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**REPORT OF THE REGIONAL SEMINAR ON ECONOMIC INSTRUMENTS
FOR ENVIRONMENTAL MANAGEMENT IN LATIN AMERICA
AND THE CARIBBEAN**

(Oaxtepec, State of Morelos, Mexico, 18-20 July 1995)

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INTRODUCTION

The present report describes in brief the organization, proceedings and conclusions of the regional seminar on economic instruments for environmental management in Latin America and the Caribbean held in Oaxtepec in the State of Morelos, Mexico, from 18-20 July 1995.

The seminar took place as part of ECLAC/UNEP project UNP/93/S01, "Application of economic policy instruments for environmental management and sustainable development in selected Latin American and Caribbean countries", organized by the Environment Unit of the ECLAC Environment and Natural Resources Division. The Mexican Ministry of the Environment, Natural Resources and Fisheries (SEMARNAP) provided local organizational support for the seminar.

The purpose of the seminar was to analyse the country studies produced in Argentina, Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala and Mexico under the project. Participants in this task included the consultants who had contributed to the preparation of the papers and representatives of the above countries with responsibilities in the economic arena, joined by observers from Brazil and Cuba. At the conclusion of the debates, the participants were to draw conclusions and formulate proposals for the application of such instruments to environmental management in the region.

They were also to draw up guidelines for a strategy designed specifically for the Central American region on how to use economic instruments to promote sustainable development within the framework of the integration processes currently under way. For this purpose, representatives attended from the Central American Commission on Environment and Development (CCAD) and the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA).

In addition, suggestions were gathered at the seminar on how this joint exercise of regional diagnosis and proposal, realized for the first time on this broad scale, could be pursued further, with an increase in the number of countries participating and more in-depth work based on the studies already done. The representatives of ECLAC subregional headquarters in Mexico and the UNEP Regional Office for Latin America and the Caribbean (UNEP-ORPALC) made a special contribution in this regard.

A. ATTENDANCE AND ORGANIZATION OF WORK

1. Place and date of the seminar

1. The regional seminar on economic instruments for environmental management in Latin America and the Caribbean was organized by the Economic Commission for Latin America and the Caribbean (ECLAC) with the support of the Mexican Ministry of the Environment, Natural Resources and Fisheries (SEMARNAP) and the UNEP Regional Office for Latin America and the Caribbean (UNEP-ORPALC) as part of ECLAC/UNEP project UNP/93/S01, "Application of economic policy instruments for environmental management and sustainable development in selected Latin American and Caribbean countries".

2. The purpose of the seminar was to present the papers prepared by project consultants, to discuss their main conclusions and to hear the opinions of professionals with responsibility in their respective countries for economic rather than environmental policy about the feasibility of utilizing economic instruments in the region for environmental management.

2. Attendance

3. The seminar brought together project consultants from Argentina, Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala and Mexico with professionals with responsibility for economic decision-making, including public officials from Argentina, Bolivia, Brazil, Cuba, Dominican Republic, Honduras and Mexico.

4. Also participating were ECLAC staff from ECLAC headquarters in Santiago and subregional headquarters in Mexico City and officials from UNEP, the Central American Commission on Environment and Development (CCAD) and the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA).

3. Agenda

- Item I Socio-economic forces underlying four processes of environmental deterioration.
- Item II Diagnostic analysis of the use of economic instruments for environmental management.
- Item III Proposals on the use of economic instruments in environmental management.
- Item IV Synthesis. Economic instruments for decision-making. Advantages and disadvantages.
- Item V Strategies for using economic instruments in the Central American subregion.

4. Meeting with the Minister for the Environment, Natural Resources and Fisheries

5. Julia Carabias, Minister of the Environment, Natural Resources and Fisheries, met with the participants the evening of 17 July for an exchange of opinions on the problems of environmental management in Mexico and the region. She spoke in particular about the new functions of the Ministry and the new approach it was adopting.

6. She also spoke about the challenges for government created by new integration initiatives, such as the North American Free Trade Agreement (NAFTA). She noted some of the problems encountered by her ministry in attempting to raise the level of discourse on environmental topics and in satisfying public demand for greater transparency and democracy.

