of the U.S. International Trade Commission

Rt. Honourable Simon Upton (Project Director)

Chair of the Round Table on Sustainable Development at the OECD; Former Minister of Environment, New Zealand

H.E. Minister Gerrit Zalm

Netherlands Minister of Finance

REFORM

“...THE ENVIRONMENTAL DAMAGE AND LOST DEVELOPMENT OPPORTUNITIES THAT SUBSIDIES CAN LEAVE IN THEIR WAKE ARE TOO PROFOUND TO BE IGNORED.”

A YOUTHFUL PERSPECTIVE ON GOVERNANCE

By Alanna Mitchell, IISD Associate

IISD program promotes effective governance with the help of young Canadians



IISD sent Monica Dominguez (left) and Michelle French to Asia and Europe to look at governance from a fresh, electronic perspective.



Monica Dominguez moved to India last year, worked in Bhutan and then fell passionately in love with the Canadian civil service.

Dominguez, 27, who has a Masters of Public Administration from the Universities of Winnipeg and Manitoba, was part of IISD's Emerging Leaders for Governance (ELG) program this year. The program is designed to export the enthusiasm of Canada's young people to developing countries to help those countries build better systems of governance.

Dominguez was in Canada last summer working in an unfulfilling job when she heard about the ELG program through a listserv of the World University Service of Canada.

She was intrigued by the thought of having a new experience and applied, signing on for a six-month stint of service overseas. Part of her job was to

help the Royal Government of Bhutan foster access to government services among the poor and rural.

Still, Dominguez wasn't prepared for what she found in Bhutan.

The tiny mountain kingdom to the northeast of India had only recently opened its borders to television and the Internet. Dominguez, who has a long-term interest in how citizens and their governments connect with each other, hadn't realized how little access to government information many citizens in some isolated countries have.

Her experience in Bhutan opened her eyes.

"In Canada, I personally, am a middle-class woman who is educated, and can get information very quickly

about government and business," she says. "I didn't see where there was a gap for others. But in Bhutan, I did understand some of the differences."

As part of her job, Dominguez set up a wiki, or interactive Web site. She designed it to create better relationships between Canada's International Development Research Centre (IDRC), which was doing work in the country, and the Royal Government of Bhutan. (See http://www.dit.gov.bt/idrcwiki/index.php/Main_Page)

Dominguez would have stayed in India long-term had family matters not prompted her to return to Canada in March. But her experience in India and Bhutan has made her long to work in the Canadian civil service, and to help all people get access to such necessities as health care.

“WORKING WITH THE GOVERNMENT IN BHUTAN WAS COMPLETELY EXHILARATING FOR ME. THE WORK WAS JUST SO ENCOURAGING.”

As a result, in May 2006 she started a three-year internship with the Manitoba government, where she will rotate through departments so she can come to understand how each one works. She's particularly interested in Manitoba's north.

“Working with the government in Bhutan was completely exhilarating for me,” she says. “The work was just so encouraging.”

Michelle French, 27, learned a great deal about herself last year, too.

Another participant in the ELG program, French took a post at the Regional Environmental Center for Central and Eastern Europe in Szentendre, just north of Budapest, Hungary.

The Center was established in 1990 by the United States, the European Commission and Hungary. It is designed to help solve environmental problems in Central and Eastern Europe by supporting the free exchange of information and public participation in decisions about the environment.

French's revelation came when she realized the disparity in standard of living among European countries. The 25 members of the European Union are doing well. But those not yet part of the union—many of which are in the east—are struggling with poverty and want.

“There's a shocking difference,” says French, who has a Master's degree in journalism from Carleton University. “The divide is still there. People in the east feel shut out of Europe. There's the sense of a bruised ego.”

French became impassioned about encouraging people to participate, whether through getting information on such issues as waste, water pollution and environmental sustainability or through access to those making the decisions.

It also made her determined to stay informed about her own country.

“I came to realize how important it is to me to be politically active,” she says.

While she doesn't rule out working abroad again to share her experience, she's decided to apply her talents to her home country.

“People here need help,” she says, pointing to such issues as rising greenhouse gas concentrations, the loss of species, the problems of waste and recycling. “It's important that we try to figure out how best to use our resources in a way that doesn't overexploit them.”

Since she got back from Hungary in March, she's been devouring newspapers and applying for jobs. She's decided to take a short-term contract in Corner Brook, Newfoundland, with CBC Radio.

Moving to a small town in Newfoundland doesn't faze her after having lived in Hungary for the six months of her internship.

“It was a really challenging experience,” she says. “It matures you in terms of what you are capable of dealing with.”

The ELG program is supported through Canada Corps, a program of the Canadian government managed by the Canadian International Development Agency.

Each leader must be a citizen or permanent resident of Canada between the ages of 19 and 40. Each must be keen to experience new cultures and be interested in electronic governance issues. Each post lasts for six months.

The program is one of several IISD programs aimed at encouraging the next generation of Canadian talent in the field of sustainable development. Over the past several years, IISD programs have sent more than 300 highly educated young Canadians into the international arena, many of whom now have leading positions in the field.

IISD's youth programs are aimed at nurturing a new generation of sustainable development leaders. IISD seeks to foster key talents including the ability to innovate, collaborate and communicate.

International demand is high for leaders in sustainable development with these skills. IISD has pledged to make sure that Canada's new generation of leaders in sustainable development will be highly skilled and effective as they participate in policy- and decision-making.

FOR MORE INFORMATION ON IISD'S INTERNSHIP PROGRAMMING, FOLLOW THE LINKS:

Emerging Leaders for Governance
<http://www.iisd.org/leaders/elg/>

Young Canadian Leaders for a Sustainable Future
<http://www.iisd.org/interns/>

The Circumpolar Young Leaders Program
<http://www.iisd.org/interns/arctic/>

TRANSFORMATION

IISD'S YOUTH PROGRAMS ARE AIMED AT NURTURING A NEW GENERATION OF SUSTAINABLE DEVELOPMENT LEADERS.

VALUING AND VALUATING THE ESSENTIALS OF LIFE

By Stephan Barg (Sr. Corporate Advisor and Sr. Project Manager) and Henry David Venema (Director, Sustainable Natural Resources Management)

How do we place a dollar value on clean air, pure water and other essential sources of life provided by our ecosystem? And why should we?

LEVERAGE

Humanity depends on the availability of ecological goods and services. The air we breathe, the food and water that build and sustain us are all produced by ecosystems at various scales—from local to global.

We can break down the various aspects of ecological goods and services into four categories, following a model used in the Millennium Ecosystem Assessment:

- **supporting services** (nutrient recycling, soil formation and primary production);
- **provisioning services** (food, freshwater, wood and fibre, and fuel);
- **regulating services** (climate regulation, flood regulation, disease regulation, and water purification); and
- **cultural services** (aesthetic, spiritual, educational and recreational).

While there are methodological, technical and indeed philosophical debates regarding the definition, it captures an essential truth: humanity derives essential value from the ecosystem, and that value is not often calculated or understood economically.

But how can we put a dollar value on the essentials of life? In some sense, their value is infinite, because we depend on them for life itself. But in another sense, it is very useful to try to calculate the value of changes in the mix or quality of ecological goods and services. That is, a small or marginal change in the quality or quantity of the good or service, has a cost or a benefit that can be calculated, at least in principle.

For example, if the air becomes polluted, people suffer from asthma attacks. There are costs to the individual, in terms of health and comfort, and there are also costs to the health care system, in terms of hospital admissions, medications and so on. In addition to the human health costs, there may be environmental damage to crops or

forests, which can also have significant costs. On the other hand, if air quality is improved, there are commensurate benefits. And while our estimates of the value of ecological goods and services are always partial, it's clear that it makes more economic sense to maintain pristine watersheds than to rely on expensive capital infrastructure and technology to provide us with clean water.

Appreciating the value of ecological goods and services is important because many decisions are made largely on the basis of economics, and if there are no economic data on environmental issues, then the issues get left out of the decision.

There has been a recent strengthening of the trend supporting valuation of ecological goods and services. One of IISD's Board members, Angela Cropper, served as Co-chair of the Assessment Panel of the Millennium Ecosystem Assessment, which has driven the debate. It has examined ecosystem services, and developed a framework for analyzing them at all levels. By clarifying the links between the ecosystem and human well-being, the Millennium Ecosystem Assessment also clarifies the methods by which economic valuation figures can be used in decision-making.

