



WORKING PAPER 11

The Role of Multinational Agencies In Promoting Sustainable Development

by

Stephen E. McGaughey

December 1990

Forestry For Sustainable Development Program
Department of Forest Resources
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CONTENTS

PREFACE	ii
WHAT IS SUSTAINABLE DEVELOPMENT?	1
Development Problems Today	1
Sustainable Development	3
ORGANIZATION AND STRATEGIES OF MULTILATERAL AGENCIES	5
Institutional Models and Criteria	5
The World Bank	6
The Inter-American Development Bank (IDB)	7
Coordinated Action	9
Tropical Forestry Action Plan (TFAP)	9
The Consultative Group for International Agricultural Research (CGIAR) ...	9
LESSONS FROM THE PAST	11
Development Modes	11
Import Substitution, Industrialization, and Agriculture	11
Community and Cooperative Development	12
Agricultural Technology and Productivity	12
Rural Development	13
Policy Adjustment Lending	14
Conclusion	15
NEED FOR NEW APPROACHES	15
The Next Step	15
Relevancy of Multilateral Banks	16
New Areas of Activity	17
Forestry and agroforestry	17
Watershed management	18
Ecological reserves	18
Agricultural technology and germplasm	19
Special regional programs	19
Urban environment	20
Technical assistance	20
AN AGENDA FOR SUSTAINABLE DEVELOPMENT	20
The Challenge	20
Sustainable Development	21
Environmental Lending	21
Policies and Financing Criteria	22
Organization	22
Working with NGO's	23
Conclusions	23

PREFACE

This paper was originally presented June 1988 at a conference/course on CULTURE, ENVIRONMENT, AND SUSTAINABLE DEVELOPMENT, University of Minnesota, St. Paul, Minnesota. An abbreviated version of the paper was published in INTERCIENCIA, Volume 14, No. 4, July-August 1989, pp.193-198, under the title "Multilateral Banks and Sustainable Development." The author, who at the time of the conference was Chief, Forestry and Fisheries Section, Project Analysis Department, Inter-American Development Bank (IDB), currently is Principal Economist, Environmental Protection Division with the IDB. He has been a participant in the Forestry For Sustainable Development (FFSD) Program since its beginning. This paper is one of a series of working papers produced for the FFSD Program at the University of Minnesota that represent work in progress. The purpose of these working papers is to stimulate discussion among interested individuals.

The major objectives of the FFSD Program are to:

1. Improve the availability and usefulness of existing technical knowledge related to forestry for sustainable development - translate state-of-the-art scientific and technical information into practical and easily usable management guides and training materials that can be used effectively in planning and implementing development projects that will contribute to sustainable development; and
2. Improve the policy and organizational environment to encourage application of sustainability strategies - identify and develop effective institutional mechanisms, both at the policy and project levels, for introducing sustainability strategies into the development planning process at an early enough stage to influence project or program design.

The focus of the Program is on social forestry and related strategies within a watershed management framework as an integrating mechanism for moving toward sustainability in land use and in natural resource-based development projects. It involves an interdisciplinary group of faculty from the University of Minnesota, and associates at the University of Arizona, Yale University, Oxford University, the InterAmerican Development Bank, and other development groups.

The FFSD Program is supported by a grant from The Pew Charitable Trusts, by the University of Minnesota's College of Natural Resources and Department of Forest Resources, by the Minnesota Agricultural Experiment Station under the McIntire-Stennis Cooperative Forestry Research Program, and by contributions from the Food and Agriculture Organization of the United Nations and the United Nations Environment Programme, and other organizations. The FFSD Program is part of the University of Minnesota's Center for Natural Resource Policy and Management in the College of Natural Resources. The Center is supported in part by the College of Natural Resources and the Minnesota Agricultural Experiment Station (MAES) under Projects 42-25, 42-40 and 42-49 of the McIntire-Stennis Cooperative Forestry Act.

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THE ROLE OF MULTILATERAL AGENCIES IN PROMOTING SUSTAINABLE DEVELOPMENT

by
Stephen E. McGaughey¹

WHAT IS SUSTAINABLE DEVELOPMENT?

Development Problems Today

Developing countries have gone through wrenching years of economic crisis and decline. The social and economic cost of the international debt crisis, combined with the failure of the domestic economies in Africa, Asia and Latin America, have brought with them the incapacity to satisfy essential human expectations for food, shelter, clothing, health, and education.

Along with this deepening economic and political crisis has come the reduction or disappearance of traditional public and private sources of financing. The private sources of commercial lending, overcommitted and fearful of the consequences of the debt crisis, have reduced their lending. Some countries have suspended debt and interest repayments and are searching for new refinancing formulas with the private banks and the industrialized countries. International public sources of funding have either declined or their growth slowed so much that financing is completely inadequate to satisfy national economic needs. This has occurred because of the decline in political support for foreign assistance in the industrialized countries.

Many developing countries have undertaken radical economic policy adjustments and reforms with mixed results. And national economic discipline has been hampered by the political requirements of the moment, fed by the bad policies of the past and a limited knowledge of the impact of the new economic policies.

Simultaneously, many of the regions are undergoing deep social transformations. In Latin America urbanization is now a permanent fact of life in most of the region, and other countries, such as those in Central America, are expected to exhibit new forms of urban turmoil in the coming decade. The traditional growth sectors, such as industry, have suffered setbacks, while the agricultural sector has displayed signs of only modest growth, due to better prices mostly stemming from the economic crisis and the limited capacity of developing countries to import all of the food they need. Thus, they have been forced to turn to their own domestic agricultural economies, even at higher prices.

To this bleak picture that is painted of many developing countries' economic situation, one must now add another factor--whether economic development is sustainable in environmental terms. The answer would seem to be that it is not.

¹ The author is Principal Economist, Environmental Protection Division, Inter-American Development Bank. The views expressed herein are solely those of the author and should not be attributed as the official views of the Bank.

Indeed before the start of the economic crisis of the 1980's it was observed that many national development strategies were fundamentally destructive of their natural resources. The development strategy was and is now unsustainable because, eventually, the cost to society of this approach rises as the degraded resource limits the ability of the economy to expand and meet even basic economic needs. The cost of transforming an unsustainable development strategy to a sustainable one requires many changes in policies, technology, institutions, and, of course, a greater volume of financing.

But to delay these changes even longer, while justified by the seriousness of the economic crisis, might shift to future generations even higher costs of rehabilitating the resource base. These costs, which societies have been reluctant to bear in times of economic prosperity, would be almost impossible to endure when financial restrictions are the severest. Thus, donor nations and developing country recipients are faced with a paradox--resource conservation now may draw financial resources away from more urgent short-term needs, but delays will significantly limit development options and raise environmental costs to future generations.

