WRI POLICY NOTE

INTERNATIONAL FINANCIAL FLOWS AND THE ENVIRONMENT

WORLD RESOURCES INSTITUTE

Sustaining the Environment at the World Bank

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The evidence has never been stronger that protecting the environment is not only compatible with the World Bank's development objectives, but in fact essential to achieving them. The Bank lends about $20 billion per year[1] in pursuit of its mission to fight poverty. But analysis indicates that the Millennium Development Goal of halving the proportion of people in extreme poverty and hunger by 2015 cannot be met in the absence of more effective stewardship of the environment.[2] A new conceptual framework — linking improved ecosystem management, better governance of natural resources, and opportunities for poverty reduction — is gaining currency among environmental and development professionals.[3] And in further recognition of the link between poverty and the environment, the G-8 has asked the Bank to take a leadership role in addressing climate change,[4] which poses a particular threat to poor countries and communities. These and other developments have strengthened the case for World Bank leadership in promoting environmental sustainability in client countries and providing support to environmental initiatives at the global level.

At the end of June 2006, World Bank President Paul Wolfowitz announced an internal restructuring of two vice presidencies: the Bank's "networks" for Environmentally and Socially Sustainable Development (ESSD) and Infrastructure were integrated into a new Vice Presidency for Sustainable Development, headed by the sitting Vice President for Infrastructure[5] (the position of Vice President for ESSD had been vacant for several months). While the Bank's outreach efforts described the restructuring as an elevation of the sustainable development agenda, the merger of the environment and infrastructure units raised questions about whether and how the Bank will promote environmental sustainability in its operations. For the first time since 1993, when the ESSD Vice Presidency was established in the aftermath of the Rio Earth Summit,[6] there will no longer be a member of the Bank's senior management specifically dedicated to championing environmental and social objectives.

The impact of the June 2006 reorganization on the Bank's environmental performance will not be clear for some time. However, concern about implications of the restructuring is only the most recent indicator of a gradual erosion of consensus on the appropriate role of the Bank in promoting environmental sustainability. Over the last few years, champions of the environment inside and outside the Bank have been put on the defensive by claims that excessively stringent environmental standards constrain the Bank's ability to finance much-needed development projects. Commitments dating back ten years to "mainstream" environmental considerations into all Bank operations have languished, even as global environmental challenges have grown increasingly severe.

The merger of the environment and infrastructure units raises questions about whether and how the Bank will promote environmental sustainability.

The degree to which the recent reorganization will serve to mainstream environmental issues[7] remains to be seen. But for the Bank to realize its potential to help client countries integrate environmental considerations into development projects and policies, and to exercise global leadership on environmental challenges, it must do more than design appropriate organizational structures; success is at least as dependent on getting the concepts, incentives, and politics right.

The Poverty-Environment Link

The science linking the health of ecosystems to poverty reduction is strong. And yet a persistent challenge for the Bank, and for the development field more generally, is to conceptualize environmental protection as central to long-term poverty reduction, rather than as a sectoral interest to be traded off in favor of growth. The dependence of poverty reduction on the maintenance of ecosystem integrity was driven home last year by the findings of the Millennium Ecosystem Assessment (MA). The Assessment, launched by the United Nations in 2001 in collaboration with a number of public and private organizations, was intended to provide the kind of authoritative scientific consensus on the state of the world's ecosystems that the Intergovernmental Panel on Climate Change provides on climate change. The Assessment took four years to complete and involved some 1,300 experts from 95 countries as authors and reviewers.

The Assessment documented that 15 of 24 types of ecosystem services used by people are in global decline — services such as fisheries and woodfuel production; the availability and quality of fresh water; the regulation of erosion, pollination, and pests; and the regulation of natural hazards.[8] The link between poverty and ecosystems is straightforward: it is poor people whose livelihoods, health, and safety are most directly dependent on the maintenance of ecosystem services.

As a rule, poor people are made not just worse off, but disproportionately *worse off when ecosystems are degraded. It follows that the World Bank must integrate ecosystem protection into its policy advice and investment operations designed to reduce poverty.*

The vast majority of the world's poorest people live in rural areas and depend on the continuing productivity of agricultural soils, forests, and fisheries for their livelihoods. Poor people are the first to suffer increased morbidity and mortality from water pollution — they cannot afford to buy bottled water. And when "natural" calamities such as landslides and flooding take place, it is usually the poor who are most exposed and least well-positioned to recover.[9] One need look no further than New Orleans to see how the poor are disproportionately affected when such disasters strike, even in the world's richest country.