In Canada, a recent conference on ecological goods and services in agriculture focused on the valuation of the services provided by the ecosystem, and how agriculture may affect them. Manitoba is home to a unique pilot study, the *Alternative Land Use Services* program, that rewards farmers for providing ecosystem services—for the wildlife habitat they maintain, for their restraint of water erosion, for the beauty they bring to the Canadian landscape. There are other experiments with payment systems under way in Australia, which may serve as useful models for Canada to consider.

IISD welcomes renewed policy interest in the essential truth that human well-being is dependent on well-functioning ecosystems—and that

the financial value of ecological goods and services needs to enter our understanding of the economy and how to manage it. IISD is rapidly developing a broad research program in Ecological Goods and Services Valuation and the closely related concept of Natural Capital, with a particular focus on prairie agricultural and water resources, watershed management, and the economic costs and benefits of changes in farming practices.



Some sample values:

- According to a study by IISD Associate Mark Anielski, the annual non-market value of ecosystem services provided by Canada's boreal ecosystem is about CDN\$93 billion (2002 dollars), which was about eight per cent of Canada's 2002 GDP—but this value is not counted as part of Canada's GDP. The most important constituents of the valuation were flood control and water filtering by peat lands (\$77 billion), and pest control by birds (\$5.4 billion).
- Professor Nancy Olewiler of Simon Fraser University estimates the ecosystem values of example natural areas at \$22,832 for a hectare of estuary; \$8,498 for a hectare of lake or river; \$2,007 for a hectare of temperate or boreal forest; and \$232 for a hectare of grass or range lands.
- In a 1997 article in *Nature*, Robert Costanza and co-authors estimate that the combined value of selected ecosystem services is at least US\$33 trillion per year globally.

MEASURING OUR OWN PERFORMANCE

By Marlene Roy, Team Leader, Internal Sustainable Development Assessment and Reporting

A sustainable development institute must act sustainably

Five years ago, we set out to monitor, assess and report on our progress toward achieving sustainable development in our operations. Knowing that we had much to learn, we modestly chose four indicators in our first year. Over time we added more, resulting in 10 indicators across economic, environmental and social dimensions. We ambitiously set 34 targets in our first four reports: 16 for environmental measures; five for economic measures; and 13 for social measures. A look back over the past five years shows that we achieved almost half of these targets; and made notable progress on an additional 11.

One of our successes has been the establishment of an internal carbon

emissions tracking system and purchase of carbon offsets (see Table 1). This initiative has propelled others such as working with like-minded organizations to pool our emissions with theirs, resulting in larger offset purchases and hence a greater investment in sustainable development.

Several targets for the social dimension were also achieved. Notable is the launch of the Training and Development Fund, an investment in our human capital. Over three years this fund has disbursed over \$53,000.00 to 54 employees.

Some targets remain elusive, though. Two stand out. First are those related to tracking innovation, an indirect economic indicator. The indicators we

initially developed were not telling us what we needed to know to make better management decisions, and they are currently being re-worked.

The second target relates to gender equity. In this case the indicators are fine, but actually achieving targets is an ongoing challenge given that we are a fairly small organization with little staff turn-over. We have, however, made some progress in closing the gender gap for research and Reporting Services staff and the Board of Directors (see Table 2).

Overall we have made progress in the past five years. Our initial efforts focused on relatively easy targets to identify and achieve. Since then, we have moved into more difficult terrain as we tackle less tangible indicators such as level of innovation. But more important, by monitoring progress and setting targets we have been able to provide direction that has positively affected IISD's operations.

Our complete 2005–2006 sustainability report is available at <http://www.iisd.org/about/sdreporting/>

Reporting Year	Total CO ₂ emissions (metric tons)	Offset
2002/03	375	Yes
2003/04	980	Yes
2004/05	1,105	Being finalized
2005/06	1,031	Being finalized

	2002/03		2003/04		2004/05		2005/06	
Overall	53%	47%	48%	52%	47%	53%	53%	47%
Administrative, Accounting and Technical Services	78%	22%	78%	22%	77%	23%	78%	22%
Research and Reporting Services	41%	59%	35%	65%	37%	63%	51%	49%
Corporate Management and Program Directors	22%	78%	22%	78%	20%	80%	20%	80%
Board of Directors	n/a	n/a	38%	62%	35%	65%	42%	58%

Female	Male
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TRADE AND INVESTMENT

Director, Mark Halle

PARTICIPATION

Responding to a longstanding concern with government subsidies that undermine sustainable development, IISD launched the Global Subsidies Initiative (GSI) in 2005. **Meeting in Hong Kong last December, the GSI Secretariat and its High-level Advisory Group approved an ambitious program of research, communications and political outreach.** A major initial GSI effort is focusing on subsidies to domestic production of liquid biofuels. Promoting these as cleaner, more secure alternatives to gasoline and petroleum diesel, some industrialized countries are using subsidies and import barriers to ensure that most biofuels are produced from domestically grown crops. Consequently, exports of bio-ethanol and bio-diesel from lower-cost developing countries have been reduced to a trickle. See our feature story on page 10, and visit <http://www.iisd.org/subsidies/>

Launched in 2002, the Sustainable Commodity Initiative (SCI) is designed to **improve the social, environmental and economic sustainability of commodities production and trade by promoting global strategies, sector by sector.** Work began in the coffee sector, with the formation of the Sustainable Coffee Partnership. In 2005, the SCI's work included the following: researching the costs of making the transition to sustainable practice in selected growing regions; helping to establish the "Financing Alliance for Sustainable Trade," an association of financial service providers committed to sustainable production and trade; and facilitating dialogue among stakeholders on the integration of sustainability objectives within the International Coffee Agreement. See http://www.iisd.org/trade/commodities/sci_coffee_partnership.asp

One of the central objectives of the Convention on Biological Diversity is to regulate both the access to genetic resources and to ensure that the benefits from the use of these resources are equitably distributed. The details of how this is to be achieved, however, have always proved elusive and controversial. The Access and Benefit Sharing Management Tool project promotes the use of the Tool among a broad set of stakeholders to create opportunities and a model for sharing benefits

between biodiversity providers and users. **Our ultimate goal is to ensure that the commercial use of genetic resources, and other biodiversity products, results in economic benefits for local communities and natural areas from where these resources are extracted.** The Tool is available in Spanish, French and English. The ABS team has been working with industry and stakeholders in field testing and refining the ABS tool. The results of these tests and revision of the tool will be presented in autumn of 2006. See <http://www.iisd.org/abs/>

Since 2000, a joint project between IISD and IUCN – The World Conservation Union has **focused on the ways in which trade in natural resources can contribute to violent conflict and on the role of foreign aid in accelerating or alleviating this downward spiral.** Our recent research has investigated the options available to domestic and international policy-makers. This work was distilled into six policy briefs which we launched at the December 2005 Hong Kong meeting of the WTO. We have since presented our recommendations to influential audiences including the U.K. and European parliaments, the Canadian Ministry of Foreign Affairs and the OECD. At the end of 2006 we plan to collate our research into a book titled, *Aiding, Trading or Abetting? The Future of Trade, Aid and Security.* Read the policy briefs at http://www.iisd.org/security/tas/research_ko.asp

A project made possible by IISD's Innovation Fund explored the security implications of China's environmental challenges. A workshop of experts in Winnipeg examined the dimensions of the problem. Their discussions were developed into a paper that analyzed the impact of China's growth on local,

regional and global stability with reference to four key resources: energy, water, air and forests. The paper raises important questions: **How will China secure the resources it requires if it is to fulfil its ambition of becoming the world's leading trading power? Can tensions be reduced between China and its neighbours through cooperation over shared resources and environmental concerns?** And what, if anything, should the international community do to promote better environmental management in China? Read the paper at http://www.iisd.org/pdf/2006/tas_growing_risk.pdf

IISD is in the process of renewing an agreement with the Swiss Agency for Development and Cooperation (SDC) to provide "backstopping" services on trade and investment. This is a kind of

standing contract that covers IISD's costs in responding to periodic calls for advice and service provision to SDC on a range of trade issues and, since the last contract period, for investment issues as well. The services include participating in internal meetings (and even participating with SDC and as part of their team in external meetings); **training courses; briefing papers; policy analyses; commentary on Swiss policy positions or drafts; and regular contact and dialogue.** The relationship has brought us close to one of our key funding sources.

But it has also proved useful in helping SDC understand the whys and wherefores of our own priorities, leaving them more inclined to provide support for these. The new two-year agreement is the third, and comes in at a record level. It is fair to say that we have become privileged partners of SDC in this important policy area.

In April 2005, IISD launched its *Model International Agreement on Investment for Sustainable Development* at the home of the Commonwealth Secretariat in London, England. Since then, the Model Agreement has led to a joint meeting in July 2005 of the Commonwealth and Francophonie in Paris to consider the relevance of the Model Agreement to the European Community negotiations with the developing countries of the Commonwealth and Francophonie under the Cotonou Agreement.

