INTRODUCTION

Environmentally sustainable economic development, also known as ‘green growth’, is emerging as a new conceptual framework to address escalating environmental challenges created by increased pressure for economic growth. Environmental degradation is particularly prevalent in emerging markets and transitioning economies. In the last decade, countries such as China, India and Brazil, along with former communist countries in Central and Eastern Europe have enjoyed sustained high rates of economic growth (GDP growth); however, this has been accomplished at the expense of ecosystem services’ health, and depletion of natural resources.

The conventional wisdom, emerging from economic development models and neo-classical economy, suggests that environmental degradation is an inevitable liability in the initial stages of development, in which countries should ‘grow first and clean-up after’. ¹ (Grossman and Krueger 1994) This implies a zero sum game that creates winners and losers in the battle between economic development and preservation of Earth’s ecological carrying capacity.²

‘Green growth’ is proposed as an alternative policy focus that reconciles the need for sustained economic growth with the need to maintain the capacity of the environment to provide the goods and services that are fundamental to human society, such as food production, climate regulation, crop pollination, and water filtering.³ Under a ‘green growth’ framework, countries are encouraged to integrate environmental policies with economic policies and create a win-win synergy by which protecting the environment becomes a driver for development gains rather than a cost or impediment to growth. Thus, ‘green growth’ is seen as a pragmatic policy format, and an objective that each country should strive to attain.

Realizing ‘green growth’ and improving ecological efficiency requires profound societal transformation and a fundamental change in consumption and production patterns. It also requires
policies and programs that stimulate innovation and creative thinking in the public sector and private
domain alike.

A recent study of the United Nations Economic and Social Commission for Asia and the
Pacific (UNESCAP) recommends a five track approach to ‘green growth’: (1) implementing green tax
and budget reform, (2) developing sustainable infrastructure, (3) promoting sustainable consumption
and production, (4) greening the markets and businesses, and (5) developing eco-efficiency
indicators. 4 ‘Greening businesses and markets’ is the most dynamic area of the five policy
categories. Indeed, numerous case studies have demonstrated in recent years that mainstreaming
environment into business operations translates into competitive advantage, higher profits and
reputation gains. 5 (Porter and Van Der Linde 1995) As a result, a burgeoning green trend is
becoming more prevalent in the private sector. This is the case mainly in developed countries, where
government policies and regulatory frameworks create a climate favorable to business innovation for
environmental sustainability.

In the developing 6 world however, the situation is quite different. Poor governance and weak
law enforcement, corruption, or simply, indifference and lack of environmental awareness at high
decision-making level are limiting government’s and private sector’s capacity to implement policies
for environmentally sustainable economic development. Much of the GDP growth recorded in these
countries in the last decade is the result of structural reforms implemented under the guidance of the
Bretton Woods Institutions 7 and other multilateral development banks (MDB). This makes MDBs
powerful players that have a high capacity to influence government policies and private sector
development in the countries where they operate. Thus, they are uniquely positioned to be key
actors in facilitating ‘green growth’ in developing countries, a fact overlooked by the literature.
Current approaches assign key roles only to government, business sector, and the civil society.

In this context, the International Finance Corporation (IFC), a member of The World Bank
Group, is an interesting case to explore. As the ‘private sector lending arm’ of The World Bank
Group, IFC is the main provider of financing for private sector development in developing countries.
The organization prides itself with its high environmental performance and sustainability standards,
some of which, such as The Equator Principle, became a de facto norm-setter in the global project-
finance market. 8 (Wright 2007)

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4 UNESCAP theme paper on green growth: “Achieving Environmentally Sustainable Economic Growth in Asia and the Pacific”.
6 The term ‘developing world’ is used in this paper in its broader sense and employed interchangeably with emerging markets and
transitioning economies.
7 The Bretton Woods Institutions operate since 1946 and includes The World Bank Group and The International Monetary Fund.
In addition, IFC’s Sustainability Business Innovator Program (SBI) is currently one of the main incubators of innovative business ideas that can deliver environmental benefits and achieve market transformation in developing countries. This program, organized around five practice areas, provides financing for enterprises in sectors as diverse as biodiversity, renewable energies and clean technologies. Thus, through this initiative, IFC is well placed to contribute in a significant way to environmentally sustainable economic growth in developing countries.

In this paper, I will therefore seek to investigate IFC’s experience enhancing sustainability business innovation as an avenue to foster green growth in emerging markets and transitioning economies.

The paper will be organized in three parts. The first part introduces the concept of ‘green growth’ and environmentally sustainable business innovation, and discusses some of the literature developments in this field. Second part will introduce IFC as a unique type of multilateral development bank that finances private sector development in developing countries, and will discuss its commitment to environment and social development. Finally, the third part, will present IFC’s Sustainability Business Innovation Program, its structure and performance to date. Concluding thoughts will consider the factors that make IFC a powerful facilitator of the transition to environmentally sustainable economic development, and explore potential linkages between IFC’s Sustainability Business Innovation initiative and greening the growth in the countries where the program is implemented.

By investigating IFC’s practice in this field, this paper will offer insights into how innovative business models and transfer of sustainability know-how from MDBs could accelerate the transition to environmentally sustainable economic growth in developing countries.

1. THEORETICAL CONSIDERATIONS ON GREEN GROWTH AND SUSTAINABILITY BUSINESS INNOVATION

From Sustainable Development to Environmentally Sustainable Economic Growth

In 1987, the World Commission on Environment and Development (WCED) introduced the concept of ‘sustainable development’ as a breakthrough framework to address the seemingly unsolvable conflict between economic development and environmental preservation faced by the human society. In its report, “Our Common Future”\(^9\), WCED defined sustainable development as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs.” Embraced by academics and practitioners alike, the idea of

\(^9\) [http://www.un-documents.net/wced-ocf.htm](http://www.un-documents.net/wced-ocf.htm)
‘sustainable development’ has spread rapidly as a concept, as a goal, and as a movement. (Kates 2005) Today, it is central to the mission of numerous international organizations, national institutions, corporate enterprises, and government strategies. The concept was subsequently enriched in 1992, when the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro (also known as the “Earth Summit”) issued ‘Agenda 21’, a comprehensive plan of action meant to address the environmental, social and development challenges of the 21st century, both at the global and local level. Ten years later, in 2002, the commitment to sustainable development was reaffirmed at the World Summit on Sustainable Development in Johannesburg (also known as ‘Rio+10’). At this forum, the standard definition of sustainable development was expanded to reflect the foundation of sustainability on three pillars – economy, society and the environment, which are interconnected and interdependent. It was further recognized that these three aspects need to be addressed simultaneously and kept in balance. To translate the concepts into action, Johannesburg Summit adopted the Johannesburg Plan of Implementation, whereby the global community was urged to “develop national strategies for sustainable development and begin implementation by 2005.”

