The World Bank: A Lighter Shade of Green?

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Introduction

Beginning in the late 1970s, independent observers began to criticize the World Bank and other international financial institutions for supporting some of the most environmentally damaging projects occurring in developing countries. These, mostly large, infrastructure projects were often associated with allegations of severe environmental damage, human rights abuses, and long-term negative effects on the economic well-being of the poor in project areas. Even assuming good intentions, the size and scale of many of the projects simply dwarfed the legal and policy infrastructure of the borrowing country.[1] Moreover, the top-down model of development and poverty alleviation that reflected the Bank's operations was soundly discredited by the 1992 Earth Summit's endorsement of environmentally *sustainable* development. The concept of sustainable development, with its emphasis on the integration of environment and development, its recognition of the importance of human rights and governance issues to development, and its priority given to local participation in development decisions, presented new and broad challenges to World Bank operations.

In response to both the practical and the conceptual challenges presented by the global environmental movement, leading up to and following the Earth Summit, the Bank took a number of steps to position itself as a leader in environmentally sustainable development. Among the most significant were the development of a policy framework for environmental protection, public participation, and some social issues; the creation of accountability mechanisms, including the World Bank Inspection Panel and the ombudsman at the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA); an increase in the number and status of environmental professionals working at the Bank; a proactive effort to be the primary financier of global environmental protection activities in developing countries; and an increase in the amount and visibility of environmental projects, including technical assistance support.

As a result of these changes, World Bank officials now maintain that their environmental problems are in the past. The 'new' Bank is allegedly more sensitive to environmental and social concerns and more attentive to complying with the policy framework. Yet the Bank remains controversial. Thousands of protesters disrupted its annual spring meeting in Washington, DC. This was followed by heavy criticism of the Bank's support of an oil pipeline in Chad and Cameroon.

Recent protests notwithstanding, the Bank has indeed made advances. Its current policy framework is generally strong, particularly with respect to resettlement and consideration of indigenous peoples' interests. The Bank plays a leading role in several initiatives, including the Global Environmental Facility (GEF) and the Montreal Protocol Fund, aimed at addressing global environmental issues. It employs many excellent and committed environmental professionals, although they are often ghettoized from the core functions of the Bank. The International Finance Corporation (IFC), in particular, has emerged in the past few years as a potential leader in promoting environmental and social concerns in public–private partnerships. Their policy framework, environmental staff, ombudsman office, and top management all seem to be committed to integrating the concerns of local communities and environmental protection into their decision-making, although they too have yet to demonstrate that such a commitment can shift the institution towards lending that provides sustainable development impacts.

As the following analysis suggests, despite these significant advances, the Bank is still mired in a development paradigm that does not effectively promote environmentally sustainable development. Consideration of environmental issues may be 'mainstreamed', a policy framework may be in place, staff may be employed—but the dominant culture of approval at the Bank, and the pressure to lend emanating from both donor and borrower finance ministries, means that it has not yet effectively integrated environmental concerns into the core of its lending operations. Even the Bank's own reports conclude that it focuses too much on the 'do-no-harm' agenda and has failed to integrate environmental concerns proactively into its operations.[2]

Introduction to the World Bank Group

The World Bank was established in 1944 to finance projects, originally in war-torn Europe and Japan. Supplanted significantly by the Marshall Plan for the reconstruction of Europe, it eventually turned to poverty alleviation in developing countries as its major objective. The Bank is currently comprised of four separate, but related, institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). IBRD and IDA provide loans to support public-sector projects and are for most practical purposes the same organization; they share policies and staff. The primary difference between the two is that IDA provides concessional or low-cost loans to the poorest countries (those having per capita income below $US1,465, in 1994 dollars), whereas the IBRD provides loans at a higher rate (although a rate still below market level) to other developing countries and to countries in economic transition. Together IBRD and IDA are most frequently referred to as the World Bank. IFC and MIGA provide financial support to private-sector projects in all developing countries or countries in economic transition. IFC makes loans and equity investments in private-sector projects, and MIGA provides insurance against political risks faced by private-sector investments in developing countries (i.e., risks from civil unrest or war). IFC and MIGA have separate policies and separate staff.