(Continued on page 18)





TRADE AND INVESTMENT

(CONTINUED)

The Model has now, in fact, moved to the heart of at least three of those negotiations as they relate to investment, and meetings are still scheduled with other regional groups. **IISD legal associates have become direct advisors to the developing country regions in this context.** In addition, the Model Agreement has achieved significant impacts in the NGO community, particularly in Europe where it has been seized upon by a range of organizations to lobby individual governments (U.K., Germany, Switzerland and others) as well as organizations like the OECD as it relates to investment law and policy. It was the subject of presentations by IISD staff and associates in Washington, Geneva, Amsterdam, Mexico City, Rio de Janeiro, Brisbane, Jamaica, London and others, culminating with it being part of the discourse in two panels at the American Society of International Law's 100th anniversary meeting in March 2006. The Model Agreement has in many ways already achieved its objective: it has re-fashioned debate from a reactive view against all investment negotiations towards the IISD view of the need for a balanced set of investor and state obligations working towards making investments a positive contribution to sustainable development in developing countries.

Five years ago, IISD began publishing *Investment Treaty News* (formerly *INVEST-SD: the Investment Law and Policy News Bulletin*). Since then, the newsletter has established itself as a leading chronicler of the rapidly-evolving legal regimes that govern foreign direct investment. ITN specializes in tracking the negotiation of international investment treaties and investor-state disputes. Thousands of these treaties have been negotiated with little transparency, despite significant public policy implications. **While a small number of investment**

treaty disputes grab the headlines, the vast majority goes under the public radar. ITN works to bring these cases to light, through rigorous, investigative journalism. Its impartial and timely reporting has become an indispensable resource for a diverse and fast-growing audience of NGOs, lawyers and policy-makers. See <http://www.iisd.org/investment/itn/>

ENVIRONMENT

IISD GRATEFULLY ACKNOWLEDGES THE GENEROSITY OF THE FOLLOWING SUPPORTERS OF OUR WORK IN TRADE AND INVESTMENT IN 2005–2006:

China Council for International Cooperation on Environment and Development > Commonwealth Secretariat > Department of Foreign Affairs and International Trade > Eco-Accord > Friedrich Ebert Stiftung > Health Canada > Industry Canada > International Development Research Centre > Mott Foundation > Netherlands: Ministry of Finance > Netherlands: Ministry of Housing > New Zealand: Ministry of Foreign Affairs and Trade > Norway: Ministry of Foreign Affairs > Norwegian Agency for Development Cooperation > Organisation for Economic Cooperation and Development > Oxfam America Inc. > Rockefeller Foundation > Royal Danish Ministry of Foreign Affairs > Sustainable Development Policy Institute > Sweden: Ministry of Environment > Swedish International Development Agency > Swiss Agency for Development and Cooperation > Switzerland: Agency for the Environment, Forests and Landscape > Switzerland: State Secretariat for Economic Affairs > United Nations Conference on Trade and Development > United Nations Development Programme > United Nations Environment Programme > United Nations Office for Project Services > United States Agency for International Development > Worldwatch Institute



ECONOMIC POLICY

Director, Anantha Kumar Duraiappah*

ENGAGEMENT

Two global initiatives that started in 2000 each resulted in a progress report that was published in 2005. One, the Millennium Ecosystem Assessment, found that 60 per cent of ecosystem services assessed were being degraded. The other, the Millennium Development Goals report, found that even though progress had been made, several of the poorest countries may not meet many of their goals by 2015. Even though both reports provided important information to guide government planning, more is needed. Hence, IISD took on two of the many challenges facing decision-makers. **One was to link multilateral environmental agreements to development efforts; the other was to provide disaggregated information on ecosystem services and human well-being that can be used by policy-makers to design better interventions.**

- A method to measure the degree of policy coherence among multilateral environmental agreements as well as coherence among MEAs and the Millennium Development Goals (MDGs) was developed. **First, coherence among five MEAs, namely the Convention on Biological Diversity; Convention to Combat Desertification; Ramsar Convention on Wetlands; Convention on International Trade in Endangered Species; and the United Nations Framework Convention on Climate Change, was measured.** This was followed by a second analysis which measured coherence among these same MEAs and the MDGs. Specifically, this exercise assessed the degree to which each agreement takes account of the others. Two papers describing the method and analysis will be published in 2006.

- A prototype Poverty-Ecosystem Report (PER) was developed under a grant from the IISD Innovation Fund. The report links poverty to ecosystem services at the national level and assesses whether human and ecosystem services have improved, declined or stayed the same over 10 years. A similar trend analysis was done for biodiversity in country eco-regions for the same time period. PER is more than a progress report, though. It also identifies country-level, key human-ecosystem interactions (drivers) and then evaluates policy interventions listed in the country's poverty reduction strategy paper to determine their possible effectiveness in changing the drivers so that poverty is alleviated and ecosystem services improved. The prototype Poverty-Ecosystem Report will be published in 2006.

Dr. Anantha Duraiappah, former Director of the Economic Policy program, wrote a concept note for and attended the high-level brainstorming workshop "Creating Pro-Poor Markets for Ecosystem Services," which was held October 10–12, 2005. **The workshop considered the opportunities and possible perverse effects, especially in the form of exclusion of the poor, resulting from the creation of markets for ecosystem services.** The note provides some background information on the concept of markets for ecosystem services and on work undertaken in this field at the international level. It also raises some key questions regarding the desirability and feasibility of markets for ecosystem services.

**Anantha Duraiappah left IISD in January 2006. A successor has not yet been named.*

IISD GRATEFULLY ACKNOWLEDGES THE GENEROSITY OF THE FOLLOWING SUPPORTERS OF OUR WORK IN ECONOMIC POLICY IN 2005–2006:

Shastri Indo-Canadian Institute > United Nations Environment Programme > Winslow Foundation

IMPACT



SUSTAINABLE NATURAL RESOURCES MANAGEMENT

Director, Henry David Venema

The goal of IISD's SNRM program is building resilient socio-ecological systems in the midst of pervasive change and uncertainty. Climate change and peak oil impacts are major sources of uncertainty that will affect all aspects of modern natural resources management. IISD believes that adaptive management builds ecosystems resilient to shock and stress. Adaptive management views each management action as an opportunity to further learn how to adapt to changing circumstances—learning by judicious doing. **IISD is committed to the research, dissemination and application of adaptive ecosystem management policies, tools and techniques that build community-level resilience.**

The loss of ecosystem services through improper valuation, incentives and misuse, conflict or disaster is a major source of human insecurity. Also, post-conflict and post-disaster reconstruction are among the critical opportunities for establishing ecosystem management policies that build resilience and improve security.

The SNRM program's current projects focus on Western Canadian water and agriculture. **The Prairie Water Policy Symposium, held in September 2005 in Winnipeg, convened 100 water experts to discuss IISD's research on the cumulative stressors on prairie water and the capacity to manage adaptively.** Following the symposium, IISD produced an invited synthesis to the OECD reviewing agricultural water policies on the prairies; the Manitoba Department of Water Stewardship requested that IISD lead a long-range water resources management strategy for the province based on the twin pillars of water and energy efficiency; and SNRM Director Hank Venema was

asked to teach a Water Resources Planning and Management course at the University of Manitoba. IISD is now pursuing policy research on the conjunction of Payment for Ecological Goods and Services, and Integrated Water Resources Management in the Canadian prairie context. (See feature story on page 14).

Adaptation as Resilience-building, a policy study of climate change vulnerability and adaptation on the Canadian prairies, reflects IISD's concern with the resilience of agro-ecological systems, their varied adaptive capacity, and the underlying policies that promote or impede adaptive capacity to, in this case, historical climate variability. Partners in this project are the Natural Resources Institute at the University of Manitoba, and the Prairie Farm Rehabilitation Administration. See <http://www.iisd.org/climate/canada/prairies.asp>

IISD is involved in a community-based natural resource management initiative with First Nations and provincial governments in Manitoba and Ontario. IISD is assisting in developing a proposal for UNESCO World Heritage Site recognition for a 45,000 sq km cultural landscape located in a pristine section of boreal forest straddling the Manitoba-Ontario border on the east side of Lake Winnipeg. The proposal is being developed by a very innovative partnership between five First Nations and the provinces of Manitoba and Ontario. This is a unique opportunity to combine environmental stewardship with community-based resource management creating sustainable livelihoods in aboriginal communities

and allowing the continuance of an intact cultural landscape that has existed for thousands of years. Assessments by Parks Canada and IUCN – The World Conservation Union have concluded that the site contains significant cultural and natural heritage features, and Parks Canada has included the proposed site on its tentative list for nomination. IISD has been acting as secretariat to the "Assembly," which is the decision-making body in which all partners are represented.

