



World Bank's Environmental Reform Agenda

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Environmental concerns have been at the leading edge of a movement to reform the World Bank over the past 15 years. The bank has come under fire for financing a series of environmentally damaging projects, including dams on the Narmada River in India, transmigration in Indonesia, and road building into the Brazilian Amazon. These projects have led to a variety of adverse impacts in borrower countries, including deforestation and displacement of indigenous peoples.

In response to criticism voiced by environmental advocates and amplified through the U.S. Congress, the World Bank adopted policies and procedures in the late 1980s and early 1990s to assess and mitigate the adverse environmental impacts of individual projects. These reforms included mandatory environmental assessment procedures and the public disclosure of these assessments in advance of project approval. In addition, the bank's board of executive directors has mandated a series of sector-specific policies to guide World Bank

investment in such areas as forestry and energy. For example, the bank's forestry policy prohibits the institution from financing logging in primary tropical forests.

Frustration with the World Bank's lack of vigilance in applying the new policies and procedures led environmental advocates to pursue a second generation of reforms in the early 1990s focusing on increasing the transparency and accountability of lending operations. Again, conditions set by the U.S. Congress were crucial in pressuring bank management to agree to these reforms. As a result, the World Bank must now comply with an information disclosure policy governing the timing and content of documents released to the public. Moreover, the

bank's actions are subject to review by an independent inspection panel established to investigate claims of those alleging that they were harmed by the bank's failure to abide by its own policies.

Along with these policy reform efforts, the World Bank has pursued structural changes and investment strategies intended to demonstrate its commitment to

environmentally sustainable development. A separate environmental unit created in the 1980s has evolved into a vice-presidency for Environmentally and Socially Sustainable Development (ESSD) in the 1990s. The bank has recruited staff with technical environmental credentials to supplement the institution's professional core, which is overwhelmingly dominated by economists. By the mid-1990s, these staff had begun to develop a portfolio of environment-sector projects, ranging from support for national environmental agencies to investments in national parks.

Currently, this sequence of reforms is being replicated in the context of the World Bank's sister organizations, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), which provide financing and underwriting services directly to private sector entities. In 1998 the IFC adopted environmental policies and procedures, and MIGA will follow suit in 1999. Also in 1999, an IFC ombudsman will be appointed, and discussions are under way regarding extension of the bank's independent inspection panel to cover the IFC. The IFC has recruited a small (but growing) group of environmental professionals, and environment-specific projects—including venture capital funds dedicated to biodiversity conservation and renewable energy development—have begun to appear in the institution's portfolio.

These achievements have engendered a sense of complacency in official circles—including bank management and member governments—regarding the urgency of the World Bank's environmental reform agenda. In fact, World Bank President Wolfensohn's much touted "Strategic Compact" with the bank's board in 1997 did not feature environmental performance as a priority objective for improvement.

At the same time, the World Bank has evidenced a growing confidence in its ability to provide global leadership on environmental issues. In 1998, President Wolfensohn convened logging industry leaders from around the world to promote a shift to sustainable forestry practice. In the climate change arena, World Bank staffers have proposed a Prototype Carbon Fund, through which the bank would broker investment flows between industrialized and developing countries tied to reducing greenhouse gas emissions. Critics question the bank's legitimacy as an environmental leader, given its own poor performance record, its failure to mainstream environmental objectives into its lending portfolios, and its failure to engage key constituencies in borrower countries. The moment is clearly ripe for a reassessment of the World Bank's environmental reform agenda.

Key Points

- Starting in the 1980s, the World Bank came under severe criticism for financing a series of environmentally destructive projects in developing countries.
- In the late 1980s and early 1990s, U.S. leadership was instrumental in leveraging key environmental policy reforms and significant mechanisms to ensure transparency and accountability of the World Bank's operations.
- Complacency in official circles, coupled with the World Bank's recent assertion of leadership in international environmental policy arenas, raises questions about the completeness of the environmental reform agenda at the bank.

