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Integrating environmental concerns into economy-wide policies in developing countries: the role of multilateral development banks*

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ABSTRACT. This study addresses the role of multilateral development banks and their effectiveness in bringing environmental considerations, issues and consequences into structural and sectoral adjustment programmes in developing countries. It addresses a series of complex generic issues showing that such programmes cannot be meaningfully studied in isolation from other aid cooperation and government development programmes. The study proposes and discusses alternative explanations on how the multilateral development banks may have influenced thinking in borrowing countries. By looking more closely at the Philippines the study provides an insight into the dynamics and diversity of such programme lending and how its design can affect resource management and the environment in benign or adverse ways. It shows what complementary remedial action can be taken when institutional barriers, policy failures and market failures threaten the environment. It provides an analysis of how awareness of such interlinkages has emerged since 1980 and manifested itself in aid cooperation in general and in economy-wide adjustment lending in particular since 1987, while gradually being absorbed in governmental development plans and programmes with varying degrees of domestic ownership. In particular, we find that there seems to have been shifts in the World Bank and the Asian Development Bank's environmental policies after the publication of the Brundtland Commission Report in 1987.

1. Economic reforms and structural adjustment policies

All countries, industrial and developing alike, regularly undergo macroeconomic policy reforms of different degrees. Policy reform measures affect the environment via price, income and wealth effects. Sometimes these impacts can be very large, for example if the policy changes signifi-

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cantly alter choice of technology and resource management methods among large segments of the producers and consumers. This is a result both of the incorporation of environmental and resource management policy reforms in the programmes, but equally or more so as a result of the overall macro and sectoral policy changes (World Bank, 1987; Hansen, 1990a; Warford, Schwab, Cruz and Hansen, 1993).

Structural and sectoral adjustment programmes have taken on a significant role in the lending operations of the multilateral development banks since the late 1970s, and accounted for more than 20 per cent of total new lending from the World Bank during the second part of the 1980s and early 1990s, and a similar share for so-called programme lending of the Asian Development Bank. However, the policy dialogue between for example the World Bank and its borrowers was well established long before as part and parcel of conventional project lending operations, where institutional and other policy reforms were deemed necessary for project feasibility. The onset of such new structural and sectoral adjustment lending was therefore in many ways a more gradual evolution of Bank activity than mere statistics would suggest.

2. Purpose and scope of the study

The main objective of this study is to better understand the roles of multilateral development banks (MDBs), more specifically the World Bank (WB) and the Asian Development Bank (ADB) in bringing environmental considerations into structural and sectoral adjustment programmes and economy-wide policies in developing countries.

Plain statistics on the volume of overall official aid (of which MDB lending is a part, of which again adjustment lending is but a small part) to developing countries, suggest that the multilateral development banks have played a minimal role in affecting the development in general and the environment in particular in the developing world. After all, official development aid constitutes no more than a tiny share of the national product and domestic investments in most of the developing world. In other words, national resource mobilization dominates national economies, except for the poor African countries.

And yet, it is widely held (George 1988; Reed, 1992; George and Sabelli, 1994; and Rich, 1994) that the role and impact of these banks—and the World Bank in particular—on the adjustment and development process, is much larger than mere economic statistics would suggest. The claim is that whatever the World Bank decides in a recipient country will influence all other donor agencies plus the private lenders and investors, thereby strongly influencing all aspects of the country's macroeconomy even when its lending portfolio is insignificant. Such criticism has received wide media coverage and is taken very seriously politically in donor countries.

The interrelationships between the actions of the banks and the resource base and environment of the borrowing countries is very complex and perhaps impossible to quantify precisely. We need to look at the data and at any evidence that can shed light on development in individual countries before, during, and after adjustment operations. The World Bank is but one of several actors on the scene, and participates with adjustment lending and project lending simultaneously and continuously in changing economic and political climates. Hence, there is every reason to be cautious before jumping to conclusions such as those of some of the above critics.

We propose several plausible explanations for the observed developments and MDB adjustment initiatives. Those provided by the critics are but a sub-sample of the possible explanations, and not necessarily the right ones. Hence, we carefully discuss possible alternative explanations of observed developments in and linkages between both resource use, domestic policy making and MDB participation. In this context, a country's adjustment history will be reviewed focusing on the following key questions:

(a) Where adjustment programmes are assumed to affect the environment adversely or positively, what efforts (if any) are made to reduce or enhance such effects, or to ensure that others (or complementary activities) make such efforts?
(b) Do adjustment programmes provide the necessary leverage for making economic policies in developing countries more environmentally sustainable?
(c) The multilateral development banks respond to numerous project proposals from governments in countries where adjustment programmes are supported, or planned to be supported in the form of adjustment loans. In view of this, is it permissible to examine the above questions in isolation from the project lending activities of the banks in such countries? In other words, is there a possibility that the extent to which explicit environmental covenants are included in or left out of an adjustment loan is decided in conjunction with on-going and planned project loans and policy-oriented covenants incorporated in the project loan documents?
(d) Moreover, has there been effective covenant coordination with other development agencies and the IMF?
(e) Has the content of structural and sectoral adjustment programmes with respect to the environment changed in accordance with the policy changes in the multilateral development banks around 1987/1988?
(f) If so, is the change driven by the MDBs, domestic initiatives that found their way into the adjustment process, the influence of the Brundtland Commission Report, or a mix?
(g) Are there signs of lasting environmental awareness and priority changes in national policies due to completed adjustment lending operations?

On paper, the year 1987 represents a historic increase in priority accorded by the World Bank to environmental issues with the high profile (*vis-à-vis* the donors, borrowers and NGO-community) establishment of the Environment Department. Consequently, identifying changes in World Bank practices and role following the considerable changes in policies, staff resources and organization around 1987 is important. Against such diverse issues this study addresses the role of the MDBs in integrating environmental concerns in the borrowing countries' economy-wide policies.