Lake Winnipeg, one of the largest freshwater lakes in the world, is experiencing pollution stresses from nutrient loadings within its enormous drainage area. **IISD, in collaboration with the University of Manitoba and Ducks Unlimited, has explored the revitalization of the Netley-Libau Marsh, a large, biodiverse, but threatened wetlands complex on the southern edge of Lake Winnipeg.** An ecosystem approach to re-developing these wetlands could improve biodiversity, reduce nutrient loads on Lake Winnipeg and provide economic co-benefits through bio-energy production. IISD's recommendation that this concept be considered was subsequently adopted by the Lake Winnipeg Stewardship Board in its interim report to the Manitoba government. Consistent with IISD's mission of engaging the next generation of sustainable development leaders, the SNRM program, in partnership with the Natural Sciences and Engineering Research Council of Canada (NSERC), will co-fund a doctoral student at the University of Manitoba through an NSERC Industrial Postgraduate Scholarship.

Applications of the tools and methodologies being developed by the SNRM program extend well beyond the Canadian prairies. For example, the

methodological principles developed in “Adaptation as Resilience-building” are also being applied in a new four-year project being undertaken in collaboration with IISD’s Climate Change and Energy team and funded by Canada’s International Development Research Centre (IDRC). **Through the project, Adaptive Policy-making: Linking Climate Change, Agriculture and Water Resources, we are conducting comparative case studies in Canada and India** to examine policies promoting or impeding adaptive water resources and agricultural management in areas that are historically highly exposed to climate variability.

Our international work also emphasizes building community-scale resilience to environmental stressors such as climate change and natural hazards. The uniquely tragic events of the 2004 Asian tsunami spurred members of IISD’s SNRM team to undertake **an Innovation Fund project—Natural Disasters and Resource Rights: Building Resilience, Rebuilding Lives**—which examined the role of resource rights (such as ownership of land, and access to sea and forest products) in community resilience to natural disasters and the effectiveness of post-disaster re-construction. The team investigated the role of resource rights in natural disasters over the past 15 years; including hurricanes Mitch, Jeanne and Katrina; landslides in Haiti; volcanic eruptions in the Philippines; the Gujarat and Bam earthquakes; and the Asian tsunami, observing that when

resource rights are clearly defined, equitable and verifiable, poor and marginalized communities are better equipped to survive disasters and recover after them. Our subsequent work has therefore focused on a survey of how humanitarian agencies currently address land tenure and land-use issues in the aftermath of disasters.

Conflict-riven areas of the world also present unique opportunities for building resilience to future stress. Research has also shown that environmental issues provide an opening for cooperation over shared interests, reducing tensions between conflicting parties. IISD is interested in analyzing these links in Africa’s Albertine Rift, a region extending through Uganda, Rwanda, the Democratic Republic of Congo, Burundi and Tanzania, endowed with rich biodiversity and beset by some of the worst violent conflicts in recent history. **In September 2005, IISD was awarded a grant from the MacArthur Foundation to systematically examine how conservation activities contribute to peace and conflict in the Albertine Rift**, and use this information to help conservation actors integrate conflict sensitivity into project planning and implementation. An inception meeting held in Nairobi in February 2006 had excellent representation from the East African conservation community.

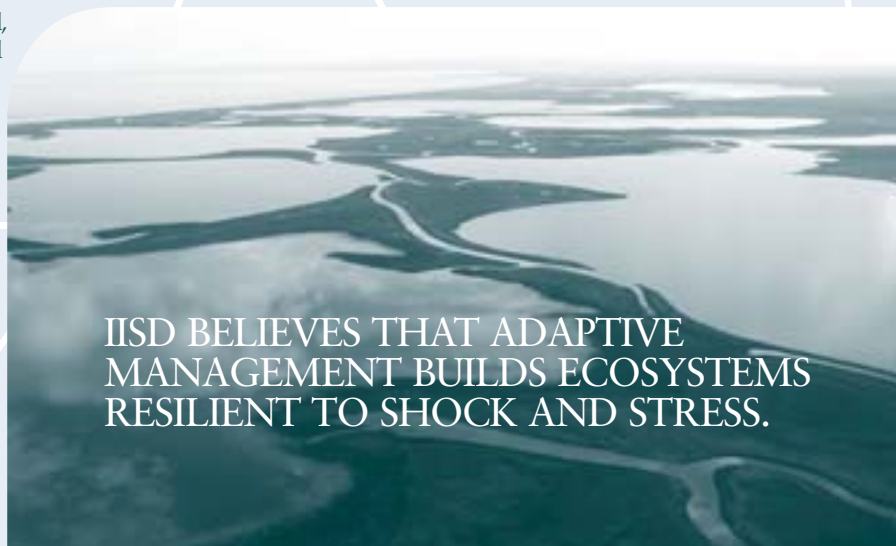
Sudan is a fascinating case that reveals the linkages between environmental stressors—like climate change, resource competition and conflict emergence—and the role of community-based natural resources management for building resilience to future stress. Sudan has been in a state of civil war for much of the period since independence in 1956. While the conflicts are rooted in a complex array of identity issues, natural resources have also played a prominent role in triggering and prolonging these civil wars. Since the late 1970s, local competition for land and water resources exacerbated by apparent climate change (manifest as increased drought frequency) has fuelled the

conflict. Supported by an Innovation Fund grant, **IISD is examining the links between environment and security in Sudan, and how they will be affected by climate change.** An inception meeting in Cairo in March 2006 convened representatives from the Center for Unconventional Security Affairs at the University of California, Irvine; Stockholm Environment Institute – Boston Center; the Middle East and North Africa regional office of IDRC; and several Sudanese researchers. IISD is devising a research program that will generate empirical evidence linking climate change-induced natural resource stress with conflict and a raft of major policy implications for community-based natural resources management and global environmental change policy.

IISD GRATEFULLY ACKNOWLEDGES THE GENEROSITY OF THE FOLLOWING SUPPORTERS OF OUR WORK IN SUSTAINABLE NATURAL RESOURCES MANAGEMENT IN 2005–2006:

Agriculture and Agri-Food Canada > Environment Canada > Friends of the Earth Canada > International Development Research Centre > MacArthur Foundation > Manitoba Hydro > Organisation for Economic Co-operation and Development > Parks Canada > Province of Manitoba > Province of Ontario > Shell Canada > Suncor Energy Inc. > Swedish International Development Agency > Swiss Agency for Development and Cooperation > University of Guelph > University of Regina > Western Economic Diversification > Winslow Foundation > The World Conservation Union (IUCN) > World Economic Forum > World Wildlife Fund (International Gorilla Conservation Programme)

CONSERVATION



IISD BELIEVES THAT ADAPTIVE MANAGEMENT BUILDS ECOSYSTEMS RESILIENT TO SHOCK AND STRESS.



INFASA participants gather in Bern to discuss agricultural indicators

MEASUREMENT AND ASSESSMENT

Director, László Pintér

IISD has been working with North Korea's Environment Ministry to build the country's capacity for advancing sustainable development. In November 2005, IISD arranged a 10-day workshop and study tour in Beijing with help from the Chinese Society for Environmental Sciences and funding from Canada's International Development Research Centre. It focused on: monitoring and reporting on environmental conditions; establishing sustainable development strategies; and strengthening knowledge transfer among Canada, China and North Korea. Further capacity development projects are in the works to address climate change; economic instruments for environmental management; measurement and assessment; renewable energy; and international cooperation.

When farmers change their practices, there are environmental effects, such as more or less soil erosion, more or less carbon emitted into the atmosphere, and more or less energy use. **Is it possible to calculate the economic costs or benefits associated with those changes?**

IISD has been working with Agriculture and Agri-Food Canada, a federal government department, to answer these questions. We are using the same general method we used to calculate the economic costs of health damage due to air pollution, but the agricultural issues require new approaches. In 2005–2006 (year three of a five-year project), we developed a framework for valuation on a farm or small watershed basis. In the following years we will be implementing the framework and developing ways to apply it to larger areas.

