THE CHANGING ROLE OF THE WORLD BANK AND THE BIO-ENVIRONMENT

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Over the next 20 years, trillions of dollars of private and public capital will be invested around the World in capital items ranging from roads and power plants, to computers and human education and training. As has been true in the past, the amount, the composition, and the effectiveness of these investments will have a profound influence on quality of life and the survival of the bio-environment during the 21st Century. To a far greater degree than before, system-wide impacts of each investment will have to be incorporated into the investment decision process, if we wish to leave reasonable opportunities for a decent quality of life to future generations. Naturally, we all know that the process of determining how to incorporate those impacts, or externalities, into the investment decision process is inherently political. I do not intent to talk about politics no matter how important it is; I would rather focus on the significance of capital markets and the role of the World Bank in this context.

The structure and behavior of capital markets affect the availability of capital, influence investment processes and, by extension, influence the decision-making of managers who seek to secure financing by impressing investors with their company's current performance and future potential. Capital markets may be the single most important factor conditioning corporate behavior and availability of capital, and they are therefore a key issue in the context of economic develop-ment and preservation of our natural heritage.

World Bank Environmental Activities

Given the extent of the World Bank's involvement in the international flow of funds (about $20 billion per annum), and therefore in influencing business behavior, it is quite relevant to briefly review the World Bank's role regarding the increased, worldwide awareness of the urgent need to take measures to protect our natural resources - the bio-environment.

As most of you probably know, when we talk about the World Bank, we refer to a group of four affiliated entities: The principle entity - the International Bank for Reconstruction and Development (IBRD), usually referred to as the World Bank - provides loans and technical assistance to the governments of its member countries with low per capita income (below $3,500 per annum). Its affiliate - the International Development Association (IDA) - provides grants to the governments of its very poor member countries (with per capita income below $1,000 per annum). Another affiliate agency - the International Finance Corporation (IFC) - provides loans and technical assistance directly to the private sector of its less developed member countries. The last affiliated agency - the Multilateral Investment Guarantee Agency (MIGA) - provides guarantees, other incentives and technical assistance for private capital to go to the less developed countries.

The World Bank's first expression of concern with environmental issues was back in 1969 when it appointed a senior environmental advisor to the president of the organization. It was over ten years later, in the early 1980's, however, when IDA decided that environmental assessments be a prerequisite for financing a project. Soon after, the entire World Bank Group adopted the same principle.

Today, the World Bank's environmental concern evolves around five types of activities: policy dialogue, lending, technical assistance, research, and aid coordination.1 These activities have the following four objectives:

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- to assist member countries in setting priorities, building institutions, and implementing programs for sound environmental stewardship
- to ensure that potential adverse environmental impacts from Bank-financed projects are addressed
- to assist member countries in building on the complementarities between poverty reduction and environmental protection
- to address global environmental challenges through participation in the Global Environment Facility (GEF)

Assisting Countries with Environmental Management

Assisting member countries in their efforts to improve environmental management, while accelerating development, is the principle objective of the World Bank's environmental work.

Among other means, Environmental Action Plans (EAP's) are emerging as important vehicles for assisting borrowers to set environmental priorities and to map out ways of achieving them. They also facilitate better project selection and design, since they allow the World Bank and other lending institutions to collaborate on agreed priority areas. Each action plan is unique, but common goals include:

- furthering environmental policy and legislation
- strengthening the institutional framework for dealing with environmental issues
- building national capacity and developing human resources for carrying out environmental management
- establishing environmental monitoring and information systems
- addressing the management of key natural resources such as soils, water, forests, fisheries, and energy

The number of World Bank loans for environmental management, in direct support of country environmental priorities, continues to rise. Fiscal 1992 saw the approval of 19 projects that were primarily environmental, with World Bank financing of $1.2 billion. Another 43 projects contain significant environmental components.

Environmental Assessment of Projects Supported by World Bank Loans

Environmental assessment identifies ways of making projects more environmentally friendly (or sustainable in the World Bank jargon) by preventing, minimizing, mitigating, or compensating for adverse impacts.

