

# **Environmental Policy Integration through the OECD Peer Reviews: Integrating Economy to the Environment or Environment to the Economy?**

Paper presented at the IHDC conference, 3-4 December 2004, Berlin

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## *Abstract*

*As an intergovernmental organisation lacking coercive powers, the OECD can promote policy integration through what have been called 'idea-games', relying on moral persuasion, and processes such as socialisation and imitation. This paper compares the impacts on environmental policy integration from two OECD 'peer review' processes: the Environmental Performance Reviews (EPRs), carried out since 1992, and the Economic Surveys, the flagship of the OECD since the establishment of the organisation in 1961.*

*The EPRs enhance environmental policy integration mainly by increasing the visibility and legitimacy of environmental issues in the non-environmental sectors. This impact stems both from the review process and from the use of the report and its recommendations. However, the scant interest that the reviews generate and by the low status of the 'environmental policy community' in policy making greatly reduce the potential of the EPRs to influence policies. The inclusion of a sustainable development section in the prestigious Economic Surveys hence carries a greater potential to enhance policy integration. Yet, the very limited scope of the sustainable development analysis, the lack of expertise among the economic experts participating in the debates around the Economic Surveys, and the lack of enthusiasm of the 'economic policy community' for addressing the questions of sustainable development compromise the Surveys' potential to promote environmental policy integration. Given the highly unequal distribution of power between the two policy communities, genuine environmental policy integration and well-informed decision-making might be better served by clearly separating environmental and economic issues at the analytical, peer review level, so as to protect the independence and integrity of the environmental policy community.*

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## ***1. Introduction: OECD's role in promoting environmental policy integration***

The OECD is typically an organisation that relies on 'norm creation' and 'idea games' as means of exercising its power, as it can exert neither regulatory nor financial pressure to influence the behaviour of national actors (Finnemore and Sikkink 1998; Marcussen 2001). The most important characteristic of the OECD work is that no decisions are made – the OECD committees are not mainly engaged in preparing decisions for the OECD Council (Marcussen 2001). Its power is therefore based essentially on moral persuasion and peer pressure. Julin (2003) has described the OECD as simultaneously fulfilling the roles of a think-tank, a databank, a problem-solver, a pathfinder, a policy adviser, a forum and meeting place, and sometimes a deal broker. The so-called peer reviews of OECD countries' policies in different sectors have been characterised as the 'flagship' of the organisation's activities, a key instrument used by the OECD in playing its various roles and promoting its policy agenda (OECD 2003a).

The OECD has defined the integration of policies, both vertically (international, national, and sub-national levels) as well as horizontally (within and across sectors) as one of the major challenges of sustainable development (e.g. OECD 2001a, 47-56). Special emphasis has been given to policy integration in agriculture, transport and energy sectors, given the particularly significant economic, social and environmental impacts caused by activities in these sectors. Policy integration has in the OECD been mainly promoted by actors in the field of the environment, where the lack of integration of environmental concerns into sectoral policymaking has been a key concern at least since 1970s, and, was later on identified as an obstacle to sustainable development.<sup>1</sup> For the OECD, as an organisation whose mandate is to promote economic cooperation and development, it is natural to stress the 'economy-environment interface' as the key area of integration (see e.g. OECD 1996). The main objective of such integration should be the 'decoupling' of environmental pressures from economic growth, established as one of the key objectives on the way towards sustainable development (OECD 2001a, 13-16) and one of the five objectives of the OECD Environmental Strategy for the First Decade of the 21<sup>st</sup> Century (OECD 2001b). The importance accorded to integration is likewise reflected in the development of indicators, notably those on sectoral integration, decoupling (OECD 2002a), and accounting (OECD 2004a). Finally, the choice of policy integration as one of the three themes to be discussed by the OECD Environment Ministerial meeting in April 2004 (OECD 2004b, 23-24) testifies to the continued importance given to this objective within the OECD.

Against this background, it is hardly surprising that policy integration constitutes one of the three main areas of analysis in the OECD Environmental Performance Reviews (EPRs). However, in line with the horizontal nature of its activities, the OECD has adopted an approach where sustainable development issues should be integrated to all activities of the organisation, and therefore also to all OECD peer reviews. Of particular importance is that after a number of 'pilot reviews' containing a chapter on 'environmentally sustainable growth' between 1998 and 2001, one full round of Economic Surveys – the oldest and the most prestigious of OECD peer reviews – included in 2001-2004 a section on sustainable development, an experiment that was nevertheless discontinued in 2004. This paper sets out to examine the somewhat uneasy relationships between the environmental and economic peer reviews, in particular with respect to their role and significance in promoting policy integration.

The paper starts by briefly defining the concept of environmental policy integration and identifying the main theoretical issues of relevance for the present study. It then describes the OECD peer

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<sup>1</sup> The idea of policy integration was present already in the first European Community Environmental Action Plan in 1973, and in the IUCN World Conservation Strategy in 1980 (Lafferty and Hovden 2002, 7).

review mechanism and its role, in particular from the point of view of environmental policy integration. The empirical part of the paper begins by an analysis of the OECD EPR programme as an attempt to enhance environmental policy integration, with an emphasis on identifying the main mechanisms through which the reviews enhance policy integration. This analysis is then contrasted with another OECD attempt at policy integration, namely that of the inclusion of sustainable development sections in the OECD Economic Surveys. The final section draws conclusions concerning the pros and cons of environmental policy integration through these two peer review mechanisms.

The analysis on the Environmental Performance Reviews is based on

- 1) the author's experience as a national delegate to the OECD Working Party on Environmental Performance (WPEP) since May 1996,<sup>2</sup> as an organiser of the Finnish EPR in 1996-1997, as a country expert on teams reviewing the environmental performance of Mexico (1997-1998) and Russia (1998), and as an OECD consultant on the review of Sweden (2003-2004);
- 2) examination of diverse OECD policy documents, notably those relating to the EPR programme and the organisation's work in the area of sustainable development; and
- 3) interviews with the WPEP delegates of Canada, Hungary, Japan, Portugal, and Slovakia, as well as with other stakeholders involved in the reviews of Japan, the Netherlands and Portugal.