Because many services provided by ecosystems tend not to be priced in the market — provided "free" by nature — they are undervalued in market-driven decision-making.[10] So-called "regulating services" — such as the coastal protection provided by intact mangrove forests — tend to be sacrificed to maximize "provisioning services," such as the shrimp farms that replace mangroves. The World Bank is well placed to help client governments design policy and regulatory interventions to counteract such market failures in the context of both project-based loans and macroeconomic policy advice.

More importantly, the World Bank's mandate requires that it respond to one of the main findings of the Millennium Ecosystem Assessment: as a rule, poor people are made not just worse off, but *disproportionately* worse off when ecosystems are degraded.[11] It follows that the World Bank must integrate ecosystem protection into its policy advice and investment operations designed to reduce poverty in client countries. It would make no sense for the Bank to finance pollution-intensive development on the one hand, and health interventions to address preventable pollution-induced disease on the other. Similarly, it would make no sense for the Bank to support policies that lead to the destruction of "natural" infrastructure — such as upland watersheds and coastal mangroves — only to have to finance relief and reconstruction after a related humanitarian crisis has occurred.

The World Bank supported the Millennium Ecosystem Assessment; indeed, the Bank's Chief Scientist served as Co-Chair of the MA Board.[12] And yet more than a year after the release of the Assessment findings, there is little evidence that those findings have been incorporated into the Bank's policies or operations in any systematic way. The recent World Bank reorganization should thus be judged in part according to whether it accelerates or retards progress toward the genuine mainstreaming of ecosystem protection objectives into development decision-making. To do so will require surmounting obstacles that have stymied implementation of the Bank's previously announced commitments to mainstreaming, as discussed in subsequent sections.

The Relevance of Governance

The signature issue of Mr. Wolfowitz's World Bank presidency to date has been governance. In a major address in Indonesia in April 2006, he laid out a three-pronged agenda for fighting corruption,[13] and he is delivering a new Bank strategy for governance at the Annual Meetings in September 2006. However, attention to the linkages between governance and environmental sustainability has so far been absent in the publicly disclosed draft articulations of the new strategy.[14] Especially in the context of the recent reorganization, there are many synergies to be exploited between the governance and sustainability agendas.

In *World Resources 2005* — a report co-published by the World Bank along with UNDP, UNEP, and the World Resources Institute — the Bank endorsed the argument that improved ecosystem management can provide a path out of poverty when coupled with governance reforms that provide the poor with access to natural resource assets and to decision-making processes that affect them.[15] The need to "get the prices right" has long been central to the Bank's conventional wisdom; the equally important need to "get the institutions right" is less routinely addressed. Yet institutional reform is usually a prerequisite for transforming management of natural resources to serve the interests of sustainable poverty reduction.

Attention to governance issues is of critical relevance to the mainstreaming agenda. The Bank's own analysis suggests that a key to the success of mainstreaming is significant investment of time and attention into fostering inter-institutional coordination, both horizontally across ministries at the national level and vertically across jurisdictions from national to local levels.[16] Without such coordination, health ministries are left out of discussions that result in the development of pollution-intensive industry; electricity-sector policies are made without participation from ministries responsible for rural development; revenue allocations fail to match the needs of local governments.

Implementation of the Bank's so-called "safeguard" policies — including those that require *ex ante* assessment of potential environmental and social costs of proposed investments — can yield governance-related benefits, including the avoidance of costly mistakes due to poorly conceived, corruption-ridden initiatives. In particular, critics who believe the Bank's procedures are too stringent have paid insufficient attention to the utility of safeguard policies as effective tools for the Bank to manage the "governance risk" attendant to large infrastructure and extractive industry projects. Environmental and social impact assessments are among the few vehicles for affected communities and members of the broader public to learn about details of proposed projects and to influence project design.

Transparency International has argued that one of the reasons some borrower governments gravitate to large-scale, capital-intensive projects is the opportunity for graft.[17] The transparent and participatory consideration of alternatives — the hallmark of a robust environmental impact assessment — can help expose and counteract those biases. Moreover, the existence of strong, independent civil society voices in borrower countries can provide a much-needed counterweight to the influence of those with vested interests in maintaining business as usual.

