Institutions Needed for More than Growth

By facilitating the management of environmental and social assets, institutions underpin sustainable development

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IN RECENT decades, China was faced with severe air pollution that was causing health problems for millions, Cameroon was confronted with deforestation that was undercutting local communities' livelihoods and imperiling biodiversity, and Malaysia was saddled with ethnic and socioeconomic conflict that was tearing the nation apart. In all three cases, the problem was to bring parties together in a way that balanced dispersed interests and enabled long-term commitments. Institutions can do just that.

The World Bank's *World Development Report 2003: Sustainable Development in a Dynamic World* argues that often appropriate policies are known but not implemented because of distributional issues and institutional weakness. What is needed, it says, is for policymakers to focus on institutions (rules and organizations, informal and formal) to get the government, nongovernmental organizations (NGOs), and the private sector to manage a broad portfolio of assets—not just human and physical capital but also environmental assets (such as freshwater and fish stocks) and social assets (such as trust). If social groups feel secure, and have a stake in the future, they will take a long-term perspective, establishing a link between poverty reduction and institutions for sustainable development.

Environmental sustainability

When it comes to managing forests, water resources, fisheries, and the air we breathe, national policymakers must contend with well-known coordination problems involving spillover effects and public goods. The following three cases show how competent institutions pick up signals (information, feedback, anticipation of future problems), balance interests (transparency, voice, forums for negotiation), and execute agreed-on decisions (commitment and enforcement mechanisms).

Picking up signals. In recent years, China has moved aggressively to curb air pollution, which was causing chronic health problems for millions of people, with thousands dying prematurely each year. Its chosen weapon has been transparency—notably, information disclosure programs about cities' and firms' environmental performance. In these programs, information is generated to facilitate the participation of civil society, political leaders, and the private sector. Such information effectively helps them pick up signals about the burden of air pollution, thereby putting pressure on polluters.

The province of Jiangsu is a good example of how public disclosure of information can improve environmental outcomes. A pilot program to rate and disclose industrial performance was established in the city of Zhenjiang in 2000. After a series of workshops, the provincial government scaled up the initiative to cover the entire province. By mid-2002, about 2,500 industrial companies responsible for more than 80 percent of the total industrial pollution in the province were included in the program—resulting in political, social, and economic pressures on the worst polluters to clean up their act. The emphasis on transparency at the local and regional levels reflects a national government that, in 2001, decreed that all environmental information should be public. Of course, picking up signals and public disclosure should extend beyond pollution to other domains such as health.

Balancing interests. Cameroon, Africa's largest wood exporter, provides a good example of how greater participation can change the balance of interests and improve forestry management. For many years, logging was poorly regulated, encouraging widespread corruption. Permits were awarded through an opaque administrative process linked to vested interests; concessions were granted for very short time periods (five years); and forestry regulations were poorly enforced. As a result, revenues were low and unsteady for the state and negligible for local communities. And, at the global level, biodiversity was being imperiled.

After several years of failed policy reform, an initiative in the late 1990s provided a framework for implementing a new forestry law, backed by a wider set of stakeholders—including reformers in government, logging companies, local communities, and NGOs. The bidding process was made more transparent through public auctions. This enabled civil society and the media to strengthen monitoring and local residents to help identify illegal loggers. Measures have been adopted to discourage overexploitation of forests, inducing greater participation of long-term investors and bringing higher value-added activities and employment to the community. There is also a stronger commitment to protect biodiversity. The annual area fee has risen from $0.14 a hectare in 1996 to $6.00 in 2002, and annual forest revenues have increased from under $3 million in 1995 to over $30 million in 2001 (excluding timber export taxes and duties), of which $8 million accrued to local communities. Time will tell if these reforms hold up, but improvements in the institutional landscape, greater transparency, and a better balancing of interests have already substantially improved forestry management.

Executing agreed-on decisions. As one of the world's largest buyers of fish from around the globe, Unilever shares the growing concern about the sustainability of fishing practices. For that reason, it joined with the World Wildlife Fund in 1997 in founding the Marine Stewardship Council (MSC). The MSC uses environmental standards to certify fisheries and has developed an "eco-label" that gives market participants a chance to reward fisheries that are certified. The MSC, which became fully independent in 1998, accredits independent third-party certifiers and builds public awareness. Unilever remains a strong supporter of the MSC and is using its sourcing decisions to promote sustainable fishing practices. In late 2001, with the certification of the Hoki fishery in New Zealand, 5 percent of Unilever's fish purchases came from certified sustainable fisheries, and Unilever hopes that, by 2005, all of them will come from certified fisheries. In this case, the addition of more stakeholders enabled a global sourcing solution.

Social sustainability

Violent conflict is the clearest sign that a society is not on a path of sustainable development, as it is unable to solve problems requiring broader coordination and collective action, such as the provision of public goods. Conflict often stems from a failure to pick up signals from all stakeholders, a failure to balance interests, and a failure to make credible commitments—such as to a peace accord. Besides causing human tragedies and physical destruction, conflict tears the social fabric and undermines trust, hampering the emergence of better institutions over time. Indeed, many countries that have suffered conflict are especially vulnerable to slipping back into conflict again.

In Africa, conflict visited almost every country in the 1990s. An especially sad case is Angola, where the presence of oil and diamonds helped fuel conflict for over 40 years, with average per capita income falling 4.3 percent a year since 1973. Even though it avoided conflict in the 1990s, Nigeria, a major oil producer, had a lower per capita income in 1999 than in 1960. More diversified growth and more widely shared benefits are needed to reduce the risk of civil conflict.

Under what circumstances will natural resources turn out to be a "treasure" and when are they trouble? A growing body of literature suggests that institutions play a key role. In the context of a viable social contract based on widely agreed formal and informal rules for the allocation of resources and the settlement of grievances, institutional arrangements can be sufficient to restrain opportunistic behavior and the violent expression of grievance. But when institutions are weak, exploiting natural resources can have negative consequences. These are magnified when the natural resource endowment—say petrochemicals and minerals—is "point-sourced," meaning that its production and revenue patterns are concentrated.

An important counter example is Malaysia, where an emphasis on inclusiveness and shared growth has yielded much better outcomes. In 1970, following a year punctuated by riots, the suspension of parliament, and hundreds of deaths, the government announced its New Economic Policy, essentially a 20-year plan aimed at sharply reducing poverty, improving living standards, and eliminating the identification of race with economic function. By 1990, many of the goals had been met: the poverty rate had declined from 44 percent of the population to 15 percent, primary education had become universal, and life expectancy had risen from 58 to 71 years. It is clear in hindsight that Malaysia's delicate ethnic balance provided a strong incentive to open opportunities to the low-income Malay majority. The pragmatic political leadership emphasized a long-term redistributive growth strategy, avoiding major expropriation of existing land and capital by drawing on natural resource rents to create new assets (such as health care and education) that could be shared more widely. And Malaysia benefited from its credible commitment over 20 years to its economic plan.

Conclusion

Although many of the institutions needed for strong income growth and asset accumulation are equally important in fostering social and environmental assets, the institutional underpinnings of sustainable development are somewhat broader. They rest on greater access to information and knowledge and the ability to form broader partnerships. Without these additional institutional elements, society risks fragmentation, and the environment is susceptible to degradation, ultimately imperiling both income growth and well-being. ■

This article draws on the World Bank's World Development Report 2003: Sustainable Development in a Dynamic World, prepared by a team led by Zmarak Shalizi and including Christian Eigen-Zucchi and Gunnar S. Eskeland.