Since the early 1990s, the United Nations Commission for Sustainable Development has played an important role in trying to coordinate indicator development and integration into policy mechanisms. In preparation for a November 2005 expert workshop, the UN Division for Sustainable Development commissioned IISD's László Pintér to prepare a review of sustainable development indicator trends; a retrospective on the role of the CSD's indicator work; and the potential for the emergence of a common indicator framework. **The Indicators for Sustainable Development:**

Proposals for the Way Forward report also outlined five alternative scenarios for the way the field of sustainable development indicators and measurement may unfold in the future. See http://www.iisd.org/measure/principles/way_forward.asp

More strategic introduction of measurement and assessment tools into everyday agricultural practice has significant potential for turning the global agriculture sector toward sustainable development. This simple yet powerful hypothesis served as the starting point for the first symposium of the International Forum on Assessing Sustainability in Agriculture (INFASA). Jointly organized by IISD and the Swiss Agriculture College in Bern in March 2006, the symposium brought together researchers, policy-makers and farmers to discuss the design, use and potential of measurement tools. **The symposium led to broad agreement that tackling emerging sustainability challenges in global agriculture will demand a better information base and better measurement tools.** It also concluded that developing a global criteria and indicators process for sustainable agriculture is a concrete and worthy challenge INFASA could tackle in the future. See <http://www.iisd.org/measure/community/infasa/>

In March 2005, the Secretariat for the Canadian Sustainability Indicators Network (CSIN) was established at IISD. The purpose of the network is to provide indicator practitioners from across Canada with resources and tools to advance sustainability indicator practice in Canada. **CSIN is best known for its monthly Learning Events, bringing together 10-15 leading practitioners from across Canada to discuss pertinent topics in the field and share knowledge.** In 2005–2006, the CSIN Secretariat focused on four main areas: cultivating an active CSIN advisory committee; continuance of CSIN Learning Events; development of additional pilot resources and

communications tools; and coordination of various informal opportunities for CSIN members to meet in person (including four conferences across the country). The work completed in 2005 strengthened CSIN's foundation and social capital, providing elements of the platform needed for CSIN to continue to provide current resources and tools, and to move toward more substantive collaborative projects. See <http://www.csin-rcid.ca/>

As part of IISD's contribution to the Canadian Index of Well-being project, funded by the Atkinson Foundation, **the M&A team together with the Global Footprint Network have completed a pilot project, calculating all the provincial, territorial and federal ecological footprints for Canada for the first time in a comparable, methodologically sound way.** The calculations, based on land-use consumption matrices, included several methodological innovations and according to the leaders of the CIW national team, even though we consider the results preliminary, the importance, utility and policy relevance of the footprint calculation is crucial and we need to move as quickly as possible to finalize and publish the results.

To meet growing demands for public accountability and transparency, finance departments of several provincial governments are now preparing annual reports for the public which present a suite of measures relating to key conditions in our economy (e.g., household income); our society (e.g., children entering school ready to learn); and our environment (e.g., quality of water in rivers and lakes). This is an evolution from government reporting efforts which traditionally focused on the progress of major programs and projects. They now also consider how the economic, social and environmental conditions that matter to citizens are changing as a result of these programs and other influences. **During 2005–2006, the Measurement and Assessment team worked closely with Manitoba's Treasury Board Secretariat to create a training workshop for the development and use of outcome-based measures in government planning and reporting.** The Secretariat's move toward outcome-based planning and reporting, together with Manitoba's provincial sustainability reporting process, is positioning the province to better navigate progress toward a sustainable future. IISD is proud to be able to assist.

During 2005–2006, IISD was contracted by the Green Policy and Integrated Environmental Monitoring Sections of Saskatchewan Environment to carry out research in support of proposed

Departmental Stewardship Planning for the Government of Saskatchewan. Departmental Stewardship Planning supports Saskatchewan's goal of "Shared Responsibility, Integration and Accountability" as set out in the province's new Green Strategy. To implement stewardship planning, Saskatchewan Environment created an inter-departmental planning committee to develop a stewardship planning template and to discuss how stewardship planning might be incorporated into the province's existing departmental planning and reporting processes. IISD is providing expert advice.

Measuring the social dimension of agriculture is about the ability of producers and their families to contribute to sustainable agriculture in the future. **In the context of ongoing collaboration with Agriculture and Agri-Food Canada, considerable progress was made in defining and developing social indicators for the agriculture sector in Canada.** Key stakeholders and experts explored priority social issues for the sector at two consultation meetings. This engagement process resulted in the identification of a preliminary set of social indicators, which will be further developed in the next phase of the work. Initially, the development of social indicators will focus on both small- and large-scale producers. The intent is to use these social indicators in Agriculture and Agri-Food Canada's departmental sustainable development report along with previously constructed economic and environmental indicators.

IISD GRATEFULLY ACKNOWLEDGES THE GENEROSITY OF THE FOLLOWING SUPPORTERS OF OUR WORK IN MEASUREMENT AND ASSESSMENT IN 2005–2006:

Agriculture and Agri-Food Canada > Association of Universities and Colleges of Canada > The Atkinson Foundation > B.C. Hydro > Blue Plan Regional Activity Centre > China Council for International Cooperation on Environment and Development > Department of Foreign Affairs and International Trade > ELTE University Office of the Provost > Environment Canada > Government of Saint Lucia > International Development Research Centre > Lake Balaton Development Coordination Agency > Organisation for Economic Co-operation and Development > Promei > Province of British Columbia > Province of Manitoba > Province of Prince Edward Island > Province of Saskatchewan > REC Slovakia > Scott Wilson > Statistics Canada > Support to the Formulation and Implementation of Vietnam Agenda 21 > United Nations Environment Programme > United Nations Headquarters > United Way > University of Manchester > Vienna University > The Winnipeg Foundation > The World Bank

STRATEGY

MORE STRATEGIC INTRODUCTION OF MEASUREMENT AND ASSESSMENT TOOLS INTO EVERYDAY AGRICULTURAL PRACTICE HAS SIGNIFICANT POTENTIAL FOR TURNING THE GLOBAL AGRICULTURE SECTOR TOWARD SUSTAINABLE DEVELOPMENT.

KNOWLEDGE COMMUNICATIONS

Director, Heather Creech

NETWORKING

IISD's reach and impact depend upon the technologies that allow us to collaborate with our partners and to communicate our knowledge. **We believe that ICTs—information and communications technologies—have become essential tools for achieving sustainable development.** We have a stake in securing their appropriate use throughout the world.

We have been active for nearly 10 years in international efforts to promote ICTs as enabling technologies for sustainable development—from the 1997 Global Knowledge event sponsored by the World Bank and the Canadian International Development Agency, through all the stages of the recent World Summit on the Information Society (WSIS). **We are now participating in the debate on Internet governance, recognizing that the Internet has become the backbone for global sustainable development dialogue, research and action.**

The Internet's security and stability must therefore be monitored and championed by the global community.

WSIS concluded its second phase in November 2005, with the gathering in Tunis of 15,000 ICT stakeholders. **As a contribution to the process, IISD assembled a network of young Southern researchers to explore how ICT policy could support sustainable development.** Their investigations included an examination of gender issues in the IT sector in Costa Rica; a national South African e-strategy that would support the communication of local knowledge; and the identification of economic incentives for the deployment of ICTs in support of environmental management in Kenya. With our support, these researchers had the unique opportunity to debate their findings with national decision-makers and with delegates at WSIS preparatory meetings and in Tunis itself. We have published their insights in the book, *A Developing Connection*, available at <http://www.iisd.org/networks/wsisis.asp>

In addition to our work at the ICT policy level, we have continued to help other organizations use the technologies more effectively, through strategy development, training and evaluation services. **This year, we worked with UNESCO to see how their community multimedia centres in Africa, Asia and the Caribbean were supporting local economic and social development, through a hybrid of community radio broadcasting, Internet access and computer training.** With Netcorps Canada/International, we reviewed seven years of ICT volunteer programming, and the changing ICT needs in developing countries. We were invited to share our insights on communications and networks internationally (with the Global Mechanism of the UN Convention to Combat Desertification);



WE BELIEVE THAT INFORMATION AND COMMUNICATIONS TECHNOLOGIES HAVE BECOME ESSENTIAL TOOLS FOR ACHIEVING SUSTAINABLE DEVELOPMENT.



Since 1997, IISD has placed more than 300 interns around the world

nationally (with the Canadian Health Research Services Foundation); and at the local level (with the City of Winnipeg, the home of our headquarters). We provided training to members of China's Central Party School on models for collaboration and networking. We completed our work with the Global Village Energy Partnership on strategies and tools for the management of its international partnership of energy services stakeholders. And we started a new internship program on e-governance, placing our interns in international projects focused on using ICTs to support public participation in decision-making, from forest management in Kenya to the strengthening of civil society in Central Europe to investigating youth communications channels across the Arctic. See the feature story on page 12 of this report.