Each of the four institutions of the Bank Group is comprised of member countries who have agreed to each institution's By-Laws and Articles of Agreement. The member countries are represented by a Board of Governors that meets once a year, but the most important policy-making body for the World Bank Group is the Board of Executive Directors. The Board of Directors, which meets several times a week at the Bank's headquarters in Washington DC, approves every loan and sets broad policy for the Bank. The Executive Directors are nominated by the countries they represent and receive instructions from the respective capitals. Most decisions at the Board of Directors are made by consensus, but when a vote is necessary a majority of the Board's membership, weighted by the voting share, is required. Voting shares are based on financial shareholding percentages, which are loosely based on a country's share of the global economy. The United States has the largest voting share of 17 per cent. The seven largest industrial countries (the G7) comprise 45 per cent of the voting shares at the Bank, and all of the donor countries together comprise a solid majority of the vote. The Board meetings, decisions, and minutes are not open to the public. The five largest donor countries, plus Russia, China, and Saudi Arabia, each have their own representative on the Board of Executive Directors. The remaining countries are grouped together and have a collective representative.

The Bank is presided over by the World Bank President, currently James Wolfensohn, who also acts as the Chair of the Board of Directors. The management is responsible for the day-to-day operations of the Bank, subject to the policies and other decisions set forth by the Executive Directors or member governments. Each year the Bank supports $US22 billion in projects, including $US6 billion to the poorest countries, and leverages an additional $US50 billion from other financial institutions. The Bank is also the recognized leader among development organizations, often setting precedents and priorities for other institutions to follow. Its influence is expanded further by coordinating other donors, mobilizing bilateral and increasingly private-sector financing, conducting policy research, and providing technical assistance.

In recent years, the role and visibility of the private-sector arms of the Bank Group, IFC and MIGA, have increased substantially. Indeed, IFC and MIGA are the fastest growing parts of the World Bank Group, and their operations leverage substantial amounts of private capital as well. IFC and MIGA are separate, independent organizations, although each of the World Bank Group members share almost identical Boards of Executive Directors, with the Bank President always the Chair. IFC and MIGA projects have not escaped controversy. For example, in 1997 an independent investigation authorized by World Bank President James Wolfensohn into IFC's financing of the Pangue/Ralco complex of dams on Chile's BioBio River uncovered significant policy violations by, and systemic problems with, IFC's environmental and social compliance.[3] Although, to their credit, IFC's management moved relatively swiftly to address many of the shortcomings documented in that report, the full report was never released publicly and the situation at the project site was not significantly improved.

When the World Bank was established, environmental protection was decades away from being on the international agenda, and, not surprisingly, none of the Bank Group's Articles of Agreement mention the environment. As the connection between poverty alleviation and environmental protection has grown clearer, however, the Bank's vision of development has expanded, and it no longer questions the fundamental relevance of environmental issues to its operations (although the same cannot be said of its approach to human rights and governance issues). As shown below, however, the acceptance of a sustainable development mandate has not led to the effective integration of environmental concerns into the core

lending activities of the Bank.

This integration, in theory at least, was to be achieved through development and implementation of a series of safeguard policies. These policies are critical to minimizing the environmental and social harm caused by the Bank's core lending operations. The Bank's recent record with respect to the safeguard policies and their implementation is discussed below. Yet reliance solely on the safeguard policies leaves the Bank mired in a 'do-no-harm' approach that fails to provide for the more proactive role that the world's leading development agency must play to address sustainable development challenges. The challenges of a proactive role for the Bank are also discussed below.

The Environmental and Social Policy Framework: The 'Do-No-Harm' Approach

Over the past two decades the World Bank has formulated a series of environmental and social policies intended to ensure that its staff were adequately addressing environmental and social concerns in their lending operations. A number of these so-called safeguard policies and procedures relate to the environment, beginning with the adoption in 1984 of *Operational Manual Statement 2.36 on Environmental Aspects of Bank Work* (OMS 2.36). This set forth eight principles that are still informative of the Bank's approach to the environment:

