

The World Bank's Environmental Agenda

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by

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Introduction:

At the United Nations General Assembly Special Session on the environment, James D. Wolfensohn, the President of the World Bank put emphasis on the following set of actions to protect the global environment: Climate Change, Biodiversity and Sustainable Forestry, Desertification and Land Degradation, Water and Ozone Depletion (World Bank, 1997a). He also mentioned, in one of his speeches: "These [responses to global environmental issues] are not fringe activities. They are central to meeting human needs and reducing poverty. I wholeheartedly commit the Bank to do all it can to forge a global partnership to promote equitable approaches to global environmental issues, and to do so quickly. Time is not on our side. This agenda cannot afford to wait."

There is little doubt that the World Bank is much more well prepared to work on environmental issues than it used to be a decade ago. The number of the environmental staff members has increased from five in mid 1980's to around 300 in these days. The vice presidency for Environmentally Sustainable Development was established in 1993. The World Bank is now the world's largest lender for the developing world for the environment. The World Bank's lending for environment projects amounted to \$11.6 billions in 1997 fiscal year, while it was just \$0.03 billion in 1986 (World Bank, 1997b).

Moreover, the World Bank has shown its willingness to "mainstream" global environmental concerns into its regular lending and non-lending service and take a major intellectual and policy leadership role (World Bank, 1997a).

The very question to be asked is whether the existing mechanisms within the World Bank are self-sufficient to deal with the environmental issues, and what sort of rooms it still has, if any, to further enhance its capacity.

This paper does not intend to touch upon all the environmental issues associated with the World Bank's activities. It rather aims at pointing out a few rather "generic" or institutional issues within the system of the World Bank in dealing with the environmental matters. Three such issues, namely "Risk of Environmental Double Standard", "Lack of Mechanism to Deal with Transboundary Issues", and "Environmental Assessment for Program Lending" will be discussed in the following sections.

Interviews with several staff members of the World Bank both those in environmental and non-environmental sections were conducted, in addition to literature survey on relevant documents, for the purpose of identifying such issues. The author wish to express his thanks to those interviewees, who ought to be anonymous, for their assistance given in development of

this paper.

Risk of Environmental Double Standard:

There is no reason not to believe that a bank-financed project is in general "cleaner" than other projects of the same sort in the developing world. For example, a World Bank document (World Bank, 1995) mentions that the Bank-financed coal-fired thermal power plants, implemented over the last ten years, are significantly less carbon-intensive than the same sort of projects not financed by the World Bank. That is, the Bank-financed thermal power plants consume less carbon per unit of energy produced.

It is mainly thanks to the environmental conditions attached to the Bank-financed projects. A loan agreement, between the World Bank and a borrower, usually accompanies conditions, which the borrower is obliged to observe. It often happens that some environmental components are included in conditions. Such conditions may have some environmental standards to be applied for a Bank-financed project, e.g. emission standard for a thermal power station. The standards specified are generally tighter (i.e. less permissible) than ones in a borrowing country. As long as a borrower sticks to the conditions, Bank-financed projects are destined to be "cleaner" than others.

One of the major aims of applying tighter standards to a Bank-financed project is "upward harmonization" of environmental standards within a country, in that a Bank-financed project is supposed to serve as a vehicle to keep upward of environmental standards in a developing nation. The idea behind it is that once the Bank compromises the level of standards, to the same level as ones being applied in developed countries, in accordance with borrower's capacity, it may increase a risk of downward standards, which leads to deterioration of environment in the developing world.

The question to be asked is whether the environmental conditions attached to the Bank-financed projects are really instrumental to improve the environment of borrowers, in other words if the idea of "upward harmonization" really works or not.

The idea seems to the author too optimistic, at least under some circumstances. Let us take a coal-fired thermal power plant as an example: In a large country, where they produce both "clean" and "dirty" coals, the government may selectively provide the Bank-financed power plant with "clean" coals, so that the power station can maintain the emission standards (e.g. SO_x and NO_x concentration) as requested by the World Bank. In this case, "dirty" coals are to be fed into other power plants, which are not subject to the tighter environmental standards. This arrangement is, from the viewpoint of the government, the most cost-effective way of sticking to the conditions specified by the World Bank.