B. SUMMARY OF THE PRESENTATIONS

7. The seminar was divided into three sections corresponding to the first three items on the agenda.

1. Socio-economic forces underlying four processes of environmental deterioration

8. Debate on item I of the agenda revolved around the situation with respect to the four processes studied in the respective countries and the causes of the environmental degradation. With regard to the process of **agricultural soil erosion**, the problem of land tenure was given special attention. There was discussion of what had occurred in **Colombia**, where inadequate land distribution appeared to be the basic cause of increased erosion. The topic was said to be of particular relevance in **Bolivia**, because of the problems caused by undefined ownership structures due to the overlap of land concessions, spontaneous migrations, squatter takeovers and the like. In **Argentina** the problem had been further complicated by drastic regional changes in production structures due to economic crisis in most of the provinces. In **Costa Rica, El Salvador and Guatemala**, the survival needs of the rural population had caused overuse of the soil, a process aggravated by the fragility of many mountain ecosystems. In **Mexico**, the situation was similar in mountainous areas. In tropical areas, the expansion of grazing land was generally taking a high ecological toll and was based on precarious forms of land tenure.

9. The process of **deforestation**, it was said, appeared to be connected to three factors: fuelwood production, lumbering activities and the expansion of agriculture. Fuelwood production ranked high in all the countries studied because of domestic use. In **Mexico**, it was the major source of pressure on woodlands. In **Chile**, it was also considered an important factor in deforestation. Rural areas of the **Dominican Republic** were putting pressure on upland forests. In **Costa Rica, El Salvador and Guatemala**, the use of biomass fuel was widespread.

10. In all the countries of the region, timber was being harvested by environmentally unsustainable logging methods, despite the existence of a body of scientific knowledge on proper forest management. A common practice in **Bolivia, Colombia, Costa Rica, Dominican Republic, Guatemala and Mexico** was "creaming off", taking only the most valuable tree species, a method that was causing serious degradation of forest ecosystems. In **Chile**, pressure to export wood chips extracted from native forest had in recent years become a significant factor in the reduction of the resource. In Latin America in general, the expansion of grazing land had largely been at the expense of wet tropical forest ecosystems.

11. In Latin America, the process of **biodiversity loss** was closely linked to deforestation, especially in the wet tropical forests of **Bolivia, Dominican Republic, Guatemala and Mexico**. It was pointed out, however, that in **Mexico** great biodiversity loss was occurring in traditional crop areas, as local varieties of maize were being replaced by high-yield hybrids. In addition, that country, together with **Argentina**,

Bolivia, Chile and Colombia, were experiencing loss of biodiversity in their savannah and steppe ecosystems and reduction of their temperate and cold temperate forests.

12. The degradation of **inland waters** in the countries of the region was due to urban and industrial development, mining and contamination from overuse of pesticides. In **Mexico's** federal district, water pollution had reached record levels. In **Chile**, because of the intensive agriculture concentrated in the central valley, the waters of the area were highly contaminated with pesticides. **Colombia** was experiencing similar problems in intensive production zones such as the Bogotá savannah and similar areas. In **Argentina**, poor drainage was intensifying water pollution problems.

2. Diagnostic analysis of the use of economic instruments for environmental management

13. In general, there had been limited use of economic instruments in the region. Latin American and Caribbean countries showed different degrees of application of such instruments, and in countries with greater experience in environmental management the results had been varied.

14. The limited use was due inter alia to institutional shortcomings, lack of sufficient skills and lack of suitable laboratories. Moreover, there were a number of general, political, social and ecological problems that had a more direct bearing on the failure than the above-mentioned shortcomings.

15. Among the economic instruments that had been relatively successful were those of a specific nature enabling **environmental management entities to tap into resources or revenues**. In **Colombia**, three such instruments were applied to renewable natural resources. The first was a **property surtax**; the second, a **transfer from the electric sector to the environmental sector**, aimed at watershed conservation; and the third, a **tax or royalty on the exploitation of renewable natural resources**. **Costa Rica** had also found that such instruments could work effectively.

16. All countries of the region offered **direct and indirect incentives**, which affected the systems of forestry, agricultural and livestock production and therefore had a significant impact on the environment. The incentives were both in cash and in kind. In **Costa Rica**, for example, cash incentives for rural development included subsidies, insurance payments, allowances, loans and revolving funds. Incentives in kind included food, supplies, tools, equipment, roads, housing, schools and work animals. There were also mixed incentives, that is, combination of both, which could be divided into three categories: fiscal, service and social. **Fiscal** incentives generally consisted of tax deductions, tax exemptions, financial backing, guarantees or insurance. **Service** incentives included technical assistance, marketing, storage, feasibility studies, education, training and use of machinery and equipment. **Social** incentives included building and construction, provision of services, community organization, etc.