The section on the Economic Surveys, by contrast, relies on a less representative sample of experiences gained through discussions over the years within the WPEP group, with persons involved in the Economic Surveys in the OECD Environment Directorate and in some member countries, an analysis of OECD documents concerning the Economic Surveys and OECD sustainable development work, and participation in the Finnish Economic Survey in 1998 as a representative of the Ministry of the Environment.

## ***2. Environmental policy integration in theory: what is meant by the term?***

Integration of environmental concerns into all areas of policy making has been adopted by many of the key international institutions (e.g. WCED 1987, 313-314; UN 1994; CEC 2001) as a central objective and a means of improving environmental policies and fostering sustainable development. Yet, this increasing commitment to environmental policy integration (EPI) has not been accompanied by similar progress in improving the conceptual framework underlying integration (Lafferty and Ruud 2004, 10). As a consequence, there is no single accepted definition of EPI. Here, the definition of Underdal (1980, 162; cited by Mickwitz and Kivimaa 2004, 4) may serve as a starting point. In his view, a perfectly integrated policy is:

“one where all significant consequences of policy decisions are recognised as decision premises, where policy options are evaluated on the basis of their effects on some aggregate measure of utility, and where the different policy elements are consistent with each other”.

Lafferty and Hovden (2002, 15) have, in turn, defined *environmental* policy integration as

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<sup>2</sup> This work also included participation in workshops preparing the 'second cycle' of EPRs, and a survey concerning the experiences from the 'first cycle' of EPRs, carried out by the author with the assistance of the OECD secretariat, and Environmental Counsellor Heikki Sisula from the Ministry of the Environment in Finland (OECD, 1997a).

“the incorporation of environmental objectives into all stages of policymaking in non-environmental policy sectors, with a specific recognition of this goal as a guiding principle for the planning and execution of policy; accompanied by an attempt to aggregate presumed environmental consequences into an overall evaluation of policy, and a commitment to minimise contradictions between environmental and sectoral policies by giving principled priority to the former over the latter.”

Lafferty and Hovden thus add to the definition of Underdal by establishing *environmental* policy integration as the guiding principle in policy planning and execution. This ultimately ethical choice is further substantiated by political arguments, referring to the numerous political declarations that place environmental policy integration as a priority above others. However, the same ethical argument could be made for many other policy goals, such as equity and gender issues, or the social dimension of sustainable development more generally (e.g. Dubois and Mahieu 2002; Ballet et al. 2003). To counter this argument, Lafferty and Hovden (2002, 16-18) note that the priority given to environmental concerns is not absolute, but ‘principled’. In other words, while environmental concerns as a rule should take precedence, the society can decide, in a specific situation, to give first priority to other societal objectives, just as today economic objectives today have a ‘principled’ priority, but may be, and are, in fact, frequently overridden in policy making by other considerations.

A corollary to this line of reasoning giving priority to environmental objectives is the assumption that environmental policy integration is always and automatically desirable from the point of view of sustainable development. However, it is not difficult to find examples of situations, where policy integration is actually just given lip service without genuine intention to actually improve policies and achieve real integration. The argument used by the opponents to the creation of a Ministry of the Environment in Finland in the 1970s – the need to integrate environmental concerns into all sectors of policy instead of creating a specific agency for the purpose – is one among many such examples (Mickwitz and Kivimaa 2004, 5). Hukkinen (1999) has therefore criticised the idea of integration arguing that the problem today is not that different sectoral authorities would not communicate and cooperate with each other – in fact this cooperation is often intense and well-established – but that the long-term concerns of sustainability are systematically pushed aside in the daily decision making focused on satisfying short term interests.<sup>3</sup>

Usually, literature on environmental policy integration focuses exclusively on procedural criteria for determining the degree of EPI, referring to the political commitments and declarations, action plans and strategies, budget allocations, institutional mechanisms of cooperation, monitoring mechanisms, etc. (e.g. Lafferty and Ruud 2004, 16; Lafferty and Hovden 2002, 19-25). However, as Mickwitz and Kivimaa (2004) point out, comprehensive evaluation of policy integration should also look at its concrete policy outcomes, since rather than being an end in itself, EPI should be seen as a means of achieving specific environmental policy objectives.

Another key issue concerns the desirable extent and depth of policy integration. Too extensive integration would risk blurring the boundaries between policy sectors, and creating inefficient redundancy on one hand, and potential gaps on the other. While redundancy is not always harmful,

<sup>3</sup> Hukkinen (1999, 163) writes that “[t]he central institutional problem is not that [environmental and economic policy makers do not speak to each other today – they do, often consulting closely [...] but that long-term environmental concerns have been structurally excluded from virtually all policy making.” He therefore argues that the best way to promote institutional reform that favours sustainability is not to put sustainability on the agendas of sectoral agencies, but instead to identify sustainability concerns in existing sectoral agencies, and to entrust them collectively to a separate body endowed with a sustainability agenda (ibid.).

since it can enhance system resilience (e.g. Rammel and van den Bergh 2003), the challenge is to strike an appropriate balance between efficiency and resilience. Likewise, as for the depth of policy integration, more is not always better. This is where the criticism of Hukkinen (op.cit.) comes to play: it may well be desirable to divide large tasks into smaller parts, so as to reap the benefits of sectoral specialisation in terms of efficiency, but also – and this is the main concern of Hukkinen (1999) – to guarantee sufficient independence for each sector in pursuing its policy objectives. Of course, such ‘disintegration’ should be followed by ‘reintegration’ at a higher, policymaking level (Mickwitz and Kivimaa 2004, 5). A related question is to what extent policy integration is actually the best way of promoting an issue: sometimes an environmental policy goal may be better served by a system in which sectoral policies should be developed within strict boundaries set by environmental policies, instead of environmental concerns being integrated into the formulation of sectoral policies (ibid., 6). In other words, this question relates to the desirable phase for integration during the policy cycle: should integration take place at the stage of policy initiation and objective setting, policy preparation, or only once policy decisions are being made?