Implementation of the Bank's "safeguard" policies can yield governance-related benefits, including the avoidance of costly mistakes due to poorly conceived, corruption-ridden initiatives.

Governance reform is challenging; indeed, it is one of the least understood aspects of the development enterprise.[18] Yet the integration of environmental considerations into development decision-making will require that accountability for achieving that objective is clarified and strengthened, both inside and outside the Bank.

The World Bank and Climate Change

At the 2005 Summit in Gleneagles, the G-8 handed the World Bank a mandate to develop a clean energy investment framework, and to integrate climate sensitivity into its broader country strategies and operations.[19] Fulfilling that mandate will prove to be a key test of the Bank's ability to integrate economic growth, poverty, and environmental considerations in addressing one of the most important challenges facing the global community, especially in light of the environmental and social tradeoffs posed by many approaches to achieving carbon reductions. How the Bank's new Vice Presidency for Sustainable Development handles the climate issue will provide a bellwether of its likely effectiveness in promoting sustainability.

A recent summary of the science of climate change published in peer-reviewed journals in 2005 asserts that "the physical consequences of climate change are no longer theoretical; they are real, they are here, and they can be quantified."[20] Taken together, the findings suggest that even if greenhouse gas (GHG) emissions were arrested at current levels, the world would be in for significant changes in temperature, rising sea-levels, disruptions in precipitation patterns, and increased hurricane intensity.

The effects of climate change present a particular threat to poor countries and communities — a stable climate being the ultimate "regulating service" provided by ecosystems. A doubling of carbon dioxide in the atmosphere has been estimated to result in economic losses on the order of 1.6 to 2.7 percent of GNP for developing countries overall, about twice the estimate for OECD countries.[21] Developing countries tend to lack the institutional infrastructure — such as insurance markets — to deal effectively with risk, and developing country governments face stringent fiscal constraints in helping their citizens deal with natural disasters. And due to their vulnerability, poor communities within poor countries would likely suffer the most. For example, the livelihoods of poor farmers dependent on dryland agriculture are sensitive to even minor changes in rainfall patterns.

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At the same time, several of the Bank's borrowers are responsible for an increasingly significant proportion of the world's greenhouse gas emissions. While industrialized countries in North America and Western Europe are responsible for some 60 percent of emissions that have accumulated in the atmosphere over the last century, emissions in the developing world are projected to increase more than twice as fast as those in industrialized countries over the next 20 years. During that period, China will likely surpass the United States as the single largest source of greenhouse gases.[22]

Climate change threatens to undermine the World Bank's poverty reduction efforts, and efforts to mitigate emissions must include some of the Bank's largest client countries. With levels of investment in energy infrastructure and services expected to fall far short of projected need across the developing world, the Bank is stepping up efforts to catalyze investment in energy, particularly for the rural poor. It is therefore imperative that all of the Bank's lending operations in the energy sector — and in GHG emissions-intensive sectors in general — be sensitive to climate considerations.

Yet the World Bank's positioning on the issue of climate change is highly problematic. The institution's leadership and governance remain dominated by rich countries, especially the United States, which bear the preponderance of historical responsibility for the accumulation of greenhouse gases in the atmosphere, and which continue to generate significantly higher per capita emissions.[23] But the Bank's sphere of influence over national policies and development trajectories remains limited to poor countries. On the grounds of basic fairness, developing countries have tended to reject suggestions that the Bank curtail lending for fossil-fuel based energy development or otherwise condition lending based on climate considerations.

Perhaps as a result of this sensitivity, the World Bank has until recently avoided exercising leadership on the climate issue, except with respect to carbon finance. A World Resources Institute analysis of World Bank energy sector lending from 2000 to 2004 found that almost 80 percent of investment projects and sector loans failed to take climate implications into account.[24] In 2005, the Bank completed a major infrastructure strategy for the East Asia region that ignored both the implications of infrastructure development for greenhouse gas emissions from the region and the need to adjust infrastructure development plans to adapt to the likely effects of climate change.[25]

But without imposing any new conditionality on its lending, the World Bank can play a role in helping client governments assess the risks to their economies posed by climate change and incorporate that risk into planning and financing decisions related to infrastructure, agriculture, and other sectors. Further, the Bank can help facilitate investment in pro-poor, low-emission economic growth. The Bank could provide developing countries with much-needed assistance in analyzing the emissions intensity of alternative investments and policies, and identifying technical and financial options for decoupling the growth rate of emissions from poverty-reducing economic growth.