- the Bank will endeavour to ensure that each project affecting renewable natural resources does not exceed the regenerative capacities of the environment;
- the Bank will not finance projects that cause severe or irreversible environmental deterioration, including species extinction without mitigatory measures acceptable to the Bank;
- the Bank will not finance projects that unduly compromise the public's health and safety;
- the Bank will not finance projects that displace people or seriously disadvantage certain vulnerable groups without undertaking mitigatory measures acceptable to the Bank;
- the Bank will not finance projects that contravene any international environmental agreement to which the member country concerned is a party;
- the Bank will not finance projects that could significantly harm the environment of a neighbouring country without the consent of that country; the Bank is willing to assist neighbouring members to find an appropriate solution in cases where such harm could result;
- the Bank will not finance projects which would significantly modify natural areas designated by international conventions as World Heritage sites or biosphere reserves, or designated by national legislation as national parks, wildlife refuges, or other protected areas; and
- the Bank will endeavour to ensure that projects with unavoidable adverse consequences for the environment are sited in areas where the environmental damage is minimized, even at somewhat greater initial costs.[4]

Subsequently, the Bank adopted a system of Operational Directives (OD), Bank Procedures (BP), and Good Practices (GP) that together comprise its environmental and social safeguard policy framework. *Operational Directives* and *Bank Procedures* are substantive policy instructions that Bank staff must follow in all operations and projects. *Good Practices* are discretionary. After considerable debate, both IFC and MIGA also began adopting environmental and social policies.

Among the most important of the World Bank's environmental and social policies is one that requires environmental screening and assessment of the most environmentally damaging projects.[5] This screening involves classifying projects into three categories depending on the extent of environmental impacts associated with the project. Category A projects, which have 'significant adverse impacts that may be sensitive, irreversible and diverse', must undergo a full environmental assessment. Category B projects have adverse impacts that are 'less significant' than those of Category A, with few, if any, that are irreversible. Category C projects normally do not require any environmental analysis 'because the project is unlikely to have adverse impacts.' The Bank also has important policies on access to information, consultation with local communities, involuntary resettlement, and indigenous peoples. These policies include general recommendations regarding Bank activities, as well as specific conditions, procedures, and prohibitions on lending.

These environmental and social policies can perhaps best be understood as the fabric of rules—the body of law in essence—adopted to lead the Bank's transition towards sustainable development in light of the growing call for integrating environment and development that occurred around the time of the Earth Summit. The policy framework thus embodied the Bank's commitment to sustainable development and in many ways represented a new bargain between donor and borrower governments. In the future, money would be available not for old-style development, but for sustainable development that was based on tenets of environmental protection, respect for human rights, local participation, enhanced governance, and in-

creased transparency. These new policies thus set the conditions by which donor countries could expect future Bank projects to be designed and implemented.

The Bank's environmental and social policy sets minimum standards not only for the World Bank; it has also set the standards for the regional development banks and for national environmental policies. In the past year or two, however, the Bank has begun to revisit its environmental and social policy framework in ways that could weaken the policies on resettlement or indigenous peoples, for example. What is needed instead is an extension of the policy framework to cover significant gaps, several of which are described below.

Applying Environmental Assessment to Adjustment Lending

In the last few years, World Bank lending has shifted significantly away from project-oriented activities to adjustment lending aimed at providing broad macro-economic support to entire economic sectors. This shift potentially leaves a growing portion of the Bank's lending activities entirely outside its policy framework, as the environmental assessment policy, for example, does not currently apply to structural adjustment lending. Sector-specific adjustment loans (SECALs) are covered by the assessment policy, but (at least in the past three years) the Bank has never categorized a SECAL as a Category A project requiring environmental assessment.[6] Yet adjustment lending can have significant impact on the environmental sustainability of development patterns within a country. Applying environmental assessment procedures to adjustment lending would not be without its methodological challenges, but it is nonetheless possible and necessary.