Despite these international efforts, sustainability has proven a concept difficult to operationalize. Hundreds, of scholars and practitioners have articulated and promoted their own alternative definition. For example, Harris, referring to the three pillars, explains that an economically sustainable system is one that produces goods and services on a continuing basis, and avoids sectoral imbalances which damage agricultural or industrial production. (Harris 2000) The same author contains that an environmentally sustainable system must maintain a stable resource base, avoiding over-exploitation of renewable resources, and depleting non-renewable resources only to the extent that investment is made in adequate substitutes. And finally, he explains that a sustainability society should ensure adequate provision of social services including health and education, gender equity, as well as political accountability and participation. Robert Kates, and his colleagues at the Board on Sustainable Development (BSD) of the US National Academy of Sciences, approached sustainable development from a different perspective. In the report, “Our Common Journey: A Transition toward Sustainability”, they propose a framework of analysis that distinguishes between four key domains: what needs to be sustained, what needs to be developed, what needs to be developed, what needs to be developed.
what is the relationship between the two, and what is the time horizon of the future. Nature, life support systems, and community, are the three major categories identified as needing to ‘be sustained’. People, economy, and the society are the categories that needed to ‘be developed’.

The authors of this report argue that “the original emphasis on economic development and environmental protection needs to be deepened to include alternative notions of development (human and social) and alternative views of nature (anthropocentric versus ecocentric).” They concluded that “sustainable development is a concept that represents diverse efforts to imagine and enact positive vision of a world in which basic human needs are met without destroying or irrevocably degrading the natural systems on which we all depend.” (Kates et al. 2005)

As we can see from this brief discussion, sustainability can be approached from many different perspectives. Over time, the concept has been used to respond to a wide spectrum of challenges and aspirations, ranging from planning sustainable cities, resolving fisheries and agriculture crisis to developing national competitiveness, and sustainable business enterprises. This perceived ‘lack of focus’ and ambiguity made sustainable development difficult to operationalize. Today, it is considered a fuzzy, catch-all phrase, entangled in rhetoric, and with very little ‘teeth’. Thus, despite the surge in sustainability programs, policies, research initiatives and social movements, the last twenty years have seen modest tangible achievements in resolving the imbalance between economic growth, environmental preservation and social equity. In fact, the environmental destruction continued to accelerate at alarming rates. Today, human society is in greater need to preserve the health of the Earth than ever in its history.

The economic boom recorded in the last decade in newly emerging free economies in Eastern Europe, China, India, and Brazil has put tremendous pressure on the global environmental resources and Earth’s ecological carrying capacity. For example, the Asian and Pacific region is now the fastest growing region of the world. Here, agricultural production has increased by 62% from 1990 to 2002, mostly through intensive use of fertilizers. Between 1995 and 2002, industrial production has increased by almost 40% compared with a global increase of 23%. Not surprisingly, the most rapid growth is recorded in highly polluting industries that use outdated technologies and operate under pollution control regimes that have little or no enforcement. In most countries of this region, the economic growth outpaced infrastructure development for processing waste and reducing pollution. Governments’ efforts to mitigate environmental degradation have been, at best,

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17 Ibid Note 12
18 Ibid Note 12
20 www.greengrowth.org
based on conventional environmental management approaches focused on controlling and regulating pollution discharges at source.

Environmental degradation is rapidly accelerating throughout the globe. The threat of catastrophic climate changes and ecosystems collapse is now acknowledged beyond the walls of academia, and has become a regular topic in public debates, at local and international levels. The Intergovernmental Panel for Climate Change (IPCC), the United Nations' body responsible for providing objective information and scientific evidence about climate change, asserted in its latest report (2007) that “warming of the climate system is unequivocal, and most of the observed increase in global average temperatures since the mid-20th century is very likely due to anthropogenic activity.”

This continuous degradation of the environmental conditions twenty one years after the Brutland Report, calls for a fresh look at the relationship between economic development and environment. One that recognizes that pollution control alone cannot improve the increasing pressure arising from economic growth. Environmental performance in pollution control needs to be combined with policies that focus on maintaining environmental sustainability by enhancing ecological efficiency in pursuing economic growth.

In this sense, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) proposes ‘environmentally sustainable economic growth’ or ‘green growth’, as an alternative policy focus that reconciles the need for sustained economic growth with the need to maintain the capacity of the environment to provide the goods and services that are fundamental to human society, such as food production, climate regulation, crop pollination, and water filtering.

Unlike the standard definition of sustainable development which aims to balance environment with development and social goals, this approach calls for integration of environmental polices with economic policies. In this new view, protecting the environment becomes a driver for development gains rather than a cost or impediment to growth.

Fostering Environmentally Sustainable Economic Growth

Realizing ‘green growth’ requires profound societal transformation and a fundamental change in consumption and production patterns. It also requires policies and programs that stimulate innovation and creative thinking in the public sector and private domain alike. The UNESCAP study calls for two critical concept changes. On one hand, environmental protection must no longer be viewed as a constraint to economic growth, but rather as a driver of growth, and on the other

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22 ibid Note 16
23 Ecosystem services are the goods and services provided by Nature for ‘free’ and without which life on Earth would not be possible. For the purpose of human use they could be classified in four categories: supporting, provisioning, regulating and cultural. For more details see Millennium Ecosystems Assessment at http://www.millenniumassessment.org/en/index.aspx
24 ibid Note 16
hand, production and consumption must no longer be viewed as a linear process, but from a whole systems perspective.\textsuperscript{26} In addition, achieving green growth requires de-coupling of economic growth from environmental destruction. The UN study considers that it is possible to achieve this complex objective by focusing on thee essential systemic changes: improving the eco-efficiency of production, improving the eco-efficiency of consumption, and promoting more effective decision making.\textsuperscript{27}

Improving eco-efficiency of production entails a transition beyond traditional, end-of-pipe, control of pollution, and engagement in innovative product, and policy design. Considering that on average, more than 90\% of the resources extracted from nature are wasted in the process of producing food, machines and infrastructure (Schmidt-Bleek 2000), improving eco-efficiency is critical for arresting wasteful use of resources.\textsuperscript{28} The term ‘eco-efficiency’ originates in the private sector. For example, The World Business Council for Sustainable Development (WBCSD) states that: “eco-efficiency is achieved by the delivery of competitively priced goods and services that satisfy human needs and bring quality of life, while progressively reducing ecological impacts and resources intensity throughout the life cycle, to a level at least in line with the Earth’s estimated carrying capacity.”\textsuperscript{29} However, the concept is employed in this paper in its broader sense, with reference to the environmental impact of a wider scale of economic activity.