In addition to providing policy advice and coordinating among different sources of finance, the Bank could strengthen the negotiating position of developing countries in global climate talks by helping to quantify the adaptation costs that climate change will impose on poor countries, as well as the concessional financing needed to enable developing countries to choose low-emission options.[26]

The potential for Bank leadership on the climate issue is enhanced by an emerging shift in the discourse, from *whether* the donor community should assist borrower governments to explore options for reducing emissions to *how* that assistance should be financed. The onus is thus on industrialized countries — particularly the G-8 — to help developing countries access the technologies and resources to reduce GHG emissions, and to systematically finance the costs of integrating GHG reductions into development projects. While the G-8, and the United States in particular, has yet to put any financial resources toward the Bank's new mandate, even if such resources are made available, the Bank's ability to carry out the Gleneagles plan of action effectively will rest on two further conditions.

First, in order to help clients make significant shifts in the development paths of emissions-intensive sectors toward clean energy options, the Bank would need to improve its performance on mainstreaming environmental concerns into all of its operations, including both project lending and policy advice. Second, the Bank would need to maintain the rigorous implementation of its safeguard policies, especially as high-risk energy technologies such as large hydropower dams and nuclear power are put back on the table. It is essential for the Bank to address the full range of environmental and social considerations associated with the projects and technologies that it supports, including projects that result in carbon reductions. The following sections provide a brief summary of challenges the Bank has faced in meeting these two conditions, with or without the recent reorganization.

The Bank's Previous Commitments to Environmental Mainstreaming

The World Bank has a long-standing commitment to promote environmental sustainability, and has had a separate Environment Department for almost two decades.[27] The Bank's 1992 *World Development Report*, prepared as a contribution to the Rio Earth Summit, made the link between environment and poverty.[28] More than a decade ago, the Bank's annual environment report was entitled *Mainstreaming the Environment*; the report described initial efforts to integrate environmental concerns "…into the *entire* portfolio of the Bank's activities" (emphasis in the original).[29] The Bank's Environment Strategy, approved by the Board of Executive Directors in 2001, highlighted the importance of ecosystem-based livelihoods and the vulnerability of the poor to environmental degradation through exposure to pollution and natural disasters, and charted a course for mainstreaming environmental considerations into the Bank's operations.[30]

These measures have led to a number of examples of "best practice" in promoting environmentally sustainable development in borrower countries. A review of the Bank's environmental performance conducted by its Operations Evaluation Department in 2001 highlighted several achievements, including the Bank's effectiveness in supporting the development of environmental regulatory capacity in a number of countries.[31]

In a few instances, the Bank has even placed environmental sustainability at the center of its policy dialogue with borrower governments. In 2000, an "Environment and Privatization Support Adjustment Loan" assisted the Government of Bulgaria to address environmental liabilities in the context of a large-scale privatization of state enterprises, and to undertake the harmonization of environmental laws and regulations necessary for accession to the European Union.[32] The loan has been considered a "best practice" example of providing budgetary support to enable a government to integrate environmental considerations into macroeconomic reform.[33]

In Mexico, a 2002 "Environmental Structural Adjustment Loan" was explicitly designed to mainstream environmental concerns into key sectors.[34] The loan supported legal and fiscal reforms that enabled municipalities to reinvest revenues from water fees into water resources management, and introduced user fees on marine protected areas for reinvestment in local environmental management. The loan also promoted environmental governance reforms, including decentralization of authority for natural resources management and increased public access to information about environmental impact assessments.

But the preponderance of Bank attention to the environment has been in the context of applying "do no harm" environmental assessment procedures to specific project loans and launching specialized initiatives from Washington headquarters that are only loosely related to country operations. The same review that praised the Bank's efforts to strengthen client capacity in the narrowly defined "environment sector", (*e.g.*, strengthening environment ministries), also found a glaring absence of attention to mainstreaming the environment into lending and policy advice to sectors such as agriculture, energy, and transportation.[35] Revisions to the Bank's operational policy on "development policy" lending (more popularly known as structural adjustment lending) call for analysis of whether specific country policies are likely to affect the environment, forests, and other natural resources,[36] but implementation has been quite limited.