Human Rights at the Bank

For the most part, the World Bank has yet to consider adequately the human rights records of its borrowers or the human rights implications of its projects. Except in situations where the violation of human rights has created conditions hostile to effective implementation of projects or has other adverse economic consequences, or where there are international obligations applicable to the Bank (such as those mandated by binding decisions of the UN Security Council), the World Bank does not take into account non-economic dimensions of human rights in its lending decisions. Thus, for example, it has recognized the close link between its poverty alleviation goal and the fulfilment of the UN International Covenant on Economic, Social and Cultural Rights, which codifies rights to work, to have a minimum standard of living, to be free from hunger, and similar economic-related rights. On the other hand, the Bank has not embraced the UN International Covenant on Civil and Political Rights, largely because it maintains that recognition of these rights would constitute interference in the political affairs of member countries and contravene the Bank's Articles of Agreement.[7] The Bank's failure to recognize civil and political rights has led it to ignore serious human rights violations associated with projects and activities it has supported. At the least, the Bank has been complicit in massive and well-documented human rights violations, including resettlement activities associated with India's Narmada dam, Indonesia's Kedung Ombo project, and the more recent China Western Poverty Reduction Project. Although the Bank has begun to take some steps toward recognizing and supporting civil and political rights, the mythology that it simply cannot consider such rights when making project-lending decisions still predominates. To break with its past, the Bank should issue a new policy on human rights that, at a minimum, requires it to take into account international human rights standards.

Business Confidentiality at IFC

As noted above, IFC and MIGA have recently issued their first set of environmental and social policies. At least with respect to IFC, these policies, along with other institutional changes, have positioned IFC to take a leadership role in promoting sustainable development in the private sector. One major exception to the IFC's leadership position, however, is its invocation of business confidentiality as an excuse for restricting substantial environmental and social information that should be made public. The IFC information policy essentially allows the project borrower to label any information as confidential, thus abdicating IFC's responsibility to set a reasonably balanced standard for public disclosure. Perhaps most important, specific environmental and social covenants in loan documents—even those that might have emerged from consultations with the public—are also not released. This makes public monitoring of project implementation impossible and undermines the incentives for local communities to engage constructively in project design.

The Implementation Gap

More serious than the existing gaps in the policy framework, however, is the Bank's continuing systematic lack of effective compliance with its policies. The Bank's failure to comply with its policies has been documented in a number of independent reviews and studies through the past decade. Most recently, in June 2000, the Bank's independent Inspection Panel found systemic and multiple violations of Bank policies in the development of the China Western Poverty Reduction Project, a controversial pro-

gramme involving the relocation of ethnic Chinese into traditionally Tibetan and Mongol lands. Pressure to approve the loan before China lost its status under IDA led to substantial non-compliance with Bank policies and apparent rubber-stamping from top officials who are charged with answering implementation of the policies. The Bank's management proposed to fix the policy violations by conducting further studies and improving consultation among affected communities.[8] Both China and the Bank's management also sought to avoid any further review of the project by the Board of Executive Directors. In a highly contentious decision, a majority of the Board rejected the management's approach and supported further Board review once the project was ostensibly brought into compliance with the policies. Facing additional conditions on the loan, China withdrew the project. The Board's decision upheld the importance of the policy framework, although it is too soon to tell what the long-term implications of this decision will be for policy compliance.

Compliance with the environmental and social policy framework has long posed a significant problem for the Bank, and many analysts have linked this non-compliance to the failure of Bank projects to develop sustainable development benefits. For example, the 1992 Morse Commission Report, commissioned by the Bank and headed by a senior Canadian diplomat, Bradford Morse, reviewed the controversial Sardar Sarovar dam on India's Narmada River and meticulously documented clear and systematic violations of Bank policies on environmental impact assessment and involuntary resettlement, and the devastating human and environmental costs of those policy violations. The report concluded that the responsibility for improper resettlement of thousands of families appeared to 'rest with the Bank' and that the 'history of the environmental aspects of Sardar Sarovar is a history of non-compliance.'[9]

The Morse Commission's findings that the Bank largely tolerated the borrower's violations of its social and environmental policies were not an aberration but a systemic part of the Bank's culture. A 1992 report written by Willi Wapenhans, then Vice President of the Bank, criticized the Bank's pervasive 'culture of approval', in which the incentive structure encouraged staff to perceive the appraisal process as merely a 'marketing device for securing loan approval'. According to the so-called Wapenhans report, this culture of approval led to the promotion of projects based on financial considerations, without adequate attention to the social and environmental implications of those projects. In essence, the failure of the Bank to ensure compliance with its environmental and social policies meant that the promise of sustainable development embodied in the policies was being sacrificed to the expedience of moving money through the pipeline. The Wapenhans report also linked the policy violations to the failure of more than a half of all Bank projects to achieve sustainability of their development impacts.[10]

Nor has the lack of compliance or the resulting failure to achieve sustainable development impacts changed during the Wolfensohn era at the Bank. The Bank's own 1999 assessment of development effectiveness concluded that still more than half (51 per cent) of all the Bank's existing projects were not likely to provide sustainable development impacts.[11] This is essentially the same level as documented from the Wapenhans and Morse Commission era (54 per cent from fiscal years 1990–1993). These general figures are reflected in specific compliance failures at the project level, including, for example, the China Western Poverty Reduction Project described above.