The focus of the present paper is not policy integration per se, but the role that policy evaluation through international peer reviews can play in promoting environmental policy integration in the OECD countries and within the OECD bureaucracy. Despite the importance of analysing the concrete results, for practical reasons this study contents itself with looking at the procedural aspects of integration. Let us however first have a look at international peer review as a key OECD working method.

### ***3. Environmental policy integration in practice: OECD peer reviews***

Peer review has been one of the key working methods and instruments of ‘soft enforcement’ applied by the OECD since the creation of the organisation in 1961. In the OECD context, international peer review has tentatively been defined as “the systematic examination and assessment of the performance of a State by other States, with the ultimate goal of helping the reviewed State improve its policy making, adopt best practices, and comply with established standards and principles” (Pagani 2002, 4). In a peer review, a country’s policies in a particular area are examined by fellow members on an equal basis, which is supposed to help the reviewed country improve its policy making, adopt best practices, and comply with established standards and principles (OECD 2003a). The peer review process is characterised by *dialogue* and interactive investigation, should be *non-adversarial* and rely on mutual *trust* among the States involved, as well as on shared *confidence* in the process. With these elements in place, it is assumed that peer review will create a system of mutual *accountability*. (Pagani 2002, 4-5.)

Peer reviews are expected to exert their influence through ‘*peer pressure*’. Media involvement and the ensuing public scrutiny, dialogue with peer countries, comparisons and in some cases even ranking of countries, put pressure on the domestic public opinion, national administrations and policy makers. (Pagani 2002, 5-6.) A country seldom wants to be seen in an unfavourable light among its peers, and peer pressure may therefore be a powerful tool in promoting compliance, notably in the ‘laggard’ states (Beyeler 2002; Marcussen 2001, 8; Strang and Chang 1993). Peer reviews must balance between on one hand a high level of ownership felt by the reviewed country, which requires that the country be closely involved in the process, and on the other hand, lesser credibility resulting from attempts by the reviewed State to unduly influence the final outcome.

Peer reviews can promote policy integration in the reviewed country through three main mechanisms. Firstly, the *review process* itself provides the various authorities operating in the policy area being examined with the opportunity to sit together to find common positions, foster

mutual understanding, and build professional networks. Secondly, the *findings and recommendations* of the review may contain recommendations that directly address the issue of policy integration. Finally, the *public debate, dialogue and argumentation* process during the review process and following the release of the review may promote mutual understanding across sectors.

However, the potential impacts of peer reviews on policy integration are not limited to the reviewed country, but extend to the other member countries and the OECD secretariat as well. Other member countries may learn from the reviewed country's examples, while the impacts within the OECD secretariat may be more far-reaching, as the peer review methods may influence the established OECD working methods and theoretical frameworks. The following section briefly presents the OECD EPR programme, and then identifies its main impacts on environmental policy integration.

#### **4. The OECD Environmental Performance Review (EPR) Programme**

The principal aim of the Environmental Performance Reviews is "to help Member countries improve their individual and collective performances in environmental management", by helping governments judge progress, promoting continuous policy dialogue among member countries, and stimulating greater accountability from member countries governments towards public opinion within developed countries and beyond (OECD 1997b, 5). Together with other country reviews of the OECD,<sup>4</sup> the EPRs constitute an element in the organisation's efforts to analyse sustainable development in its member countries. As a result of the changing policy context over the 1990s, and in line with the OECD's three-year effort to establish sustainable development as one of the organisation's overarching strategic principles, the 'second cycle' of reviews – launched in 2000 – was to integrate into its framework the environmental-social interface of sustainable development, while the focus had during the first cycle been limited to traditional environmental policies on one hand, and environmental-economic interface on the other. (e.g. OECD 2001c; 2001d.)

The criteria used in the EPRs for assessing performance are 1) country's own policy objectives and international commitments; 2) commonly agreed OECD policy principles; and 3) the cost-effectiveness of policies. What is notable, in the light of the above discussion concerning the procedural aspects of integration as opposed to the consequences of integration, is that the EPRs pay attention to both of these aspects, taking into account the intentions and actions of the government as well as the concrete results of policy measures. Likewise, the indicators used to support evaluation include indicators of pressures on and the state of the environment, as well as government's responses to address problems. (OECD 2000.)

A typical EPR starts with a preparatory phase, in which the outline of the review is decided upon, and the reviewed country provides the secretariat with a set of background documents, including a set of memoranda on the situation of the country with respect to the themes covered in the review. The main part of the background material comes from the Ministry of the Environment, usually responsible for the coordination of the review, but includes also information from other relevant ministries and agencies, and often material provided by environmental NGOs. Of course, the OECD secretariat uses freely other sources of information to complement the material provided by the government.

The consultation phase consists of an about one-week 'review mission' to the country by the review team – made up of 5-8 OECD secretariat members and consultants, and 3-4 experts from other

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<sup>4</sup> Such as Economic Surveys, territorial development reviews, development co-operation reviews, education reviews, and energy policy reviews, the latter being carried out by the International Energy Agency (IEA).

OECD countries. The team meets in thematic meetings focusing on the chapters of the review report: water and air management, nature conservation, environmental-economic interface, environmental-social interface, international environmental cooperation, and one or two chapters on a chosen sector (e.g. energy, chemicals, transport, health, agriculture, tourism) addressing the integration of environmental concerns into policies in this sector. The team also meets with NGOs, business representatives, and environmental researchers, usually in two or three-hour sessions in which authorities are not present.