3. Methodological and analytic issues frequently ignored in the policy reform debate

Several analytic issues emerge from the above questions and the proposed approach. However, as will be shown, precise and meaningful confirmation or rejection of hypotheses does not come easy, if at all. A study of the MDBs' participation should not view the adjustment lending operations in isolation. The many interlinkages to other parallel and complementary activities by these banks themselves, other donors, and, not the least, borrowing governments, must be explicitly allowed for. An important contribution of this study is to identify the importance of such linkages as possible explanatory factors in a broader approach to studying the role and effectiveness issue. It would be beyond the scope of this study to provide fully documented answers to all of the following complex methodological and analytic issues raised. However, as a basis for determining the direction of further and more in-depth analyses, it is important that these issues be raised in the context of the present study because so far most studies of the adjustment programmes (both done within the banks and by independents) have viewed such lending operations in isolation. Conclusions and recommendations based on such partial approaches should therefore be revisited. The following will illustrate.

The increasing knowledge and awareness of possible indirect environmental impacts from reforms since 1987/1988, may have contributed to reduce unforeseen negative impacts of such programmes. This may be the case even if implemented policies were to increasingly fall short of loan agreements as compared to before 1987/1988. One would need to investigate whether the government has initiated complementary policies and programmes (of its own or with other donors, or in the contexts of project loans from the Bank) that would make such environment covenants of adjustment loans redundant. If in fact government initiatives to integrate environmental policies in the reform programmes follow in time after an array of Bank-supported adjustment programmes, the effectiveness of the Bank must be assessed in this dynamic context of interdependency and interaction between Bank and government initiatives.

Another possibility is that the rise in environmental covenants in adjustment loans since 1987 results from a broader topical coverage of such loans. However, if policy covenants in simultaneous bilateral and multilateral project loans, and other programme lending by agencies such as ADB and the IMF to the same country, are being reduced, then such an observation could suggest that there is no real change in the overall attention paid to environmental issues.

If such covenant 'trade-offs' are observed it may on the one hand suggest that there has been no change of policy, but it may equally well suggest that increased environmental awareness has in fact taken place as it has been elevated to the macro policy level where the government takes a more direct 'ownership' of it. Furthermore, it may also suggest increased awareness if the 'trade off' is a deliberate choice based on environmental impact assessments that were not undertaken in similar situations prior to 1987. Even if this study is not able to empirically clarify the relative value of these alternatives, it is important to have identified that these constitute the realistic set of alternatives, for possible future follow up research.

There is also the possibility of a simultaneous increase in environmental covenants in both adjustment loans and project loans, or in programme loans with project loan covenants left unaltered. Such a case might be taken as a sign that increased environmental awareness has penetrated economy-wide policy lending as well as project lending operations (since project performances are affected by macro covenants). The study will attempt to clarify this hitherto unexplored issue in at least one country.

However, there can be a substantial time lag of up to several years from studies being identified and formulated, to their being completed and finally form the basis for an adjustment programme proposal, which then takes time to negotiate and implement. Therefore, to the extent that there was actually a shift in environmental policy of the Bank in 1987, this would, owing to such lags, not be implemented in adjustment loans until after the passing of some time. One may claim that, precisely because of this inevitable time lag, if a sharp increase in environmental conditionalities of adjustment loans appeared shortly after 1987, then the awareness process was much more gradual, and well on its way before 1987.

When evaluating the effects of these programmes one must keep in mind that the programmes cannot easily be evaluated isolated from other factors influencing the economy. In this context, it seems obvious that overlapping adjustment and stabilization policies contribute to blurring the partial effects of individual programmes. Furthermore, despite the fact that a single adjustment programme may appear unfavourable to the environment when assessed for its impacts in isolation, this by itself is not a sufficient reason for criticizing that particular adjustment programme or the World Bank. The big question is how well concerted this one adjustment programme was in focus with other bank project and programme lending, with other donor organisations' programmes for stabilization and restructuring, and with government-generated action. Unfavourable environmental consequences may well be the result of bad coordination and bad combination of different donor and lender policies. It is in this context that 'second best' comparison should be undertaken.

Yet another reason for not evaluating adjustment programmes in isolation, is that the lending institutions may have had plans to address these problematic impacts in follow-up programmes or in complementary measures by other donors. Analytically speaking, there is a host of problems that demand to be resolved prior to starting up. Conceptually, one can distinguish between the pre-adjustment period, the adjustment period and the post-adjustment period. According to a recent comprehensive post-evaluation study of the World Bank experience 1980–1992 with structural and sectoral adjustment operations (Jayarajah and Branson, 1995) these periods are in the case of the Philippines 1970–79, 1980–84 and 1985–90 with respect to the first and second structural adjustment loans, hereafter referred to as SAL 1 (1980–83) and SAL 2 (1984). Henceforth, actions taken in post-adjustment periods must also be taken into consideration. What is more, evaluations need to be done as to post-adjustment assistance, advice and guidance in order to sustain benefits from the often traumatic transitory periods of adjustment. What good is adjustment if the government returns to sins of old in the aftermath?

These arguments do not lessen the responsibility of donors and lenders. They merely constitute reasons for applying a very careful and comprehensive approach to such evaluations.

Individual lenders and donors must be expected to articulate their conditonalities allowing for those of the other lending parties thus seeking coordinated implementation. As such, a critical look at the inter-organizational policy dialogue, as, for example, seen in the role of the so-called country-specific Consultative Group meetings of different donor agencies, may be ideal from a theoretical point of view, but it is likely to be difficult to get objective information on it. It is well documented that in many African countries with a high degree of bilateral aid dependence, adjustment covenant effectiveness has been eroded by the lack of coordination with bilateral donors. When bilateral donor grants have replaced or supplemented funds from the Bank or the International Monetary Fund, the terms of trade gains from a local currency devaluation may have vanished, and other macro-goals are missed. Incentives for domestic savings disappear when a soft budget constraint is introduced by bilateral actors in the donor community (Sveberg, 1995).