A new Operational Directive on Environmental Assessment, issued in 1992, requires World Bank staff to classify investment projects into three broad categories on the basis of their potential environmental impacts; this, in turn determines the nature and extent of needed environmental analysis and project design.

For projects assigned in Category A (e.g. dams and reservoirs, industrial estates, land clearance and large-scale irrigation, and flood control), a full environmental assessment is required.

Projects placed in Category B (e.g. small scale agro-industry, rural electrification, and rural water supply and sanitation), undergo environmental analysis, but do not require a full environmental assessment.

No environmental assessment or analysis is required for Category C projects, (e.g. education, family planning, health and nutrition), since only positive environmental impacts are expected. Some of us argue, however, that we need Environmental Assessments for all projects in order to better select and prioritize out activities and make choices as to where to spend our limited resources; we need to comprehend that we should not only be concerned with how to prevent damage, but also propagate activities which will help regenerate natural resources already damaged.

Poverty Reduction and the Environment

The World Bank formally recognizes that: promoting development and protecting the environment are complementary aspects of the same agenda; and the World Bank's effectiveness in combating poverty, while protecting the environment, is the benchmark by which its performance as a development institution should be judged.

The country poverty assessments, required by the World Bank's 1992 operational directive, provide the basis for a collaborative approach to poverty reduction by country officials and the World Bank. They summarize key social indicators, such as child mortality, nutrition, immunization, etc., including special environmental constraints and risks facing the poor.

Just to give you an order of magnitude, in the past few years, lending for population, health, and nutrition activities has increased dramatically - from $305 million in 1988 to nearly $1 billion in fiscal 1992.

Addressing Global Challenges

To address global challenges the Global Environment Facility (GEF) was established in 1990 as a 3-year pilot/demonstration program focused on investment and technical assistance to better evaluate interventions on substantive policy and strategic issues. It was jointly implemented by the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), and the World Bank. Since last year the GEF has been restructured to serve as the financing mechanism for the Biodiversity and Climate Change conventions endorsed by the United Nations Conference on Environment and Development (UNCED) in June 1992. As a result, GEF is likely to play an increasingly important role in combating global environmental problems.

Future Directions

New initiatives are under way to improve environmental indicators, which are essential for combining environmental and economic information in policy development, by building on work begun for the World Development Report 1992. The most important of all, however, is the World Bank's expanding research in environmental economics; this has begun to develop the necessary methodologies for sound environmental management through a comprehensive analysis of the environmental costs and benefits of country economic policies.

An Option for Entrepreneurial Leadership

The World Bank activities have been in response to an increasing awareness of the rapidly deteriorating natural heritage. Its contribution, however, even if it reaches its optimum level, which is a long way off, can only have a limited effect in solving the problem of environmental degradation. Much more is needed from many quarters, particularly from the business community.

According to the Business Council for Sustainable Development: "Sympathy and understanding for environmental and development issues in the business community are increasing rapidly. But concern is not the same as leadership. It is the quality of entrepreneurial decision-making that will be crucial in this respect. The question is how can the strength of local and international companies be used more effectively for economic well-being and the preservation of natural resources. The following requirements are to be found at three levels of entrepreneurial activities:

- compliance - the acceptance of entrepreneurial responsibility in the personal sphere
- opportunity - the seizing of chances as they occur in the markets
- responsibility - dialogue with politicians and international organizations as a way of improving the basic conditions." 2

Compliance - Most problems regarding compliance center around three areas. These critical areas are: emissions (pollution of water, air, ground), inefficient use of natural resources (energy and forestry products) and the prevention of accidents which are potentially damaging to the environment (i.e. production and product safety). Companies will, of course, find it much easier to inform the general public about their activities, if they can boost satisfactory - or preferably full - compliance with regulations. Indeed, they will have difficulty maintaining credibility if they fail to monitor their activities and fully disclose every one of their findings. Successful examples exist; what is still widely lacking is a concerted effort from the entrepreneurial arena based on their own initiative.