It is questionable, under such a circumstance, if the Bank-financed power station could function as a locomotive towards environmental "upward harmonization" in the country. A rather pessimistic scenario is that the government abandons the effort, to selectively provide the Bank-financed power plant with "clean" coals, as soon as the last evaluation mission of the World Bank has left the country. This viewpoint stems from the fact that the conditions attached to a particular project may give little incentive for the borrower to apply the same "high standards" for the entire nation.

The above mentioned problem partly stems from the fact that an ordinary Environmental Assessment (EA) does not examine "indirect" impacts of a particular project on the borrower as a whole: in this case, whether a Bank-financed "clean project" could materialize the "upward harmonization" within the same sector by providing the government with some incentives. The importance of "sectoral" EA has been stressed by the World Bank (World Bank, 1995), so that environmental issues of a particular sector could be

analyses in relation to policies, institutions and development plans. However, even existing sectoral EA methodologies do not seem adequate to evaluate the impact of a Bank-financed project (with environmental conditions attached) on "downstream" of the sector in the country.

Another issue in a similar context to be raised about environmental conditions, is whether the environmental requirements specified in a particular project are realistic for the borrower or not. In other words whether such conditions have been developed in accordance with the institutional capacity of countries in the developing world and the availability of properly trained human resources. Needless to say, the conditions attached to a project have little chance to be materialized, unless the borrower has sufficient amount of appropriately trained human resources as well as both institutional and legal frameworks.

The author wonders if the World Bank has enough working knowledge about the capacity of borrowers, to the extent a rational judgement could be made about the feasibility of environmental conditions attached to a particular project. It is because rather limited number of the Sectoral Environmental Assessments have been conducted within the framework of the World Bank's lending operation for a particular project (World Bank, 1995), and it sounds too optimistic to believe that the World Bank has working knowledge about the capacity, for the sake of dealing with environmental issues, of the borrowers.

Lack of Mechanism to Deal with Transboundary Issues:

We have reasons to believe that the World Bank is now better equipped with mechanisms to deal with global environmental issues than it used be, say a decade ago. The Global Environmental Facility (GEF) is the major instrument for this sake. It is a financial mechanism which provides grant and concessional funding to recipient countries for projects and activities that address climate change, biological diversity, international waters and depletion of the ozone layer. The GEF covers the difference (or increment) between the costs of a project undertaken with global environmental objectives in mind, and the costs of an alternative project that a country would have implemented in the absence of global environmental concerns. The World Bank management had approved 70 projects in more than 50 countries, totaling GEF grant commitments of \$670 million, since GEF's inception in 1991 through February 1997 (World Bank, 1997c).

The very question to be asked is whether the World Bank has appropriate mechanisms, including the GEF, to deal with various aspects related to the global environment. The author wonders if the World Bank is sufficiently prepared to tackle with transboundary, not necessarily "global", environmental issues: The latest list of the World Bank's Environmental Projects (World Bank, 1997d) includes 85 projects under the category of the "Global Environmental Facility Investment Work Program". Of these, only 7 projects are designated as "regional", 2 projects are under "global" category, and all the rest are activities within a single country. To be more precise, two "global" projects are "Small and Medium Scale Enterprise Program", pilot phase and replenishment. Of seven "regional" projects, three are "Oil Pollution Management Projects in Seas", two are "Ship-Generated Waste Management", and the remaining two projects are "Community-Based Natural Resource and Wildlife Management" and "Lake Victoria Environmental Management".

The above list of "global" and "regional" projects suggests that the issues which can only be solved with a regional initiative have not yet been adequately addressed by the World Bank, even within the aid of the GEF.

It may stem from the fact that the system of the World Bank has been

tailored, in principle, for planning and implementation of its lending operation. The lending operation is essentially a matter to be negotiated and agreed upon between one particular borrower and the World Bank. Mechanisms to deal with a "regional" issue, in which more than one country ought to be involved, are thus generally lacking within the system. It is also the case with environmental issue. The lack of such a mechanism is fatal in dealing with regional problems, which can only be solved through collaboration among countries in the region.