It is not the purpose of this paper to undertake a systematic review of the economic consequences of moving from an unsustainable to a sustainable development mode. While some sectors of the economy might be reformed with little difficulty, in others the costs may be considerable. This is not a matter that private economic markets alone can resolve, although proper national, sectoral, and regional policies would certainly help lead the private sector to better management of the resource base.

It is the public sector, with its vital role in policy formation and its services, that is a chief player in redirecting growth to more sustainable forms. The private sector, including the increasingly recognized and active NGOs, is the pivotal co-participant of change in most societies.² The progress toward sustainable development also requires the active participation of the multilateral and bilateral finance and technical assistance institutions--the World Bank, the Regional Development Banks (which include the Inter-American Development Bank, the Asian Development Bank, and the Africa Development Bank) and the United Nations System of agencies.

The present report relates particularly to the role of multilateral institutions, as opposed to bilateral development aid organizations even though the major bilateral agencies, such as AID, have played a very important catalytic role in conceiving and promoting new development project ideas and policies. It is the multilateral finance agencies that should furnish expanded international public funds and technical assistance during these times of greater international resource scarcity because of the far greater volume of resources that they administer.

²See the report of the World Commission on Environment and Development (the so-called Brundtland Report) (*Our Common Cause*. Oxford University Press, New York. 1987) for a complete analysis of the form that sustainable development might take.

Sustainable Development

Sustainable development has too many facets to properly and fully define here. It is an ethical philosophy and a moral imperative for many. This does not exempt us from trying to look at the consequences of promoting sustainable development, which will require large financial resources. If sustainability is to be more than window dressing, a mere shibboleth, then we must know the true costs of adopting a new development path, especially the economic and social opportunity costs of directing greater resources to the task of environmental management. The costs of reaching a sustainable path are considerable and the failure of international and regional cooperation to contribute to the process would be a sad commentary on their relevancy.

It is now possible to obtain a cursory appreciation of the main ingredients of the concept of sustainable development. The Brundtland Report raises the specter of a new model of development that changes past approaches. In an overview of *Our Common Future*, the Secretary of the Commission stated that sustainable development requires a fundamental social transformation for the purpose of

*...reviving growth; changing the content and quality of growth; meeting essential needs; ensuring a sustainable level of population; conserving and enhancing the resource base; reorienting technology and managing risk; merging environment and economics in decision-making; [and] strengthening international cooperation.*³

Development has become less sustainable and this is reflected in the crises of our times. Four causes of the transition to unsustainability are: (1) uncontrolled population growth, (2) accelerating economic growth (over several centuries), with the massive use of fossil fuels, (3) rising inequity and poverty, and (4) the growing competition between the welfare of present and future generations in resource use. One may identify some of the following specific manifestations of unsustainability: the energy crisis, accompanied by fuelwood depletion, deforestation, acidification of the environment, and climate change; and the rising costs of food production, driven by soil erosion, desertification, water mismanagement, problems stemming from chemical fertilizers and pesticides misuse, deforestation in the tropics, the mass extinction of species, and the new challenge of molecular biology in creating new life forms.

It is clear from the above that the problem of sustainability in resource use is as much a manifestation of the development process as it is a simple objective unto itself. Achieving sustainable development requires not only attention to the way resources are managed, but also a transformation in the means used to make the changes--especially the international and national institutions, economic and social policies, and technology. This concept of sustainability we call the broad view, as opposed to the narrow criterion of sustainability that is often used as a rationale for environmental impact mitigation and natural resource

³A report by Dr. James MacNeill, Secretary to the Brundtland Commission delivered at the meeting of the Consultative Group for International Agricultural Research (CGIAR), *Our Common Future: Sustainable Development and CGIAR*. Berlin, May 16-20, 1988.

conservation and management programs. This distinction between broad and narrow concepts of sustainability helps understand the potential role of multilateral agencies in promoting sustainable development.

Other definitions of sustainability are worth considering at this stage. The World Conservation Strategy, which was published in 1980,⁴ states the following:

Development is defined here as: the modification of the biosphere and the application of human, financial, living and non-living resources to satisfy human needs and improve the quality of human life. For development to be sustainable it must take account of social and ecological factors, as well as economic ones; of the living and non-living resource base; and of the long term as well as the short term advantages and disadvantages of alternative actions.

This formulation is in the spirit of the broad definitions of sustainability, although the report mainly focuses on actions in support of the conservation and better management of natural resources. Clearly, the World Conservation Strategy is the intellectual precursor of the Brundtland Report and they contain many common elements.

Recently, the Consultative Group for International Agricultural Research (CGIAR), the most important and prestigious organization of donors financing international agricultural research, analyzed the role of its member international research centers (of which there are currently 13) in taking on the mandate of agricultural sustainability. In its more specific concern for the sustainability of agricultural production, the Technical Advisory Committee of the CGIAR states:

...sustainable agriculture should involve the successful management of resources for agriculture to satisfy changing human needs while maintaining or enhancing the quality of the environment and conserving natural resources.⁵

Thus, the CGIAR recognizes its role in furthering sustainability of the agricultural production system. This effort includes agricultural research, germplasm collections, and research and agronomic training in developing countries. It is, of course, one of the many institutions in the worldwide effort to fund new approaches and mechanisms for the sustainability of agriculture.

Professors Gregersen and Lundgren help clarify further the difference between sustainable development and resource sustainability. They state:

⁴*World Conservation Strategy: Living Resource Conservation for Sustainable Development.* Prepared by the International Union for Conservation of Nature and Natural Resources (IUCN) in collaboration with the United Nations Environment Programme (UNEP) and the World Wildlife Fund (WWF) with the participation of the Food and Agricultural Organization of the United Nations (FAO) and the United Nations Educational, Scientific and Cultural Organization (Unesco). Switzerland, 1980.

⁵See "Sustainable agricultural production: Implications for international agricultural research" (AGR/TAC: IAR/87/22 Rev. 2), presented at the CGIAR Meeting, Berlin, May 16-22, 1988.

...we define sustainable development as development involving changes in the production and/or distribution of desired goods and services which result, for a given target population, in an increase in welfare that can be sustained over time.⁶

Sustainability is again shown in its global dimension, whereby the prime consideration is human welfare rather than natural resource management exclusively. Also, as stated earlier, sustainability of development is not the equivalent of sustainability of resource use. It may happen that resources are depleted by the current generation, which then gives rise to the greater welfare of both the current and future generations. Resources can be used if means are taken to ensure their renewal. An example of this is the management of natural forests for their long-term utilization, both for local consumption and industrial exploitation.