Scaling up from the firm level to the community, national, regional or global level, requires consideration of eco-efficiency not only of production activities (as at the firm level) but also of consumption levels and patterns.\textsuperscript{30} A variety of tools can be used to achieve eco-efficiency. Eco-efficient economic planning, green taxation and budget reform, improved environmental governance, stimulation of markets for environmentally-friendly products, and reducing resource use per product, are just a few examples.\textsuperscript{31} It is encouraging that countries such as China have decided to adopt efficiency of resources use as a basic principle in all its economic activities, and has included this principle in its eleventh Five-Year-Plan.\textsuperscript{32}

It is also worth noting that in recent years a new paradigm is being articulated, whereby eco-efficiency boundaries are pushed further towards what has been called ‘eco-effectiveness’. If eco-efficiency can be summarized as ‘doing more with less’, and producing less waste in the process, eco-effectiveness is focused on designing processes that produce no waste. These ideas have been articulated by Paul Hawken, Amory Lovins and Hunter Lovins in their book Natural Capitalism, and further explored by William McDonough and Michael Braungart in Cradle to Cradle. A more detailed

\textsuperscript{26} ibid Note 21
\textsuperscript{27} ibid Note 21
\textsuperscript{29} World Business Council on Sustainable Development. 2000. www.wbcsd.org
\textsuperscript{31} ibid Note 20
\textsuperscript{32} UNESCAP “Green Growth at a Glance”,(2006) www.greengrowth.org
discussion of these concepts will be provided in the section explaining how corporations engage with the environment.

*Achieving eco-efficiency in consumption*, the second systemic transformation needed to transition to environmentally sustainable economic growth, involves creative management of the demand. Raising consumer awareness about environmental sustainability, the promotion of environmentally-friendly products, the promotion of a resource-saving economy, are just few examples of how to foster this transformation.

And finally, implementing innovation and changes of this scale requires ‘leadership’ and a more effective decision making system that integrates environmental sustainability consideration at every stage of policy and business design. In addition, it requires an economic system that provides appropriate incentives to stimulate the production of these multiple benefits. Currently, the dominating economic paradigm is modeled on neo-classical economy. This considers the environment as just one component of the larger, human, economic system. It is implicitly assumed that the environment can provide infinite resources and has an unlimited capacity to process waste, and that technology will provide solutions to substitute depleted resources. In this approach, environmental goods and services are considered ‘free, public goods’, and thus their consumption is not reflected in the price mechanism. This so-called ‘market failure’ leads to even more consumption and destruction of environmental resources. Furthermore, Grossman and Krueger’s work on the Environmental Kuznets Curve (EKC), which analyzes the relationship between pollution and income levels, led to the conclusion that environmental degradation is an inevitable liability in the initial stages of development, but pollution subsequently declines as levels of income raises. The resulting implication is that countries should ‘grow first and clean-up after’. (Grossman and Krueger 1994)\(^33\) Chung and Hoon Lee, however contradict this view. They argue that ‘pollution’ is just one component of environmental destruction. Analyzing the relationship between income level and overall eco-efficiency, these authors concluded that in fact high-income countries tend to produce higher ecological footprints\(^34\) per capita than low-income countries. (Chung and Hoon Lee 2005)\(^35\) They also show that while raising income has a beneficial impact on reducing pollutions level, it seems to have a detrimental impact on most eco-efficiency measures of environmental sustainability.\(^36\) Therefore, they support the idea of integrating environmental considerations within economic policies design, as suggested by the ‘green growth’ framework.

\(^33\) The EKC explains the relationship between pollution and income levels, and observes that at low levels of income per capita, the pollution level initially increases with rising income, reaches a maximum after which declines.

\(^34\) A country’s ecological footprint is defined as the total area required to produce the food and fiber that it consumes, absorb the waste from its energy consumption and provide space for its infrastructure.


In addition to the three systemic changes discussed, UNESCAP recommends a five track policy approach to realizing ‘green growth’. This includes: (1) implementing green tax and budget reform, (2) developing sustainable infrastructure, (3) promoting sustainable consumption and production, (4) greening the markets and businesses, and (5) developing eco-efficiency indicators.  

‘Greening businesses and markets’ is the most dynamic area of the five policy categories. Indeed, numerous case studies have demonstrated in recent years that mainstreaming environment into business operations translates into competitive advantage, higher profits and reputation gains. (Porter and Van Der Linde 1995)  

Measuring Environmentally Sustainable Economic Growth

Chung and Hoon Lee propose the use of two main criteria: environmental sustainability, and environmental performance. (Chung et al 2006) They suggest environmental sustainability as an indicator that “measures the impact of a country’s economic development with regard to the pressure on resources deriving from consumption and production processes, and determines whether it remains within the carrying capacity of the natural environment.” Environmental sustainability could be measured using Yale University’s Environmental Sustainability Index (ESI), which is a set of comprehensive indicators that allow comparison across five fundamental components of sustainability: environmental systems, environmental stresses, human vulnerability to environmental stresses, societal capacity to respond to environmental challenges; and global stewardship. Higher ESI scores suggest better environmental stewardship.

While ESI is assessing environmental sustainability relative to the path of other countries, Yale’s experts developed in recent years the Environmental Performance Index (EPI). This is essentially measuring the environmental performance of a country’s policies. It is seen as an indicator of the gap between the actual state of what is being measured, and targeted environmental sustainability policy goals. The EPI concentrates on two broad objectives: reducing environmental stresses on human health, and promoting resource vitality and sound natural resource management. The EPI development team at Yale considered these goals to be top policy priorities for environmental decision makers around the world. By identifying specific targets and measuring

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37 UNESCAP theme paper on green growth: “Achieving Environmentally Sustainable Economic Growth in Asia and Pacific”.  


41 ESI were developed by integrating 76 data sets –tracking natural resource endowments, past and present pollution levels, environmental management efforts, and a society’s capacity to improve its environmental performance –into 21 indicators of environmental sustainability. It is a joint effort of Yale and Columbia University.


the distance between the target and current national achievement, EPI provides both an empirical foundation for policy analysis and a context for evaluating performance.