17. The above **incentives** did not always have a positive effect on the environment. However, by contributing to improvements in the peasant sector, they had a beneficial effect not reflected in the impact analysis of the favoured technological model, by helping to prevent over-exploitation of resources. In view of the complexity of the environmental effects of peasant support policies, the issue deserved further in-depth consideration.

18. The first direct incentives to be used in the region were those applied to soil management and conservation. In **Argentina**, there was, until recently, a law in effect to promote soil conservation which established conservation districts and subsidized restoration work on eroded and degraded areas. In **Costa Rica**, in the early 1970s, a Soil Unit was established within the Ministry of Agriculture under a law that included a series of incentives that did not take effect until the early 1980s. At that time soft loans began to be offered to farmers for conservation works, which were sometimes subsidized. Circumstances had been changing as a result of incentives and economic instruments that had come into force in the 1990s. Currently, a proposal was being drafted setting out different types of incentives. In **Colombia**, before the Ministry of the Environment was established, land reclamation work was carried out through the autonomous development corporations. Significant projects were undertaken by the Autonomous Regional Corporation for the Bogotá Savannah and the Ubaté and Chiquinquirá Valleys and the Autonomous Regional Corporation for the Cauca River Valley.

19. With respect to **forestry** incentives, the most interesting experiment had been concluded in **Chile**, where approximately 1,600,000 hectares had been reforested in 30 years. The economic instrument used was a 75% subsidy of reforestation costs. Incentives had also played an important role in **Argentina**, where the results were being assessed. In **Costa Rica**, successes as well as failures had been noted. The first incentives, established in 1969, were **tax incentives involving income deduction**, which took 10 years to begin working. **Forestry credit certificates** were then used. Their deficiencies led to the creation of a third type of certificate, the **advance forestry credit certificate**. Some indirect incentives in the **forestry** sector were the credit policies established by the Central Bank, under which 5% was set aside for the sector and loans were granted through the banking system. It should be noted that despite the success of some reforestation policies, there were no successful policies to report in conservation and proper management of indigenous forest; in all countries, that resource was suffering high rates of depletion.

20. With respect to protection and conservation of **inland waters**, since the 1940s, many countries of the region had had policies, primarily legislative, designed to create systems for managing water and sewage systems. Their purpose was not only to confer rights on the municipalities, public utility companies, water commissions and town planning bodies but also to assign them responsibilities with respect to water management and use. The results had been uneven. In **Chile**, the market-based system of water rights had not resolved intersectoral conflicts and had interfered with the establishment of environmental standards. In **Mexico**, the action undertaken had not halted the decline in water quality in the five main hydrographic basins.

21. In terms of **conservation of biodiversity**, the participants concurred that in all countries, efforts had been geared particularly to the establishment of protected areas. In that respect, it should be noted that **Argentina and Chile** had national park systems that operated with a certain degree of efficiency. In each case funds were provided from the national budget and supplemented with income generated by park management. In the case of **Argentina**, it was of interest to study the subject of the rates applied to energy generation, which produced income for the agencies responsible for preserving forest reserves in upper watershed areas. In **Costa Rica**, various laws had brought 25% of the national territory under some form of protection, either as national parks, protected areas, ecological reserves or some other form. Nevertheless, one important aspect of the problems in these zones was the fact that they embraced private property. Clearly, for the owners, the opportunity cost of maintaining the resource unexploited was quite high, and the State was not in a position to pay them, although it did sometimes purchase land, notably with funds acquired through debt-for-nature swaps. Thus, other types of instruments were sought to

control the load-bearing capacity of the national parks, chiefly by reviewing **entrance fees**. In **Colombia**, management varies greatly, depending on the area and the accessibility of each park.

22. The foregoing paragraphs refer to the economic instruments for environmental management that have had the most impact in the region. Reference will be made below to institutional and legislative frameworks and to adjustment and economic development trends governing the use of such instruments in each country.

23. In the case of **Argentina**, it was said that the use of economic instruments was consistent with the current shift from state control towards market self-regulation in all spheres of government activity. Nevertheless, the pace of this transition was limited, if not blocked, by existing legislation and by the fact that there were many environmental problems for which one could not expect to find market-based solutions. Attention was drawn to the large number of regulations and economic instruments currently in force, at the sectoral level, in the area of **forest** resources (loans and subsidies), **soil** (management plans) and **water** ("polluter pays" principle). However, there were still no instruments designed expressly for environmental management. In that context, two processes currently underway were reshaping the situation in **Argentina**: firstly, constitutional reform that would include provisions for effective deregulation; and secondly, implementation of the Southern Common Market (MERCOSUR), under which structures would be set up for protection of natural resources and the environment from an economic perspective.