There are, of course, limits to the exploitation of natural resources--and that limit-in-use refers to the point at which overexploitation impinges on the number and quality of options that future generations might have. Since the present generation may pass along to future ones new technology, new institutions, and a better human resource base, these together may mean that resources will be combined in the future in ways which the present generation does not now anticipate. Hence, we see sustainability in its broadest welfare context and not as a simple resource protection scheme, and rather a concept that permits a rather wide latitude in the utilization of resources by the present generation. Sustainability means the wise use of resources and a long view of what future generations may inherit as a resource base.

In summary, there is a recognition of the complexity of the tasks in moving to an ecologically viable approach to development. Many different national, regional, and international institutions are now playing an role in this process. None of these institutions could possibly have enough resources to alter the present development path--national governments, private citizens, businesses, multilateral banks--all need to work together in a common task. We will consider what the multilateral agencies are doing now and what they could do in the future to contribute to development sustainability.

ORGANIZATION AND STRATEGIES OF MULTILATERAL AGENCIES

Institutional Models and Criteria

In this section the environmental programs of selected multilateral banks will be reviewed with the understanding that their programs are in considerable flux. The institutions' overall environmental philosophy will be analyzed and their internal institutional organization for environmental support examined.

The environmental philosophy of the multilateral banks should be judged on the basis of common criteria. The following performance criteria are suggested. First, do the

⁶Gregersen, Hans, and Allen Lundgren. 1990. *Forestry For Sustainable Development: Concepts and a Framework for Action*. Working Paper 1. The Forestry For Sustainable Development Program. St. Paul, MN: Department of Forest Resources, College of Natural Resources, University of Minnesota. 17 pp.

institutions have adequate staffing for the purpose of the task that they propose to undertake? Second, is the internal organization appropriate to achieve the goals efficiently and on a timely basis? Third, are the agencies' policies adequate and do they provide enough financing and technical assistance to promote environmental goals in the developing countries? Fourth, do the institutions have adequate overall funding? Fifth, are they missing any major unexploited opportunities to help the developing countries because of weaknesses in the agencies' internal policies and procedures. Sixth, is the institution broadly committed to new programs of promoting sustainable development. Have they financed a number of new environmental projects as opposed to undertaking the damage control of projects with environmental problems? While other criteria might be considered, the following--staffing, organization, policies and planning, funding, project design, and political commitment--are used as criteria in the discussion that follows.

But other criteria are possible. Two severe critics of the multilateral banks mention tests for the next phase in the environmental agenda of the banks:

...greatly increased environmental staffing; regular involvement of environment and public health ministers in project planning and implementation; local nongovernmental and community organization participation in project design; and a shift in lending priorities so that the banks finance a greater number of environmentally beneficial projects.⁷

Thus, an ultimate test is whether the promises of action can be converted into substantial international financial transfers for environmental policies, programs and projects.

The World Bank

The World Bank took the leadership among the multilateral banks to incorporate the environmental dimension into its programs. Significant public pronouncements, internal budgetary outlays, and organizational changes were introduced starting in 1987. These changes included several regional environmental divisions as well as a central staff. Mr. W. David Hopper, the World Bank's Senior Vice President responsible for environmental policies, summarized the World Bank's program for environmental development.⁸

The main features of the World Bank approach are the following: (1) the mistakes of the past of projects with their significant environmental problems are openly recognized; (2) an institutional superstructure has been created to facilitate, control, and promote environmental projects and activities; (3) there is an intellectual commitment to change the approaches and policies of the World Bank to promote sustainable development, including studies on project, program, and policy formulation; (4) it is recognized that economic and financial policies may be just as powerful in natural resource management as specific project

⁷See Aufderheide, Pat, and Bruce Rich, "Environmental reform and the multilateral banks." *World Policy Journal*. Spring 1988. p. 317.

⁸W. David Hopper, "The World Bank's challenge: Balancing economic need with environmental protection." Seventh Annual World Conservation Lecture organized by the World Wildlife Fund, United Kingdom. March 3, 1988.

investments in encouraging better resource use; and (5) it is decided to participate actively in all international forums and facilitate the coordinated environmental effort of the major multilateral and bilateral agencies. While the current state of affairs in the World Bank is still actively monitored and strongly criticized by some of the environmental NGOs, the internal commitment to change and its effort to take environmental leadership is incontestable. The long-term test of the World Bank will be its ability to help the countries formulate new policies and execute new types of environmental projects.

The Inter-American Development Bank (IDB)

The IDB has had an environmental policy since the 1970's, but acceptance and recognition of an environmental mandate grew slowly until 1990, when major changes were made in the organizational structure, environmental staffing, budget and procedures of the Bank.

The Environmental Committee (CMA from its Spanish acronym), created in 1983, is a high-level management committee whose main tasks are the surveillance of environmentally sensitive projects and the analysis of special environmental issues in loan projects, from the stage of preparation and analysis, until their final approval and execution. In 1990 the CMA instituted new and aggressive procedures for the classification and tracking of environmentally sensitive projects. This system is now being used to guard against the Bank approving projects that do not have carefully planned environmental components and thoroughly prepared environmental impact studies. At first, during the mid-1980's, the Committee was concerned mainly with projects in execution, e.g., road investments in the Brazilian Amazon where the slow execution of the environmental management component has become an issue in the loan disbursement. Now the CMA has become the critical step in the processing of loans and technical cooperation by way of its environmental review of all of the Bank's operations.

The CMA's new procedures are comparable to those first established at the World Bank. All loans and technical cooperation projects of the IDB are classified into one of four categories depending on the probable environmental impacts of the operations. Category I operations are those that have clear and distinct positive environmental impacts. These might include a project to reduce air pollution in an urban center, a watershed management project in a rural area, or the assistance in the preparation of environmental laws or the strengthening of environmental organizations. Category II operations are those that are largely environmentally neutral. These might include a health project, a science and research project, a small-scale enterprise financing program or a policy study in any sector. Category III operations have well defined environmental effects and it is thought that these can be mitigated easily by the modification of project design, improved construction and operating procedures, and the adequate monitoring of the project's impacts. Projects in this category include road maintenance and rehabilitation projects, small-scale irrigation, small urban water and sewage investments, sector and global financing programs of the private sector investments, among others. Category IV projects are those expected to have large and undefined environmental effects.

Projects in Categories III and IV are required to have prepared by the borrowing executing agency in the country an environmental impact study. These studies would be financed as a part of the cost of preinvestment studies of a program or project. The environmental

impact study then becomes an essential ingredient in the project design and in the process of review and approval by the CMA and the IDB's Board of Executive Directors.