**Main actors in promoting environmentally sustainable economic development**

Steering the human society towards a ‘greener development’ is a task of monumental proportions that requires comprehensive collaboration between all societal actors - government, private sector and civil society.

*The government* is essential in defining ‘the rules of the game’. By designing innovative and credible policies, the government can create the general framework of operations and provide the stimuli for the private sector to engage in environmentally sustainable ventures. Furthermore, a successful shift towards ‘green growth’ will require a coherent and consistent integration of economic and environmental objectives at all levels of policy development and decision-making, a task that falls also under government responsibility. Market-based instruments, such as pollution charges, environmental taxes, and tradable permits, have the potential to stimulate cost-saving approaches and provide incentives for innovation to enhance eco-efficiency.

While traditionally, it was considered that government should bear the entire responsibility for protecting the environment (given the ‘public good’ nature of the environment), in the last decade *the civil society* and the private sector have become critical actors in the sustainability arena. The civil society plays a leading role in moving the public and consumers towards eco-efficiency and sustainable consumption patterns. In addition, it closely scrutinizes the activity of both government and private sector and informs of wrong doings. *The private sector*, on the other hand, is the ultimate sustainability innovator. As the originator of innovation and technological breakthroughs, the private sector holds the technical solutions for clean production, eco-efficiency and economic growth.

It has been strongly emphasized in recent years, that the private sector has a moral responsibility to take care of the environment, and this lead to a spurred corporate social responsibility (CSR) movements.

The next section will discuss in greater detail how corporations approach the environmental issues.

**Business and Environment**

For its most part, the history of corporations’ engagement with the environment has been decidedly negative. Since the industrial revolution, environmental pollution and resource depletion have been considered an ‘acceptable’ cost for the development and advancement of human society. As Ray Anderson puts it, “for 200 years firms have engaged in ‘take, make, waste’ as an organizing paradigm.” (Anderson 1998) Command and control regulation, thus, provided a necessary and

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appropriate counter for the prevailing industrial mindset. But this implied a trade-off for firms, which had to sacrifice financial performance to meet regulatory obligations. This, in turn, lead to business sector developing a ‘reactive attitude’; when it came to the environment, corporations did just the minimum necessary to avoid legal sanctions. (Hart 2005)\(^{46}\) Furthermore, Milton Friedman’s thesis that “firm’s sole responsibility is to maximize profit for its shareholders” (Friedman 1970)\(^ {47}\) did not encourage a business climate prone to consider environment and social responsibilities of the corporation. This picture however, started to change rapidly in the last three decades. By late 1980s, it became clear that preventing pollution was a much cheaper and more effective way to reduce environmental impact, than complying with ‘end-of-pipe’\(^ {48}\) regulation. This so called ‘green revolution’ meant finding a ‘less bad’ way to do things, and the key idea was to shift from a ‘corrective’ approach to a ‘preventive’ one. As social and environmental issues became more deeply embedded in the operations of enterprises, managers began to see that corporate and societal performance need not be separated. The next step was to become eco-efficient, which meant ‘doing more with less’. For most companies, the state of the art in environmental management could be summed up with the 3R slogan: *reduce, reuse, and recycle*. Indeed, reducing material and energy intensity, limiting the dispersion of toxic substances, and maximizing the use of renewable resources are concrete steps that businesses took to reduce their environmental footprint, reduce costs, enhance business reputation, and as a result, strengthen competitive advantage. Thus, across the world, corporations and small and medium-sized enterprises became agents of change as firms transitioned from viewing the environment as an ‘obligation’ to viewing it as an ‘opportunity’ for profit gains.

While, eco-efficiency is considered a good tool to achieve environmental sustainability, McDonough and Braungart push the frontier further. In their path breaking book, “Cradle to Cradle”, they advocate the transition from *eco-efficiency* to *eco-effectiveness*. (McDonough and Braungart. 2002)\(^ {49}\) Eco-effectiveness means changing completely the way in which products are made, not just ‘making them less bad’. It means designing products that generate zero waste, zero sewage water, zero emissions, and are thus, completely degradable. McDonough and Braungart call this process “closing the loop of resource use, from cradle to cradle not just from cradle to grave” (McDonough and Braungart. 2002) Going even further than that, Janine Benyus suggests using nature as the ultimate source of inspiration for innovation and technology development. By designing products that replicate the way nature functions, humans can, for example, create solar cells that mirror photosynthesis in a leaf. Benyus calls this process ‘biomimicry’, and argues that it can change

\(^{48}\) End-of-pipe (EOF) means treatment of pollution at the end of the process.
\(^{49}\) McDonough, W, and Braungart, M. “Cradle to Cradle.” North Point Press, 2002
fundamentally humans’ relation to Nature, from one based on “what we can extract from it to one based on what we can learn from it.” (Benyus 2002)"50

The implication from this discussion is that by innovating and incorporating environmental thinking from the very first stages of design, corporations can generate new products and new skills, which in turn can open the way towards higher competitiveness and market share. Indeed, as Michael Porter and Van der Linde argue, environmental sustainability has become a key source of strategic competitive advantage in the 21st century. (Porter and Van der Linde 1995)51

To summarize, achieving environmentally sustainable economic growth requires fundamental transformations that go beyond pollution control and aim to achieve eco-efficiency and, ideally, eco-effectiveness. This calls for the entire society, including consumers, firms and the government, to work together to achieve greater welfare with less use of materials and energy, and with reduced emissions. While the prospects of realizing environmentally sustainable economic growth are promising in the developed world, where government policies and regulatory frameworks create a climate favorable to business innovation for environmental sustainability, the situation is different in the developing world. In these countries, poor governance and weak law enforcement, corruption, or simply, indifference and lack of environmental awareness at high decision-making level are limiting government’s and private sector’s capacity to implement policies for environmentally sustainable economic development. Therefore, the next section will discuss environmentally sustainable economic growth in developing countries.

