

**World Bank and the Environment**

# Mainstreaming or undermining sustainability? The merger of the World Bank's environment and infrastructure networks



**Pipelines now part of sustainable development at the World Bank**

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Sustainable development is an elastic concept, accommodating divergent approaches to poverty alleviation, environmental protection, and social justice. But World Bank President Paul Wolfowitz may have just stretched it to the snapping point.

**by Bruce Jenkins**

On June 27, World Bank President Paul Wolfowitz announced that he is merging the Bank's central environment and social development departments into its infrastructure and energy units and that the new conglomeration will be called the "Sustainable Development Network" – to be led by the former Infrastructure Vice President. For the first time, large-scale infrastructure projects such as oil pipelines, mining operations, and transportation hubs will don the sustainable development label.

Will the merger lead to greater environmental and social sustainability of Bank operations? Or does it amount to a hostile

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**AMPLIFYING LOCAL VOICES TO DEMOCRATIZE DEVELOPMENT**

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takeover in which environmental and social development staff are reduced to an infrastructure service center?

Mainstreaming environmental and social sustainability into Bank operations has been a longstanding goal of internal Bank reformers and external critics over the past twenty years. Merging the Environmentally and Socially Sustainable Development (ESSD) and Infrastructure Networks could lead to improved, more sustainable development outcomes, provided that senior managers steer Bank operations in that direction. However, before everyone breaks out the champagne, several cautionary flags should be raised.

#### **AN ENTRENCHED INFRASTRUCTURE AGENDA**

The Bank has committed itself to reengage in “high risk/high reward” infrastructure lending. Various sector strategies, an Infrastructure Action Plan and the Middle-Income Country Strategy have been adopted – not as sustainable development strategies but as means to expand lending and to remain “relevant” in a competitive development-finance market.

Critics charge that the Bank’s infrastructure agenda is biased toward export-oriented mega-projects that do not target the needs of the most disadvantaged, often rural, populations. Participatory, upstream options assessments that weigh the sustainability of various means to achieve objectives are rarely performed. Sustainability is often reduced to mitigation – “cleaning up” the negative social and environmental impacts of already-hatched plans. The Bank’s rejection of crucial sustainability recommendations of the World Commission on Dams and Extractive Industries Review – both of which the Bank sponsored – does not bode well. Given the push to aggressively expand infrastructure lending (with a target of \$10 billion a year or 40% of the Bank’s portfolio by 2008), environmental and social development staff may simply be grafted onto an entrenched agenda without being able to change its content or character.

#### **MORE MAINSTREAMING?**

Despite President Wolfowitz’s claim that the “purpose of consolidating these two networks is to mainstream environmental issues,” the merger will not by itself achieve this objective. Critically,

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the reorganization does not affect the core drivers of the Bank's policy agenda such as the Poverty Reduction and Economic Management (PREM) and Human Development Networks or the Development Economics Vice-Presidency. Absent Bank-wide commitments, sustainable development approaches will not be integrated "upstream" in sector and country strategies.

The merger is unlikely to alter the pervasive view among Bank economists, engineers, and finance officials that the environment is 'not my job' – except perhaps for some infrastructure specialists. The merger is also unlikely to shift the common assumption that sustainability issues will be addressed through application of the safeguard policies (coming far too late in strategy and project development to address sustainability as opposed to mitigation). Furthermore, nothing in the merger indicates that constituencies for the poor and the environment – constituencies most likely to promote sustainable approaches to meeting their own development needs – will now be included in the full range of development decision-making processes.<sup>1</sup> Lastly, it is unclear how the merger addresses a perennial problem noted by the Bank's own evaluation department: "senior managers have not been held accountable for incorporating environmental concerns into the activities of their units, either in the Regions or in the networks."<sup>ii</sup>

Structure certainly impacts how organizational priorities are enacted. Previous Bank reorganizations contributed to sectoral fragmentation and a diffusion of accountability for environmental sustainability. The main problem, however, is less a question of bureaucratic organization than one of political will. Without Bank-wide senior management commitment to social and environmental sustainability, we are likely to see little difference in operations.