During the 1980's, and until the creation of the Environmental Protection Division in January 1990, the IDB followed a much different organizational philosophy than the World Bank. In the latter, environmental units were created and staffed with people trained in environmental analysis and policy formulation. In the IDB, the initial view was to train the existing line staff to recognize environmental problems from the onset of project formulation. A disadvantage of this approach was that the environmental staff were too few in number and there was no single location within the bureaucracy that could assume regular responsibility for the environmental quality control of the IDB's large program of project, global, and sector lending and its technical cooperation program.

But even with the creation of the Environmental Protection Division, the IDB's management philosophy is to view the issue of the environment as the full responsibility of all staff in the institution. As the President of the IDB, Mr. Enrique Iglesias, said about the environmental issue:

One of the concerns I have...is that you cannot deal with this issue just by having a unit within the institution dealing with the environment. If you are unable to make environmental sensitivity permeate activities throughout the institution, and also try to influence awareness of the other side, those who negotiate with us in government, people in planning offices, ministries, it is a no-win situation. Unless you can establish a deep consciousness that this is an issue which you have to deal with--not only among those people who work on the issue--you are lost. To me, the most important thing is to try to sell these things, to make them permeate the Bank's structures and at the same time to have a dialogue...[with] the countries.⁹

The IDB has leaped ahead in its environmental staffing so that by 1991 the Environmental Protection Division will have close to 20 senior professionals and the unit will be involved in the direct review and tracking of roughly two-thirds of the Bank's loan projects.

Both the World Bank and the IDB have much work to do to increase their direct lending for sustainable development. The industrialized member countries of the two agencies have increased their capital contributions, and they are calling for more emphasis on environmental protection and natural resource management. In turn the borrowing countries are beginning to undertake policy reforms and commitments to the environment and natural resource protection. This process of adapting to change will be a complex task for both groups of participants. Environmental lending is still in its infancy in both agencies and the demands placed on the countries and the multilateral institutions to increase their programs will place further stress on staffing and organization.

⁹Statement by Mr. Enrique V. Iglesias, President of the Inter-American Development Bank at the 1988 International Environmental Forum of the International Institute for the Environment and Development (IIED), Washington, D.C. May 16, 1988.

Coordinated Action

The multilateral banks, technical assistance agencies, especially of the UN System, and the bilateral agencies have initiated a number of coordinated efforts to give greater weight to their environmental policies to help the developing countries identify projects, to avoid unnecessary competition among external assistance agencies for scarce projects, and to increase communication with the major NGOs and national governments. Two cases of interagency coordination are discussed here, not only as examples, but also as models of what can be done at a relatively low cost when there are common institutional goals. The case studies are (1) the Tropical Forestry Action Plan (TFAP); and (2) the Consultative Group for International Agricultural Research (CGIAR).

Tropical Forestry Action Plan (TFAP)

The TFAP grew out of the recognition of the grave problem of tropical deforestation. It is the product of willingness of the major multilateral and bilateral institutions to make a concerted effort to help identify and finance new forestry and natural resource management activities in developing countries. Among other factors, it was recognized that there are insufficient funds and trained staff for all the major international institutions to try to organize the forest development problems in many countries. The TFAP is a product of a FAO strategy to promote sustainable tropical forest development and to mobilize external resources for investment project identification and preparation. It also is a *Call for Action* organized by the World Resources Institute, the World Bank, the UNDP, and other multilateral and bilateral institutions. The TFAP has become an international consultative group to organize studies of natural resources, forest investments, technical assistance, and national policies. After organizational meetings in 1985 and 1986, routine six-month consultations now take place among the donors and the developing countries. National studies are organized and field missions are carried out to review government policies and identify new investment and technical assistance to promote resource management and protection. The TFAP undertakes activities under five different headings: (1) fuelwood and energy, (2) watershed management, (3) forest industry and industrial plantations, (4) natural forest management and conservation, and (5) research and training.

The FAO is acting as the secretariat to the TFAP, organizing missions, contracting experts, and maintaining the regular flow of information among the participants. Many individual country missions have been carried out. In some countries where there is considerable national expertise in the natural resource field, the country itself prepares the background studies. After the studies are completed a joint meeting of the donors and the national authorities agrees on a strategy to increase and coordinate external assistance. In Latin America studies already have been completed or are in progress in several countries.

The Consultative Group for International Agricultural Research (CGIAR)

This group is not widely known or discussed in connection with environmental programs in the world, but it plays a critical role in the development of agricultural crop and livestock technology and in conserving germplasm for the major crops. The CGIAR is composed of 13 major international agricultural research centers located in all continents of the world

with a total annual budget of \$250 million. Each center specializes in research, training, and germplasm collection for one, two, or more mandated commodities.

For example, the center for maize and wheat is located in Mexico, has a major training facility on its campus, and works actively in all regions of the world, outposting staff or working through scientific networks. The center, called CIMMYT from its Spanish acronym, is one of the oldest in the system. It was responsible for the green revolution in wheat, and continues to do varietal selection, both to maintain past gains in crop yields and to further increase yields. It is looking for new varieties resistant to diseases and more adaptable to different climatic situations throughout the world. The main clients of the centers are the national agricultural research centers, who take the basic varieties and adapt them to the specific agro-ecological conditions in their countries.

At the present time, the CGIAR is actively reconsidering its role in the quest for sustainable development. It is recognized that the agricultural technology to which the centers contribute should make a permanent contribution to agricultural production. Much criticism has been levied against high-input agriculture, but the centers have long been concerned with low-cost approaches that would be appropriate for smallholders on marginal land throughout the world. The Technical Advisory Committee of the CGIAR has recently issued a statement on the System's role in the promotion of sustainable development.

The strategy has several components, as follows:

...donors and other components of the CGIAR System can help to focus attention on sustainability, and encourage governments and relevant institutions to accord it high priority.

...research at the Centres designed to generate agricultural innovations should be planned and conducted with a sustainability perspective.

The aim should be to devise technologies that can meet short-term requirements while, at the same time, maintaining or enhancing the ability to meet long-term needs.

Centres should review the emphasis given to low-input farming...

TAC reaffirms its earlier recommendations that the Centres give greater emphasis to the development of techniques that are especially applicable to less-endowed regions.¹⁰

The principal multilateral banks and bilateral aid institutions contribute funds to the CGIAR each year. These sums have a substantial impact on the future of technology. The coordinated action of the donors will move the CGIAR System to better take account of the sustainability issue, which will be beneficial to developing countries in the medium-term.

¹⁰See "Sustainable Agricultural Production: Implications for International Agricultural Research" (AGR/TAC: IAR/87/22 Rev. 2). Presented at the CGIAR, May 16-20, 1988, Berlin. TAC Secretariat, FAO, March 31, 1988.