Environmentally sustainable economic growth in developing countries

The global economic growth picture has changed dramatically in the last two decades. Countries, and regions previously considered poor and underdeveloped are now topping the ranks of GDP growth. For example, the Asian and Pacific region have become the hub of global production, and is the fastest growing region of the world.52 Eastern Europe, following the fall of communism, has embarked on a clear path to build free, capitalist economies. This explosive economic growth, however, is achieved at the expense of ecosystem services’ health, and massive depletion of natural resources, which puts tremendous pressure on the ecological carrying capacity of the Earth. The signs of increased environmental stress are readily visible. The World Wide Fund (WWF) estimates in its Living Planet report (2006) that humanity’s impact upon the planet (as measured by the Ecological Footprint) has more than tripled since 1961, and it exceeds the Earth’s ability to regenerate by 25%.53 Same report concludes that “if European lifestyles were replicated worldwide,

humanity would need more than two and a half planets like Earth to renew resources as quickly as they are being consumed. In addition, developing countries will see the highest rates of population growth in the 21st century, and this in turn will greatly increase the environmental stresses, both at the local level, and globally.

For these reasons, greening the growth in newly developing economies is even more urgently needed than in the developed world. Theories of ‘leapfrogging to sustainability’ argue that developing countries enjoy the privileged position of ‘doing things differently’. As many developing countries are now building their infrastructure, and are laying the foundation for future consumption and production patterns, it is the optimum moment for these countries to integrate the concept of eco-efficiency at every stage of policy design, societal action or enterprise development. By adopting an ‘innovative development path’, it is argued, developing countries could ‘leapfrog’ directly to a sustainable society, and thus avoid industrialized countries’ development model which created the environmental destruction of today. Such transition could be greatly accelerated by the transfer of technology and know how from industrialized countries.

While technology transfers, particularly clean technology and renewable energy, are key for greening newly developing economies, I argue that this is insufficient to help them leapfrog to sustainability. The transfer of technology, machines and equipment, which I call ‘sustainability hard’ will not succeed if it is not complemented by a transfer of ‘sustainability soft’. By this, I mean that developing countries also need a transfer of innovative institutions, business models, economic policies, and regulatory frameworks that are better adapted to cope with the current unprecedented environmental challenges, while still stimulating economic development. Some of these models can be transferred from the developed countries, which are more advanced in their search for environmentally sustainability solutions.

At present, most of the developing countries do not have the institutional capacity, knowledge or political will to integrate environmental and sustainability considerations in their economic and public policies. In addition, many countries in the early stages of economic development lack the financial resources and technological capacity to initiate pollution control and eco-efficiency measures. Taking care of the environment is seen as a hindrance in their rapid quest for growth. Thus, the prevailing philosophy is “grow first and clean after”. Therefore, it is unrealistic to expect that in these countries, the government or the private sector would make environmental sustainability a priority, and engage in large-scale policy changes and business innovation to achieve this objective.

In many developing countries however, it is the multilateral development banks (MDB), who, for the past decades have been the principal promoters and financiers of economic development.

54 ibid Note 44
55 As results from the study of Grossman and Krueger
Indeed, much of the GDP growth recorded in these countries is the result of structural reforms, privatization and liberalization packages implemented under the guidance of Bretton Woods Institutions\textsuperscript{56} and other MDBs. This makes these institutions powerful players that have a high capacity to influence government policies and private sector development in the countries where they operate, and therefore, could play a critical role in greening the growth. MDBs’ role in promoting environmentally sustainable economic development in developing countries is overlooked by literature. Current approaches assign key roles only to government, business sector, and consumers.  

*Therefore, I argue, that in developing countries, multilateral development banks are central players in fostering environmentally sustainable economic growth.* Their high level expertise in environmental sustainability, combined with financial leverage power, makes these institutions key sources for transferring ‘sustainability soft’ to both governments and private sector in developing countries.

So far, I have discussed what is meant by environmentally sustainable economic development, how can it be fostered and measured and who are the key actors in operationalizing it. I have established that greening the businesses and markets is the most dynamic area of the five policy categories indicated by UNESCAP to realize green growth. In addition, I have made the argument that in developing countries, it is the multilateral development banks, such as the Bretton Woods institutions, that play a critical role in fostering green growth, a fact that is overlooked by literature. In the following sections, I will explore in more details the role of multilateral development organizations in facilitating accelerated transition to green growth in developing countries through sustainability business innovation. Specifically, I will examine the case of the International Finance Corporation (IFC), a member of the World Bank Group, and discuss its experience implementing the Sustainability Business Innovator Program (SBI) since 2002.

2. THE INTERNATIONAL FINANCE CORPORATION, A UNIQUE MULTILATERAL DEVELOPMENT ORGANIZATION

**Overview**

The International Finance Corporation (IFC) has been established in 1956 as a public financial institution mandated to promote economic growth in developing countries by fostering private sector development. IFC is a member of the World Bank Group (WBG), but operates as an independent legal and financial entity, distinct from the other members of the group, which include: the International Bank for Reconstruction and Development (IBRD), the International Development

\textsuperscript{56} The Bretton Woods Institutions operate since 1946 and includes The World Bank Group and The International Monetary Fund.
Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Center for Settlement of Investment Disputes (CSID). By focusing on financing private sector projects, IFC complements the World Bank’s activity, which lends only to member states governments. From a governance standpoint, IFC’s 179 member countries provide its capital of $2.4 billion, and collectively determine the organization’s policies through a Board of Governors formed by appointed representatives. The Board of Governors delegates its powers to a Board of twenty four Directors responsible for providing overall strategic guidance to the management team. Headquartered in Washington DC, IFC has field offices in over 70 countries, 51% of its 3140 highly professional staff and experts being stationed in the field. This decentralization policy ensures better ability to assist clients and provide advisory services tailored to local needs.

What distinguishes IFC from other multilateral development agencies is its ‘corporation’ philosophy and modus operandi. This reflects the vision of its founder, Robert Garner, the acting VicePresident of the World Bank in the late 1940s, and a strong believer in the role of the private enterprise. Garner, envisaged an international corporation, owned by governments that acts like a corporation, and is equally comfortable interacting with the public and the private sector. Affiliated to the World Bank, this new entity was designed to “lend money, take equity positions and provide technical expertise in appraising private investment proposals in developing countries”, just as the World Bank was doing for public sector projects. The articles of establishment enshrined three foundation principles that have guided IFC’s operations from its foundation to this day. The business principle guided IFC in taking full commercial risk and not accepting any government guarantees for its investments. The honest broker principle meant using the organization’s unique caracteristiques as a corporation owned by governments to “bring together investment opportunities, private capital, and experienced management.” (IFC 1996) And finally, IFC was meant to play a catalyst role, by investing only in projects for which sufficient capital was not available on reasonable terms. (IFC 1996) Complementing these principles is the core mandate of the organization: “to use its capital and knowledge to demonstrate the viability of private enterprises in difficult markets, in countries with high risk and low income.” (IFC 2006)