After the mission, the team drafts the preliminary review report, which is sent to the reviewed country and to the delegates of the OECD Working Party for Environmental Performance (WPEP) about a month prior to the final peer review meeting in Paris. The country sends its comments on the report to the OECD secretariat prior to the meeting, in which the draft report is discussed among the 30 member countries, including the reviewed country delegation usually headed by a high level official of the Ministry of the Environment, or the environment minister. The WPEP then adopts the conclusions and recommendations of the review by consensus, usually after a few minor modifications.

About three months after the peer review meeting, the report is released in the reviewed country's capital, usually in a press conference given by a high-level OECD official and the Minister of the Environment. Habitually, comments are requested from other ministries – sometimes represented by the minister – and representatives from other sectors of government, industry, NGOs, and researchers. The report is not an Environment Directorate publication, but it is published under the responsibility of the OECD Secretary-General. The OECD urges countries to draw up a report on the implementation of the recommendations 2-3 years after the release of the report.

The whole review cycle during which all OECD countries are reviewed once takes currently seven to eight years.

## ***5. EPRs and environmental policy integration***

Policy integration constituting one of the three main parts of the review, it is obviously a subject highly present in the discussions of the review team and in the review process as a whole. An attempt is made by the OECD team – and most often by the environmental authorities of the reviewed country itself – to involve in the process representatives from the non-environmental sectors as much as possible. Likewise, many of the recommendations in the review report focus on cross-sectoral issues, the lack of sufficient coordination between sectors or integration of environmental concerns into other sectors being one of the standard criticisms put forward by the OECD. Many of the indicators used in the review – especially those on decoupling and sectoral environmental indicators<sup>5</sup> – measure the potential outcomes of policy integration. In principle, the prospects of the EPRs enhancing integration are therefore good. The attempt in the following is to analyse the extent to and the ways in which this potential has been exploited in practice.

### ***5.1. Impacts from the EPR process***

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<sup>5</sup> These indicators reflect trends and patterns of environmental significance in a specific sector (e.g. transport volumes, car ownership, etc.), interactions between the sector and the environment (e.g. resource use, pollutant and waste generation), and economic and policy aspects related to the sector's environmental performance (e.g. environmental damage, environmental expenditure, price structures, regulatory and other policy instruments) (OECD 2003b, 11).

The impacts from the EPR process<sup>6</sup> on policies in general, and on policy integration in particular, stem from the interaction 1) between civil servants and stakeholders in the reviewed country, 2) between the various participants in the reviewed country and the OECD review team, and 3) between the reviewed country representatives and the OECD delegates in other OECD countries.

The major ways in which the review process influences policy integration include the *development of professional networks* and *creation of shared understandings* among the various participants. It is hardly surprising that in countries where the networks of cooperation between different sectors are not strongly developed (e.g. Mexico in the first cycle review), the review process provided an important opportunity for the different actors in a policy area to get to know each other and build personal contacts. Similarly, it was to be expected that in smaller and more ‘networked’ countries such as Japan, the Netherlands, and Portugal this was not considered as a major advantage from the reviews, since the networks to a large extent existed already prior to the review. That the Canadian WPEP delegate strongly emphasised the function of the review process in creating shared understandings,<sup>7</sup> despite the country’s highly developed environmental policy institutions, is perhaps explained by the size of the country and the highly decentralised structure of its administration. Given the strongly government-oriented character of the EPRs, the creation of networks concerns mainly different sectors of government, the role of the other stakeholders being of secondary importance. However, this may even facilitate, rather than prevent, cross-sectoral integration.

Another important impact from EPRs is that on the *prioritisation among different policy objectives* – a key element of policy integration. The EPRs constitute an opportunity – in fact, an obligation – for the involved civil servants to step out of their daily routine and gain the distance necessary to enable them to see their own work in a broader context and to reflect upon the priorities. This has become increasingly valuable given the increasingly hectic pace of policy making largely dictated by external pressures – In Europe, from the EU, and more generally from the obligations imposed by different international treaties and conventions. The review process also provides an incentive for the authorities to renew their information material, which may be valuable also in cross-sectoral work.

The integration impacts stemming from the *interaction between the review team and the participants in the reviewed country* are probably more modest. Usually the meetings during the review mission leave little room for genuine dialogue, and the role of the reviewed country representatives is merely to answer the questions posed by the review team. These questions may stimulate among the national stakeholders thinking along the lines “if the OECD experts ask us about policy integration in this area, it sure must be an important issue”. However, none of the interviewees specifically underlined this aspect.

The *peer review meeting*, by contrast, is an important element in the process, and provides in principle an excellent occasion for dialogue and learning. In practice, it suffers from the same problems as the meetings during the ‘review mission’: the number of issues on the agenda is excessive to allow genuine dialogue on specific issues. In terms of policy integration, these meetings mainly provide a forum for the country delegates to learn about policy integration through dialogue with their counterparts in the other countries. The extent to which this learning is passed on at home by the WPEP delegates is perhaps rather an indicator of the existing level of integration:

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<sup>6</sup> This ‘process use’ (e.g. Patton 1998; Forss et al. 2002) has attracted increasing attention in the field of evaluation research, largely as a result of the discovery that decision makers use evaluation results disappointingly seldom.

<sup>7</sup> The interviewee mentioned in particular water management as an area where the review was the first occasion for all the more than twenty entities operating in the field to sit together and search for a common position of Canada.

the better the integration, the more likely the lessons are to reach policy actors in different sectors of the government.

Clearly the most important result from the review process is the *increased visibility and legitimacy* it gives to environmental policies and authorities through the support by a prestigious economic organisation. While not completely independent of networking and creation of shared understandings, which operate through cognitive learning and personal interaction, legitimacy and visibility have a more political function as essential resources in the political ‘power play’. ‘Empowering’ the defenders of environmental cause and legitimising environmental policies are necessary conditions for successful integration: when power is unequally distributed, the policy objectives of the less powerful sector risk being absorbed and integrated only symbolically into the policies of the stronger sector. The interviews indicate that sometimes the support from the reviews in terms of enhanced legitimacy is more significant to the civil servants in charge of environmental issues in sector ministries than for environmental administration itself. This impact probably depends on the degree of importance that the upper echelons of administration in the sectoral ministries attach to the reviews. In the absence of commitment on the part of the leading civil servants or ministers, the review may rather reinforce the existing sectoral division of labour *within* the ministries, instead of enhancing integration.