#### **LOSS OF A SEMI-INDEPENDENT VOICE**

As in all large organizations, bureaucratic infighting is rife as units jockey to assert their agendas and interests. Environmental and social issues have often been at the center of such Bank infighting. The central environment unit, represented by its own Vice President, could serve as a counterweight to the "build it now, fix it later" factions. With resources and authority, the ESSD VP could perform at least a minimal internal check and balance role, and had

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**It calls into question the new SDVP's interest and ability to strengthen safeguard policies that could stand in the way of an aggressive expansion of infrastructure lending.**

direct access to the President. Merging ESSD and Infrastructure muddles this function, as there will be strong pressure within the network to suppress differences so the new Sustainable Development VP (SDVP) can present a unified position.

The merger raises the bar on the qualifications and outlook of the occupant of the new SDVP slot. The former infrastructure head, Kathy Sierra, now oversees the vast network. While some may feel comfortable with her leadership, will this always be the case? A mega-infrastructure guru with little interest in sustainability could take over this post – giving rise to a “wolf guarding the hen house”. The already weak internal checks and balances system will become ever more dependent on personal predilections.

#### **WHAT ABOUT THE SAFEGUARDS?**

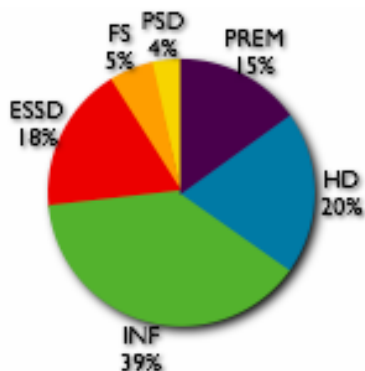
It is unclear how the merger will affect accountabilities for the safeguard policies. The safeguard compliance team – the Quality Assurance and Compliance Unit (QACU) – will be split off from ESSD and incorporated into the Operational Policy and Country Services (OPCS) Vice Presidency. Several issues arise. OPCS is leading the “simplification and modernization” agenda of streamlining Bank policies and procedures in order to accelerate loan processing and to reduce transaction costs. A conflict of interest between OPCS's simplification agenda and its new safeguard compliance functions is likely. OPCS is also leading the “country systems” approach to safeguards but will now have authority over the equivalency assessments on which the approach depends.<sup>iii</sup> Furthermore, OPCS is not the home of environmental and social specialists. The compliance team could be a fish out of water without the support network previously provided by ESSD.

The merger will also increase external stakeholder skepticism regarding future safeguard revisions. ESSD led revisions of the Environmental Assessment, Involuntary Resettlement, Forests, Natural Habitats, and Indigenous Peoples Policies. ESSD's arms-length distance from other operational units provided external stakeholders with at least a modicum of comfort that key policy provisions would be defended if not strengthened. The merger erases this distance and calls into question the new SDVP's interest

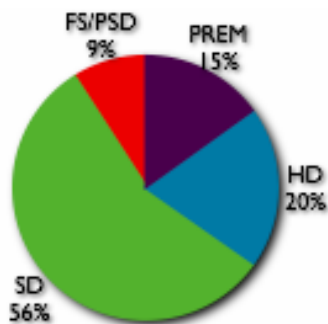
**A New “Super Network**

The Sustainable Development Network will be by far the largest, comprising nearly 60% of the Bank’s portfolio. (2005 lending figures, total \$22.3 billion)

Lending by Network Before Merger



Lending by Network After Merger



HD=Human Development; INF=Infrastructure; ESSED=Environmentally and Socially Sustainable Development; FS=Financial Sector; PSD=Private Sector Development; PREM= Poverty Reduction and Economic Management ; SD=Sustainable Development

Source: World Bank Annual Report 2005

and ability to strengthen policies that could stand in the way of an aggressive expansion of infrastructure lending.