IISD GRATEFULLY ACKNOWLEDGES THE GENEROSITY OF THE FOLLOWING SUPPORTERS OF OUR WORK IN KNOWLEDGE COMMUNICATIONS IN 2005–2006:

Canada Life Securities > Canada School of Public Service > Canada World Youth > Canadian International Development Agency > Department of Foreign Affairs and International Trade > The Global Action Network Net > Human Resources and Skills Development Canada > Indian and Northern Affairs Canada > Institute for Environmental Studies > Intermediate Technology Development Group > International Development Research Centre > International Institute for Environment and Development > The World Conservation Union (IUCN) > Lake Balaton Development Coordination Agency > Province of Manitoba > United Nations Educational Scientific and Cultural Organization > Walter and Duncan Gordon Foundation > The Winnipeg Foundation > The World Bank > World Business Council for Sustainable Development



CLIMATE CHANGE AND ENERGY

Director, John Drexhage

In addition, IISD enjoyed an extremely strong profile at the Montreal Climate Conference—demonstrating its broad appeal to the domestic and international community. **IISD personnel played an active role in the many side events held during the conference, participating in and/or hosting at least 15 panel sessions, covering the Clean Development Mechanism, post-2012 regimes and implementation of the (erstwhile) Canadian plan.** See <http://www.iisd.org/climate/unfccc/cop.asp>

One of the more significant highlights during COP-11 was Development and Adaptation Days, an event co-sponsored with the International Institute for Environment and Development. **There were standing-room-only crowds in attendance for the entire two-day, weekend event.** Participants attended sessions on the links between climate change and development; the implication of climate change for health and disaster management; adaptation science; community-based adaptation; and National Adaptation Programs of Action. See http://www.iisd.org/climate/unfccc/cop_dadays.asp

IISD also received considerable attention due to our **Development Dividend project, which is helping find a meaningful place in the international carbon market for Clean Development Mechanism projects that provide significant benefits beyond greenhouse gas reductions.** These include social benefits such as improved quality of life through provision of electricity, the economic benefits that can accompany increased foreign direct investment, and environmental/human health benefits such as improved air quality. Guided by a committed Task Force composed of 30 experts from around the world, the project plans to publish its second phase results in August 2006, and is making plans for a subsequent phase. See <http://www.iisd.org/climate/global/dividend.asp>

It would not be using a cliché to say that on the issue of climate change, we live in very interesting times. **The past year was the busiest, most successful and most challenging yet** for IISD's Climate Change and Energy team, shaped largely by Canada's decision to host the

Eleventh Conference of the Parties to the UN Framework Convention on Climate Change (COP-11) in Montreal in December 2005.



Four years of hard work came to fruition in 2005, culminating in the publication of three pieces of analysis: *Which Way Forward?*

http://www.iisd.org/climate/unfccc/cop_prep.asp); *Canada in a Post-2012 World* (see http://www.iisd.org/climate/canada/post_2012.asp); and *Realizing the Development Dividend* (see http://www.iisd.org/pdf/2005/climate_realizing_dividend.pdf). All three publications were well received and demonstrated the Climate Change team's analytical capacity and ability to constructively develop options for going forward on the complex climate change issue.

OPPORTUNITY

While the last half of 2005 was about solidifying and broadening the appeal of IISD to domestic and international audiences, the new year, with a new Canadian government in place, saw a fresh set of challenges and opportunities ahead for the Climate Change and Energy team. **The team has been working hard, particularly with energy associations in Canada, to share strategies on how best to constructively support the new government's efforts** while ensuring that climate change continues to grab the policy attention in Canada it requires. In particular, IISD has been an active proponent of a more integrated approach to addressing climate change mitigation—one which is, for example, framed by broader discussions around the development of a national energy strategy for Canada. This approach could also enjoy benefits internationally; it likely will be much easier to get significant players such as the United States, China, India and Russia to the table focusing on energy, of which climate change is a critical element, rather than the other way around.

The Climate Change and Energy team also continues to strengthen, in collaboration with the Sustainable Natural Resources Management program, its work at the program and policy level on vulnerability and adaptation. **IISD is currently engaged in a four-year research project to study the characteristics of adaptive policies**—those policies that are robust to a range of anticipated conditions but which also have the ability to adapt to unanticipated circumstances. Research is being conducted in Canada and India with our project partner The Energy and Resources Institute, with a focus on agriculture and water resources management. See http://www.iisd.org/climate/canada/adaptive_policy.asp

The Livelihoods and Climate Change project focused on fine-tuning and testing its project management tool **CRISTAL (Community-based Risk Screening Tool – Adaptation and Livelihoods)**. **The tool represents a concrete attempt at mainstreaming climate change into field projects, providing users with a framework for understanding the links between climate stress and livelihoods**, and ensuring that project activities strengthen local coping capacity. To date, the tool has been tested in Mali, Bangladesh and Tanzania. See <http://www.iisd.org/natres/security/ccvca.asp>

As well, in partnership with the United Nations Environment Programme and the African Centre for Technology Studies, IISD has begun a three-and-a-half-year project that **aims to reduce the vulnerability of communities in Kenya, Mozambique and Rwanda to climate change-induced drought in the key sectors of agriculture, forestry and energy production**. The project will provide support for community-level actions that increase resilience to climate change in the short and long term, as well as support integration of climate change adaptation into policy- and decision-making.

At home, IISD has been solidifying and slowly expanding its client base to cover the governments of Alberta, British Columbia, Manitoba and Ontario. **We are exploring options for expansion in Quebec** and identifying opportunities for entry into new areas of activity such as urban climate change and adaptation.

IISD GRATEFULLY ACKNOWLEDGES THE GENEROSITY OF THE FOLLOWING SUPPORTERS OF OUR WORK IN CLIMATE CHANGE AND ENERGY IN 2005–2006:

Alcan Inc. > Auditor General of Canada > Canadian International Development Agency > Chatham House > Climate Change Central > The Climate Group > The Delphi Group > Denmark: Royal Danish Ministry of Foreign Affairs > Department of Foreign Affairs and International Trade > Environment Canada > Global Change Strategies International Company > International Development Research Centre > Manitoba Hydro (B.T.) > Margaree Consultants Inc. > MISTRA Foundation for Strategic Environmental Research > National Round Table on the Environment and the Economy > Natural Resources Canada > Norway: Ministry of the Environment > Norway: Ministry of Foreign Affairs > Pew Center on Global Climate Change > Province of Alberta > Province of British Columbia > Province of Manitoba > Province of Ontario > Suncor Energy Inc. > Swiss Agency for Development and Cooperation > TransCanada PipeLines Limited > United Nations Environment Programme > United Nations Office for Project Services > Vancity Credit Union > The World Conservation Union (IUCN) > World Wildlife Fund



Photo courtesy IISD/Earth Negotiations Bulletin

TRANSPARENCY

ADVANCEMENT



IISD RS and the Department of Environmental Affairs and Tourism of South Africa started a new three-year project to begin coverage to regional environmental policy meetings in Africa. This project is the start of the expansion of the *Earth Negotiations Bulletin* (ENB) from the international to the regional level. This first “module” will cover meetings of ministers in Africa on sustainable development, environment, water, energy and transport. IISD RS will also be building a network of environment and sustainable development policy experts working in African capitals and hiring ENB writers in the region. The success of this project will be used to replicate this experience into coverage of regional meetings in Latin America and Asia.

In December 2005, IISD RS was in Montreal, Canada, at the 11th Meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change and at the 11th Meeting of the Subsidiary Body on Scientific, Technical and Technological Advice of the Convention on Biological Diversity. **Forty-three ENBers**

converged for multiple meetings, including the biggest event ENB has covered since the World Summit on Sustainable Development in 2002, and the biggest climate meeting since Kyoto. IISD RS produced ENBs in English, French, Spanish and Japanese; *ENB on the Side* (ENBOTS) coverage of the climate change side events; a special publication on the Development and Adaptation Days event; and a display at the climate change meeting’s exhibition.

As part of IISD RS’s expansion in recent years, a new structure for Issue Cluster Experts (ICE) for *Linkages Update* and *MEA Bulletin* has been developed. The Issue Cluster Experts are the IISD RS writers who contribute to *Linkages Update* and *MEA Bulletin*. As a result of the new publication and the restructuring of *Linkages Update*, IISD RS has hired more members to be part of its ICE structure and has re-assigned responsibilities for each cluster.

