

THE BIO-ENVIRONMENT IN FINANCIAL POLICY

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Scientific and technological progress, as well as environmental degradation, are the characteristics of our epoch. Technological development is viewed, by some, as the cause of most of the environmental destruction, whereas by others as the only way to prevent it.

The economists' point of view is that environmental degradation originates when economic agents impose external costs upon society in the form of pollution. The argument here is that many economic activities are using technology, as well as environmental goods and services, as inputs to output environmental disruption and resource depletion. That applies mainly to the business world that should comply with the idea to prevent pollution as well as to protect the environment by realising that environmental goods and services are not free of charge. Actually, they do have a positive economic value even if there are not any market forces to reveal their true values.

The solution is to find ways of adjusting production and consumption to a level that is in accordance with the environmental carrying capacity. For that reason, policy makers should provide suitable incentives which, faced by those who use or misuse natural resources, will affect their choices of technology and environmental goods. However, many of these economic, environmental and policy aspects are still theoretical where business, industries and technology represent the "real world" situations. The answer lies in proper administrative and financial institutions that would manage to integrate these disciplines into a coherent whole. Under these circumstances, the challenge of the banking sector is to design appropriate financing mechanisms, institutions and policies that would help to address the priority of environmental and development problems, for all kinds of economies.

We must all realise that the challenge of our era is to preserve the environment for the following generations and to adopt a perceptual change in the nature of environmental problems. What had hitherto been viewed as a local or national issue became, in the 1980's, an international and global one. Global concerns at the end of the 1980's, still remain subject to scientific certainty. For example, the greenhouse effect is not yet a scientific fact and the rates of reduction in biological diversity are not known. Even though scientific evidence is essential, it is also essential to alter human behaviour by changing the demand for environmental services and by controlling their supply. However, in order to construct a viable behaviour, it is necessary to start with a proper analysis of environmental problems and this is a task to which a united economical and ecological theory is well suited.

The cost and benefit of environmental effects are not fully reflected in the potential or the actual market. Environmental effects are externalities that represent incomplete or missing markets; in other words, there is market failure. When such market malfunction exists, the malfunctions can be ascribed to the fact that for certain commodities, markets simply do not exist. The fact is that most environmental assets are not marketed. There is no explicit market for clean air, sea views or the carbon-fixing properties of tropical rain forests.

Most real world policy changes create conflicts of interest. Practical policy responses require trade-offs but these necessitate that values are placed on non-market goods in order to construct the appropriate policy intervention. It is necessary to develop tools to place valuations on environmental assets and consequences. To reach decisions, related to projects affecting the environment, attempts should be made to seek the monetary value of any potential environmental damages. Decision makers, implicitly or explicitly, should try to transform all values into a single dimension (i.e. in monetary terms in order to compare them), even if many regard environmental assets as priceless; an approach which is devoid of policy implications.

Once economic and social cost and benefit have been expressed in monetary units, projects under consideration can be assessed according to social profitability. Of course, for a long period of time it was widely believed that it is too difficult and completely impossible to empirically value public goods, such as air or water pollution. Nevertheless, due to the progressive development of economies, many goods and services previously classified as intangible are now classified as measurable. The critical role that valuation plays is, by ensuring the preferences for the environment and by revealing the true proper value of environmental services it promotes sustainable development.

Naturally the difficulty of the concept of sustainable development is in the fact that development implies progress which embodies complex values that may change over time. However, the idea that development and environment must be integrated to "discharge our responsibilities as trustees of natural resource for the generations to come" should be adopted and promoted. (World Conservation Strategy UN).

On the other hand, even if a valuation has been performed and a decision has been made, as to whether or not a project or an investment is socially beneficial or that it promotes sustainability, in accordance with environmental goals, we are still less than half way through. The

design of appropriate financing mechanisms and institutions, that would support such projects and actions and would create opportunities compatible with environmental goals, is the most crucial and determined point.