In East and South East Asia the cold war played a key role in the aid cooperation of the superpowers until the mid to late 1980s. Whereas one would not find official Bank documents referring to the importance of controlling communism and retaining a strong US military presence, one cannot discard the possibility that the Bank was constrained in its policy and lending operations by such considerations (Hogg, 1993).

4. How this will be done

Ideally, SAPs should be compared as:

(a) proposed by the multilateral development banks,
(b) agreed between them and governments, and
(c) actually implemented by the countries studied during and after adjustment.

Such completion of our study would necessitate enough information on all three stages (a), (b), and (c). When information on the initially proposed adjustment programme is unavailable, the study settles for a comparison between what was negotiated and agreed on the one hand, and the actually implemented policies on the other. Such comparisons are performed on a sample of adjustment programmes for which documentation is available for the various stages in the programme cycle. We use the following criteria for selecting a suitable country:

> First, the country must have undertaken or attempted to undertake adjustment operations and policy reform programmes in both the pre- and post-1987 periods. Such operations must include structural and/or sectoral adjustment lending from the World Bank, in either or both periods. If only in the pre-1987 period, there should be documented country policy reform initiatives equivalent to an adjustment

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programme in the post-1987 period. Availability of project-lending documents with policy covenants that are complementary to adjustment loans and/or government policy reforms would be preferable. Available documentation of stabilization programmes from the IMF is also desirable. Finally, bilateral donor activities believed to have impacted favourably or adversely on the adjustment policy reform process should be reviewed.

Second, the country must have adequate descriptions of environmental and macro-economic problems of relevance for our study. We would like to identify one or a limited number of major environment–economy linkage issues that are sufficiently significant to warrant concern at the macroeconomic level, and where it is intuitively likely that discernible relationships between economic policy reform and the environment can be established, either directly or indirectly via changes in the social and demographic fabric.

Third, there should exist independent non-polemic analyses establishing the above linkages, or statistics available at the time the programmes were designed that convincingly provide support for their existence.

Contextually, a sober perspective is needed on the relative magnitude of official aid flows to the countries being studied. It would not seem unreasonable to assume that the larger the official aid flow share of gross national product and gross domestic investments, the more important it becomes to distinguish between 'business as usual' and the adjustment-programme case. However, the relative role of different forms of aid cannot be traced from such crude statistics alone. Concessional adjustment loans have a much larger relative impact on the politics and exogenous economic and business climate conditions governing consumption, savings, and investments than project-oriented development aid, and motivate the orientation of this study.

5. Evolution of a macroeconomic–environment nexus: the Philippine case

We selected the Philippines for a host of reasons. First, the Forestry Sector Programme in the Philippines was the Asian Development Bank's (ADB) first major initiative to implement the recommendations of the Brundtland Commission. Second, there have been several environmental sector adjustment programmes in Philippines both by the ADB and the World Bank. Third, there exists a number of descriptions and analyses of the environmental and the economic development in the Philippines from independent authors complementing those of these banks. This adds credibility to our study. Fourth, the Philippines have undertaken bank-financed structural adjustment programmes (SAPs) both prior to and after 1987.

The fact that there are two banks involved as opposed to only one complicates the picture, i.e. because undocumented agreements on coordination and cooperation between the two banks about the assigning of areas of responsibility in structural lending may bias conclusions qualified by documents. However, in light of the importance and the order of magnitude of the Philippines' environmental problems, reference should be made in official bank documents to a possible division of responsibilities between the two banks.

The first SALs were drawn up by the so-called 'Macro group' in the Philippine Government. This group comprised the Departments of Finance, Trade and Industry (along with the National Economic Development Agency) and the Central Bank. The Department of Environment and Natural Resources (DENR) was not part of this 'Macro group' at that time. The over-riding concern of the 'Macro group' was the reform of the industrial sector protection system. The first SAL, SAL 1, therefore concentrated on encouraging manufacturing exports, improving resource allocation via tariff reform and import liberalization, facilitating private industrial investment, increasing industrial efficiency through restructuring programmes and reassessing the economic viability of public investments in major industrial projects. The second SAL, SAL 2, was expanded to improve efficiency in energy consumption and to hasten the development of domestic energy resources. The SALs were complemented with several stand-by arrangements with the IMF focusing on rectifying internal and external financial imbalances.

The government implemented most of the programme agreed to in the SALs, but often failed to do so in the stated time. The Philippines faced a foreign exchange crisis in the second half of 1983 giving precedence to emergency instruments stabilizing the economy over structural adjustment reforms. The import liberalization process and some of the industrial reforms were hence halted for a year. More precisely, whereas the tariff reduction programme of the SALs continued, non-tariff barriers to trade were introduced during the 1983–1985 crisis period due to the need to conserve foreign exchange. The SALs failed to achieve the anticipated results when the complementary IMF-stabilization programmes, drawn up under crisis and duress to promote a more comprehensive package of policies, failed to become operative during this critical period.

If SAL 1 and SAL 2, as originally proposed by the World Bank in response to the SAPs drawn up by the 'Macro group', did allow for the social impact of the adjustment measures, then it should have surfaced somewhere in the literature, but so far we have not found signs of this. If the World Bank had in fact proposed socially modified SALs in the early 1980s, then two questions come to mind:

> First, why were not these concerns incorporated in programme design (Did the World Bank try, but fail to establish borrower ownership of such concerns?)
>
> Second, knowing about the poverty consequences of conventional adjustment measures in the Philippines (for example, large scale migration to open access areas could follow as the last resort of the poor), did the World Bank lack knowledge and insight about (a) the consequences for poverty, (b) the resulting migration to open access areas, or (c) did the World Bank perform a conscious trade off between the environment and growth?