In its 52 years of existence, IFC has contributed massively to growing the private sector in developing countries. From its founding in 1956 through 2005, the corporation has committed more than $49 billion of its own funds and arranged $24 billion in syndications for 3,319 companies in 140 developing countries. (IFC 2005) This makes IFC the largest provider of multilateral financing for the private sector in the developing world. By supporting capital markets’ development, providing

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57 These countries are also members of The World Bank
58 IFC: 40 Years of Contributing to Development.
http://www.ifc.org/ifcext/50thanniversary.nsf/AttachmentsByTitle/IFC_40/$FILE/IFC_40.pdf
59 Ibid Note 49
60 Ibid Note 49
advisory services and technical assistance, or directly financing industrial projects in developing
countries, IFC’s marked contribution to economic development and growth in developing countries is
hard to surpass. Successful examples are numerous. For instance, in the 1960s, IFC helped
Greece and Spain build modern industrial sectors, in 1980s it did the same for Portugal, and in the
1990s it was one of the main investors in industrial projects in Eastern Europe.\(^{62}\) Unwavering in its
commitment to promote a neo-liberal economic order and achieve positive development results, the
organization carefully monitors and evaluates the impact of all its investments and advisory projects.
To carry out this oversight IFC created the Development Effectiveness Unit (DEU), a team focused
on developing rigorous metrics and reporting standards that measure IFC’s development impact. In
2005, DEU established a sophisticated Development Outcome Tracking System (DOTS), which
provides feed-back on the investment and advisory operations of the organization by evaluating
performance in four areas: financial, economic, social and environmental, and private sector
development. According to IFC reports, as of June 30, 2007, DOTS showed that “63 percent of IFC’s
investment portfolio had high development outcome ratings; 75% percent of which were considered
to have successful environmental and social performance, while 71% had significant private sector
development impacts, such as positive demonstration effects or an improved business environment.”
(IFC 2007)

**IFC and environmental sustainability**

Considerations of environment and social sustainability have a recent history at IFC. This is
no surprise, given that caring for the environment was considered as being part of public policy and
governmental mandate, and having nothing to do with the commercial mandate of private sector
financing. Until late 1980s, IFC selected projects based on a combination of technical criteria and
internal rates of return. (Wright 2007)\(^ {63}\) In early 1990s, the corporation adopted environmental
review procedures similar to those of the World Bank, and started adding a number of environmental
specialists to oversee the due diligence process. (Wright 2007)\(^ {64}\) By 1998, IFC formally adopted
most of the World Bank’s *Environmental and Social Safeguard Policies*, an umbrella term used to
define nine thematic policies that provide internal staff with guidance on how to manage
environmental and social impacts associated with projects. (Boisson de Chazournes 2000) These
early safeguards have since become a recognized model of good practice among other financial
institutions, and, in 2003, were adopted as the basis for the Equator Principles, a framework to be
used by financial institutions when evaluating investment projects with a capital cost of $50 million or
more. (IFC 2005) In February 2006, the corporation completed a rigorous process of updating the

\(^{62}\) Ibid Note 49


\(^{64}\) Ibid Note 63
Environmental and Social Safeguard Policies and expanded them into the Policy and Performance Standards on Social and Environmental Sustainability. These are a set of eight criteria used by the organization to manage social and environmental risks and impacts, and to enhance development opportunities in its private sector financing in the member countries.\textsuperscript{65}

The evolution of IFC’s environmental and sustainability policies from environmental safeguards to making sustainability the heart of the corporation’s business model mirror the internal transformation of the organization. While remaining faithful to the founding vision, that placed a strong emphasis on the role of the private enterprises in promoting economic development in developing countries, it added the sustainability dimension, by which it asserts that sound economic growth can not be achieved without environmental and social sustainability.

In summary, IFC’s unparalleled ability to act as a broker between companies and governments, its ability to access global funds, and provide specialized knowledge and expertise in building a stronger and more environmentally sustainable private sector, makes it unique in leveraging the resources needed to help countries transition to environmentally sustainable economic growth.

Having examined IFC’s commitment to development, its founding principles, and performance in a half-century long history, as well as its more recent commitment to environmental and social sustainability, let’s now turn to examining the Sustainability Business Innovator Program, a unique, cutting-edge initiative, dedicated specifically to promoting green enterprise development and greening the markets in developing countries.

3. SUSTAINABILITY BUSINESS INITIATIVES

\textit{History, Structure, Underpinning values, and Performance}

In July 2002, IFC decided to establish three donor-funded facilities focused on promoting environment and social sustainability in the operations of its clients in developing countries and emerging markets. This pioneer initiative responded to a dynamic, albeit incipient, interest in the business sector in developing countries which began to see the opportunity for competitive advantage based on sustainability. As described in the previous section, this reflected an internal evolution from “do no harm” approaches in environmental and social requirements, to “do more with less”, and eventually to “eco-innovation”.

The three facilities, Corporate Citizen Facility (CCF), Environmental Opportunities Facility (EOF), and Sustainable Financial Markets Facility (SFMF) were based in the newly established Environment and Social Development Department and managed from IFC’s headquarter in Washington DC. In the beginning, each of them had a distinct focus area.

The Corporate Citizenship Facility (CCF) – was designed to provide assistance to IFC’s clients that seek business opportunities in enhanced environmental and social performance. (IFC 2003) For example, in its first year of operations CCF worked with IFC’s small and medium sized enterprises department (SME) to support the development of a socially equitable and environmentally sustainable herbal sector in the Balkans. With 200,000 people involved in harvesting and trading herbal products in the Balkans, this project had the potential to build a strong sector that could help boost rural development in a very difficult market, while conserving a valuable natural resource. (IFC 2003)

The performance of the facility in the first year of operations confirmed the rationale for its establishment. In the financial year (FY) 2003, CCF approved 12 projects with a total net value of $929,000.