**MORE BUREAUCRACY**

The merger of the Infrastructure and ESSD units will create a “super vice presidency” at the Bank. Infrastructure already was the largest stand-alone network (\$8.6 billion out of a total of \$22.3 billion in 2005) and ESSD was the third largest (\$3.9 billion in 2005). The new network will now have lead responsibility for nearly 60% of the Bank’s portfolio. To oversee this sprawling “bank inside the Bank,” the new SDVP will most likely need further senior managers. The added bureaucratic layers may move former ESSD staff further away from senior decision makers.

**A “WORLD-CLASS ENVIRONMENTAL EXPERT”?**

President Wolfowitz acknowledged that “there are concerns that environmental issues in this new arrangement could be submerged by infrastructure. I am committed not only to sustaining, but strengthening the role of the Bank’s environment team. ... To this end, I plan to create a new position to be filled by a world-class environmental expert to lead our efforts.” Dumping the position of a dedicated VP for sustainability and replacing it with a yet-to-be defined “world class environmentalist” (whom in all likelihood will be appointed by and report to the former Infrastructure VP) is an odd way of showing the Bank’s strengthened environmental commitment. Observers will need to track how this position is defined. The last thing the Bank needs is a leading environmental expert without significant line authority.

**AND WHAT HAPPENS IN THE REGIONS?**

What effect will this merger have in the ever-powerful regional departments – where the Bank’s actual lending operations are housed? And who becomes the Sustainable Development Sector Director in the regional offices – the former Infrastructure head or the former ESSD director? Will the merger force regional environmental and social development staff to dampen critiques of proposals made by their own network? It is unclear how this reorganization will affect the role and authority of these specialists, but it will no doubt create more serious conflict of interest issues.

#### CONCLUSION

Merger details have yet to be announced. Observers will need to follow developments closely. An important indicator of the merger's direction will be budget allocations. While budgets for fiscal year 2007 are set, 2008 allocations will need to be scrutinized for resource shifts away from environmental and social development functions. The most telling indicator, of course, will come with the announcement of new "sustainable" infrastructure initiatives.

Tucking the Bank's entire infrastructure portfolio under the mantle of "sustainable development" is a bold, if not audacious, move. Too often sustainable development is seen as a set of enclave operations limited to the domain of environmentalists rather than a comprehensive approach to the poverty, equity, and environmental dimensions of energy development and distribution, mining, transport, and water supply and sanitation. The Bank argues that the merger is a key step in this direction.

President Wolfowitz, SDVP Sierra, and Bank managers need to demonstrate that the merger is not simply a maneuver to facilitate infrastructure expansion. Will it be business as usual or will the Bank place sustainability and the delivery of benefits to – and participation of – its poorest stakeholders at the core of decision-making?

And it will indeed be curious to observe how the Bank rolls out its next transnational oil pipeline project with Exxon or another oil major under the label of "sustainable development."

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#### Bank Information Center (BIC)

*BIC partners with civil society in developing and transition countries to influence the World Bank and other international financial institutions (IFIs) to promote social and economic justice and ecological sustainability. BIC is an independent, non-profit, non-governmental organization that advocates for the protection of rights, participation, transparency, and public accountability in the governance and operations of the World Bank, regional development banks, and IMF.*

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## Notes and Resources

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i On barriers to mainstreaming, see Frances Seymour of World Resources Institute, "Mainstreaming and Infrastructure," in the World Bank's publication *Environment Matters 2004* (Washington, DC: World Bank, 2004), pp. 16-17.

ii World Bank Operations Evaluation Department, *Promoting Environmental Sustainability in Development – An Evaluation of the World Bank's Performance* (Washington, DC: World Bank, 2002), p. 24.

iii The approach proposes to use a country's own environmental and social safeguard systems in Bank-supported operations where the country's systems are assessed as being roughly equivalent to general principles of the Bank's safeguard policies.