From an environmental perspective, (c) may at first glance seem the more disreputable for the World Bank. But on second thought, this appearance may deceive, if indeed there was (i) a severely limited institutional capacity for implementing adjustment measures, and (ii) no realistic scope for borrower ownership of measures that would have provided security of tenure and appropriate extension services to the upland forest area settlers. The trade off may then just have reflected the various perceived social returns of different usages, with the social costs of upland degradation being severely underestimated. Nevertheless, this junction is the devil's alternative for the World Bank, because (a) and (b) indicate insufficient judgement within the World Bank, whereas there is little available documentation pointing towards (c).

If the World Bank before effecting SAL 1 (1980–1983) and SAL 2 (1984) had considered the environmental problems that could ensue fom the enhanced migration pattern of the late 1970s that followed in the wake of the deflationary policies conducted, then it would have had to consider the social impact of the adjustment programme—which the World Bank did not. Hence it seems reasonable to assert that the World Bank—just as the Philippine Government—did not anticipate or attach importance to the population–environment dynamics that took place.

Further support for this hypothesis is found in an evaluation report addressing the explicit objectives in the first two SALs (World Bank, 1993b). There were no environmental objectives and the only social goal was employment generation in industries in SAL 1. A quotation from the report may be appropriate on SAL 2: *'No reference to environmental consequences was made even in the assessment of benefits and risks associated with the adjustment operations'*.

However, it should have been evident given the political, economic and demographic setting, that a programme relying on the formal manufacturing sector to generate jobs (even in the presence of overly optimistic employment elasticities with respect to output) can absorb but a minor part of the incremental labour supply, compelling the residual into the informal sector. Indeed, the urban informal sector increased substantially during the mid 1980s, with around 70 per cent of the informal sector workers taking to trading.

As the opportunities for formal sector work in the cities were getting worse in general, and job creation in lowland agriculture could only absorb a limited portion of the rapidly growing labour force, a not unreasonable conclusion appears to have been that the new rural job seekers and their families would turn towards their last refuge, namely the open access areas. Given the knowledge of the lack of incentives for sustainable land management, widespread environmental degradation could have been foreseen in the fragile open access forested uplands and the coastal areas.

One reason why little attention was devoted to environmental deterioration following the upland migration may have been that even as late as in 1986 the Forest Service estimated the upland population to be only 1.3 million, and during most of the Marcos' regime, there was little if any official questioning of such statistics. The magnitude of the upland population pressure problem was apparently not appreciated at the time. Migration studies up until this time had focused on rural–urban migration or rural–rural migration other than to the forested parts of the uplands. It was not until the Philippine Institute of Development Studies in 1985 addressed migration to the steep forested open access uplands as a potential major migration factor that the issue caught political attention.[1] More recent estimates of the 1986 upland forest area population are in the order of 5–9 million!

However, already in 1983, the World Bank expressed major concern about the widespread denuding of forest land in the Philippines (World Bank, 1983). The World Bank should to some extent have foreseen the change of course in domestic migratory patterns, if this had been on the development policy agenda at the time. Coupled with the effect on migration of the deflationary impact of the failure of the IMF stabilization programme to become operative as scheduled, the need for measures to counter the push for the open access areas should have been even more obvious, even if this IMF delay could not have been foreseen by the Bank. Furthermore, even if the advent of the economic crisis of the 1980s showed the true colours of the Philippines' economic state of health for the first time, the signs pointing towards a crisis were in plenty. The crisis exacerbated the situation tremendously in terms of lowland migratory outflow. In allowing for the potential crisis in their programme design, complementary mitigating measures should have been included in the Bank–IMF supported adjustment programmes.

On the other hand, environmental and natural resources management were not on the agenda of issues in the Philippines then. The policy dialogue leading to the SALs was with the 'Macro group' of 'heavy weight' ministries and the Central Bank. The Department of Environment and Natural Resources played no role whatsoever in these negotiations.

The Bank did not have the census data required for estimating the inflow of rural lowland dwellers into the open access areas in the highlands and on the coast at the time of the first SALs and sectoral adjustment programmes in the Philippines. In many developing countries, it is not uncommon to have lags of up to five or ten years between the gathering of data and the presentation of ready tables. In the case of a long lag, several points could be made concerning the environmental dimension of the Bank's structural policy in the Philippines:

The World Bank has to take as point of departure the most recently available census, when entering adjustment programmes negotiations. Assume that the trends of the 1970s with heavy urbanward migration and a population that was rapidly growing, were extrapolated into 1980s and latitude was given to these facts in the Bank's adjustment strategies for the Philippines. It would then appear reasonable to have included covenants in the Bank's lending that dealt directly with the exploding environmental problems arising from accommodation of the newcomers in the cities. Environmental problems of too rapid urbanization, particularly in Metro Manila, had long since manifested themselves. This situation was clearly

[1] Personal communication with Dr P. Intal.

detrimental to the environment and the economy. It should have been perceived as alarming and increasingly at variance with obvious Bank goals of attainment of sustainable development as part of plain sound economics. The martial law made open dialogue on these issues difficult, and prevented early warning studies of the inevitable problems from influencing the policy debate. Much-needed policy reforms were thus not on the agenda.