The second facility, The Sustainable Financial Markets Facility (SFMF), was designed to “assist financial institutions in emerging markets to incorporate sustainability risk management and new product opportunities into their business models by demonstrating the sound business case for doing so.” (IFC 2003) SFMF’s strategy focused on three objectives. First, to provide technical assistance for sustainable and responsible lending practices, and to encourage financial intermediaries to develop products and services that responds to their customers’ environmental and social business drivers. (IFC 2003) Second, to promote venture capital investments in commercial businesses that have strong environmental sustainability benefits. (IFC 2003) And, thirdly, to foster market development by transferring environmental sustainability know-how within the broader operating framework of the financial sector in developing countries. (IFC 2003) In this sense, SFMF provided support for the establishment of the Sustainability Index of Bovespa Stock Exchange in Brazil. Launched in 2005, the Index has consistently matched or outperformed its benchmark. SFMF, too, has had a promising start. In its first year of operations, it approved 18 projects with a total net value of $477,000. (IFC 2003)

And finally, the third facility, The Environmental Opportunities Facility (EOF) – was established primarily to “provide catalytic funding for innovative ventures that have a strong potential to increase environmental sustainability, but must overcome the uncertainty associated with new markets, new technologies and new ways of doing business.” (IFC 2003) EOF was the avenue used by IFC to provide project preparation grants and flexible investment funding for projects that offered innovative private sector solutions to local environmental issues, such as ensuring supply of clean water, wastewater treatment and solid waste recycling. To be eligible for funding, projects needed to
demonstrate that they produce goods and services with significant environmental benefits, or increase sustainability of resources through eco-efficiency improvements.

While in the beginning CCF, SFMF and EOF operated as three separate donor-funded programs, by the end of the first operational year, IFC decided to unify them in the “Sustainability Business Assistance Program” (SBAP). This way, IFC joined resources with several donor governments to enhance the ability of the private sector to play a key role in delivering environmentally sustainable development in IFC’s borrower countries. SBAP’s facilities made rather small investments at the firm level, but in each case the goal was to generate replication in the wider private sector. The Program’s success was based on four underlying values: innovation, engagement, replication and leadership that reflected the core values of the organization.

The ability to apply innovative thinking to support ground-breaking initiatives with risk capital was essential for a program such as EOF which promotes environmental sustainability technologies that range, for example, from cost-effective waste water treatment for straw-based paper pulp plants in China to mini cogeneration turbine design in India. The principle of engagement was considered equally important. SBAP actively engaged with both clients and partners to persuade them to venture into new sustainability initiatives. Replication and scale-up potential are critical elements to transform markets and foster green growth. Thus, each SBAP project must demonstrate self-replication potential, to gain approval. A successful example is Grupo Calidra S.A., a mineral lime producer from Mexico, and IFC client. Using EOF financing, the group pioneered a new water recovery system for its plant. The success of this innovation lead to the installation of new water recovery systems in 13 more plants in Mexico. (IFC 2004) In the financial sector, SFMF pioneered a sustainability training and capacity building program for the financial sector in emerging markets – ‘the Sustainability Business Competitive Advantage’- which had large success. None of these successful projects would have been possible without IFC’s ability to ‘think outside the box’ and provide leadership in innovating sustainability business models, while using its top reputation and expertise to manage risk and reassure private sector investors.

In the first operational year (FY’03), SBAP has spent approximately $1.6 million, of which $476,000 went to implementation work for 38 projects, and another $400,000 to developing new projects. (IFC 2003) In the second year, expenditures rose 120% to $3.56 million in FY’04, and the total number of active projects more than doubled from 38 to 82. (IFC 2004) Following years saw even greater growth, and by the end of FY’06, total expenditures of the three facilities rose to $6.75 million. While this was a small fraction of total IFC investments and advisory services it demonstrated consistent growth.

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67 ibid Note 44
SBAP’s commitment to innovation, replication, engagement and leadership proved to be a good recipe for success. Underpinning all of its work is the strong conviction that the private sector has a vital and central role to play in delivering sustainable development in emerging markets. At a more ambitious level however, IFC aimed to use SBAP’s resource to transform markets and help develop an investment climate that encourages environmental and social sustainability.

**Sustainability Business Innovator**

As described in the previous section, SBAP proved to be a successful program that made significant contributions to advancing environmental sustainability in emerging markets, while transforming IFC from within. As markets’ transition towards environmental sustainability accelerated exponentially in the past two years, particularly because of growing demand for clean technologies to cope with climate change threats, IFC responded promptly with new changes. Thus, in 2006 it reformed SBAP into a new initiative, the Sustainability Business Innovator (SBI) program. This umbrella program, built on SBAP strengths, and expanded the scope of intervention to five domains, by adding biodiversity and sustainable energy\(^\text{68}\) to the three initial practice areas of SBAP. This way, the corporation could respond better to a booming demand for sustainability advisory services and finance in developing countries. SBI’s new facilities are: Biodiversity, Cleaner Technology, Sustainable Energy, Sustainable Investing, and Social Responsibility. By uniting them under a single program, the organization aimed to create greater synergies between its different practice areas, allow knowledge sharing, provide more efficient management, administration and fundraising, and thus, ensure a greater development impact in the field.

The transition from SBAP to SBI involved not only expanding the scope of intervention, but also a transformation and restructuring of each facility in order to respond and adapt to dynamically evolving market conditions. Thus, the activities of the Corporate Citizenship Facility were assumed by the newly established ‘Social Responsibility Practice’ area. This gave greater focus to enhancing private sector contributions to social development in emerging markets. The EOF transformed in ‘Cleaner Technologies’. This change aimed to better respond to a booming demand and positive market conditions for cleaner technologies. And finally, part of SFMF’s activity was retained into the new ‘Sustainable Investing’, while the successful Competitive Advantage Training program was incorporated into IFC’s financial markets department.

At core, SBI was designed to act as an ‘incubator lab’ for sustainability business innovation in which IFC could combine its cutting-edge expertise, with its strong financial leverage, triple A reputation, and global reach, to engage in greening markets and businesses on a wider scale. The vision was to seed path-breaking projects that have replication and sustainability potential but can

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\(^{68}\) Biodiversity and Sustainable Energy were previously funded by the Global Environmental Facility (GEF)
not find financing on reasonable terms because they are located in low income and high risk countries. In what follows I will describe in more detail the first four practices which are directly linked to the environment.

The first one, the Biodiversity practice, was envisaged to develop business models that can generate new revenue stream from nature. Examples include the so-called bio-businesses such as ecotourism, or creating markets for non-timber forest products. In addition, IFC is using this facility to determine large-scale changes in industries that have a high impact on natural habitats. 69 For example, the Biodiversity and Agriculture Commodities Program (BACP) is a ten year long, and $8 million effort, to increase the environmental sustainability of four commodity markets (palm oil, soybean, cocoa, and sugarcane).