Opportunity - Prevention comes a good deal cheaper than curing problems that already exist. Many types of opportunities open up for the flexible, market oriented entrepreneur to save money, make money, develop cleaner and cheaper technologies and products, get into new markets early, develop a competitive edge, or save the planet. Environmentally friendly strategies not only demand more efficiency and innovation from entrepreneurs, but also provide them with a good deal of opportunity for entrepreneurial efficiency and innovation. Just how far and how quickly this market potential is utilized depends solely on the efficiency and creativity of individual entrepreneurs.

Responsibility - It is an issue of social and environmental responsibility of the business community combined with profit potential. To quote from Mr. Schmidheiny, the most successful Swiss businessman and chairman of the Business Council for Sustainable Development: "There is growing evidence that we are beginning to reach the limits to traditional patterns of growth in terms of disposing of waste from the production and consumption process. ...The increasing quantity of waste, particularly toxic substances, makes it imperative to minimize the amount of waste produced, to recycle, and reuse discarded materials where possible; and finally in the last resort to find safe methods of disposal of the residue. What has been considered waste in the past will have to be saved as raw material tomorrow." 3

There are a number of examples in the USA, where companies have initiated waste disposal saving programs and they have registered considerable benefits, even in monetary terms in the short run. For example: "... the 3M Company began in 1975 an ambitious program to prevent pollution and eliminate the costs associated with end-of-the-pipe pollution controls. Employees were encouraged to contribute ideas on product reformulation, process modification, equipment design and resource recovery. From 1975 to 1990, 3M estimates that the program saved the company $537 million by dramatically reducing all forms of waste, and thus eliminating the cost of handling that waste." 4 In addition, sequential surveys of 29 companies, contacted by INFORM in 1985 and 1990 on behalf of the Environmental Protection Agency in the USA, provide a number of examples of companies which in the span of 5 years accomplished considerable reduction in their monetary cost and increase in their productivity by adopting environmentally friendly methods.

Finally, I would like to highlight a joint proposal by the International Institute for Sustainable Development and the Business Council for Sustainable Development for a Framework for Corporate Reporting on Sustainable Development. The objective of this proposal was to provide a framework for corporate reporting that will generate the information needed by business executives, investors, governments and other stakeholders to assess the progress in implementing environmentally friendly development policies and strategies. It provides a tool by which entrepreneurs can understand how institutions and behavior are changing and how corporations should respond in their own ways. This proposal calls for each enterprise to:

- assess its own situation and strategies
- develop an appropriate corporate culture to support the strategy adopted
- develop meaningful measures of performance
- issue credible stakeholder reports that track success

It acknowledges that the present corporate reporting process has not presented a complete and realistic interaction between business enterprises and the environment. Natural resources consumed in business activities are treated as "free goods," unless the enterprise has to pay for them. Therefore, at present, it is difficult for stakeholders to assess whether business enterprises are operating in an environmentally friendly manner.

Framework for Corporate Reporting

In order to generate information needed by business executives, investors, governments and other stakeholders to assess progress in implementing environmentally friendly development policies and strategies, a six-part framework was proposed to include:

- performing a stakeholder analysis
- setting sustainable development policies and objectives
- developing a supporting corporate culture
- developing measures of performance - internally and externally
- preparing reports - internally and externally
- instituting a monitoring system

Conclusions

In conclusion, I would like to emphasize that local, national, regional, and international responses to the twin challenges of accelerating development and protecting the environment require new partnerships, especially those that incorporate the vision and energies of private and public sectors in a symbiotic manner. There is a dire need for strategies in which Governments, supported by Development Agencies like the World Bank, support rather than supplant competitive markets. The private sector's repository of innovative talent financial muscle, and technical expertise need to be tapped and supplemented with environmental ethics. How the World Bank, functioning via national Governments and the private sector, reacts to environmental imperatives will be critical for the future. Ample opportunities exist. All that is needed is a forceful desire on the part of Governments and the private sector to exploit the opportunities available for the benefit of humans, our planet, our universe.

References

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