Despite the achievements highlighted above, the World Bank's mitigation-oriented, "do no harm" approach to the environment has had mixed results on its own terms and has failed to transform the institution into an agent of environmentally sustainable development. In fact, many environmental advocates fear that the World Bank is currently in a period of retrenchment from its environmental commitments. As evidence, they cite the disempowerment of environmental staff through recent reorganizations, the watering down of environmental policies through a recent reformatting exercise, and a proposed reconsideration of the bank's forestry policy in 1999. Moreover, they note that the bank's lending portfolio continues to include environmentally destructive projects, particularly in the energy sector.

A decade after the adoption of much-needed environmental policies and procedures, there continue to be significant lapses in the application of policy reforms. A recently published history of the World Bank characterized its environmental reforms as efforts to deflect outside criticism, not as significant changes in the bank's internal incentives or performance. The bank's continuing consideration of a major oil pipeline project in West Africa, despite the opposition of most internal environmental specialists, indicates that lending imperatives tied to traditional models of economic growth continue to outweigh environmental considerations.

The World Bank's project-by-project approach to environmental issues has also failed to address the fundamental choices faced by borrowers in determining which development path to follow. An internal review of the bank's environmental assessment procedures concluded that it has insufficiently considered alternative ways of meeting development goals. As it is, the bank's focus is usually on mitigating the impacts of its original project designs rather than exploring more environmentally sustainable ways of achieving project objectives. For example, environmental assessments of coal-fired power plants focus on technical methods for reducing the emissions of such plants rather than alternative ways of meeting demand for electricity or active management of that demand.

Environmental assessment procedures have not yet been adequately developed or implemented at the ecosystem, sectoral, or economy-wide levels. For example, in 1996 the World Bank failed to consider the likely impacts of rural road improvement on biologically rich forests as part of its transport sector loan to Cameroon. The narrow focus of the bank is also evident in its structural adjustment loans, which, in addition to increasing poverty, often provide incentives that accelerate natural resource exploitation, while forcing governments to cut budgets for social services and environmental protection. The World Bank's Country Assistance Strategies, which provide a framework for policy advice and lending portfolios, tend not to highlight environmental issues or identify possible strategies to address environmental degradation.

Another problem is the tendency of many environmental advocates, both inside and outside the World Bank, to focus disproportionate attention on the merits of specific projects and on addressing international environmental issues such as biodiversity conservation and

climate change at the global level. Though these efforts are important, they too often overshadow the need for the bank to address environmental issues more strategically through development of progressive investment portfolios and promotion of policy reform in individual borrower countries. For example, although it is important that the U.S. executive director on the World Bank's board vote against environmentally damaging projects, this is not sufficient to change the "upstream" dynamic that generates such projects in the first place.

Similarly, the Global Environment Facility (GEF)—the multilateral mechanism created to finance the incremental costs incurred by developing nations in their effort to comply with global environmental agreements—has largely failed to leverage the World Bank's wider investment portfolio toward environmental objectives. Indeed, in some borrower countries, the funds available from the GEF for projects that directly address global environmental problems have diverted the attention of bank staff and government officials away from the pressing need to support national policy reforms—such as ending subsidies for fossil fuel and timber extraction—that would not only serve national economic interests but would also benefit the global environment.

There is a widening (if unfounded) perception, particularly among borrower nations, that U.S. support for environmental standards is driven by Northern interests and that these standards threaten the sovereignty of Southern governments. Such concerns have fueled recent efforts to restrict the investigative powers of the bank's independent inspection panel and threaten to undo many of the reforms gained through U.S. leadership in the past.

Despite promises to mainstream environmental awareness into its overall lending program, the World Bank suffers from a credibility deficit. Its legacy of support for environmentally destructive projects and devastating structural adjustment programs has undermined its legitimacy as a proponent of environmental objectives. This credibility problem is evident in Indonesia, where the bank is attempting to promote forestry sector reform in the context of adjustment lending. Previous loans and grants to the Ministry of Forestry under the Suharto regime, allegations that the bank ignored that regime's corruption, and the inclusion of a Suharto crony in Wolfensohn's meeting of timber industry leaders all make it difficult for the World Bank to be accepted as a sincere proponent of forestry sector reform. Internationally, the bank's credibility as an advocate of climate protection has been undermined by its failure to redirect its own energy and transport sector lending portfolios away from fossil fuels and toward alternative investments in renewables and energy efficiency.