The result, among other things, is that the Bank is once again revamping its policy compliance unit and undergoing a potentially divisive debate over the nature of the policy framework. The Inspection Panel in its report on the China project noted that Bank staff have a widely divergent view of how to interpret the policies, including whether the policies are meant to be aspirational guidelines or prescriptive standards.[12] In responding to the Panel's report, the Bank's management argued that the policies were not meant to be taken 'literally'. This lack of commitment to the policy framework by top Bank management, coupled with the overall culture of approval, leads to an atmosphere where environmental and social safeguards can be sacrificed for short-term expedience. Until the culture of the Bank shifts considerably to one that values *better* projects (even if they are smaller and slower), the Bank cannot be expected to promote sustainable development effectively or comply with its environmental and social policies. Nor (at least until the Executive Directors' recent vote on the China project) has the Bank's management or Executive Directors demonstrated the political will to enforce the environmental and social policy framework in the face of opposition from borrower countries.

Moving Towards Accountability Through Independent Reviews

If a bright spot exists in the Bank's recent efforts to develop and apply an environmental and social policy framework, it is in the development of independent review teams and accountability mechanisms. The experience with the Morse Commission's review of the Narmada dam demonstrated the utility in having independent reviews of the Bank's operations. Subsequent pressure from environmen-

tal NGOs and donor countries led to the creation in 1993 of the World Bank Inspection Panel to provide a citizen-based accountability mechanism.

The following excerpt explains the Panel's goals and operating procedures (references in these procedures to the 'Bank' include IBRD and IDA):

> The Panel has been established for the purpose of providing people directly and adversely affected by a Bank-financed project with an independent forum through which they can request the Bank to act in accordance with its own policies and procedures. It follows that this forum is available when adversely affected people believe the Bank itself has failed, or has failed to require others, to comply with its policies and procedures, and only after efforts have been made to ask the Bank Management itself to deal with the problem.[13]

The Inspection Panel, which formally opened in 1994, is an innovative forum for those people most directly affected by World Bank projects to raise their concerns at the highest levels of the Bank. The Panel is an avenue of last resort, to be used when the staff of the Bank have been unresponsive to the concerns of the affected people.[14]

The Inspection Panel is a unique institutional development. It represents the first time that a global institution has created a direct line of access for citizens to monitor its own operations. The Panel thus places the power to initiate oversight in the hands of citizens, often living and working at the project level. As a result, it has the potential to bridge the gap between top-level decision-makers at the World Bank and the people who actually feel the impacts of those decisions. By amplifying the voices of project-affected people, the Panel offers the Bank a critical avenue for moving towards a more sustainable development model and provides a range of related benefits at every level of the institution—from the Board of Directors, which is provided with unscreened, field-based information; to the Bank's management, which is provided with another tool to help ensure policy compliance; to the project task managers, who can use the Panel's investigations and findings as a way to improve project implementation; and to affected communities, who can call for accountability and transparency in the Bank's operations.

Unfortunately, the Panel's role and value have not been fully accepted either by the Board of Directors or by the Bank's management and staff. For most of the Panel's existence it has been under almost constant 'review' by the Board of Directors, and its recommendations and independence have been undermined by deep rifts at the Board level and suspicion from senior Bank management. The Panel has received more than 20 claims in its six years of operations. About half of those claims have been rejected as insufficient by the Panel itself, but, of the remaining claims, only four full investigations have been allowed by the Board. As a result, the Panel has never been allowed to achieve its full potential for improving the Bank's performance.

Because the Inspection Panel does not currently apply to IFC and MIGA, those institutions have also looked for ways to provide enhanced citizen-based accountability. In 1999, IFC and MIGA created a new position of Compliance Advisor and Ombudsman (CAO). The CAO is another innovative approach to trying to enhance accountability. The CAO has just recently issued its operating procedures and has not yet been tested with a project-based claim.