24. In **Bolivia**, regulatory and economic instruments were applied concurrently, although not necessarily in a coordinated manner. Clearly, there were no explicit environmental policies, and existing economic policies did not take into account environmental considerations. Reference was made, in particular, to the investment policy, which contained no provision for environmental impact studies and had failed to generate sufficient ecological projects for reversing some of the major degradation processes. Due to lack of coordination between Bolivia's new environmental law and sectoral laws governing natural resources, enforcement of regulations was extremely inconsistent. A series of new laws on water, forest resources, biodiversity and the agricultural sector were being drafted to overcome that problem.

25. The diagnostic analysis for **Mexico** stressed the legal and institutional framework for environmental management and the set of regulatory instruments on which they were based: land-use legislation, the system of environmental impact assessment, natural resource management programmes, closed seasons, etc. It was pointed out that various fiscal economic instruments existed (entrance fees, resource-user fees) as well as non-fiscal instruments. The situation was in contrast to countries such as **El Salvador**, where the institutional and legal environmental framework was so weak that real environmental management was limited to what could be achieved through non-governmental organizations and international cooperation.

26. Economic instruments played a very important role in **Colombia** but had not been conceived as a unified strategy. It had been shown that in order to implement them, certain changes to institutions and the underlying cultural environment would be necessary. With the recent establishment of the Ministry of the Environment, environmental issues had been given high priority on the political agenda, a prerequisite for making economic instruments work and influencing the Ministries of Finance and Public Credit, Economic Development, Agriculture, Public Works and Transport, and the National Planning Department. The diagnostic analysis highlighted the fact that environmental management at the sectoral level which isolated one sector from the rest could not be successful.

27. In short, on the basis of the **diagnostic analyses** submitted by the participants, the following observations were made:

a) Currently, economic incentives designed to boost productivity, particularly in the rural sector, were encouraging intensive exploitation without due consideration for environmental problems and were thus causing ecological damage.

b) The problem of soil, water and forest conservation was not a purely technological question but also had socio-structural implications. Both economic and social factors came into play.

c) Every productive agent would respond differently in keeping with self-interest.

d) Ecological damage was not immediately perceptible. Degradation of natural resources tended to occur progressively (for example, through erosion) and with some exceptions, the time-lag before the results were noticeable was 20, 30 or 40 years.

e) The general trend was for short-term exploitation of natural resources, without thought for sustainability. It was noticeable not only among small landowners or communities but also among medium and large-scale capitalist producers.

28. A number of participants also said that economists involved in non-environmental areas of public administration lacked a proper grasp of ecological issues. Generally speaking, they saw the whole issue of the environment as a restriction on investment.

3. Proposals on the use of economic instruments in environmental management

29. In view of the above, a number of hurdles had to be overcome before economic instruments could be applied:

a) Subsidies which had an adverse effect on the environment should be eliminated, since they were a basic factor leading to the degradation of resources.

b) On the basis of the above observations, it might be useful to offer subsidies for specific environmental purposes such as restoration of degraded natural resources.

c) A balanced use of resources should be encouraged through pricing instruments, loans and other mechanisms, that is, through a series of options, subsidies and incentives.

d) Integrated and comprehensive programmes should be set up to provide for the efficient application of economic instruments that would to some extent facilitate a land management approach to the resource use.

30. Attempts were made to identify the advantages that could be derived from using economic instruments in the environmental sphere. It was concluded that economic instruments helped to achieve desired goals with minimum cost to society and were a means of decentralizing the decision-making process. Thus, each person could come to the most appropriate decision, in individual and social terms.

Use of such instruments meant that environmental costs would be incorporated into the costs of the particular decision, so that that decision might be in keeping with what the society as a whole would wish. Hence, the aim was to modify behaviour.

31. With respect to the types of instrument that could be applied, from an economic standpoint it would be best to use those which had a direct bearing on decision-making by economic agents, either consumers or producers. Price-based decisions were made every day, so that if a change in behaviour was desired, the easiest way of achieving that would be to change prices. In that way, the individual would learn how much the environment cost and why it was important to preserve it. Instruments of that type included **charges** such as natural resource consumption fees, input and fertilizer prices, pesticide prices, fishing permit fees, and other costs, which in a sense were also prices. Mention should also be made of **certificates of quality**, which reflected environmental and other costs.