Short of any environmental goals or covenants to address these issues, one is led to consider the following two options:

First, the Bank did not put forward explicit environmental objectives, as other dimensions were seen as paramount given the economic state of health of the Philippines. If this had been the case the Bank would have performed a conscious trade off between the environment and other economic objectives. Such a trade-off would not provide for our concluding that the Bank was giving less priority to the environment at the outset of adjustment lending to the Philippines than it does today. The Philippines have come a long way since then and therefore the trade off between economic betterment and environmental preservation may have changed in favour of the environment, thereby inducing such objectives to be formulated in documents. However, if reflections on the environmental impacts of structural adjustment had been integrated into Bank documents from around 1980, then we could settle the question of whether such a trade off was performed or not. In the absence of such written documentation we are left only to speculate. Nevertheless, it is a token of low or no priority of the environment by the government and the Bank at the time that the environment was not even mentioned in these documents.

Second, the Bank did not envisage the concomitant environmental degradation of the population trends.

Moreover, given the population growth rates that were presumed to exist at the time from the most recent census, one is inevitably led to wonder how to accommodate all the entrants into the labour force when the focus of the Philippines had been on capital cheapening policies to the industry. (Not until 1994 was a sharp growth in industrial employment registered). The excess of labour force entrants over what could reasonably be accommodated in the cities would have to seek livelihood elsewhere, as history has shown that they did indeed do just that.

It seems reasonable to assume that the Government and the Bank had optimistically anticipated that the SALs—if implemented on time with the support of the complementary IMF stabilization loan could have generated new employment both in industry and in lowland agriculture as a result of the anticipated improvements in internal terms of trade. As it happened, the crucial complementary IMF stabilization programme did not come into operation, thereby undermining the SALs, and causing the failure to stimulate industry and lowland agriculture to create the desperately needed new jobs in environmentally more robust areas. With practically no social security the only place the poor could resort was the open access areas.

In conclusion, given the domestic political setting at the time (martial law, lack of appreciation of the migration problem, etc.), and the attempted co-ordination between the SALs and the IMF stabilization measures, which both the Bank and the Government had relied upon, the SALs were reasonably designed in the sense that it is hard to imagine any other institution that could have designed an operational adjustment programme addressing both the acute economic ills and the accompanying much less acknowledged environmental and social situation.

SAL 1 and SAL 2 did not involve policy reforms of the agricultural sector. The Philippines' agricultural sector was indeed in urgent need of external finance in the wake of the balance of payments crisis in 1983, as the sector was heavily dependent on imports for fertilizers, pesticides, animal feed, fuels, spare parts, etc.

In 1984 the World Bank launched an Agricultural Sector/Inputs Project Loan (ASAL) and the ADB an Agricultural Inputs Programme Loan. The two loans aimed to mitigate the effects on the agricultural sector of the external payments crisis and to promote an agricultural public policy reform focusing on price and trade liberalization, and reform or studies of the public sector agricultural institutions. Notably, the ADB loan aimed to improve the regulation and monitoring of pesticide use. The motivation for the ASAL was that farmers would not get their imported inputs without external finance. Foreign exchange would be severely scarce and what little there was would not be used to import agricultural inputs.

The co-financing operation performed by the development institutions in keeping the agricultural input import flowing into the Philippines during the economic crisis apparently contributed to economic growth. GDP was depressed a total of 9 per cent during the course of 1984, 1985 and 1986 while the agricultural GDP grew by 10 per cent. This had a clear positive environmental effect in that less migration than otherwise took place from the rural lowlands to the crowded cities and the fragile forested uplands. These adjustment lending operations undoubtedly dampened the out migration from the lowlands in the period 1984–1986. In this respect, the two banks made major efforts that had clearly positive social and environmental effects.

Nevertheless, in assessing the environmental dimension of the ASAL, the most conspicous covenant is the absent one. There existed a World Bank agricultural sector study in 1983 which professed a mature understanding of and concern for the environmental problems in Philippine agriculture. A natural question is why none of the environmental problems germane to migration were addressed in the ASAL (1984) or in the SAL 2 (1984), given the magnitude of the problem? As far as the government is concerned, we have established that it was simply not on the agenda at the time. With no outlook to establish borrower ownership to an adjustment programme addressing these social and environmental development problems, the World Bank and ADB might have decided that since they expected their two complementary agricultural lending operations to improve the sector performance, social and environmental gains would accrue, as in fact did happen. Perhaps they decided that the political climate was such that it was best not to mention these issues. Obviously, this was not explicitly stated anywhere. If project loans rather than programme loans were intended to be the main solution to these environmental problems, then reference to the relevant projects handling the environmental issues arising in conjunction with adjustment programmes would seem natural in adjustment programme documents in order to document the deliberately planned complementarity between programme- and project-lending operations. To the extent that a project has a policy component, it falls within the acceptable area of overlap between projects and programmes for our study. A case in point is our examining the Agricultural Sector/Inputs Project.

The agricultural sub-sector studies undertaken and the reforms that eventually came about, paved the road for continued high growth in agriculture. Given the high population growth, especially in rural areas, this contributed substantially to lessen the push effects towards the commons. Since the World Bank had to settle for studies in the ASAL, it would perhaps be tempting to claim that the Bank has not really had any real effect on policy reform. But the World Bank fought hard to reform several sub-sectors in the Philippine agriculture, and may have gradually helped build a cadre of pro-reform officials in the Philippine government (World Bank, 1985). If that is the case, then the World Bank should be appreciated well beyond the lack of covenants in the ASAL. It is quite clear that reform came about thanks to reformers and reform-minded interest groups and individuals in the Philippines who came into decision making positions after the Marcos regime was ousted. Their work was facilitated by some support from the Bank, the ADB, IMF and the US government in the form of loans and grants, including support from the Agricultural Sector/Inputs Studies. Finally, given the need for speedy arrangement of ASAL, maybe it was indeed the wrong time to start designing specifically environmentally oriented measures and objectives into the programme, thus running the risk of severely delaying loan agreements, and consequently exacerbating the environmental and social problems that these loans could (and in fact did) dampen.