Key Problems

- The focus on mitigating environmental harm at the project level has not transformed the bank into an agent of promoting environmentally sustainable development in borrower countries.
 - The emphasis on environment sector projects and engagement in global initiatives has distracted attention from national level policy reforms.
 - The World Bank's ability to exercise leadership on environmental issues is compromised by its lack of credibility and legitimacy.
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To meet its commitment to mainstream the environment, the World Bank must realign its internal incentive structures to ensure that sustainability objectives shape all its lending (not just the specifically

Key Recommendations

- U.S. leadership in environmental reform at the World Bank should be reinvigorated with a focus on mainstreaming environmental sustainability into the bank's country and sector strategies and adjustment lending.
- The U.S. should build consensus with other member countries regarding the environmental reform agenda at the World Bank.
- The World Bank's role in a new global financial architecture should be conditioned on its credibility as a proponent of environmentally sustainable development.

environmental projects) as well as the policy reforms it advocates in all recipient countries. National policy reforms leveraged by World Bank loans can do more to advance sustainable development than either its lending for environment-specific projects or its engagement in global environmental policy arenas, although these channels are also important.

To ensure that borrower countries make natural resource management a priority concern and that the bank's role is perceived as legitimate, the World Bank should make certain that discussions with governments include those constituencies most likely to

support environmental reforms. The bank's new emphasis on promoting participation at the project level and assisting borrowers to combat corruption should help ensure that vested interests do not shape government natural resource policies and investments.

In the handful of cases where the World Bank has put environmental policy reform near the top of its agenda with borrower governments and has reached out to domestic constituencies, the response of progressive forces within government and civil society has been promising. For example, several Kenyan NGOs were cautiously positive when World Bank staff floated the idea of an "environmental adjustment" loan to Kenya to be focused explicitly on policy and institutional reforms necessary to promote environmentally sustainable and equitable development. Similarly, many environmental activists in Papua New Guinea supported the bank when it held up a structural adjustment loan conditioned on forest policy reforms.

U.S. foreign policy can assist the World Bank in these efforts in several ways. U.S. environmental leadership in governing the World Bank, in particular through its seat on the bank's executive board, continues to be essential and should be reinvigorated. To be more effective, however, this leadership needs to address new challenges.

First, although scrutiny of the environmental impacts of individual projects brought to the board for approval will always be necessary, more attention must be given to ensuring that environmental considerations are integrated upstream into the World Bank's country assistance strategies, sector strategies, and adjustment lending. The ongoing financial crisis in Asia provides an important test of the bank's ability to integrate environmental considerations into its response. The U.S. should monitor potential threats to the environment (such as accelerated export crop development at the expense of natural forests) as well as opportunities (such as the removal of economically inefficient subsidies for resource use) posed by bailout packages.

In this context, monitoring the environmental performance of multilateral development banks (MDBs), including the World Bank, currently undertaken by staff of the U.S. Agency for International Development, should be extended upstream from individual projects. This monitoring effort, which currently applies a "do no harm" standard at the project level, should be supplemented with assessments of how effectively MDBs are mainstreaming environmental objectives into their country and sector strategies and adjustment lending.

Second, U.S. environmental leadership on the bank's board requires increased investment in consensus building with both wealthy and developing nations at the board level and beyond. However, U.S. leadership and efforts at consensus building on an environmental reform agenda cannot succeed if limited to the level of the World Bank's board. They must be reinforced by the U.S. Treasury Department, the State Department, and the White House in multilateral forums such as the Group of Seven industrialized nations and in bilateral dialogues with other member governments. The environmental dimension of governance of international financial institutions in general and of the World Bank in particular deserve a higher profile and priority in U.S. diplomacy.

Finally, environmental advocates and the U.S. Congress should ensure that the United States inserts consideration of environmental sustainability into ongoing discussions about the design of a new global financial architecture recently occasioned by the series of financial crises in emerging market economies. Specifically, the United States should forge a consensus conditioning continuation of the World Bank's existing mandates—and any new mandates—on its credibility as a proponent of environmentally sustainable development primarily in borrower countries and then at the global level.

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