## ***5.2. Impacts from the review report and its recommendations***

In contrast with the often-held idea of the final evaluation report being the main ‘product’ of evaluations, the impact of the EPR report on policy integration seems less evident than that stemming from the review process. Again, the mechanism operates through the impacts on *legitimacy*: review recommendations give more weight to the demands and opinions of environmental authorities. Of course, not all of the recommendations are to the liking of the environmental authorities either – the OECD review team has sufficient autonomy and independence to go against the views of the country’s environmental authorities if necessary – but the ‘hidden agenda’ of the reviews is to provide support for the environmental authorities in their daily work.

The impact of the recommendations varies from one country to another, depending on the political context and the policy tradition of the country. For instance, the Japanese delegation was very demanding in the peer review meeting as to the precise wordings of the review report, because they expected the recommendations to be used by the environmental authorities to support their arguments in the daily negotiations between the environmental and sectoral authorities. By contrast, in the Netherlands, the attitude towards the recommendations was considerably more relaxed, even indifferent. Several reasons explain this lack of interest. Firstly, the recommendations were considered too general to be useful in daily negotiations, since they did not contain anything beyond what the government was already doing or about to do in the near future. For the same reason, the recommendations were perceived as difficult to follow-up. Second, the government in power at the time of the review wanted the Netherlands to give up its ambition of being a ‘forerunner’ in international environmental policies, and instead content itself with simply fulfilling its international commitments. Thirdly, as opposed to countries such as Japan or Portugal, the political culture in the Netherlands is more ‘self-sufficient’, political pressure from the outside playing a less important role in policy development. In practice, this self-sufficiency means that the OECD is not seen as a player in the political ‘heavy weight class’, but rather as a forum of dialogue and exchange of information. The Dutch environmental authorities took up some of the recommendations to support their arguments in the rather informal discussions with the transport authorities, for example, but the use at the higher political level was limited. Indeed, in most countries, even if the

review generates debate in the media during the few days following its release, and the Minister of the Environment may refer to the recommendations in some of his speeches during the weeks following the release event, the interest towards the report tends to fade out rapidly as new issues appear on the political and media agenda.

Last but not least, for many of the interviewed persons, the main function of the review report was that of providing a good *overview of the country's environmental policies*, and therefore constituting useful reference material for policy makers, civil servants, stakeholders, and ultimately even for a part of the general public. Again, this impact seems to be greater in the non-environmental sectors, where the reviews may indeed provide new information and thus enhance policy integration. Examples include the frequent use of the EPRs as background material when drafting national strategies for the environment or sustainable development, or even in discussions and negotiations that high-level civil servants or ministers have with their counterparts in other ministries.

To sum up, the EPRs exert their impact on policy integration through two main pathways, both operating mainly by increasing the visibility and legitimacy of environmental issues in other sectors. First, the review process itself may increase visibility and legitimacy and, in some cases, promote networking and creation of shared understandings between civil servants from different sectors. Second, the results of the review, especially if they reach the higher echelons of sectoral ministries, strengthen the position of environmental concerns in the non-environmental sectors.

Let us now contrast these results from 'economy-to-environment integration' with the experience of integration in the opposite direction, i.e. from environment to economy, by looking at the experiences from including a section on sustainable development in the OECD Economic Surveys.

## ***6. Integrating environment/sustainable development concerns into OECD Economic Surveys***

The OECD EPRs can be considered as a valuable attempt to enhance the two-way integration between economic and environmental policymaking, but even in the best of cases, the political impact of the reviews remains modest, given the inferior position of the environment 'sector' in relation to the more established economic sectors in terms of power and resources. Therefore, the decision of the OECD to include a section on 'environmentally sustainable growth' into the Economic Surveys of thirteen countries between 1999 and 2001, and a section on sustainable development in a full cycle of Economic Surveys carried out between 2001 and 2004<sup>8</sup> constitutes an interesting test of environmental policy integration through these more well-known, established, and politically more influential peer reviews.

The OECD has carried out Economic Surveys since the establishment of the organisation in 1961. The Economic and Development Review Committee (EDRC) carry out the reviews with participation of the reviewed country's permanent delegates to the OECD, sometimes assisted by experts from their governments at home. The committee designates for each review two of its members to lead the examination. The draft survey is prepared by the secretariat, the 'country desk' of the reviewed country at the secretariat carrying the main responsibility for the work. The review process includes a mission to the reviewed country, during which the review team of 4-5 officials from the secretariat meets authorities in the reviewed country, to discuss on the basis of a list of questions sent to the government prior to the mission. The draft report prepared by the secretariat is

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<sup>8</sup> In line with the mandate given to the OECD by the 2001 Council ministerial meeting to develop indicators of sustainable development, the Economics Department was charged with the task of developing a framework of analysis of sustainable development, to be tested in one cycle of Economic Surveys.

dealt with in the peer review meeting, and further amended by the secretariat in consultation with the reviewed country government on the basis of the discussions during the meeting. Amended comments are then adopted by the EDRC by consensus and published under its responsibility.<sup>9</sup> The reviews are carried out with 12 to 18 months' interval.

The process of preparing the Economic Surveys therefore significantly differs from that of the EPRs, the main differences being the following:

- The review cycle is considerably shorter (12-18 months as opposed to 7-8 years for the EPRs);
- The review team is smaller and does not include country experts coming outside of the EDRC;
- The OECD 'country desks' having as their main task to follow the reviewed country's economic policies carry the main responsibility for drafting the review;
- The secretariat has an important role in the peer review meeting, whereas in the EPRs, the secretariat intervenes only if needed to clarify factual issues;
- The discussion during the peer review meeting is less pre-structured and involves more free-flowing dialogue than in the EPRs, where the interaction follows more a question-answer format;
- The reviewed country officials have greater influence on the amendments to be made to the draft survey.