LESSONS FROM THE PAST

Development Modes

It is instructive to ask what has been learned by the multilateral banks during the last 25 years of development financing that could be useful for future environmental lending. As one looks back, well-observed development models have been adopted as a common synthetic language to mobilize the large bureaucracies to achieve specific goals. The period of industrialization based upon import substitution of the post-World War II era was shaped by the ideas of Raul Prebisch and his colleagues, and provided a common rationale for international and national policies. One is reminded of the period of "rural development" in which the World Bank turned the attention of the development community and the countries to the alleviation of rural poverty. The notion of "basic needs" followed the period of rural development. And now we are entering the period of "sustainable development."

A number of these periods, with their strong single paradigms, can be seen as giving the multilateral banks a wide range of experience with many sectors and problems. Very useful lessons have been obtained that will apply to the execution of new environmental projects. Many of those who are espousing radical departures from the current lending programs of the multilateral banks, including the environmental NGOs, would do well to study the practical experience--the successes and the failures of the last 20 years--that would serve as guidelines for the design and management of new environmental programs in developing countries.

In what follows, several models--or what some critics might call development fashions--and the principal lessons derived from the lending programs of that period will be highlighted. The themes that are touched on include the following:

- import substitution, industrialization, and agriculture
- community and cooperative development
- agricultural technology and productivity
- rural development
- policy adjustment lending

Import Substitution, Industrialization, and Agriculture

During the 1950's and 1960's, the multilateral development banks were active in supporting traditional industrial development through the provision of national infrastructure and global credit to the private and public sectors. Also, during this period, the role of central government planning and the state in promoting industrialization was thought to be paramount. The agricultural sector received low priority in the countries throughout this period, as the process of urbanization took shape and rural-to-urban migration accelerated.

As the failure of the agricultural sector to grow became undeniable, government policies were instituted to subsidize agriculture, to compensate it for the support being provided to other sectors, especially to industry. In this model, little or no attention was given to the consequences of natural resource mismanagement. Agriculture expanded mainly by adding to the area under cultivation, rather than better using and conserving the existing resources.

Great expectations were had for using national and sectoral planning to orient development, establishing priorities through public investment planning and budget management.

An important lesson from this period is that the public sector is relatively inefficient in directing the economy toward multiple economic goals. The belief in the efficacy of virtually unlimited resource supplies prevailed in this period and it was thought that the mining of natural resources could continue indefinitely. The belief in an unlimited agricultural frontier as an outlet for social and economic problems was widely accepted and promoted by governments and the international community. The widespread failure of tropical colonization project investments during the 1960's is a case in point.

Community and Cooperative Development

As population growth increased, and as the industrial sector lead the growth process, agriculture lagged and rural poverty was accentuated. Agricultural investment rates were low and resources were being transferred from agriculture to industry. In part, this was thought to be a natural process of development--of economic evolution--in which the agricultural sector declined in relative importance and other sectors were to rise in significance.

As political strife accompanied this process in the rural areas, one solution was to change land ownership through agrarian reform and cooperative and community management. This was thought to be a solution for large-scale and long-term intractable economic and social problems. As often occurs, new economic and social problems are created with each new solution.

A lesson of the cooperative approach of the 1960's is that the multilateral banks and national governments cannot successfully compel beneficiaries to accept particular institutional models--such as local organizations or associations for production and marketing--that are inconsistent with the social and political traditions of their culture. Large numbers of cooperative projects failed because the participants refused to organize as the international and national agencies hoped. Localities, families, farmers, and fishermen, among others, may have a strong sense of individualism that does not always fit with preconceived institutional ideas.

Agricultural Technology and Productivity

As the agricultural sector showed a persistent low rate of overall growth, the success of the green revolution in wheat and rice lead some to a strong belief in the value of new technology to further overall development. The industrialized countries, looking at their own experience, felt that the transfer of agricultural technology to agriculture would raise growth, income, and employment. This was correct in part, but the manner in which this model was applied left much to be desired. Initially, substantial reliance was placed on the transfer of technology to farmers under the supposition that the technology was already available. This proved to be in error for most crops that smallholders produce. In particular, the green revolution in wheat occurred because the varieties had wide adaptability to many microclimates.

This was not the case for most other crops, except perhaps for irrigated rice, which is produced under fairly uniform conditions. Most other commodities, e.g. maize, must be adapted to specific microclimatic conditions. Also, agronomic practices are critical in exploiting the characteristics of the improved seeds.

It has been learned from the green revolution and the subsequent emphasis on high-input crop technology that the process of maintaining and lifting yields and production gains is slow, requires mature and well-funded national research institutions to develop technology locally, and needs steady and patient funding over a long period of time. A full complement of research institutions--local, national, regional, and international--play a part in creating appropriate technology. Local initiative and agricultural extension is essential. Also, price incentives for farmers must form part of the package. But the proper management and conservation of the natural resources cannot be overlooked as a permanent part of the new technology.

Rural Development

The many partial approaches prior to the 1970's--community development, technology and productivity, agrarian reform, rural infrastructure--culminated in a new outlook in 1973 when the President of the World Bank, Robert McNamara, set out a new strategy for poverty alleviation in rural areas called rural development. This strategy comprised a program and project design that joins many elements of productivity-expanding activities (research, extension, credit, marketing), with rural infrastructure (irrigation, marketing) and social services (health, education, family planning, community organization).

The World Bank has completed a major review of its experience with rural development. The results consist of invaluable knowledge that should be incorporated into the new strategy for environmental management and sustainable development. Between 1973 and 1986, the Bank lent \$36.5 billion dollars for agriculture, of which \$19.1 billion or 498 projects were for rural development.

It is worth while to recount some of the pertinent conclusions of the World Bank ex post evaluation of its 15 years of rural development programs:

[(i)] A more structured approach, learning from experience through smaller-scale operations, would have had a less dramatic early impact and would have needed lower lending, but might have achieved more stable results in the long run, especially in Africa.

[(ii)] It is now clear that [rural development] projects were more successful...when government commitment to the projects was strong. Legal covenants in projects proved to be an ineffective substitute for genuine commitment.

[(iii)] When appropriate national policies are absent, the ability to sustain even successful projects is doubtful.

[(iv)] ...the Bank...lost sight of the reality that the cost of failures, in what were identified from the outset as risky experiments, would be borne by borrower countries and not by the Bank.

[(v)] Sociological studies for use in rural development planning were inadequate, especially in relation to the beneficiaries' characteristics.

[(vi)] The merit of the rate of return criterion is undeniable...[but it] may conflict with those essential institution-building and human resource-creating elements that a long-term, self-sustaining development process requires.¹¹

Policy Adjustment Lending

The multilateral lending agencies have turned to nonproject lending in the 1980's. This came about because of the debt crisis that struck many countries and the need to transfer rapidly financial resources to them. As the private commercial sources of financing disappeared or, at best, were used to refinance interest payments that countries were having difficulty meeting, the public multilateral agencies responded, especially the International Monetary Fund and the World Bank.