The implementation gap experienced by the Bank does not result simply from a lack of supervision or monitoring, however, and no amount of Inspection Panels or ombudsmen are going to solve all of the institution's implementation problems—because the failure to implement a project well results in part from poor project design, based on clearly incorrect assumptions about borrowing-country conditions. The pressure to lend leads Bank staff to promote projects that are simply ill-suited for the fiscal and regulatory environment for which they are being proposed.[15] For example, in the massive Yacyreta project in Argentina and Paraguay, the moneys for dam construction were released before Argentina lived up to its commitment to provide resettlement funding to the displaced communities. Certainly this reflected a lack of Bank supervision, but it also manifested an unrealistic view of the borrowing-country's willingness and capacity to carry out the integral social and environmental components of the project. This same trap of unrealistic assumptions plagues the Bank today and underlies the most controversial project approved by the Bank in years, the Chad–Cameroon pipeline given the go-ahead on 6 June 2000. According to environmental and humanitarian organizations, the project assumes substantial improvements in the governance structures of Chad and Cameroon if development benefits are to flow to local communities.[16] Undoubtedly the project will result in oil flowing through the pipeline, but as a development project it currently exhibits many of the conditions that in the past have led to failure as a poverty alleviation project (for example, countries with weak governance, broad corruption, and little respect for human rights).

The World Bank as Proactive Environmental Leader: Mainstreaming the Environment

The above focus on the World Bank's environmental and social policy framework highlights the 'do-no-harm' agenda of much of the Bank's response to environmental concerns. Both critics and supporters, alike, however, would say that focusing on the Bank's project lending is

only half of the picture. The Bank can also be a proactive, positive force for the environment. Indeed, at least since the 1992 Earth Summit, it has successfully positioned itself as the primary international financier of environmental projects. From 1994 to 1998, for example, the Bank provided more than $US800 million a year in support of environmental projects (not including grants made from the Global Environment Facility). This figure dropped considerably in 1999, to $US539 million, although it is too soon to know whether this marks a new trend or is an anomaly.[17] Some observers have also claimed that the reduction in 'environmental' projects is due to the better integration of environmental concerns in all projects.

In addition to bankrolling environmental projects, the World Bank provides significant technical and legal environmental assistance to developing countries. According to its Environmental Law Department, the Bank has assisted in developing environmental legal and institutional capacity in more than 50 developing countries since 1992. In addition to overseeing the development of environmental framework legislation, the Bank has provided support for sectoral environmental laws (i.e., mining or industrial sector environmental standards), the development and strengthening of environmental institutions, and the implementation of multilateral treaties. The Bank also assists in the development of Country Environmental Strategies, which identify environmental priorities for foreign assistance, and has pioneered the use of National Environmental Action Plans (NEAPs), which identify a country's most pressing environmental issues and set priority actions for addressing those issues. [18]

The Bank has become a major player on global environmental issues. It administers the GEF and the Multilateral Fund and participates as an observer in most environmental negotiations. It has also funded high-profile pilot projects, including most recently its Prototype Carbon Fund, which it hopes will demonstrate how to finance the future global carbon market being created under the Kyoto Protocol to the UN Framework Convention on Climate Change. In keeping with the Bank's efforts to become the 'Knowledge Bank', these initiatives are potentially valuable learning opportunities, but they do not necessarily reflect any major greening of the Bank's portfolio towards sustainable technologies or approaches.

Given that the World Bank Group controls an increasingly valuable and scarce resource (i.e., public funds), many observers believe that the Bank should be more proactive in selecting and promoting environmentally sustainable technologies that will help these technologies gain greater acceptance in the global market-place. This would require environmental concerns to be injected into the project prioritization and design phase at the earliest possible stages. To mainstream environmental concerns in this way, the Bank must move them 'upstream'. Conceptually, at least, this should occur through the Country Assistance Strategy (CAS). The CAS is the Bank's basic instrument for setting development priorities through a dialogue between the Bank and its borrowers. Despite recent focus on the role of the CAS, the Bank has yet to demonstrate that environmental priorities will be given sufficient attention in the CAS process. For the most part, this is still dominated by a few financial and economic ministries, with little input from environmental ministries or the public. As a result, even the Bank has recently recognized that 'incorporating environmental issues generally in the CAS formulation process is a challenge. An analysis of CASs completed in F.Y. 99 revealed that while most CASs included specific sections on the environment, they often presented the environment in isolation from other priorities, rather than as a cross-sectoral issue.'[19]