Let us take the transboundary water resources issue as an example: The water resources and related environment of the world are under enormous stress (GEF, 1995). Though efficient use and effective conservation of water resources are required in various water systems, attaining such goals is difficult in international water bodies, because it requires cooperation among riparian countries which is not often the case. As a result, many countries are unable to utilize their shared water resources due to riparian conflicts (Kirmani and Le Moigne, 1997).

Some 60% of world population live in watershed of international water system. The global community is thus in need of modalities to deal with international water bodies in a much better way, both in terms of water quantity and quality. As in armed conflicts among nations, international organizations are expected to serve as a mechanism to mitigate conflicts among riparian countries in an international water body, with a view to more rational management of the shared water system. However, international organizations as a whole, let alone the World Bank, have so far made very limited success in acting such a role. In only a few exceptional cases, such as UNEP's initiative in formulation of the Zambezi Action Plan (adopted by riparian countries of the Zambezi river basin in 1987) and UNDP's taking a mediatory role among basin countries of the Mekong river basin in early 1990's (towards a new framework of cooperation adopted in 1995 by riparians), international organizations were instrumental in formulation of an agreement among basin countries (Nakayama, 1997).

The Indus Water Treaty adopted in 1960 by India and Pakistan is still regarded as the only "success story" of the World Bank in transboundary fresh water bodies, in that the World Bank successfully acted a role of mediator between two riparian countries and that it let riparian countries agree upon the ways and means of sharing the water resources of the Indus River. The World Bank has, however, made few direct interventions in international water affairs in last 37 years thereafter (Kirmani and Rangeley, 1994).

The case of the Aral Sea basin may be a good example in this context: The World Bank (in practice) took over from UNEP in 1992 the leading role in dealing with the environmental disaster of the Aral Sea region. The activity was initiated by UNEP in 1989 in accordance with the request by the former USSR. It was then expected that the World Bank could serve as a coordinator, both among basin countries and within the donor community, so that an integrated regional scheme would be developed and implemented to cope with the environmental disaster. The Aral Sea Basin Unit was established in the World Bank to administer certain donor funds and ensure international coordination. The progress thereafter has been, to say the least, not as fast as it was hoped to be. Though the lending operation of the World Bank was initiated in all the basin countries, i.e. former republics of the USSR in the Central Asia, the development of a regional environmental program and its implementation scheme, to deal with the Aral Sea, has observed a substantial delay. In particular, the idea of the World Bank's coordinating donors has encountered difficulties, and the planned meeting of donors was postponed by a few years. The meeting was at last organized in October 1997, though not as a "donors meeting" but just as a "meeting of participating bodies".

The Aral Sea Basin Unit was abolished, even before the "meeting of participating bodies", without establishing a full-fledged action program, with supports from donors, to combat the environmental disaster.

What is lacking within the World Bank is a functioning mechanism to deal with environmental issues of transboundary nature. The author wonders, in this context, if an ad-hoc mechanism such as now defunct Aral Sea Basin Unit could really be functional and instrumental. The institutional framework of the World Bank has been optimized for country-by-country lending operation. It thus generally lacks built-in incentives, within the system, to work on regional issues, as shown by the project portfolio of the past GEF projects.

Environmental Assessment for Program Lending:

The staff members of the World Bank have been required, since 1989, to classify all the proposed investment projects in accordance with their potential impacts on environment. The classification depends on the type, location, sensitivity, scale, nature and magnitude of potential impacts. Category A projects are supposed to give significant impacts on environment, which are sensitive, irreversible and diverse (World Bank, 1997d). The projects under this category are subject to a full EA. Category B projects may have less significant impacts than those under Category A, and few if any of the impacts are irreversible. An EA is not mandatory for Category C projects, which are supposed not to give adverse impacts on environment.

Of 598 projects screened by the World Bank between 1993 and 1995 for their potential environmental impacts, 67 projects (11%) were classified as Category A, 242 (40%) projects were classified as Category B, and remaining 289 projects (48%) were classified as Category C (World Bank, 1995). Category A projects were concentrated in the agriculture, energy and power, transport, urban, and water and sanitation sectors.

It is remarkable that all the 19 Category A projects approved by the World Bank (IBRD/IDA in this case) are "project" type of lending, and no "program" lending is under this category. The program lending in this context represents loans for structural reform and sector reform, commonly known as Structural Adjustment Loan (SAL).