As a result, there is enormous headroom for integrating environmental sustainability into the Bank's operations, thereby helping client governments apply the insights of the Millennium Ecosystem Assessment in the development of sectoral policies and strategies. Such an undertaking would require significant, but by no means impossible, shifts in the conceptual frameworks and staff accountabilities that underpin the Bank's operations. Discussions with client governments about investment opportunities would have to start with a definition of the development need (*e.g.,* the need for transportation services or electricity services) rather than with a preconceived notion of how to fill that need (*e.g.,* with a highway or a coal-fired power plant.) Then, following the guidelines suggested by the World Commission on Dams,[37] the Bank would help clients engage in a comprehensive and participatory assessment of alternative options for meeting the identified need, informed by strategic environmental assessments at sector and landscape levels.

President Wolfowitz's decision to do without a stand-alone environmental unit presents risks that will need to be managed. But the recent merger between the ESSD and Infrastructure vice presidencies could potentially address at least one persistent barrier to mainstreaming: the tendency of transport engineers, agricultural economists, and others concerned with infrastructure development to conclude that concern for environmental sustainability is "not my job".[38] In the absence of a central environment unit, Bank staff will no longer be able to assume that somebody else is looking out for the sustainability agenda.

The Safeguard Agenda at Risk

Twenty years ago, the Bank's first responses to concern about the environmental impacts of its lending operations included development of a framework of "safeguard" policies.[39] The Bank's safeguard framework established procedures for categorizing projects according to the degree of environmental risk posed and for assessing likely environmental impacts and alternative mitigation strategies. In addition, policies were established to guide the protection of particularly vulnerable ecosystems and human communities, such as tropical forests and indigenous peoples. It is no accident that the Bank's social safeguard policies have been developed in tandem with environmental safeguards; environmentally destructive projects have often displaced poor communities and destroyed their natural resource-based livelihoods.

A second wave of policies was put into place in the early 1990s to add the teeth of public accountability to the safeguard framework.[40] These included a more open policy on information disclosure and establishment of an independent inspection panel. Together, such policies were designed to enable communities affected by Bank-financed projects to obtain access to information about planned projects, and to catalyze management attention to problems caused by the Bank's alleged failure to adhere to safeguard procedures.

The Bank's safeguard policies have been welcomed by affected communities and their advocates. They have been used to slow down and modify Bank financing of questionable projects, and in a few instances, to prevent the projects from going forward. But the very effectiveness of the policies has led some to question their value. In 2003, senior managers became increasingly concerned about changes in the Bank's lending portfolio during the presidency of James W. Wolfensohn. Over the years, Bank investment in the "hard" sectors — especially infrastructure — had declined. More ominous for the Bank's financial viability, lending to the so-called Middle Income Countries — those such as Brazil that pay near-market interest rates — was dropping off relative to the Bank's exposure in less credit-worthy countries.[41]

Both of these trends were attributed in part to the so-called "hassle costs" involved in borrowing from the Bank, including the costs of compliance with environmental safeguard policies. According to this line of argument, onerous procedural requirements led Bank staff to shy away from promoting loans for infrastructure projects such as large dams, while those same requirements led creditworthy borrower governments to seek alternate sources of development finance.

While the perception of "hassle costs" is real, and may indeed influence the decisions of borrowers, the claim that environmental safeguards are a constraint on development finance rests mainly on assertion and anecdote rather than rigorous analysis. Indeed, an internal Bank study conducted in 2001, *The Cost of Doing Business*, estimated that the costs of adherence to environmental safeguards represented only about 12 percent of the additional costs incurred by borrower governments to comply with Bank policies, compared to almost 50 percent for compliance with the Bank's audit and other financial procedures.[42]

Nevertheless, various initiatives undertaken by the Bank to increase lending to the Middle Income Countries have included measures to relax the perceived constraints imposed by safeguard policies.[43] One initiative was promotion of a "Country Systems" approach, in which the Bank would certify that a borrower country's environmental policy framework was functionally equivalent to that of the Bank, thereby winning exemption from application of the Bank's policies.[44] Another was development of an Infrastructure Action Plan,[45] designed to get the Bank back into the business of financing "high risk / high reward" infrastructure. The Plan identified the need to clarify the applicability and interpretation of safeguards as one element of a strategy to "address institutional policy constraints" on accelerated lending.