The failure of most CASs to highlight environmental goals or approaches means that the Bank is still not able to promote environmentally sustainable approaches proactively. Nor is it politically willing to set institution-wide numerical targets in ways that would allow for Bank-driven shifts in its portfolio mix. This is perhaps most evident in the recent debate over revisions to the Bank's energy policy. The Bank's own Environment Department, as well as environmental organizations led by Friends of the Earth, called on the Bank to endorse explicitly a target of 20 per cent of its total energy portfolio for investments in alternative and renewable energy, demand-side management, and energy-efficiency programs.[20] Such investments were not only seen as good for the environment, they were also more likely to deliver energy to the rural poor (a sector frequently ignored by large traditional energy projects). However, the Bank's upper management and Board of Directors rejected the percentage-based targets. The resulting energy strategy essentially supported the existing pipeline of alternative energy projects but did not lay out a framework for promoting any new lending for alternative energy.

Conclusion

The World Bank's current impact on the environment is undoubtedly more complex than at any time in the past. For example, the Bank remains the largest public-sector international financier of projects that cause greenhouse-gas emissions, and at the same time it administers substantial funds to address climate change and experiments with innovative approaches to carbon accounting and carbon markets. The Bank's staff, research, and publications position it as the home of tremendous potential for explor-

ing and defining the goal of sustainable development, and yet the environmental staff and research is frequently isolated from the Bank's primary mission of project lending. In short, despite some meaningful advances, the Bank still falls short of effectively integrating environmental concerns into its vision of sustainable development. Frances Seymour, a leading environmental observer of the World Bank, has observed:

> It is fair to characterize most of the progress to date as incremental improvements to 'business-as-usual', not yet constituting the paradigm shift to a 'sustainability approach' that is needed . . . The challenge is not only to 'mainstream' environmental concerns into all Bank operations, but also to move 'upstream' and include environmental sustainability as an objective of sector- and country-level assistance strategies.[21]

The Bank essentially confirms this observation, stating in its May 2000 report on *The World Bank and the Global Environment* that 'there has been a growing realization both within and outside the institution that the [World Bank Group's] environmental program has remained too focused on "doing no harm" rather than proactively supporting environmentally sustainable development.'[22]

Placing the blame on the World Bank for its failure to integrate environment and development successfully may in fact underestimate the challenges facing it. The Bank may be less the cause of its own environmental ambivalence than a reflection of the priorities and commitment of its member governments. The commitment to environmentally sustainable development of both donor and borrowing countries is not strong enough to push the Bank as an institution. The Bank's failure to meet the aspirations of its environmental critics reflects not only an unwillingness within the institution but, more fundamentally, an unwillingness among both donor and borrower countries to promote new models of sustainable development. This is not to excuse the Bank as an institution from always pushing for a more effective view of development, but it does explain why such a change will be slow to come at the Bank and elsewhere.