Most of the World Bank's loans are for specific projects. However, under the assumption, which is based on the past experiences, that projects have a high rate of failure in unstable or distorted economic environment, the World Bank initiated in early 1980's SAL for borrowers, which is designed to support basic changes in economic, financial, and other policies, which may include (a) a greater reliance on market forces, (b) reduced government price interventions and subsidies, (c) limits on public sector involvement in industrial and agricultural production, (d) a better business environment and greater reliance on the private sector, (e) a more open trading system to provide better yardstick for efficiency, and (f) stimulus for competition and export growth.

The adjustment lending in 1995 amounted to 24% of the World Bank's commitments, which is some 10 times larger than the controversial lending for construction of large dams (which is 2 or 3% share of the World Bank's overall portfolio).

It has been a matter of disputes, between NGOs and the World Bank, if SALs have given adverse impacts on environment in recipients or not, in particular for low income group in a country. A report of the WWF-International (Reed, 1992) examined the consequences of SALs in three countries (Cote d'Ivoire, Mexico and Thailand) and concluded that the development paths these three countries pursued had created high level of environmental degradation and generated unnecessary waste and loss of national

wealth. On the other hands, a report of the World Bank (Munasinghe and Cruz, 1995) reviewed several cases, with a view to identifying the broad relationship between economywide policies and environment, and offered the recognition of the generally positive environmental consequences of economywide policy reforms.

We at this stage have no clear-cut answer to the question, namely if SALs could improve or degrade environment of borrowers. It simply requires a lot more efforts and time to have a solid view in this regard.

The question to be asked is why no such program lending (i.e. SAL) has been found in Category A projects, despite the fact that the magnitude of structural reform and sector reform programs are, in terms of the amount of funds, much larger than a single projects for one hydroelectric power station, which has been often a matter of big dispute among NGOs and lending institutes including the World Bank.

The author wonders if the World Bank has developed EA methodologies, which are applicable for program lending operation. The magnitude of impacts of such loans could be much bigger, in accordance with the amount of funds involved, than a single project. The cause-and-effect relationship of SALs ought to be quite complicated, for SALs may give impacts on various sectors in various forms within a country. The analytical frameworks employed for both of the above mentioned reports, namely by the WWF-International and the World Bank, seem rather empirical and experimental.

It is safe to mention that our knowledge about estimating possible impacts of SALs may be insufficient to develop a functional EA methodologies for such program lending operation. However, now that a quarter of the loans of the World Bank is under this category, it seems imperative to put more resources to work on this very issue. It is even surprising to the author, that though SALs have been accused by NGOs as great threats for environment in various countries, very limited number of quantitative (or numerical) analysis have ever been conducted by those involved (i.e. NGOs and lending institutes), and that we therefore still do not have a working knowledge to develop an EA methodology to deal with SALs.

Conclusion:

Three issues related to environment, which need further institutional enhancement and methodological advancement within the World Bank, have been identified. These existing problems may not have quick solutions.

The issue raised under "Risk of Environmental Double Standard" seems rather generic in the system, for it may require some fundamental changes in way of thinking about the possible "trickle down effect" of Bank-financed projects in the developing world. The issue of "Lack of Mechanism to Deal with Transboundary Issues" may not be solved under the present institutional framework of the World Bank, for developing a loan essentially involves only one recipient, and dealing with a regional issue is not within the framework of the World Bank's daily operation. The issue mentioned in "Environmental Assessment for Program Lending" apparently requires more research efforts in development of solid EA methodologies to encompass rather complex cause-and-effects relation of the impacts, on account of a nationwide reform policy.

Solutions for these problems may not necessarily be mutually compatible: for example, changing the institutional framework of the World Bank for the sake of regional issue (e.g. shifting more human resources from country operation into regional operation) might be feasible only at the cost of its capacity to deal with SALs related matter, which is particularly an issue within a single country. Institution-wide review is apparently needed to give priorities on the issues, which are currently not adequately addressed in

the system, so that the World Bank could make best use of its finite financial and human resources to cope with national, regional and global environmental issues. Sharing of environmental responsibilities with other bi-lateral and multi-lateral organizations should also be examined to find out an optimized solution, in the framework of international organizations as well as the donor community as a whole.

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