

# Cents and sensibility

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There are two key elements to progress ? sustainability and cost. Without a sustainable environment investment spend is ultimately worthless. And without wealth creation, there is not the means to alleviate poverty, clean up existing pollution or develop new technologies to address such vital concerns as climate change.

To date, green policy and the greenback have been the Cain and Abel of world economic policy. That must change.

In an interdependent global environment, export credit agencies (ECAs), including Canada's own Export Development Corporation, are fast becoming the biggest lenders and insurers to major industrial and infrastructure projects in developing countries.

EDC's mandate, broadly speaking, is to provide the necessary financial capacity and risk protection to facilitate and develop Canada's vital export trade. This trade could involve Canadian sales of goods and services to a foreign entity or investment in an overseas project.

The project sponsors, foreign buyers and/or their Canadian suppliers pay for our trade finance services at competitive, commercial rates ? no subsidies are involved in these transactions. This limits our influence over a particular project, but not our importance to Canadian firms jousting for position in the global marketplace, nor the vital need for ECA capital flows in developing countries.

Indeed, without ECA support, we would be choking much of the ?development? out of the developing world. As our financial role increases so too does our responsibility to exert a positive influence not only on a project's financial risks, but on its environmental ones as well. Consistent with changing societal attitudes and Canadian environmental practices, in recent years EDC and other project sponsors have become more proactive in evaluating the environmental impacts of projects we support.

Before I explain how we are doing this, it is important to understand the international climate and constraints under which we operate.

Let me start with the environmental benefits of global trade. OECD and World Bank studies show that wealth creation that comes with freer trade helps reduce poverty, which is often at the root of environmental degradation.

While we must be sensitive to the environmental impacts of development, we must also recognise the economic imperatives of the host countries. To become full-fledged members of the industrialised world, the developing countries need to better utilise more of their natural resources, develop new sources of energy and expand their industrial and commercial networks. This after all is what Canada and all industrialised nations have done to achieve the quality of life we now take for granted.

In the midst of this vital growth, many businesses in the developing world have difficulties meeting their own countries'

environmental guidelines, let alone the standards of some industrialised nations. Many developing nations, faced with overcrowded cities, heavy coal-fuelled emissions and raw sewage discharged into nearby waters, need a pragmatic, not a utopian, approach to environmental solutions.

The advantage today is that developing countries can draw on the industrialised world's experience and modern technology. Project sponsors can put in place more energy efficient equipment and processes, better resource conservation, and safer health and environmental practices than ever before. Trade ? and trade finance to support large-scale projects ? is part of the solution; not part of the problem.

So what does this imply for public institutions like EDC that finance and insure global exports and investments? From a risk analysis standpoint, sustainable development is fundamental to good business management. Environmentally sound projects also tend to be more technically sound projects. This makes for good credit. Furthermore, by conserving our worldwide resources, we are in essence creating capacity for international trade in the future.

Export credit agencies can be the bridge between the developed and the developing world's attitudes and approaches to sustainable development. For starters, we can enhance support to exporters of environmental technologies. Given that these technologies are largely driven by small- and medium-sized enterprises, EDC is uniquely positioned to serve this market and works closely with the Canadian Environmental Industries Association to facilitate exports of environmental solutions.

We can also help bring cost-effective environmental technologies and solutions to projects. In so doing, we can narrow the gaps between the best and worst environmental practices.

Canadians should be aware that EDC is at the forefront of this environmental approach among worldwide ECAs. With 10 engineers, including 3 environmental specialists, we have the largest such staff of any ECA today. This team reviews all projects seeking EDC support, to assess environmental risk and recommend practical improvements, where necessary.

Aside from the dedication of these professionals, our commitment to the environment is embedded in our Code of Business Ethics and in our Environmental Review Framework. (Both documents are publicly available on our Web site at [edc.ca](http://edc.ca).) Implemented in April 1999, the Framework articulates EDC's requirements and procedures for evaluating and mitigating the environmental impacts of projects seeking EDC's support. All these projects are benchmarked to accepted industry environmental practices. These are comparable to widely recognised environmental and social standards of the World Bank, other multilateral financial institutions and industrialized countries.

Some recent examples where EDC's review led to better environmental performance comprise: substitution of a pipeline in lieu of trucking to transport concentrate from mine to port (risk of damage to populated areas was unacceptably high); improved emission monitoring system in hog fuel power plant; addition of a plant to eliminate cyanide from a mineral processing operation; and persuading and assisting a major hydroelectric power utility in India to develop an environmental emergency response plan.

These improvements may not have happened if EDC had refused to participate in the projects concerned. In the words of our Director of Engineering and Environment, "the best way for Canadians to have some impact on environmentally sensitive projects is not by walking away from them, but by stepping in and making them better." This is made easier by the fact that Canadian goods and services are at the leading edge of technology and the environment.

In spite of our engineers' best efforts, projects have at times fallen short of meeting EDC's environmental review criteria. A recent case involves a Canadian exporter seeking to supply a resource development project abroad. Upon review, our engineers determined that the operation would impact an ecologically sensitive area, recently designated as a Biosphere Reserve. As a result, EDC declined to support the project.

Naturally, EDC cannot fully mitigate the environmental impacts of foreign projects alone. EDC's team of international relations and environmental specialists, therefore, regularly meet with their ECA counterparts on environmental issues.

This multilateral co-operation is critical if we are to make an appreciable impact on the environmental soundness of projects we support. EDC is a key proponent of ECAs adopting common approaches and guidelines for assessing and mitigating environmental impacts in export credits. A recent article in International Trade Finance notes: "EDC has been one of the most active providers of resources and technical support to the discussions (on export credits and the environment)."

The article also points out that all ECAs are now committed to developing common environmental approaches by the end of 2001, which was not the case just a year ago. These measures would ensure that all OECD countries compete on a level playing field, on a higher and greener plain.

But, with more than 20 countries at the table, reaching consensus on environmental practices is complex and time-consuming. There are many sensitivities to be considered. For example, foreign borrowers in emerging markets may view higher environmental standards as a new condition imposed by the industrialized world. They may not see the environmental benefits justifying the increased costs. This is especially true in countries where other projects observe lesser environmental requirements.

ECAs cannot adopt an imperious approach towards other nations and how they deal with the environment, expecting some countries to jump from minimal or no environmental requirements to very stringent ones.

What's more, developing countries are not asking for our "permission" to go ahead with projects they deem essential; they are asking for our financial resources, management experience and technical expertise. The latter includes what we already know and what we are still discovering about diminishing the environmental impact of "development," but clearly this is not the only consideration.

ECAs must, therefore, work with all stakeholders – exporters, non-governmental organizations, host country governments, affected parties – in developing environmental practices, while contributing to global economic prosperity. The goal is to encourage achievable, step-by-step improvements in the environmental effects of projects.

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