The latter increased its lending portfolio in what is called policy adjustment lending. This includes structural adjustment lending and sector adjustment loans. The purpose of the loans is to facilitate the adjustment policies designed to reactivate economic growth, including public finance, monetary policy (especially interest rates), balance-of-payments policies, and specific sector policies to create a better climate for private investment.

This lending has become very important as an instrument to more rapidly provide financial assistance and a larger volume than project lending. The loans are fast-disbursing as long as economic policy adjustments are made by the recipient country as agreed upon at the time the loan is approved.

Policy adjustment lending has been very successful in transferring resources. However, the adjustment process is not simple. It is difficult to measure the policy impact; there are often lags in policy implementation; and there are many external shocks from the world economy that may overwhelm the domestic policies. A significant problem is that economic adjustment, which nearly always requires austerity measures, causes incomes and employment to drop, and the social effects on health and nutrition may be politically hard to accept. Out of this problem there has arisen an interest in undertaking targeted social programs to help compensate the poor for the social effects of public austerity measures.

The question is how this recent experience may be of relevance for the design of new environmental projects. The connection here is through the policy adjustments that will have to be made to avoid environmental and natural resource destruction. Recent studies have shown that the destruction of natural resources springs from not only the

¹¹*Rural Development: World Bank Experience, 1965-1986.* World Bank, Operations Evaluation Department, Washington, D.C. 1988. See especially the Summary and Conclusions.

mismanagement of specific project investments, but also as the direct result of public policies in other sectors--e.g., agriculture, industry, and mining--that provide an incentive for resource destruction.

For example, incentives for cattle ranching in Brazil have accelerated the rate of deforestation as the country's demand for beef rises. Land tenure laws also give title to those who improve the land by establishing agriculture--this inevitably leads to removal of the forest cover. The major study of the World Resources Institute on this subject concludes:

In many countries non-forestry policies have caused greater forest destruction than misdirected and misapplied forestry policies have. [These include] ...tax, credit and pricing policies that stimulate private investments in competing land use...land-tenure policies that encourage deforestation...[and] domestic policies that further impoverish households living close to the margin of subsistence, especially in rural areas.¹²

There is some thought now being given to applying policy adjustment lending to natural resources and environmental protection. This may provide another useful instrument to help countries change policies which are obviously undermining their resource base, but whose correction would have unintended social and financial costs.

Conclusion

Much knowledge has been gained from experience over the last 25 years in executing investment projects. This experience is highly applicable to the future environmental projects which all multilateral banks are planning to finance. Perhaps those who are most active in promoting these projects should take the time to look back, for this could reduce some of the costs of learning-by-doing for the next stage of increased environmental projects lending.

NEED FOR NEW APPROACHES

The Next Step

We have looked at the concept of sustainable development, touched on the strategies of the multilateral banks to promote sound environmental programs, and outlined some significant lessons from past programs of the multilateral banks. In this section, ideas on executing environmental programs by the banks are noted and some of the drawbacks are considered.

The concept of sustainability provides a new set of development priorities. It is a foremost requirement that project and nonproject lending now take into account the protection and improvement of natural resources as one of its main goals. But the new policies and techniques of project management and disbursement have yet to be devised.

¹²See especially Robert Repetto. *The Forest for the Trees? Government Policies and the Misuse of Forest Resources*. World Resources Institute, Washington, D.C. May 1988.

Traditional agricultural sector schemes are not applicable models because they are often too production-oriented. While the multilateral banks have committed a substantial share of their lending in agriculture through irrigation and other infrastructure investments and global agricultural credit programs, the results for natural resource management have not been particularly encouraging. Neither of these approaches has proved to be a viable instrument for promoting better natural resource management and conservation, at least up to the present time.

Relevancy of Multilateral Banks

The multilateral banks are now the main source of additional external financing for the developing countries. Therefore, they could have an important role in encouraging environmental activities. But there are limits to the ability of the banks to help countries formulate and apply new natural resource policies. It was learned long ago that unless the government is fully committed to an activity--to a project or a program--then the chances of success are very small. Also, the costs of undertaking environmental protection and management, like activities in the agricultural sector, are dependent on a large number of decisions by many participants--the government bureaucrat, the farmer, the laborer, the local mayor, the cattle rancher, the forester, and the cooperative leader. To get them to act in concert for the benefit of natural resource protection requires many instruments, including macroeconomic policies, local regulations, and prices and subsidies as special incentives.

The past experience of the multilateral banks is not particularly good in the design of programs that require all of these complex instruments. What the multilateral banks now do best is transfer funds for general credit programs and policy adjustment programs and finance well-defined infrastructure projects.

Therefore, it is essential that new institutional and financial mechanisms be introduced into the environmental programs of the multilateral banks. For example, in Latin America watershed management projects need the cooperation of the national electric company. These companies have good management, can organize complex projects, and have a regular source of revenues, as well as a strong interest in protecting their investments in hydroelectric facilities. Thus, the ability to move ahead in a significant lending program for watershed management requires a willingness to accept new partners in the project--the electric company, the ministry of agriculture, the local farmers, and the local NGO, among others.

In addition to lending, the multilateral banks also make available significant technical assistance for project preparation and institutional support, and, internationally, for the development of science and technology. To date, very little of this assistance has gone to support programs for environmental protection, natural resource information studies, and policy design. Also, there has been a tendency to provide this assistance only to the central government. Procedures need to be revised to increase the access of a broad spectrum of private and public groups to technical assistance programs.

New Areas of Activity

It is now possible to suggest some areas of activity in which the multilateral banks could assist the developing countries in natural resource management and conservation. These include the following:

- Forestry plantations, natural forest management, and agroforestry
- Watershed management
- Establishing conservation areas and national parks
- Sustainable agricultural technology and germplasm conservation
- Coastal management and other special regional programs in high risk areas, such as the Amazon Basin
- Urban environment and waste management
- Technical assistance for institutional development, training, policy formulation, and natural resource surveys

A brief review of each of these environmental program areas follows.

Forestry and agroforestry

The multilateral banks have had active forestry programs for about a decade. Many different approaches have been tried to increase forest plantations and to protect the remaining natural forests. There is significant experience with the management of forestry loans, and most of it is highly applicable to natural resource and environmental programs. But new ways of financing forestry must continue to be sought. Most of the public forestry agencies in developing countries are very weak and the number of trained staff is limited, although this latter aspect has improved somewhat in recent years.