The trade reform components thus shouldered the agricultural expansion projects, and probably helped reduce heavy migration away from the lowlands compared to what it otherwise would have been.

The Economic Recovery Loan of 1987 included reforming the tax system, deepening the various trade reforms, increasing investment, operating and maintaining expenditure in the social and economic sectors. No environmental objectives or covenants were explicitly stated in conjunction with this structural adjustment loan, but based on the analyses of the various components of the earlier SALs and the ASAL, several of these measures are nevertheless likely to entail positive environmental consequences.

The reader should not be misguided into jumping to conclusions about the World Bank's social or environmental concerns and interests at the outset of the 1980s to the mid 1980s. Several issues arise needing inspection. First, what if any literature and research results existed at the time to suggest the explicit inclusion of complementary institutional reform measures as an integral part when formulating adjustment loan contracts? Second, if such information was available, why was it not more extensively employed in loan contract formulation?

In answer to the first question, not much country-specific research on the poverty environment nexus was published during the Martial Law years in the early to mid 1980s. However, international research of a more generic kind—and therefore transferable to the Philippine situation—into these issues was widely published and debated in international journals in the early 1980s, providing good reasons for assuming that in the case of the Philippines, the majority of the environmental problems are closely related to poverty (e.g. Repetto and Holmes, 1983). Such research had clearly shown the critical role of different tenureship regimes in combination with open- versus closed-controlled access as determinants of sustainable versus unsustainable resource management in rural areas experiencing population growth. More significantly, however, the Bank itself had clearly expressed the need for such complementary institutional measures to secure land titling for the rapidly growing numbers of forestland squatters in Thailand at the beginning of the 1980s as part of the SALs there (see Hansen *et al.*, 1996). The reason for this concern expressed in World Bank documents at that time was precisely the same fears of migratory open access fragile land encroachment and irreversible resources degradation as a consequence. Since Thailand and the Philippines were administered by the same Vice Presidency in the Bank, one should have been able to transfer these findings in the early 1980s and foresee the risk of upland resource degradation in the Philippines as well. These are the grounds for highlighting the social and environmental interaction with the adjustment programmes. In view of this, one could expect that at least the 1987 SAL to the Philippines, namely the Economic Recovery Loan, would take such possibilities into consideration. Nonetheless, this appears not to be the case; certainly not in any explicit way.

The answer to the second question is probably found in the previous discussion about the readiness of the borrower to take on 'ownership' of an adjustment programme. In the case of the Philippines, structural and sectoral adjustment programmes were government property, and donor-imposed covenants in general were very unpopular, and therefore virtually impossible to implement, given the hostility to such measures in the Philippine parliament.

As regards explicit environmental and social concerns, the adjustment programmes were designed by the 'Macro group' in the Government, and their concerns continued to be the immediate pressing issues related to exchange rate, imports and trade liberalization. After Marcos was ousted in 1986, there was a precarious balance of payments situation, and the urgent political goal was to achieve speedy financial support to stabilize the economy and the political situation. The population–environment nexus was still poorly understood by the government, and even if it had been recognized, it is likely that it would have been downgraded or postponed due to the pressing need to deal with the urgent balance of payments concerns.

Explicit social and environmental dimensions of development thus appear relegated or neglected in the first three SALs for reasons of domestic prioritization and focus. In retrospect, one may also put forward the proposition that even if the Bank had raised such issues and suggested them for inclusion in the loan agreement, it would hardly have made any difference, (a) because there was no domestic implementing capability or the capacity in the DENR to deal with these complex issues at this early point in time after the new government took office, and (b) because DENR was not at all involved in the adjustment-programme design and negotiation process.

ADB's programme lending for sectoral adjustment started in 1987. As for pre-1987, ADB programme loans mainly served to finance imported inputs for increased utilization of existing sectoral production capacities in a climate of foreign exchange constraint, such as the 1984 Agricultural Inputs Loan. Available documentation clearly demonstrates that the ADB holds close coordination with the IMF, the World Bank and major bilateral donors to avoid duplication, conflicting advice, and counter-productive efforts.

The ADB responded quickly to the recommendations set out by the Brundtland Commission. In 1987, the ADB established an Environment Unit, which was upgraded in 1990 to the Office of the Environment, and then in 1995 to the Environment Division. The first major outcome of the ADB's environmental focus was the 1988 Forestry Sector Programme to the Philippines. The ADB continued in 1989 with a Fisheries Sector Programme, in 1991, with the Industrial Forest Plantations (Sector) Project and, in 1990, ADB financed a Road and Road Transport Sector Programme. As a consequence of the study undertaken as part of the latter programme, the Department of Environment and Natural Resources issued orders to the country's petroleum companies to reduce the lead content in domestically produced diesel and gasoline. In 1991, the ADB assisted the Philippines authorities in undertaking a study on suspended particulate matter in Metro Manila. In 1992, the ADB followed up with a technical assistance grant to assist the Government in preparing an appropriate vehicular emission-control programme for Metro Manila. While all of these programmes and projects are well targeted and complementary to each other, as well as to other operations supported by the World Bank and other donors, it remains to be seen to what extent the Government has the ability and support to fully implement and monitor such a comprehensive and demanding policy package.

In 1992 the World Bank launched the Environment and Natural Resources Sector Adjustment Loan (ENRSAL). The World Bank designed the programme for ENRSAL with explicit account for other on-going complementary development cooperation activities affecting the environment and natural resources management, see page 48 in Hansen *et al.* (1996). For example, the ADB programme loan for fisheries and a project for replanting mangroves deal adequately with these areas. Therefore, policy measures involving management of small-scale capture fisheries and mangrove areas have been excluded from ENRSAL. Furthermore, forestry elements will be defined so that they are complementary to the ADB Forestry Sector Programme Loan and to follow-up operations under preparation that emphasize production forestry, processing efficiency and reforestation. The goals of this programme are to preserve what remains of the biological diversity of the Philippines; where these resources have been degraded or destroyed, to re-establish them wherever practicable and financable; and elsewhere to introduce sustainable land-use practices.