### ***6.1. Theoretical framework applied in the Economic Surveys***

Obviously, not only the review process, but also the theoretical framework for analysing sustainable development in the Economic Surveys is of importance for policy integration. The framework consisted of a set of seven sustainable development issues:

- greenhouse gas emissions
- air pollution
- natural resource management
- water pollution
- waste management
- sustainable retirement incomes
- improving living standards in developing countries

Each economic survey then included a short (usually about six pages) sustainable development section covering three of the seven issues, chosen in function of the conditions of the country being reviewed. For each of the seven themes, a range of indicators has been used to measure performance. Since no consensus was reached in the Ad Hoc Group on Sustainable Development on a list of indicators to be used in all reviews,<sup>10</sup> the Group agreed to proceed on the basis of the list, leaving open, however, the choice of specific indicators in each review. The choice of the indicators to the 'long list' was driven by practical considerations, focusing on issues that 1) have a strong degree of permanence and inter-generational concerns, and 2) are analytically tractable (OECD 2002b, 5). In particular, only a limited set of issues allowing meaningful comparison across countries could be addressed in the reviews over the 2001-2004 period. Finally, the indicators are

<sup>9</sup> At this stage, the committee may choose refuse to adopt the new version, if it considers that it does not adequately reflect the discussions at the peer review meeting. This is rare, but has happened at least once.

<sup>10</sup> Some delegates contested particular indicators, while others found the list too narrow.

all indicators of ‘performance’, thus excluding indicators of ‘policy settings’, on the grounds that “different policies will be appropriate under different national conditions” (OECD 2004c, 16). The seven issues therefore do not even intend to be an exhaustive list, but rather represent themes that are common to policy agenda of all member countries, and that could be addressed in the peer reviews. (ibid., 11.)

Obviously, the list of seven sustainable issues seems rather arbitrary, consisting of mainly traditional environmental themes – ‘end-of-pipe’ policies – and two social issues, one of which is acutely relevant for the developed countries, the other concerning the developing countries. The OECD Environment Directorate provided highly critical comments to the draft versions of the framework, but these comments did not lead to significant changes in the approach. The delegates in the WPEP group have likewise expressed their dissatisfaction with the framework, and the genuine willingness of the Economics Department to carry on with sustainable development issues has been questioned. Indeed, the OECD Economics Department made it clear enough that it would only carry on analysing sustainable development – which it considered mostly of marginal relevance to the major structural and macroeconomic policies – as long as it gets funding specifically targeted at this task. Therefore it was not a surprise that the EDRC decided not to continue the ‘sustainable development experiment’ in the Economic Surveys after 2004, once the specific funding for this purpose was discontinued.<sup>11</sup>

## **6.2. Review methodology and environmental policy integration**

It has been argued that a major impediment to EPI has been that, in fact, the Economic Surveys reflect little of the integration of policy making across the different elements of sustainable development in the OECD, despite the calls for such integration in the survey itself, and that the economic analysis remains virtually unconcerned by the broader considerations of balancing the three dimensions of sustainable development (Caccia 2003). A frequent criticism against the sustainable development sections in the Economic Surveys has been that they focus exclusively on the economic efficiency<sup>12</sup> of environmental policies, therefore implicitly questioning the legitimacy of the politically agreed environmental objectives. This approach is in contrast with the cost-effectiveness perspective adopted in the EPRs, which take the country’s environmental policy objectives as starting points when analysing whether the objectives have been reached and whether this has been achieved at the lowest possible cost to the society.

The latter criticism is at least partly erroneous: the sustainable development section of the Economic Surveys has indeed adopted the cost-effectiveness perspective, pointing out that better designed environmental policies (through systematic application of cost-benefit analysis, for example) would enable countries to reach the same environmental objectives with considerably lower cost or, alternatively, allow more ambitious environmental objectives to be reached. Nevertheless, the Economic Surveys’ approach differs from that of the EPRs in that it takes economic growth as the *primary* objective; growth should however be ‘sustainable’. It also strongly advocates the use of cost-benefit analysis as a way of ensuring that the trade-offs between different societal objectives are addressed (e.g. OECD 2003d, 117; OECD 2004c), thus relying on the perception that the

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<sup>11</sup> This decision also quickly dissipated the often-expressed worry that evaluation of sustainable development by the OECD would become merely a secondary issue as a part of the Economic Surveys and that the Environmental Performance Review programme would be simply terminated.

<sup>12</sup> Usually economic efficiency is defined in terms of Pareto efficiency, i.e. a situation is efficient when no change of allocation of resources would make at least one individual better off, without making any other individual worse off. Such an efficiency criterion therefore does not take any political objectives as given, but leaves open the possibility of, for instance, relaxing environmental requirements in order to achieve a higher level of economic growth, if such a solution would allow Pareto improvements to be made.

different elements of welfare can be compared and measured on a single scale of measurement – an idea widely criticised by the ‘environmentalist’ community (e.g. Martinez-Alier et al. 1998; Söderbaum 1999; Munda 2003).

For environmental policy integration, the response from the official responsible for the reviews in the OECD secretariat to the criticisms is of greater relevance. The OECD official argues that it is, indeed, useful for precise communication and policy development to discuss individual components of welfare or sustainable development – be they economic, social or environmental – on their own, which is common practice also in dealing with environmental and social policies (OECD 2003c). This response is in fact in line with the thinking referred to above (Hukkinen 1999; Mickwitz and Kivimaa 2004), arguing that integration may be neither necessary nor even desirable at all levels, but that a more analytic, disaggregated approach might be more efficient at a lower level as long as issues are ‘reintegrated’ at the policy making level.