One of the past problems with forestry investments was that most of the costs of the programs is in local currency and very little of the cost is in foreign exchange. Most multilateral banks can now finance local currency costs readily, so this is not the problem that it was ten years ago.

Another problem is that global credit programs with public agricultural banks and similar funds are not efficient ways of transferring funds to the small farmer and interested foresters. Also, the loan conditions that the multilateral banks traditionally apply to forestry loans are not suitably matched in their grace period with the long time period that forestry investments require. This is a disincentive for national governments to undertake additional projects in forestry. This suggests that internal policies of the multilateral banks continue to be an obstacle to increased lending in forestry.

It would be desirable to take a sector lending approach in forestry in countries that have reached greater maturity in this field. This should include liberal financing packages for forestry and agroforestry components, forest industry and infrastructure, and institutional improvement and research. Neither national nor international institutions have made significant financial commitments to the forest sector in comparison to the sector's needs.

Watershed management

One of the most promising and perhaps difficult areas for the multilateral banks to work in is watershed management. This refers to undertaking soil, water, and forest conservation activities in a particular area for the purpose of protecting the resource base, increasing or sustaining the current levels of agricultural production, and reducing erosion and downstream sedimentation affecting agriculture, irrigation, and hydroelectric and industrial investments. The project activities include soil conservation at the farm level, agroforestry (combining forestry and agriculture), and engineering works to reduce erosion and sedimentation. Institutional difficulties in watershed management projects arise because regional and local institutions in developing countries are understaffed and underfinanced. Also, the ministries of agriculture do not have much experience or the inclination to think in terms of area development for natural resource conservation and management. It is often better to use regional development corporations, electric power companies, municipal governments, or irrigation project authorities to administer the projects.

There is a need to make major commitments with international assistance to protect the critical upper watersheds where large-scale hydroelectric investments have been made in the last ten years by the countries. It was only belatedly recognized that the natural resource management costs, while a relatively small amount compared to the energy infrastructure investment costs, may have a large impact on the life of the reservoirs and national energy costs.

The multilateral banks need to be willing to use considerable flexibility in project design and execution because the techniques for resource management must be tested in each region to see what works best. Hence, project designs should not be treated as rigid blueprints--like a typical infrastructure project--but as a plan that is monitored and updated each year. However, the disbursement procedures of the multilateral banks are not well suited to this flexible, iterative, small- to large-scale evolutionary approach.

Ecological reserves

The leading multilateral banks have done virtually no lending for the development of conservation areas, national parks, forest reserves, and other types of closed, fragile, natural resource reserves that are set aside for the purpose of maintaining biological diversity. These areas have many other useful purposes. Ecological tourism has become a new and attractive source of foreign exchange for some countries and will become more important in the next decade.

The cost of protecting natural parks requires innovative financing by the multilateral banks because most of the costs of protecting the resources are operating costs rather than fixed infrastructure. There is a significant amount of administrative cost that cannot be recovered, and training and publicity to the citizenry are commonly needed. This new area of lending and technical assistance is not likely to require large sums, but a new conceptual framework would justify certain types of funding that do not now qualify.

Agricultural technology and germplasm

As mentioned earlier, the CGIAR is in the process of expanding its support for new international centers, whose mandates include better natural resource management and sustainable agricultural production. The need for additional funds in this area will increase rapidly in the months ahead and the willingness to commit new funds will reveal the multilateral bank's interest in practical environmental protection. Since the CGIAR is already a fully functioning research system, and since it is willing to undertake additional research that is environmentally sound, no new policies are required to proceed actively in this new thematic area. The actual additional cost would be no more than \$50 to \$100 million per year once the new research centers are fully operational, in addition to buildings and other fixed infrastructure costs to start them up.

Special regional programs

There are many opportunities for the development of natural resource and environmental protection areas across national boundaries. Two examples include coastal resource management in the Caribbean and natural resource management in the Amazon Basin.

Most of the Caribbean island countries have serious and growing problems with coastal resource management. The marine resources are threatened by growing contamination and sedimentation, the water resources are declining in quality, and agricultural runoff is an increasing threat. There is a potential for all of the islands to begin to try to look for similar solutions for these problems. This will require considerable research into technological and economically appropriate solutions and the institution of new laws and regulations. Also, regional cooperation will be useful in providing a network for distributing information on success and failure elements of the program, as they become known. Due to the diversity of the region, creating a common view of the problems and solutions will take careful negotiations among the countries and active involvement of the multilateral banks.

Environmental and natural resource degradation in the Amazon Basin is now a matter of world attention. The countries that touch on the Amazon Basin, through the Amazon Basin Treaty, have begun to organize a number of common activities, particularly in the arena of research and sharing information. But the process is just beginning and national environmental programs and policies are practically nonexistent. It is expected that international cooperation will accelerate rapidly in the coming years. Both the World Bank and the Inter-American Development Bank are active in identifying new programs for the region. The multilateral banks seem prepared to make available substantial technical assistance to aid in the process, but national resources will have to be increased and redirected to the urgent problems of natural resource protection.

Recent studies have shown that the present day concern about the development in the Basin are justified. Urbanization in the Amazon Basin is accelerating. Mining-related contamination is becoming a widespread problem. Deforestation rates show no sign of abating. Hence, increased protection on the Amazon is going to require a complicated, multisectoral approach.

Urban environment

Except for traditional sewage and water-treatment programs and programs of health and education, the multilateral banks' role in protecting the urban environment has been limited. The banks' standard approach to urban problems has been to work within a partial subsectoral or sectoral framework, rather than looking for low-cost solutions to redirect urban development. Of course, the rate of urbanization has been so high that neither national nor international organizations have been able to do much. This is an arena that could use fresh ideas on financing to make the best use of limited public international and national resources in dealing with the most severe elements of the environmental problems.

Technical assistance

There is a wide open field for providing technical assistance to developing countries to help them: (i) establish environmental agencies; (ii) design new economic and social policies for resource conservation; (iii) prepare investment projects; and (iv) establish new laws and financing mechanisms. These many demands far exceed the capacity of the countries and the multilateral banks to fulfill. A new concerted effort is therefore needed to speed up environmental assistance to the countries. Further delays will substantially raise the eventual costs of rehabilitation of the environment.

AN AGENDA FOR SUSTAINABLE DEVELOPMENT

The Challenge

The task ahead for the multilateral banks is to institute a significantly large volume of environmental and natural resource lending and technical assistance. This will require new policies and procedures, increased staffing, and new approaches for project design and administration. To date, the main attention of the environmental staff of the multilateral banks has been on correcting environmental problems of past loans. Examples have included tropical settlement and road construction schemes (Brazil), hydroelectric projects (Central America), transmigration projects (Indonesia), and large-scale irrigation projects. Also (principally in the World Bank), more effort is going into the design of new methodologies for programs. But the actual number of true environmental and natural resource loans has been negligible.