Given that the studies mapping the environmental state of health were initiated prior to 1987, one may postulate the following two mutually exclusive conclusions:

1. the Bank's environmental policy did not change after 1987, the implementation of the ENRSAL was just the natural extension of the pre-1987 studies; or
2. the World Bank's environmental policy did change after 1987, the implementation of the ENRSAL manifested the change in environmental policy. The World Bank was now willing to champion the environment by real life action.

The criteria for the second tranche release were all met by the Government. Building on this information, one may initially propose at least two conjectures:

1. The World Bank had done a great job with ensuring borrower ownership if there was originally a conflict between environmental and economic ends. If there was no conflict between environmental and economic ends in the Government's policy, then the programme would be totally in the self interest of the borrower.
2. The criteria were so diffuse that they could be viewed to be without real consequences for the borrower.

However, neither interpretation provides an appropriate assessment of the role of the Bank. The so-called 'EDSA Revolution' in 1986 where the Marcos regime was ousted, and Corazon Aquino became the new president, coincided with the release of the Brundtland Commission report in 1987. This report came to play a decisive role for the new government in its need to formulate and legitimize a new course of development policy. In order to implement this, a series of cross-departmental committees were formed with mandates to address pressing cross-departmental problems and bottlenecks, among which those related to resources degradation were high on the list. This had the effect of bringing DENR into the macro economic structural and sectoral adjustment dialogue for the first time. This appears to have been a necessary condition for government initiatives to address environmental issues in a macroeconomic adjustment context. However, it was not a sufficient condition. Whereas the leadership of DENR prior to 1987 was not prepared to take on such challenges, the new policy strategists taking over DENR in 1987 were very much aware of the environment–poverty–economy linkages, and actively used the Brundtland Commission report for designing more comprehensive and integrated adjustment programmes for the government to use as leverage to seek Bank financing. These new programmes were thus government driven, and the role of the World Bank after 1987 was to give loans for these new programmes. This coincides with the sharp enhancement of in-house capacity and capability to assist borrowers on environmental project and programme formulation.

The new Philippine administration's official commitment to the environ-

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ment has been demonstrated through placing the environment among its top five priorities. Given this latter piece of information, it appears that the World Bank also has indeed given priority to the environment, and may take credit for acting on the Governmental goodwill towards the environment by providing the highly needed ENRSAL.

The industrial restructuring on which the Philippines has embarked supported by the World Bank, aims to promote industrial growth. The outlook for future industrial growth in a situation characterized by urban areas already having long since exceeded their assimilative capacities for waste should have caused some raised eyebrows in the early 1980s, if environmental issues were at all considered. In observing that almost a decade and a half passed before these problems were listed on the agenda, one is drawn to question some of the early priorities of the World Bank. Surely, a small investigation in the early 1980s to get an idea of the size and depth of the environmental problems related to urban congestion and industrial pollution could have been possible, catering for the inclusion of appropriate policy covenants, at the time of forthcoming adjustment loans?

The World Bank has advocated trade liberalization and numerous other adjustment measures reducing the bias against agriculture and export-oriented industry in the Philippines for almost 15 years. In doing justice to the World Bank one may always argue that this is a cost-efficient avenue to controlling environmental degradation. The motivation for such a claim would be that the World Bank kills two birds with one stone. First, it reduces migratory pressures to both fragile commons and the already congested cities by allowing for greater labour absorption in agriculture, and second, it is performing highly warranted structural adjustment operations that remove incentives for rent seeking behaviour that is sapping the economy. In sum, agricultural promotion policies could help reduce environmental strain on both the urban areas and the open access areas.

However, the environmental objectives, if they constituted part of the motivation for agricultural and export promotion policies which have taken an unduly long time to implement, have not been achieved. The obstacles have been that population pressures have continued to grow, the labour intensity of agriculture has not increased as agricultural land reform efforts have yet to materialize, modern industry has not created new jobs at the rate anticipated. In light of the massive environmental degradation that has been realized over the last 15 years, possible inferences are the following:

(a) the Bank did not hold the view that the environment warranted particular action at the time, which is in stark contrast to the 1983 Agricultural Sector Memorandum (Report 4318-PH) claiming that halting the environmental deterioration in forestry and fisheries would be at the core of forthcoming Bank lending strategy to the Philippines,
(b) a cap on resources prevented explicit environmental action,
(c) the Bank believed that the aforementioned policies would gather momentum over time and increasingly lessen the toll on the environment from rural–rural and rural–urban migration.

The aforementioned ENRSAL is a hybrid policy and investment support operation focusing on poverty, natural resource management, and environmental degradation in the uplands.

Rapid urbanization and the expansion of the industrial sector has been achieved at the cost of massive environmental degradation in Manila and other urban centres. An industrial management study, assisted by the Bank, is under preparation to develop an institutional framework for effective management of critical environmental risks.

In addition, an industrial efficiency and pollution control investment project is under way focusing on the shortcomings of the collective treatment facilities for industrial waste, to support industries willing to invest in pollution control equipment, and to provide technical assistance to government agencies implementing environmental regulations.