IISD GRATEFULLY ACKNOWLEDGES THE GENEROSITY OF THE FOLLOWING SUPPORTERS OF OUR REPORTING SERVICES WORK IN 2005–2006:

- Austria: Federal Ministry for the Environment > Austrian Foreign Ministry > Australian Greenhouse Office > Burson-Marsteller Mexico > Centre for Environmental Research, Training and Education > European Commission > Finland: Ministry of Environment > Finland: Ministry of Foreign Affairs > France's Ministry of Foreign Affairs > Germany: Capacity Building International > Germany: Ministry for Economic Cooperation and Development > Germany: Ministry of Environment > Institut de l'Energie et de l'Environnement de la Francophonie > International Tropical Timber Organization > Italy: Ministero dell Ambiente e della Tutela del Territorio > Italy: Ministry of Environment > Japan: Global Industrial and Social Progress Research Institute > Japan: Institute for Global Environmental Strategies > Japan: International Center for Environmental Technology Transfer > Frank Liu > The Netherlands' Ministry of Foreign Affairs > New Zealand: Ministry of Foreign Affairs and Trade > Norway Ministry of the Environment > Republic of Korea: Ministry of Environment > Royal Danish Ministry of Foreign Affairs > South Africa: Department of Environmental Affairs and Tourism > Spanish Ministry of Environment > Sweden: Ministry of Foreign Affairs > Sweden: Ministry of Sustainable Development > Swiss Agency for Environment, Forests and Landscape > Taiwan > UK: Department for International Development > UK: Foreign & Commonwealth Office > United Nations Development Programme > United Nations Educational Scientific and Cultural Organization > United Nations Environment Programme > United Nations Food & Agriculture Organization > United Nations Framework Convention on Climate Change > United Nations Industrial Development Organization > United Nations Office at Nairobi > University of Delaware > World Agricultural Forum > The World Bank > The World Conservation Union (IUCN)

AUDITORS' REPORT

To the Members of International Institute for Sustainable Development

We have audited the consolidated statement of financial position of International Institute for Sustainable Development as at March 31, 2006 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.

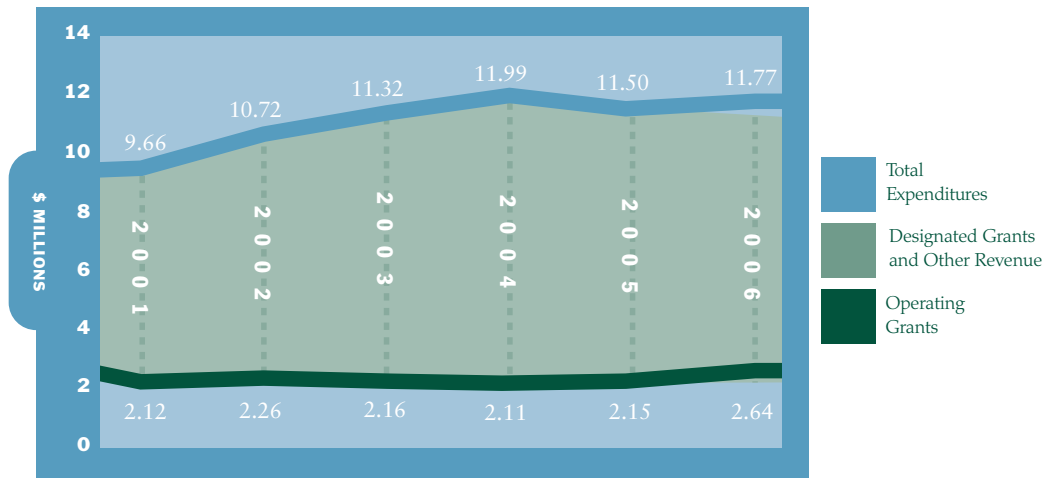
We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence 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, 2006 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 19, 2006

2001 - 2006 IISD FINANCING TREND



Fiscal years ended March 31

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2006

	2006	2005
ASSETS		
CURRENT		
Cash	\$ 1,347,469	\$ 1,126,258
Marketable securities	6,782,977	5,426,563
Accounts receivable	7,988,400	5,909,963
Prepaid expenses and deposits	122,662	74,123
	16,241,508	12,536,907
CAPITAL ASSETS	354,857	308,751
	<u>\$ 16,596,365</u>	<u>\$ 12,845,658</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,363,668	\$ 1,088,067
Deferred revenue	8,286,655	5,071,130
	<u>9,650,323</u>	<u>6,159,197</u>
COMMITMENTS		
NET ASSETS		
Net assets invested in capital assets	354,857	308,751
Reserve for program development	3,471,906	3,565,301
Reserve for long-term development	1,318,802	1,456,997
Innovation Fund	221,937	317,400
Unrestricted net operating assets	1,578,540	1,038,012
	6,946,042	6,686,461
	<u>\$ 16,596,365</u>	<u>\$ 12,845,658</u>

CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended March 31, 2006

	2006	2005
REVENUE		
Designated grants	\$ 9,024,212	\$ 8,764,270
Operating grants	2,642,130	2,153,696
Innovation Fund	79,123	2,079
Interest	229,015	246,930
Other revenue	153,473	20,111
TOTAL REVENUE	12,127,953	11,187,086
EXPENSES		
Projects		
Trade and Investment	2,993,409	3,747,824
Reporting Services	2,938,892	2,569,681
Climate Change and Energy	1,664,175	1,340,347
Knowledge Communications	984,379	1,092,505
Sustainable Natural Resources Management	788,472	494,268
Measurement and Assessment	681,225	612,023
Economic Policy	256,620	383,407
New Project Development	93,402	165,729
Innovation Fund	79,479	2,079
	10,480,053	10,407,863
Administration	771,462	684,695
Fund Development and Outreach	395,909	269,603
Board	125,485	136,396
TOTAL EXPENSES	11,772,909	11,498,557
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	355,044	(311,471)
APPROPRIATION FROM (TO) NET ASSETS		
Net assets invested in capital assets	(46,106)	(77,529)
Reserve for program development	93,395	164,979
Reserve for long-term development	138,195	22,375
INCREASE (DECREASE) IN NET OPERATING ASSETS	540,528	(201,646)
NET OPERATING ASSETS, BEGINNING OF YEAR	1,038,012	1,239,658
NET OPERATING ASSETS, END OF YEAR	\$ 1,578,540	\$ 1,038,012

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	
	2006 (\$000's)	2005 (\$000's)
Governments and agencies		
Canada	\$ 2,287	\$ 2,474
International	7,400	4,460
	9,687	6,934
United Nations agencies	876	650
International organizations	370	437
Philanthropic foundations	694	222
Private sector and other	287	305
	\$11,914	\$ 8,548

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 loss recognized at March 31 in the amount of \$96 thousand (2005 - \$84 thousand), are summarized by activity area as follows:

Activity Area	Other Revenue (\$000's)	Innovation Fund (\$000's)	Designated Grants (\$000's)	Total (\$000's)
Trade and Investment	\$ 3	\$ -	\$ 2,735	\$ 2,738
Reporting Services	-	-	2,592	2,592
Climate Change and Energy	112	-	1,376	1,488
Knowledge Communications	12	-	871	883
Sustainable Natural Resources Management	14	-	719	733
Measurement and Assessment	35	-	608	643
Economic Policy	23	-	113	136
Administration, Fund Development and Outreach	(45)	-	10	(35)
	154	-	9,024	9,178
Innovation Fund	-	79	-	79
	\$ 154	\$ 79	\$ 9,024	\$ 9,257

Operating grants IISD has entered into renewed funding arrangements with the Government of Canada (Environment Canada and the Canadian International Development Agency (CIDA)) for a three year period from April 1, 2005 to March 31, 2008. The arrangement with CIDA provides operating grants. The arrangement with Environment Canada provides a blend of operating grants and contributions in support of research that is consistent with the interests and priorities of Canada.