Notes and References

1. *See* Catherine Caufield (1996), *Masters of Illusion*: *The World Bank and the Poverty of Natives* (New York: Henry Holt); Bruce Rich (1994), *Mortgaging the Earth* (Boston: Beacon Press); Raymond Mikesell and Lawrence Williams (eds.) (1992), *International Banks and the Environment: From Growth to Sustainability: An Unfinished Agenda* (San Francisco: Sierra Club Books). See also Robert Wade, 'Greening the Bank: The Struggle over the Environment 1970–1995', in D. Kapur, J. Lewis, and R. Webb (eds.) (1997), *The World Bank: Its First Half Century*, vol. 2, 611–734. For a critique of development institutions more generally, see Graham Hancock (1989), *Lords of Poverty: The Power, Prestige, and Corruption of the International Aid Business* (New York: Atlantic Monthly Press).
2. World Bank, Environment Department (2000), *The World Bank and the Global Environment: A Progress Report*, ix (Washington DC: World Bank), 1.
3. *See* Pangue Audit Team (1997), 'Pangue Hydroelectric Project (Chile): An Independent Review of the International Finance Corporation's Compliance with Applicable World Bank Group Environmental and Social Requirements' (Washington, DC: International Finance Corporation) (unpublished report).
4. Ibrahim Shihata (1996), 'The World Bank and the Environment: Legal Instruments for Achieving Environmental Objectives', *The World Bank in a Changing World*, 2.
5. World Bank Operational Directive 4.00, Annex A (1989); World Bank Operational Directive 4.01 (1991) (on Environmental Assessment).
6. Bank Information Center (December 1999), 'Aspects of the World Bank's Work on the Environment: A Compilation of Data' (unpublished working paper). SECALs categorized as Category B may involve an environmental review, but this is less comprehensive and involves less public consultation than a full environmental assessment.
7. World Bank (1994), *Governance: The World Bank's Experience* (Washington DC: World Bank), at 53. The World Bank's Articles of Agreement prohibit the institution from taking political considerations into account, interfering in the political affairs of any country, or being affected by the political form or orientation of a country. Consistent with the Articles, the focus of the Bank's efforts in the area of human rights is on those rights that are economic and social in nature.
8. World Bank, (2000), 'Management Report and Recommendation in Response to the Inspection Panel Investigation Report, China: Western Poverty Reduction Project, Qinghai Component' (Credit No. 3255-CHA, Loan No. 4501-CHA).
9. Independent Review Commission (1992), *Sardar Sarovar: An Independent Review*, xx–xxi (Ottawa: Resource Futures International).
10. World Bank (1992), *Effective Implementation: Key to Development Impact: Report of the Portfolio Management Task Force* (Washington, DC: World Bank), iii, 12.
11. World Bank, Operations Evaluation Department (1999)*, Annual Review of Development Effectiveness: 1999*, 43.
12. The Inspection Panel (2000), 'Investigation Report: The Qinghai Project, A Component of the China Western Poverty Reduction Project', Credit No. 3255-CHA and Loan No. 4501-CHA, Ex. Summ., para. 9.
13. World Bank Inspection Panel, Operating Procedures, 3 (19 August 1994). See IBRD, Resolution No. 93-10 (22 September 1993); IDA, Resolution No. 93–6 (22 September 1993); see also Dana Clark (1999), *A Citizen's Guide to the Inspection Panel*, 2nd edn. (Washington, DC: Center for International Environmental Law).
14. For a further discussion of the elements for bringing a claim, see Dana Clark (1999), *A Citizen's Guide*.
15. See also, e.g., Michael Suzman (1998)*,* 'World Bank Accuses Itself of 'Serious Violations,' *Financial Times* 7 January 1998, at A5; P. Waldmeir and M. Suzman (1997)*,* 'World Bank "Fails to Learn from Past Mistakes": Internal Policy Review Points to Over-optimistic Feasibility Assessments of Flawed Projects', *Financial Times* 13 December 1997, at A3.
16. John Burgess (2000), 'World Bank to Fund Disputed Pipeline', *Washington Post* (7 June 2000), at E2.
17. Bank Information Center, 'Aspects of the World Bank's Work on the Environment', at Annex 2. Note that these figures were taken originally from the World Bank's annual reports for each of the respective years. Beginning in 1999, however, the Bank reclassified what it labelled as environmental lending to include environmental components of any loan (previously the loan had

to be primarily for environmental purposes to be considered an environmental loan). The World Bank put its environmental lending at $US978 million in the fiscal year 1999. The Bank Information Center, however, recalculated the 1999 figures according to the way those of past years were determined to show the reported figure of $US539 million.

18. World Bank, Operational Directive 4.02, paras 4–5.
19. World Bank, Environment Department (2000), *The World Bank and the Global Environment*, ix.
20. Memorandum from Andrea Durbin, Friends of the Earth, to Ms Jan Piercy, US Executive Director (16 July 1999).
21. Frances Seymour (1996), 'The World Bank and Environmental Sustainability,' in *Lending Credibility: New Mandate and Partnerships for the World Bank* (Washington DC: World Wildlife Fund), 43–4.
22. World Bank, Environment Department (2000), *The World Bank and the Global Environment*.