Application of economic theory and policy, on "real world" situations, manifests itself in, and works exclusively through, particular institutions. The pending environmental crisis requires a structural institutional reform, by which, financial institutions would incorporate ecological and economic perspectives. Therefore, the achievement of environmental goals relies heavily on the role of financial institutions and their policies.

Banks can provide financial assistance to the private or the public sector, to undertake actions and other tasks, to achieve environmental objectives and to accelerate environmental investments. Technical assistance, training teams, investment support and project appraisal techniques are a few of the mechanisms that banking institutions are eligible to channel to the business world, in order to alleviate difficulties and to ensure compatibility with pollution control.

A critical role that the banking sector can play, in the promotion of environmental aims, arises through the transactions and contacts that occur with an enormous number of people daily. Banking institutions are comprised of a significant amount of human resources and, among them, there is a great deal of diversity and differentiation. There are employees with a variety of technical and educational levels, shareholders from many distinct professions and clients ranging from the minimum depositor to the most prominent leading industries of the country. Therefore, the existing opportunity to pass environmental messages to this public is infinite. For example, environmental protection information can be circulated, efficient use of resources can be adopted and advanced and the means or ways of pollution abatement can be promoted. It is reasonable to assume that the continuous briefing and scientific updating on environmental issues would yield an environmentally sensitive and well informed society.

Another important contribution of the banking policy, to environmental preservation, would be the requirements that banks can impose on all projects and investments that they are asked to finance; evaluation and assessment. All projects should undergo an initial environmental examination during the identification phase. A negative determination, of the environmental examination, would mean that no significant environmental consequences are expected to result, whereas, a positive determination would indicate that significant environmental consequences can be reasonably expected. If the latter occurs, an environmental assessment must be conducted and, in that case, the reasonably significant foreseeable effects, both beneficial and adverse to the proposed action, would be presented in a detailed study. The purpose would be to identify mitigating measures or environmental safeguards that should be incorporated into the project design, to offset negative environmental effects. Hence, bank decisions on whether a project is suitable to finance, or not, would be based on the outcome of this complete and comprehensive analysis of the economic and social benefits and potential damages. Moreover, if the borrowers get locked on a specific level of the predicted damages then, an upward deviation could be penalised, whereas, a downward deviation could be rewarded.

In most economies, project financing is heavily dependent on the domestic banking system, in order to overcome economic constraints. However, this need for financing gives a great opportunity, to the banking sector, to advance environmental damages' reduction. Since most of the industries and firms make up the clientele of the banks, there is the possibility for the institutions to monitor pollutants, to control emission levels or to observe whether the means of production are in accordance with environmental standards. As a result, every industry's environmental damages, regardless of size, can be continuously regulated and, if necessary, adjusted. In cases where industries do not comply with environmental limits or rules, incentives for investment in resource conservation or pollution abatement equipment could be provided.

Last, but not least, the contribution of the banking sector to the protection of the environment can be the enhancing of environmental investments. In many market economies, it is expected that the financing of environmental expenditures should be based on the "polluters-pay principle." Accordingly, enterprises and other polluters should use their own resources to finance environmental expenditures. Public expenditures, for the provision of collective environmental services (e.g. clean water, sewage), are usually financed by user charges and/or taxes. However, these expenditures can be facilitated by financial markets. For example, commercial banks can provide loans for environmental assistance and finance. Of course, these environmental expenditures are limited by many obstacles. For instance, changes in environmental policies and institutions create uncertainty about long-term industrial and financial conditions. Also at the national level, the underpricing of energy and natural resources, creates a formidable barrier to long-term environmental investments. Moreover, municipalities lack the capacity to identify and propose economically viable environmental investment projects.

Consequently, banking institutions are asked, one more time, to play another significant role, to overcome these barriers and to offer incentives and support for environmental investments and expenditures. There is clearly a need to focus on policies, as well as on institutions, that would provide an effective method for supplying financial instruments, leading to sustainable economic and environmental development.

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