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In parallel to these efforts, in 2004 the International Finance Corporation (IFC) — the branch of the World Bank Group that provides finance directly to private sector clients — embarked on a process to replace its safeguard policy framework with a set of "Performance Standards" in order to facilitate business.[46] Unlike the previous framework of safeguards, which relied on compliance with procedural requirements, the performance standards are based on an "outcomes based" approach. The new approach grants considerable discretion to investment officers and corporate clients in achieving environmental outcomes, but includes few mechanisms for holding them accountable for doing so. The performance standards were approved by the IFC's Board of Executive Directors in early 2006.[47]

By the time Paul Wolfowitz assumed the title of World Bank President in June of 2005, the new discourse on safeguard policies was firmly established. A prominent theme of Sebastian Mallaby's 2004 book on the Wolfensohn presidency, *The World's Banker*, was that environmental advocates had crippled the Bank's ability to help the poor by making it impossible for the Bank to finance large infrastructure projects.[48] And the Center for Global Development, in setting out an agenda for the new Bank President in June 2005, highlighted the reduction of "hassle costs" as a priority challenge.[49]

So far, despite these pressures, the World Bank's safeguard policy framework has remained intact. One feature of the recent reorganization is the relocation of a small core of safeguards-related staff under the Vice President for Operations Policy and Country Services (OPCS) rather than under Infrastructure. The majority of staff responsible for ensuring compliance with safeguard policies in regional operations, however, will be included in the new vice presidency for Sustainable Development, which is also charged with accelerating lending for infrastructure development. The net effect of the restructuring on the operation of the Bank's safeguard system will depend on the specific incentives and accountability mechanisms put into place to minimize conflicts of interest.

No matter how staffing to ensure compliance is organized, the Bank's safeguard policies will remain vulnerable as long as they are perceived to serve only the interests of a narrow constituency. Ironically, questions about the value of World Bank safeguard policies arose just as the private sector was affirming their value as a risk management tool. While the World Bank's safeguard policies were not developed with the intention of establishing international standards, they have emerged as the *de facto* point of reference for managing environmental risk by a range of public and private investors. In June 2003, a group of private banks, including ABN Amro and Citigroup, announced their commitment to adhere to the "Equator Principles," an environmental safeguard framework based on the Bank's policies.[50]

Unlike the history of safeguards at the World Bank — which were imposed on reluctant managers by external constituencies exercising leverage through the U.S. Congress[51] — commitment to the Equator Principles by private banks appears to have been driven at least in part by a genuine appreciation for the business case for managing environmental risk. Several banks had learned hard lessons about the very real financial costs of failing to adequately assess the environmental implications of projects and the resulting risk of community opposition. Tellingly, leadership behind the Equator Principles at private banks came not from public relations or environmental health and safety units, but rather from senior investment officers. Strong commitment from similarly positioned officials at the World Bank to implementing environmental and social protection policies will be critical to ensuring the continuing integrity of the safeguard system.

Looking Ahead

Constituencies for environmental sustainability inside and outside the World Bank will be watching closely in the coming months for signals as to the real implications of the recent reorganization. Box 1 provides a list of questions they will be asking. The merger of ESSD and Infrastructure will require further institutional design to ensure that the sustainability agenda — including all areas previously managed under ESSD — does not take a back seat to the infrastructure agenda within the vice presidency, and will also require new mechanisms to promote environmental mainstreaming into non-infrastructure

BOX 1 **Questions about Implications of the Reorganization**

- How will the new vice presidency exploit opportunities for genuine mainstreaming of environmental considerations into the Bank's infrastructure operations? Will the Bank recognize the value of infrastructure services currently provided by ecosystems, and work to protect them?
- How will the Bank manage potential conflicts of interest between pressures to lend and implementation of safeguard policies? What new staff incentives and accountability mechanisms will be put into place to ensure that the sustainability agenda does not assume a subservient role in its marriage with infrastructure?
- Will the Bank maintain sufficient budgetary and staff support for implementation of the safeguard policies, and for upstream environmental analysis at country and sector levels?
- How will the Bank maintain appropriate support to those sectors previously managed under ESSD that are not as easily conceptualized as "mainstreamed" into infrastructure, specifically agriculture and forestry?
- How will the Bank implement the environmental mainstreaming agenda in thematic areas not included in the new vice presidency, including Human Development (which includes health), Poverty Reduction and Economic Management, and Private Sector Development?

sectors managed under other vice presidencies. For its part, civil society will need to step up efforts to monitor the Bank's environmental and social performance. In the meantime, there are many steps that the Bank's Board of Executive Directors and senior managers could take in the short and medium term to demonstrate that the Bank's environmental agenda has not been "mainstreamed" out of existence.