32. The feasibility of putting such instruments into practice depended on the opportunities and obstacles that arose. There were problems in the region that made it more difficult to use them: widespread poverty, low levels of education, concentration of economic and social power, the State's limited management capacity and the tendency to undervalue rural life. The reforms being implemented by many countries to increase or extend the use of markets would provide further opportunities for the application of economic instruments.

33. The participants at the meeting agreed that establishing a **strategy** for introducing economic instruments was indeed a great challenge. Some of the reasons cited were: firstly, **development** of environmental resources. Methods were being developed in some Latin American countries, such as **Mexico** (where there had already been studies on the environmental value of forests and experiences in heritage accounting). Other important studies had been carried out on the subject in **Costa Rica**. The Central Bank in **Chile** had initiated the preparation of satellite environmental accounts. In **Argentina**, too, preliminary studies on the introduction of new accounts had been undertaken. Secondly, **quantitative and qualitative goals** had to be set. As to how such goals should be set, it was pointed out that the process should involve the whole society. An interest group or government could not merely set a piecemeal target and then start to think of how it was going to achieve it. It had been proven, time and again, that such an approach was inadequate. The social actor concerned must be involved in the process of planning goals and strategies.

34. The participants agreed that a new way of classifying economic instruments should be devised instead of dividing them into regulatory instruments or market-based instruments. Some participants submitted, for example, that the distinction between incentives and disincentives might better reflect the true situation in the region.

35. In designing strategies, therefore, it was very important to start by removing existing distortions. It was inconsistent to attempt to establish incentives when so many disincentives existed already. The first step should be to identify and remove those that existed not only in the agricultural sector but also in other sectors: inputs in highly polluting industries, disincentives for recycling, and the like.

36. The consensus was that, as part of the strategy, it was important not to discredit the control and monitoring system, which was expected to play a fundamental and significant role, not least because market incentives must operate within a regulatory framework. For that reason, the State should assume its full responsibilities.

C. CONCLUSIONS AND RECOMMENDATIONS

37. With respect to the **diagnostic analysis of the use of economic instruments for environmental management**, the following conclusions emerged from the Seminar:

a) Given the complexity of the issue of economic instruments for environmental management of development, definitions are required to avoid confusion concerning their nature, purpose and usefulness. The instruments are among the tools used to implement development policies and are established by law, decree or administrative decision for application in the political and social context of a given country.

b) Instruments may be of different types, but none encompass all subject areas. From the statements of the participants, it was clear that market-based economic instruments could not be considered separate and apart from regulatory (legal and institutional) instruments. Although the former are based on market behaviour and in theory are not mandatory, in fact they require a legal and institutional framework within which to operate and in many cases a complement of regulations, rules and standards in order to work effectively.

c) For many years, countries have offered economic growth incentives on a sectoral basis, with varying degrees of success. Until recently, however, they have not considered that such instruments might be more apt to contribute to the degradation of the environment and natural resources than to their conservation or sustainable use. A case in point is the granting of subsidies for livestock farming projects and agricultural development.

d) There are economic instruments per se for purposes of environmental management, such as special use funds, which have generally achieved positive results since they fulfil the objectives for which they were established.

e) There is a considerable lack of conceptual clarity with respect to the definition, nature, use and effectiveness of the economic instruments for environmental management. It is necessary to differentiate sectoral instruments from environmental management instruments and to distinguish between fiscal and non-fiscal instruments.

f) Economic instruments for environmental policy should be applied with reference to the country's development characteristics and structural adjustment process and should be linked to at least the following aspects of the environmental issue: **development of natural resources** and **land-use planning**. The first is essential in order to calculate accurately the level of economic incentives and disincentives that would result for the use of certain resources; the second is important since the instrument should be compatible with policies on matters such as land use, protected areas or spatial distribution adopted at the national, regional and local levels.

g) In referring to economic and regulatory instruments, it is important not to confuse them with political procedures of a more general nature such as land-use management, environmental impact assessment or environmental audit. Economic incentives or disincentives are instruments which in themselves cannot form the basis of a coherent environmental policy as part of an overall policy for sustainable development.