### ***6.3. Review process and environmental policy integration***

Even though the current study did not involve a detailed analysis of the impacts from the Economic Survey process on environmental policy integration, there are good reasons to believe that these impacts differ considerably from those of the EPRs, already because of the differences in the design between the two processes. First of all, there is likely to be considerably less networking during the Economic Survey than during the EPR process. In the former, the meetings during the review mission gather a more limited range and number of participants, consisting mainly of economic and some environmental authorities. Nevertheless, the higher visibility accorded to environmental issues during the economic review process probably somewhat enhances policy integration.

The set-up of the peer review meeting, notably the free-flowing character of discussions, provides, in theory, an opportunity for mutual learning and policy integration. In practice, policy integration suffers greatly from the lack of expertise of the delegates on environmental and sustainability issues. The regular EDRC members are experts on macroeconomic and structural policies, and only in exceptional cases do they have a deeper understanding about issues concerning the environment and sustainable development. The problem is compounded by the fact that sustainable development was dealt with only in the end of the meeting, and is often treated very briefly, under time pressure. Perhaps more problematic yet is the apparent unwillingness within the Economics Department and the EDRC to develop the required skills and knowledge. Often the task of preparing material for the reviews and answering the questions on sustainable development during the peer review meeting was totally delegated to the environmental authorities, integration effects within the finance ministries thus being absent. The process seems to have led to frustration instead of enhancing genuine learning. The sustainable development issues have been perceived as ‘unavoidable bad’ rather than a welcome contribution to economic analysis.

Yet another factor casting a doubt on the potential of Economic Survey process to enhance EPI stems from the ‘clash of cultures’ between the economically oriented ‘policy community’ on one hand, structured around the ministries of finance and the OECD Economics Department, and the ‘environmentalist’ policy community on the other, essentially consisting of the environment authorities and the OECD Environment Directorate. The ‘environmentalist community’ often perceives the review team responsible for sustainable development analysis in the Economic Surveys as biased in its views stressing the efficiency of environmental policies, or simply incompetent because of being incapable of seeing the broader picture of environmental policies. Correspondingly, the economically oriented actors consider the sustainable development section as uninteresting, and for most countries far less relevant for the analysis of economic policies than

many other potential issues, such as employment policies, reform of the social welfare systems, etc. Such a situation does not constitute a very promising point of departure for a fruitful dialogue and environmental policy integration.

#### **6.4. Review reports and environmental policy integration**

The Economic Surveys are among the most widely read and cited reports of the OECD, and therefore certainly have greater direct impact than the EPRs on countries' policies. Yet, the interest towards the sustainable development sections has been modest, to say the least, as the more traditional questions of macroeconomic policies and structural issues have attracted the lion's share of the attention accorded by the media and the governments. Explanations can be sought in the isolated character of the sustainable development section in the Surveys, the lack of interest of the OECD Economics Department in publicising the sustainable development issues, and the poor 'environmental literacy' among the economic journalists.

A major question is how the inclusion of sustainable development section in the Economic Surveys affects the OECD secretariat. In particular, does the Economic Department now pay more attention to environmental concerns in its daily work? One may doubt this, since the experiment seems to illustrate a certain arrogance on the part of the Economics Department, manifest for instance in the lack of coordination between the EPRs on one hand and the sustainable development sections of the Economic Surveys on the other. Environmental authorities have sometimes complained that the experts carrying out the Economic Surveys seem not to have used as background material the EPR of the country being surveyed, but have started their analysis practically from scratch.. A further example is the reluctance of the Economics Department to take into account the criticism and comments from the Environment Directorate on the proposal for a framework of analysis for the sustainable development sections of Economic Surveys. The Economics Department being by far the most powerful department in the OECD, it does not feel a great need to listen to the other parts of the organisation. By contrast, the Environment Directorate is extremely wary of not giving policy recommendations that might go against the official policy line of the OECD – a cautiousness that comes close to self-censorship and sometimes reduces the 'punch' in the EPRs to the extent of making them uninteresting to the media and NGOs, for instance.<sup>13</sup>

Another problem stems from the practice of rotating experts from one position to another at regular intervals within the Economics Department. While this practice has the virtue of enhancing policy integration within the work areas of the Economics Department and ensuring that the experts can be flexibly moved from one task to another within the Department, it has the drawback of 'wasting' the sustainable development expertise created through the review processes once the persons working on the issue are moved to other tasks. Of course, this has also prevented the emergence in the Economics Department of an internal 'lobby group' that might advocate the continuation of sustainable development analyses in the reviews.

A tentative conclusion of the experience of including a sustainable development section in the Economic Surveys is that the experiment has been largely a failure in terms of environmental policy integration. Rather than increasing the economic authorities' and OECD economic officials' understanding of and interest in the problems of environment and sustainable development, it has

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<sup>13</sup> A typical case was that of the Swedish EPR, in which long discussions were carried out on the need to subsidise renewable energy. The review seemed to advocate the ideal of eliminating subsidies altogether, be they environmentally harmful or beneficial. This ran against the opinions of the vast majority of Environment Ministers (OECD Environment Ministerial meeting), who saw renewable energy subsidies as one of the main ways of promoting more environmentally friendly energy sources.

lead to frustration, and consolidated the opinion among the ‘economic community’ of the marginality of these issues in relation to the ‘hard core’ of economic policies. The inclusion of sustainable development in the reviews was perceived as an obligation imposed from outside, rather than as a need arising from within the EDRC or the Economics Department. Perhaps most importantly, there is a lack of commitment from the top leadership of the OECD: it is hardly a secret to anybody that the current Secretary-General of the OECD is largely on the same line of thinking with the U.S. delegation, in calling for an end to the work on sustainable development in the OECD as a specific activity.<sup>14</sup> In particular, he argues that since there is no commonly accepted definition of sustainable development among the member countries, it is not meaningful to have a separate coordinating body for the issue, but it is better to handle it as a cross-cutting issue by each department and directorate integrating sustainability matters in its everyday work. Therefore, the organisation had better focus on concrete issues in which sustainability concerns would materialise – climate change and measurement of sustainability being the best candidates for such cross-dimensional themes. (OECD 2004d.)<sup>15</sup> The Secretary-General’s position is by many of the involved delegates and officials interpreted as a typical case of policy integration being used as “an old way to diffuse attention and to obliquely resist the political goals one is declaring support for through integration” (Mickwitz and Kivimaa 2004, 5). In other words, a good way to kill ‘genuine’ integration is to invest in ‘symbolic’ integration.