A first imperative is to articulate a vision for the Bank's role in promoting environmental sustainability. A possible vehicle for development of consensus around such a vision, and elaboration of its implications for staffing, structure, and budgets, is the already-initiated review of the Bank's 2001 Environment Strategy. The Vice Presidents for Sustainable Development and OPCS (where some safeguard functions now reside) should jointly assert leadership in the strategy review process, elevating its profile with internal and external stakeholders. An updated Environment Strategy should integrate insights from the Millennium Ecosystem Assessment, make explicit linkages to the Bank's new strategy on governance and corruption, and clarify the role of the World Bank vis-à-vis various partner organizations. The new strategy should include specific targets and indicators to be monitored and publicly reported to ensure that the sustainability agenda is not lost.

At the same time, the Bank's senior managers need to follow up on the restructuring with new staff incentives and accountability mechanisms to ensure that the mainstreaming and safeguard agendas are carried out at the operational level. Bank staff will be sensitive to early signals about Bank priorities. Accordingly, funding for upstream environmental analysis and downstream supervision should be maintained at a level commensurate with project pipelines. An appropriate share of newly-created management positions should go to environmental and social specialists. Effective proponents of mainstreaming and safeguard compliance should receive positive recognition under an enhanced staff incentive structure.

In the medium term, perhaps as part of a revised Environment Strategy, the Bank should revisit key parts of its policy and accountability framework to ensure that it provides adequate support for mainstreaming. For example, the Bank's current safeguard policies emphasize due diligence to avoid causing unnecessary environmental and social harm in the context of a Bank-financed operation. But the policies do not adequately hold staff accountable for seeking opportunities to "do good" in the sense of mainstreaming sustainability into policy and sector lending. For example, there is no firm requirement that country- and sector-level environmental analysis be updated prior to lending operations with significant environmental implications. Such proactive attention to environmental considerations will be necessary for the Bank to fulfill its G-8 mandate related to climate change in the context of energy sector lending.

Similarly, the Bank's inspection panel mechanism was designed to provide recourse for affected communities after environmental or other harm has taken place. Additional accountability mechanisms should be designed to allow for constructive intervention further "upstream" in the process of projects and policies with significant environmental implications.

Conclusion

It would be a tragic irony for the environment to fall off the World Bank's agenda at this particular moment in history, just when the linkage between poverty and environment has been more firmly established than ever before. For many reasons — the vulnerability of the poor to pollution and natural disasters; the dependence of the poor on healthy ecosystems, good governance of natural resources, and a stable climate — it is clear that if the Bank's core mission is to reduce poverty, it cannot ignore the environment. Even private financial institutions without a poverty-focused mandate have now recognized the need to internalize environmental considerations into investment decisions.

It is clear that if the Bank's core mission is to reduce poverty, it cannot ignore the environment.

In the long term, the impact of the Bank's recent reorganization and reaffirmation of its commitment to sustainable development will be demonstrated by changes in the Bank's overall portfolio, and changes in the Bank's positioning as a global leader on environmental issues. A genuine commitment to the sustainability agenda will manifest in a growing number of operations that help client countries shift their development paths, that respect the role of ecosystems in poverty reduction, that maintain the consistent application of safeguards, and that get the institutions right. The global community is in desperate need of such leadership, and the Bank — in appropriate partnership with others — has the potential to provide it.

Many obstacles must be overcome to move environmental sustainability to the center of the Bank's agenda, where it belongs. Entrenched attitudes that relegate environmental protection to environment specialists, the myth that the "hassle costs" of complying with safeguard policies exceed their benefits, and the reservations of borrower governments about the Bank taking on a role in climate protection all present significant challenges. But all could be overcome with visionary leadership and consistent follow-through from the Bank's senior management, Board of Executive Directors, and Board of Governors. Deploying the Bank's considerable assets toward promoting environmental sustainability in the service of the world's poor should be a priority.

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- To expand participation in environmental decisions. We collaborate with partners worldwide to increase people's access to information and influence over decisions about natural resources.
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- To increase prosperity while improving the environment. We challenge the private sector to grow by improving environmental and community well-being.

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