38. Under **proposals on the use of economic instruments in environmental management**, the following conclusions were reached on the basis of the presentations:

a) Market-based instruments for environmental management are justifiable given the significant discrepancies existing between the interests of society and private interests. Markets reflect distortions and environmental externalities are generated. This applies to public property and community property. There are a series of factors which lead to differences between private interest and the interest of society, and this justifies the establishment of instruments and policies.

b) One problem that arises in countries of the region is the conflict between economic policy and environmental policy. The term "explicit environmental policy" is used when the stated objective of a policy instrument is conservation or environmental protection; and an "implicit environmental policy" when referring to the effects of a specific economic policy and to instruments that have direct adverse effects on the environment. It should be borne in mind that there may be a conflict between explicit environmental policy and what is implied in economic policy.

c) In addition to instruments for environmental management per se, there are also general or sectoral policy instruments with environmental implications. Thus, when reference is made to environmental policy through economic instruments, it is worth recalling that by doing away with an existing economic instrument, one also eliminates the effects that it may have on environmental policy. Incentives or subsidies for chemical inputs, or irrigation subsidies, for example, which have detrimental effects, are economic instruments that should be considered from this perspective, to determine whether they should be eliminated or adjusted.

d) There should be a distinction between instruments which are designed to induce a change in behaviour through decision-making on the part of both producers and consumers and those which are aimed at collecting funds for environmental management.

39. Lastly, a series of points were identified as components of a **strategy for establishing economic instruments**:

a) Identifying a series of ecological standards as a prerequisite for a strategy for devising and putting into effect a system of economic instruments for environmental management. The basic aim is to maintain certain levels of environmental quality or, what amounts to the same thing, to ensure protection and sustainable use of natural resources and limit the extent of environmental degradation, especially pollution.

b) Establishing objectives to be pursued through application of an economic instrument or set of instruments, based on the particular environmental problem to be controlled and on the scope of the instrument involved. Determining factors will be, on the one hand, the type of action, that is, whether the instrument is directed at pollutants, deterioration processes, products or natural resources; and on the other hand, the target group of agents generating the adverse environmental impact, in terms of number, size, contribution to the problem, location and environmentally harmful methods of production.

c) Setting out clearly the purpose of the instrument—particularly, in the case of fees or taxes—in order to determine whether it is intended as an incentive designed to induce changes in the behaviour of economic agents, whether it is supposed to collect or generate funds for environmental purposes, or whether it seeks to combine both functions.

d) Determining how the funds collected, if any, will be used, in order to decide whether they should be earmarked for specific environmental programmes or used to increase fiscal revenues or replace other tax income.

e) Establishing a transition period before a particular instrument or set of instruments takes full effect. The vast majority of developing countries have had very limited experience in managing systems involving economic instruments for environmental control. Hence, implementation of the instruments should be gradual, in order to allow for the necessary adjustments.

f) Defining, in respect of certain environmental problems, geographic areas for applying economic instruments that allow for discrimination between areas or regions, or designating areas for pilot programmes using certain instruments.

g) Evaluating each proposed instrument or set of instruments before enacting it into law, to determine its feasibility or redefine the parameters with a view to its application.

h) For each instrument or set of instruments, preparing specific regulations —supported by an act, decree or resolution by a competent authority, as appropriate— specifying the type of environmental problem which must be dealt with, the scope of the instrument, the relevant parameters, the deadlines for its full entry into force, the area of application or zoning, and mechanisms for assessment, monitoring, penalties and the like.

i) Setting up —independently of the responsibilities that might be assigned under the legislation in force— a working group that is representative of the interests involved and submitting the results of its work for public consideration.

j) Formalizing agreements with the productive sectors on goals and deadlines with respect to environmental standards and implementation of economic instruments.

k) Establishing institutional responsibilities by assigning significant roles to decentralized enterprises, regional and municipal governments, non-profit organizations and the private sector, on the basis of such fundamental principles as decentralization, regionalization and subsidiarity.

40. As a **general conclusion**, an exchange of ideas by experts and decision-makers from the economic sector of the countries represented revealed a consensus on the need for greater progress on the subject of economic instruments and for caution in implementing them, in view of the diverse experiences related. It was stressed that the most important point was that **environmental policy could not be constructed solely on the basis of economic instruments**. Regulatory instruments would continue to play an essential role in planning environmental policies in Latin America.

41. As a **general recommendation**, CEPAL was urged to continue this activity with support from the United Nations Environment Programme, to extend it to other countries not yet included in the project and to develop it further in those already included through case studies which would allow for application of the proposals and use of the diagnostic analyses established.

Annex 1

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