The reason for our attending to the investment project loans by the Bank concomitant to World Bank's programme lending, is that there is some overlap between programme loans and project loans in establishing the economic framework. The Philippines experienced a deep economic crisis and a highly insecure political situation in the early 1980s. The need for an adjustment process was acknowledged only half-heartedly, and it has therefore been slow and been rather painful. It has been accompanied by adverse environmental impacts resulting from political instability, social unrest, and inadequate employment creation in lowland agriculture and in the cities. These problems were left largely unaddressed in the pre-1987 programmes. Poor implementation of a complementary IMF-standby arrangement in the early 1980s made the adjustment experience even more painful. Both the World Bank and the ADB adjustment lending have significantly changed in the direction of more coordination and increased integration of environmental concerns over the last 15 years. Environmental concerns are explicitly included in adjustment lending and already in 1988 the Asian Development Bank promoted environmental reforms to address the main concerns. The influx of these adjustment operations on Government policy implementation also appears to be significant. The increased emphasis on environmental reforms and their links to the economy-wide policies occurred after the change in the political regime in the Philippines (post Marcos). The new Aquino Government took office around the same time as the Brundtland Commission report was published. The Government used the work by the commission to enhance public attention to environmental issues, and in addition strengthened the institutional capacity within the key Government institutions by the employment of environmental economists. The increased attention and resources devoted to environmental issues by the Philippine Government coincided with the 'greening' of the World Bank. The end of the 'cold war' made it easier for some donor countries to relax their constraints on aid cooperation activities that could have conflicted with strategic positioning in the region. The present Government has elevated environmental concerns and natural resources management to a priority economic issue and social development issue.

6. On the scope for sustaining the integrated approach

The World Bank's strategy for poverty alleviation in the Philippines at the present represents a substantial shift away from the mere growth-focused strategy at the outset of the 1980s. Today the World Bank's strategy for poverty alleviation in the Philippines is an attempt to meet the challenges of the new ambitious government plan called 'The Philippine Programme for Sustainable Development' which addresses the most troubling environmental issues, by (World Bank 1992e): (1) effecting sustainable rural development. This is to be achieved through both land reform and in addressing the population, poverty and environmental degradation nexus, (2) family planning, and (3) improved social sector support. It states that 'The Government has developed an excellent policy framework for promoting conservation of natural resources, but will need further external assistance in implementing programmes to protect and manage . . .' (World Bank, 1992e, p. 27).

In closing, one should note that the World Bank in tandem with the IMF sent a mission in early 1996 to the Philippines investigating the environmental impacts of macro economic policies as an integral activity. Apparently, the environmental dimension continues to gain momentum within the two banks and now also with the IMF for the macro-policy dialogue.

7. On representativness and transferability of the Philippine findings

This article has focused on analysing the SAP-environment nexus of the MDBs in the Philippines. Contextually, one may ask how representative the case of the Philippines is for other developing countries? Our starting point in answering this question is the analyses of three other countries selected by the same criteria as the Philippines. However, in exploring the generality of our Philippine findings we stress that of the three complementing countries analysed each has distinctly different country features which we believed to be of crucial importance to the interpretation and efficiency of the multilateral development banks in the adjustment reform process. The candidate countries belong to two different geographical regions; the Philippines and Thailand from Asia and Ghana and Tanzania from Africa.

A distinct difference between the two African countries and the two Asian ones is the degree of the aid dependence. In particular one should note that whereas aid dependence in Tanzania apparently (much of it due to devaluation of the local currency) has increased dramatically to reach a state of extremely high aid dependence in the 1990s, 40 per cent of GNP, the two Asian countries have never depended much on aid, at least not directly. However, even though the aid in the two Asian countries was no more than 1–2 per cent of GNP in the 1980s, the compliance or lack thereof with World Bank adjustment loan conditionalities may have been important for the credit worthiness of borrowers in these countries and therefore had an important indirect impact on the access to, and conditions of, loans and credits elsewhere and thus on the investment climate of the two countries.

The four country studies show that the World Bank has made attempts

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to integrate environmental concerns into adjustment lending. The borrowing governments also appear to have been influenced by the World Bank in this respect by integrating environmental concerns in national policies or at least by putting the theme on the agenda, coinciding in time with the World Bank's similar endeavours. Notably, to what extent and in which forms this integration takes place varies quite significantly among the countries studied. Adjustment programmes today are carefully negotiated in order to ensure government ownership. Without government ownership such programmes are considered doomed to failure.

Lastly, there is evidence supporting the hypothesis that there has been a shift towards greater emphasis on the environmental issues in adjustment programmes since 1987. Important elements stimulating such a shift are probably the changes in the World Bank's organizations and priorities, the publicity around the Brundtland Commission Report, and the emerging environmental awareness at the 'grassroot' level stimulated by an increasingly active NGO community. In particular, one should note that in the early adjustment programmes few if any efforts were made to mitigate adverse or enhance benign environmental effects for environmental reasons. Since 1987 such explicit concerns have become an integral part of adjustment programmes, and where they seem to be missing, one will most likely find complementary lending operations by the Bank or by other agencies, or by the government itself taking charge of such measures in a coordinated way. This is required by the new World Bank operational directives.

Many donors are involved in projects and programmes that are intertwined in time and space in a given country. It would therefore be ineffective to design an adjustment programme not giving latitude to other donors' efforts. The so-called Consultative Groups of donors meet regularly and closely coordinate aid to borrowing countries. This coordination has made the efforts increasingly effective over the years in placing various environmental and social covenants and compensatory measures where they are most appropriate. One should therefore not categorically demand a complete set of environmental covenants to be included in every adjustment programme.

In the case of the two Asian countries reviewed it seems justified to assume that lasting environmental awareness and upgrading of the priority given to environmental concerns have been established. In the African cases there are signs pointing in the same direction. However, to extend the Asian conclusions to the African cases would be premature, because much less government capacity to implement environmental undertakings is established in Africa. Indeed, much of what is observed in writing is likely to be a result of donor pressure to please home market lobbies.

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