In the environmental arena, the challenge to the multilateral banks is on several fronts. These are summarized as follows:

- (1) How to broaden the concept of development finance to introduce the environment, not merely as a separate issue, but as a unifying core of sustainable development.
- (2) How to undertake authentic environmental projects (not just mitigating components of other projects) that help the countries protect and manage their endangered resources and further sustainable development.
- (3) How to design and incorporate new policies and financing criteria for environmental and natural resource projects.

- (4) How to establish an effective internal organizational structure to handle environmental and natural resource lending.
- (5) How to develop practical working arrangements with national and international non-governmental organizations (NGOs).

Each of these tasks will be touched on briefly.

Sustainable Development

The concept of sustainable development was laid out in a previous section to convey the idea that the costs of economic growth to future generations will rise if the present generation degrades and mines its resources for its own benefit. The strategy of the multilateral banks has not fully incorporated this idea of stability or sustainability of the economic processes and the adequacy of the human, natural resource, institutional, and technological bases.

The concept of reducing undesirable externalities or mitigating environmental impacts of projects has become well accepted, but it has not been well recognized until recently that nearly all activities of the multilateral banks should pass a general test of sustainability. This test would cut across all sectors and subsectors equally--agriculture (including forestry and fisheries), health, education and other social services, infrastructure, energy, and industry.

The test of sustainability is not just a narrow one of whether renewable natural resources are affected or not by a particular project, but whether public goals and policies, institutions, program outlays, and private activity are broadly directed to creating a sustainable development path. It is this long-term perspective--looking to the consequences of our actions on the well-being of future generations--that characterizes development sustainability. The challenge to multilateral banks is to translate this general entreaty to promote sustainability into an operating philosophy and practical rules for financing programs and projects in their member countries.

Environmental Lending

The actual volume of environmental lending of multilateral banks has been very limited. And the prospects for a significantly greater amount seems constrained by their organizational structure, and financing policies and lending strategies. New fields for increased environmental lending were discussed above and broadly included natural resource management and conservation and the accompanying technical assistance and institutional needs.

But there are other lending activities that have a significant effect on long-term sustainable development but have not been given enough attention. The multilateral banks have been using global loans to finance agriculture and industry since their inception and they have been a prime instrument for transferring resources to developing countries. These funds are channeled through a variety of intermediary institutions, such as agricultural banks, industrial development banks, and central bank discounting mechanisms to private commercial banks.

The environmental impact of this lending is virtually unknown and there are few checks on the destination of funds except for general limits on the categories of lending (working versus long-term lending), subsectors (livestock, crops), or size of holdings or enterprises (small, medium, or large). The effect of this lending on the environment is potentially large because of the volume and the sectors to which it is directed. Policy adjustment lending involving large and rapid disbursements can be subjected to the same kind of serious consideration. It is clear that the multilateral banks have not yet developed a will to ensure the environmental viability of all of their main lending categories.

Policies and Financing Criteria

Current policies of multilateral banks are biased against financing environmental projects. First, as soft lending has disappeared, the incentive to developing countries to borrow for projects that have a long gestation and time horizon and a marginal socioeconomic profitability, is greatly reduced. Many environmental projects or project components, subject to present appraisal methods, characteristically have relative low financial and economic rates of return because many environmental benefits are overlooked. Current policies, for example, make forestry and agroforestry lending relative unattractive to countries because of the short grace, disbursement, and amortization periods that are applied.

Second, multilateral banks are still pressured by the need to quickly lend large sums of money because of the debt crisis. These conditions make environmental projects unattractive to the bank's staff who must meet aggressive lending targets and because the environmental programs require patient development of institutions and reshaping of public programs and policies. These transformations take time and a continuity of institutional support, which the multilateral banks are not accustomed to providing. For example, at least a decade is needed to put into place an effective agricultural research and extension service and another five years to develop a constant flow of technology. The protection of a typical watershed or soil conservation project will require the same long time perspective. Multilateral banks have typically followed time frames that are significantly shorter since most loans are designed to be committed and disbursed in five years or less.

Third, multilateral banks are still restricted in many fields to investment in fixed infrastructure. Continuing a previous example, laboratories and other equipment can be financed for an agriculture research institute but not the salaries of the scientists who make possible the new technology.

Organization

As outlined in previous sections, the multilateral banks have been experimenting with different internal organization models to support environmental work. Much is still to be learned from the various arrangements. Both formal and informal structures have been tried with line and advisory functions. An organizational structure designed to correct environmental problems in past lending, the so-called damage control phase, is not applicable to the promotion and preparation of a large volume of environmental lending.

Most organizations have set environmental specialists strictly in an advisory or support role. This is a formula for continuing insignificant environmental funding. Environmental

activities require two types of internal organizational structures--advisory and line (or operating) functions. The first structure is one that is found in the World Bank both at the central departmental and regional levels. This system does not work when there is internal bureaucratic resistance to change as is common now in the operating units. A separate line unit is needed to promote and prepare specific environmental loans with the countries--counteracting the internal bureaucratic resistance to experimentation in new sectors or activities.

Thus, the creation of operating environmental units with line authority, with sufficient staff, authority, and independence to promote projects and programs, is a *sine qua non* to effect a large-scale environmental lending program. This is the approach that has been adopted by the IDB.

Working with NGO's

An especially vexatious tradition of the multilateral banks has been that they work mainly with the public sector in developing countries. While this has been an outcome of a system to ensure that the loans are guaranteed by the central government, this also has weakened the links with important beneficiary groups--whether they be small urban enterprises or small farmers, farm laborers, or their organizations. Environmental groups have been especially active at organizing against government policies that are destructive of the environment.

The multilateral banks need the independent judgment and advice of these environmental groups. Also, the multilateral banks should use them to identify programs, projects, and policy limitations. Governments need to accept this free association between the NGO's and the multilateral banks as a process that will facilitate development. The internal practices and policies of the finance agencies should be adjusted to incorporate a multiplicity of views from its member countries. This will enrich the project preparation process at all stages and will strengthen the quality of the environmental work.

Conclusions

The multilateral banks have made progress toward recognizing the significance of environmental protection for the long-term progress of developing countries. These same multilateral banks can play a vital role in helping countries create policies, investments, and institutions that protect the environment. The task cuts across many sectors (agriculture, industry, energy), functions (natural resource protection, waste management, conservation of the biosphere) at a time when the countries' own resources are restricted. While the multilateral banks must be concerned with the debt crisis and economic recuperation, there is plenty of room for them to act as major catalysts in environmental protection and to change the path toward a greater degree of resource sustainability.