

WORLD BANK INFORMATION BRIEFS



Environment and Development

In recent years realization has grown that development—reducing poverty—and environmental protection are mutually dependent. Poverty is a major cause of environmental degradation, and environmental degradation exacerbates poverty. Sustainable development will emphasize two sets of policies: those, such as energy efficiency, which promote economic growth while protecting the environment; and those, such as controlling fish catches, which make acceptable tradeoffs between economic growth and environmental protection.

Traditionally, environmental concerns had been limited to the effects of urban and industrial waste disposal on local populations. Now, however, the range of critical issues is far wider. Global warming (also known as the greenhouse effect), and damage to the ozone layer threaten to cause unknown climatic changes, while tropical deforestation contributes to climatic change and also removes permanently from the globe an unknown number of potentially useful species. The transboundary movement of hazardous wastes, acid rain, soil erosion, desertification, threats to indigenous people, and overuse of pesticides are further environmental threats.

This changing agenda of environmental issues has led to a rapid evolution in the way these problems are addressed. Partnership between industrial and developing countries is recognized as indispensable to tackling problems that know no borders and affect all of mankind. Yet past mistakes, which have already done much harm, mean that developing countries have to find a path to growth that differs markedly from the one taken by their predecessors. Likewise, industrialized countries will have to modify their traditional behavior, curbing excessive use of resources and managing waste more efficiently.

Rethinking the Environment

In 1987 the World Bank began to integrate more systematically environmental concerns into the mainstream of its work. This was partly due to the growing awareness that traditional economic activities can sometimes have harmful environmental consequences. Some World Bank projects, notably the Rondonia Highway project in Brazil, the Botswana Livestock project and the Indonesia Transmigration project, have drawn public criticism. The Narmada Dam project in India was also criticized, but the government recently canceled the outstanding portion of the Bank loan for

the project. But there was also mounting evidence that environmental degradation threatens the attainment of the Bank's main objectives: reducing poverty and promoting environmentally sustainable development.

As its contribution to the United Nations Conference on Environment and Development, often referred to as the "Earth Summit," which was held in June 1992 in Rio de Janeiro, Brazil, the World Bank devoted its *World Development Report 1992* to the topic of development and the environment.

The report's main message is the need to integrate environmental considerations into development policymaking. It argues that continued, and even accelerated, economic and human development is sustainable and can be consistent with improving environmental conditions, but that this will require major policy, program and institutional shifts.

A two-fold strategy is required. First the positive links between income growth and the environment need to be aggressively exploited. For example, this calls for the removal of distortionary policies (such as subsidies for energy, chemical inputs, water and logging) that encourage the overuse of natural resources. It also calls for expanded emphasis on population programs, female education, agricultural extension and research, sanitation and clean water, and for more local participation in the design and implementation of development programs. Second, strong policies and institutions need to be put in place which cause decisionmakers—corporations, households, farmers and governments—to adopt less-damaging forms of behavior. Both types of policies are essential.

Project Lending

The Bank has continued to support environmental protection efforts with 19 loans totaling \$1.2 billion in fiscal 1992, compared to \$404 million in fiscal 1990. But the full story cannot be told by stand-alone envi-

ronmental projects. Half of all World Bank projects now have an environmental component of some kind. Accordingly, staff time devoted to the environment has risen. Each year about 270 staff years are spent on environmental work. This corresponds to roughly 6 percent of World Bank staff time.

The Bank will continue to ensure that the projects it finances are environmentally benign. More than a project-by-project approach is needed, however. The Bank is now working at two levels: through rigorous assessment of individual projects, and efforts to help developing country governments build environmental concerns into policymaking at all levels. The pervasiveness of environmental problems requires that economic incentives be created to encourage sound environmental behavior.

Most developing countries face enormous pressures, both international and domestic, to overexploit their natural resources and to put too low a cost on environmental degradation. In Haiti, for example, cutting trees for fuel has severely eroded topsoil, reducing the land available for profitable cultivation. Conventional economic analyses have not measured this consumption of natural capital. In order to provide better estimates of the relationship between economic activities and the environment, a framework is needed to account for consumption of natural resources and to determine environmentally adjusted net income, taking account of the depreciation of natural capital, and excluding certain categories of environmental expenditures. The Bank is pursuing work on such a framework in collaboration with officials from the national statistical offices of developing countries.

Environmental Assessment and Action Plans

To promote preservation of the environment and natural resources, national environmental action plans were started in 1989. They have already begun to help countries better integrate environmental considerations

into their economic policies. They cut across all sectors of the economy and involve national and local officials, academic experts, nongovernmental organizations, and international agencies.

Such broad participation is crucial in the formulation of an action plan, as it is for successfully executing most environment projects. The active involvement of local communities and development organizations may contribute in the long run to better plans and to enabling countries to formulate their own programs.

Also in 1989, the Bank began to more systematically require environmental assessments of projects that have significant negative impacts on the environment. Environmental assessments enable the Bank and its borrowers to detect environmental problems--and remedy them--early in the life of a project. They also help avoid cost overruns and delays that arise when environmental problems appear at a later stage in a project. As a result of environmental assessments, a road in Botswana was rerouted to avoid an archeological site, floodways were redesigned to avoid disrupting a lagoon in Ecuador, and in Uganda the ability of ranges to support livestock was analyzed before augmenting cattle herds.

The Global Environment Facility

A cooperative venture between the World Bank, the United Nations Development Programme, and the United Nations Environment Programme, and national governments, the Global Environment Facility (GEF) is a program of grants to help developing countries deal with environmental problems that transcend boundaries, such as airborne pollution produced by smokestacks or hazardous waste dumped into rivers. The GEF gives priority to four objectives: limit emissions of greenhouse gases; preserve biodiversity; protect international waters; protect the ozone layer. (See Information Brief # E.02.4-93, Global Environment Facility) (Apr.1993)