A summary of the operating grant funding is as follows:

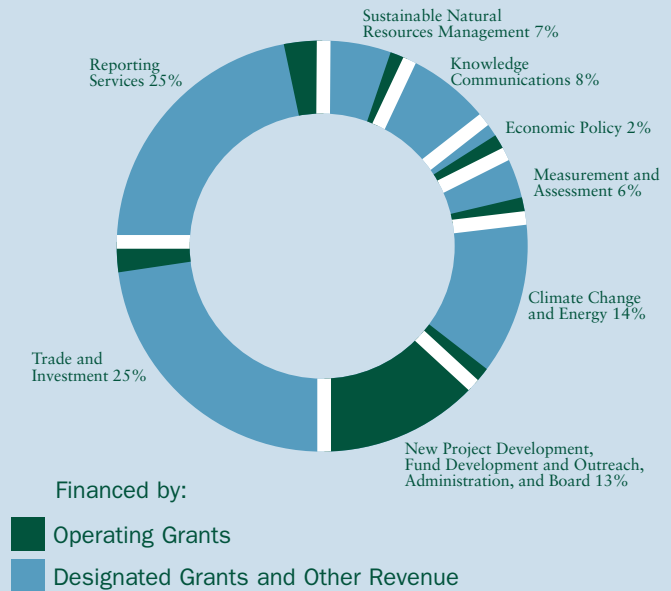
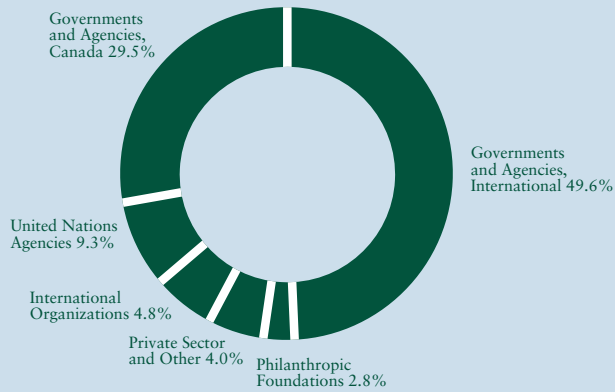
	Funding Commitment (\$ 000's)	Funding Recorded		Funding Commitment Remaining (\$ 000's)
		2006	Prior years	
Government of Canada				
Environment Canada	\$ 1,500	\$ 500	\$ -	\$ 1,000
Canadian International Development Agency	4,280	1,240	-	3,040
Government of Manitoba	4,584	802	3,782	-
International Development Research Centre	200	100	100	-
Operating grant revenue	\$10,564	\$ 2,642	\$ 3,882	\$ 4,040

2005 - 2006 REVENUE AND EXPENSES BY ACTIVITY AREA

Total expenses of \$11,772,909

2005 - 2006 DESIGNATED GRANT REVENUE BY DONOR

Total designed grant revenue of \$9,024,212



SCHEDULE OF OPERATIONS BY ACTIVITY AREA (\$000's)

For the Year Ended March 31, 2006

The following table summarizes expenses incurred in each of the IISD's activity areas:

	Trade and Investment	Reporting Services	Climate Change and Energy	Knowledge Communications	Sustainable Natural Resources Management	Measurement and Assessment	Economic Policy	New Project Development	Innovation Fund	Administration	Fund Development and Outreach	Board	2006 Total	2005 Total
Revenue	\$ 2,738	\$ 2,592	\$ 1,488	\$ 883	\$ 733	\$ 643	\$ 136	\$ -	\$ 79	\$ (64)	\$ 29	\$ -	\$ 9,257	\$ 8,786
Personnel	1,494	823	914	346	369	397	123	51	47	626	209	-	5,399	4,813
Collaborators	676	791	206	422	247	67	41	7	18	4	53	-	2,532	3,021
Travel	458	980	325	91	83	132	53	20	13	46	13	-	2,214	1,915
Rent	82	98	48	19	19	25	6	-	-	28	11	-	336	375
Supplies and other	100	66	50	18	22	20	9	14	-	39	37	-	375	306
Publishing	55	40	24	12	2	1	14	-	-	-	51	-	199	142
Amortization of capital assets	38	58	19	14	11	10	4	-	-	11	7	-	172	151
Meetings	42	-	39	45	23	8	-	1	-	-	4	-	162	368
Telecommunications	35	77	30	14	9	17	4	-	1	12	10	-	209	222
Board	-	-	-	-	-	-	-	-	-	-	-	125	125	136
Research materials	14	7	9	3	4	4	2	-	-	5	2	-	50	49
Total expenses	2,994	2,940	1,664	984	789	681	256	93	79	771	397	125	11,773	11,498
Excess of (expenses over designated grants and other revenue)														
designated grants and other revenue over expenses	\$ (256)	\$ (348)	\$ (176)	\$ (101)	\$ (56)	\$ (38)	\$ (120)	\$ (93)	\$ -	\$ (835)	\$ (368)	\$ (125)	\$ (2,516)	\$ (2,712)
Excess of expenses over designated grants funded by:														
Operating grants													2,642	2,154
Interest													229	247
Excess of (expenses over revenue) revenue over expenses													\$ 355	\$ (311)

SCHEDULE OF DESIGNATED GRANTS COMMITTED (\$000'S)

For the Year Ended March 31, 2006

Government of Canada (and Agencies)			European Commission	139
Environment Canada	\$517		Spain	107
Canadian International Development Agency (CIDA)	420		Germany	
Department of Foreign Affairs and International Trade	331		Ministry of Environment	91
Agriculture and Agri-Food Canada	204		InWent	15
Canada World Youth	110		Ministry for Economic Cooperation and Development (BMZ)	(3) 103
International Development Research Centre (IDRC)	106		Japan	95
National Round Table on Environment and Economy	68		Austria	44
Canada School of Public Service	24		Taiwan	42
Parks Canada	20		Other	31
Western Economic Diversification	10			7,400
Indian & Northern Affairs	9		United Nations agencies	
Other	(2)		United Nations Environment Programme (UNEP)	603
	1,817		United Nations Educational Scientific and Cultural Organization (UNESCO)	91
Governments of provinces			United Nations Framework Convention on Climate Change (UNFCCC)	82
Manitoba	369		United Nations Development Program (UNDP)	40
Ontario	34		United Nations Office for Project Services (UNOPS)	21
Saskatchewan	31		Other	39
Alberta	29			876
British Columbia	7		International organizations	
	470		The World Conservation Union (IUCN)	75
Governments of other nations			Organization For Economic Co-operation and Development (OECD)	61
Sweden			Commonwealth Secretariat	46
Swedish International Development Agency	1,327		International Tropical Timber Organization	42
Ministry of Foreign Affairs	185		Sustainable Development Policy Institute	35
Ministry of Environment	39	1,559	Friedrich Ebert Stiftung - FES	32
Ministry of Sustainable Development	8		World Bank	25
Netherlands			Centre for Environment Research Training and Education (CERTI)	12
Ministry of Housing		1,365	The Climate Group	12
Switzerland			Other	30
State Secretariat for Economic Affairs (SECO)	1,219			370
Swiss Agency for Development and Cooperation (SDC)	97		Philanthropic foundations	
Swiss Agency for the Environment, Forests and Landscape	4	1,320	The John D. and Catherine T. MacArthur Foundation	382
Denmark			Rockefeller Brothers Fund	234
Royal Danish Ministry of Foreign Affairs		872	The Winslow Foundation	39
Norway			Charles Stewart Mott Foundation	30
NORAD	307		The Atkinson Foundation	3
Ministry of Foreign Affairs	68		Other	6
Ministry of the Environment	8	383		694
United States			Private sector and other	
USAID		348	Other (sum of amounts under \$25 thousand)	133
Australia		257	Burson-Marsteller Mexico	79
New Zealand		176	University of Regina	50
Italy		171	Shell Canada	25
South Africa		222		287
France				\$11,914
Ministry of Foreign Affairs	102			
Institut de l'Énergie et de l'Environnement de la Francophonie	64	166		



PHILANTHROPY FOR INNOVATIVE THINKING

By Sue Barkman (IISD Associate) and Nancy Folliott (Fund Development Coordinator)

We thank our funders for sharing the vision

We thank our corporate, government, foundation and individual donors for their support and for sharing our vision of “Better living for all—sustainably.”

The key to achieving that vision is innovation. Innovation is the lifeblood of IISD. It permeates all that we do. It's the spirit with which we brainstorm, conduct research, communicate with partners, engage decision-makers and reach out to funders. Our fundraising efforts are motivated and flavoured by our quest for innovative approaches to addressing the continually evolving challenges in achieving sustainable development.

By supporting IISD, our funders express their desire for innovative research and creative action. Their support asserts that for sustainable development to be achieved, we must continue to move beyond normal research and that we must seek novel horizons, exceptional

ideas and momentous change. Their support recognizes that sustainable development is simultaneously a moving target and an urgent objective.

We are grateful that our funders care so deeply about achieving social equity, environmental health and economic well-being. And we are grateful that our funders are confident in our ability to deliver the ideas that will move the sustainability agenda forward.

We are driven by this confidence and by our collective conscience. With zeal, we continue our global efforts to inform and advise policy-makers and world leaders who have promised human dignity; peace and security; environmental fitness; vibrancy; and overall well-being for today and for future generations.

We invite prospective donors to learn more about sustainable development and about the International Institute for Sustainable Development. IISD is registered as a charitable organization in Canada and has 501(c)(3) status in the United States. Please contact us our Fund Development office at +1 204 958 7742.