### ***7. Discussion: integration on whose conditions?***

On a conceptual level, the difference of approach between the Economic Surveys and Environmental Performance Reviews can be described as an opposition between two distinct approaches to sustainable development. The ‘logic’ supported by the Environment Directorate follows the mainstream line of thinking within the international organisations, i.e. sustainable development as a combination of the three ‘pillars’ – the environmental, the economic, and the social dimension. This ‘political’ interpretation is rivalled by a more analytical approach advocated by the Economics Department: the OECD should not try to address sustainable development in its totality, but should select for closer study some key themes, notably those that lend themselves to quantitative analysis. In theory, one could argue that the two types of approach are complementary and therefore equally necessary,<sup>16</sup> but the matter becomes more complicated when considering the substantial capacity of the Economics Department to impose its views within the organisation – in this case, its view on how the OECD should deal with sustainable development.

The contradiction between the two approaches also reflects more fundamental differences as to the respective roles of environmental and economic concerns in decision making in the framework of sustainable development, and ultimately, distinct perceptions concerning economics as a discipline. The perspective of the ‘environmentalist policy community’, manifest in the EPRs, starts from the cost-effectiveness criterion, which perceives politically established environmental objectives as ‘untouchable’ results of democratic discussion. The role of economic analysis would then be merely to identify the most economic means of reaching those objectives. The ‘economist policy

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<sup>14</sup> This may seem odd in the light of the fact that relatively soon after taking office, the Secretary-General launched, in 1997, an initiative resulting, among other things, in the establishment of the OECD Round Table for Sustainable Development, an OECD Environment Ministers’ declaration of adopting sustainable development as one of the five key strategic priorities in the organisation’s work (OECD 1998), and two comprehensive reports on sustainable development from the OECD perspective (OECD 2001a; 2001e). Of course, the Secretary-General officially still declares high interest towards sustainable development (e.g. OECD 2004d).

<sup>15</sup> Of course, one can see a contradiction in Secretary-General’s otherwise logical reasoning when he argues against specific SD work programme on the grounds of the lack of common definition, but does not see this as an obstacle to measurement and statistical work.

<sup>16</sup> In the spirit of ‘methodological pluralism’ (e.g. Caldwell 1982; Norgaard 1989; 1994).

community', in turn, considers economic efficiency as the guiding principle of decision making: prioritisation between societal goals should take place through a process of rational calculation of costs and benefits, in which none of the alternative objectives of the society should a priori be given preference over the others. Environmental considerations are seen just as a sub-facet of the broader objective of enhancing human well-being, which in turn would be measurable on a single scale of measurement. (see also Zaccai 2002.)<sup>17</sup> Although this caricaturised picture has given way, in the sustainable development section of the Economic Surveys, to a more balanced cost-effective approach, environmental and sustainability issues still remain marginal and secondary to economic criteria in the overall framework of Economic Surveys.

The efforts of integrating environmental and economic concerns – not to mention the social one, which still has made little headway in the OECD – through the horizontal work on sustainable development in general, and through the economic and environmental peer reviews in particular have run into formidable challenges both at the cognitive and the politico-administrative levels. The peer review processes do not seem to have enhanced mutual understanding and willingness to understand the views of others, neither between the Economics Department and the Environment Directorate at the OECD, nor between finance and environment ministries in the member country governments. This is the case despite the increasing contacts between officials from the two camps. Again, this lends support to the thesis of Hukkinen (1999) that the real problems of sustainable development policies are to be sought elsewhere than in the lack of contacts between environmental and other authorities. The Environmental Performance Reviews perhaps represent a case of too much integration in a situation of significant asymmetries of power, a problem aggravated by the explicit policy mandate of the OECD to enhance economic well-being as the primary goal in its activities. Such excessive integration manifests itself in the 'self-censorship' in the EPRs, without any sign of a corresponding move in the Economic Surveys.

One possible way of moving ahead beyond the impasse of only symbolic integration displayed by the experiment with the sustainable development sections in the Economic Surveys might be to accept the co-existence of two fundamentally different analytical approaches to sustainable development. Instead of attempting to integrate the two within a single, coherent framework, it might be more useful for the sustainable development agenda if the two were kept separate at the analytical level, and integration would step into the picture only at the policymaking level. In the end, the OECD reviews are analytical tools, and one might be well advised to 'let all the flowers blossom', and both types of analysis survive. In this manner, the inevitable trade-offs between policy objectives might become more visible, and, as a result, policymaking would become more transparent once the search for 'the Truth' would be abandoned in favour of a more relativistic perspective (e.g. Hahtola 1990). As long as there is a striking imbalance of power between the two 'policy communities' – the environmentalist and the economist one – the most important task for policy integration might be to focus on empowering the environmentalist community instead of trying to integrate the two at the analytical level.

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<sup>17</sup> For the purposes of the present paper it has little relevance whether the two communities are characterised as interest groups, iron triangles, advocacy coalitions, issue networks, or policy networks, or epistemic communities, since the point is the same: "small networks of policy specialists congregate to discuss specific issues, set agendas, and formulate policy alternatives outside the formal bureaucratic channels, and they also serve as brokers for admitting new ideas into decision-making circles of bureaucrats and elected officials" (Haas 1992, 31). In this perspective, the OECD constitutes precisely a forum where such 'policy communities' to get together and develop their ideas and actions.

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