The Cleaner Technologies practice has been designed to provide financing and advisory support for innovative technology ventures which have high environmental profitability, but can not develop because of their perceived financial risks. 70 IFC’s intervention helps them overcome market barriers in the start-up phase. The Cleaner Technology team works to transform both the demand and the supply side of this market. Demand is stimulated through technical assistance offered to potential buyers. On the supply side, the program invests in clean technologies that have strong replication potential and can yield outstanding environmental and social benefits.

The Sustainable Energy practice area focuses on innovative models that could accelerate the growth of markets for clean energy technologies, while mobilizing commercial investments in clean energy infrastructure. It does so by “removing market barrier that deter private investments in sustainable energy, such as lack of information on opportunities or technologies, perception of excessive commercial or technical risks, or high market development costs.” 71 Similar to the other facilities, the larger scope is to lever IFC’s resources and expertise to transform markets for energy efficiency and renewable energy technologies by providing incentives, investments and top-notch advisory services.

And finally, Sustainable Investing practice area acts as a catalyst to increase the levels of sustainable investments in emerging markets by setting standards and developing financial products in private equity, listed equities and other tradable securities. One of the unit’s goals is to facilitate an increase in sustainable responsible capital flows to emerging markets up to $5 billion by 2008. 72 This will likely have a strong impact on the emerging markets economies by stimulating job creation, environmental protection and eco-efficiency.

Even though the Sustainability Business Innovator program was established only two years ago, its performance and reach are impressive. Since SBI incorporated and continued SBAP work,

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69 IFC Practice Areas of the Sustainability Business Innovator. 2006 www.ifc.org
70 ibid Note 47
71 IFC Practice Areas of the Sustainability Business Innovator. 2006 www.ifc.org
72 ibid Note 58
its projects portfolio covers all regions of the world. The regions are divided in Sub-Saharan Africa, East Asia and the Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa and South Asia. Of the total 197 projects managed by SBI, 45 have been developed by the Cleaner Technology team, 64 by the Social Responsibility team, 85 by the Sustainable Investing team, and 2 by the Sustainable Energy team. Biodiversity and Sustainable Energy team have reported only the projects developed under the Innovator, leaving aside their previous work funded by the GEF, which is why they have less number of projects. In terms of regional distribution, Latin America and the Caribbean along with East Asia and the Pacific are the regions with most projects developed.

Strategically, the Innovator is best positioned to make a critical contribution to disseminating knowledge, providing technical assistance and finance to help develop a strong environmentally sustainable business sector in newly developing economies. Indeed, the program is now the heart of IFC’s advisory services in environmental and social sustainability.

IV. CONCLUSIONS

The aim of this paper was twofold. On one hand, to introduce the concept of environmentally sustainable economic development (also known as ‘green growth’) by reviewing some of the recent literature developments in the field, and explaining the need for a fresh consideration of the relationship between economic growth and the environment. On the other hand, to discuss sustainability business innovation, and explore the experience of the International Finance Corporation, the private sector lending arm of the World Bank Group, supporting the development of a strong environmentally sustainable business sector in developing countries as an avenue to transform markets and disseminate sustainability knowledge.

As it resulted from the discussion, the ‘green growth’ approach seeks to create an economic framework that advocates eco-efficient and resource-saving economies, and production activities based on the full life cycle analysis of production and consumption processes, in which more efficient and less materials-intensive production is cost-effective for both the consumers and the producers. Realizing ‘green growth’ requires a radical transformation of the society, and systemic changes in which eco-efficiency is embedded in every policy design, economic modeling or business venture. This requires leadership, innovative thinking and above all, collaboration between all societal actors.

Furthermore, it was argued, that newly developing countries face greater challenges transitioning to environmental sustainability than industrialized nations. This is because in emerging

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markets and transitioning economies, consideration for the environment is largely seen as a hindrance in the quest for growth. Thus, the prevailing paradigm is ‘grow first and clean after’, with the hope that greater income levels will subsequently provide the funding to repair the environmental destruction incurred. In addition, lack of financing for clean technologies, lack of sustainability know-how, corruption, or simply indifference at top decision-making levels makes the process of transitioning to a greener economy in these countries, improbable if left at the faith of the government. Therefore, the hypothesis advanced was that in newly developing countries the multilateral development banks, such as the Bretton Woods Institutions have a key role to play in facilitating the transition to green economic development, a fact overlooked by literature, which currently assigns key roles only to government, private sector and civil society.

By reviewing the work of the International Finance Corporation in promoting cutting-edge sustainability innovation in the business sector in emerging markets, the paper showed that indeed, IFC has the capability to accelerate the transition to green growth in developing countries. This works through its impact on ‘greening the markets and businesses’, which is one of the five key avenues for achieving environmentally sustainable economic development, as recommended by the UNESCAP study on green growth.

Several factors underpin IFC’s successful impact. First, IFC has been established on a vision that attributes a central role to private enterprises in fostering economic development in developing countries. This ‘credo’ guided the organization’s programs and activities in its fifty-two years of existence, and is the underlying value guiding the current strategic mission of the corporation – that of helping developing countries achieve sustainable development. Furthermore, by focusing on financing private sector projects, IFC complements World Bank’s activity, which lends only to member states governments. Even though the two organizations are legally and financially independent, they share same values and top management. This allows for an easier exchange of information, transfer of knowledge, and facilitates easier interaction between its communities of high professionals.

Second, IFC is a unique type of multilateral development bank. As an international corporation owned by governments, its policies and strategies are collectively decided by representative of its 179 member countries. This gives IFC, an unparalleled global reach. Moreover, by having offices in 79 countries of the planet, IFC is maximizing the impact of its advisory services and investments, by adapting to local market conditions. Third, innovation and leadership are engrained in the fabric of the organization. Seeding promising, innovative business enterprises that can not find capital on reasonable terms because they are located in low income and high risk countries is one of the distinguishing features of the corporation. This ‘catalyst role’ is enshrined in one of the three foundation principles of the organization.
Fourth, IFC was one of the first international multilateral finance institutions to make environment and social sustainability a central theme of its mandate. This is reflected in the dynamic evolution of its policies, from a safeguard, ‘do no harm’ approach in the 1990s, to one based on performance and sustainability business gains, in recent years. Dedicated environmental staff grew from few experts in early 1990s, mostly responsible for due diligence evaluations, to over 150 highly trained experts united in a performant Environment and Social Development Department.

And fifth, IFC enjoys an outstanding international reputation in both the financial industry, and the private sector. This facilitates easy access to additional sources of funding, and allowed IFC to secure $24 billion in syndications over its history. In addition, its top class advisory services transformed industries and markets around the globe.

It can be concluded from this discussion that achieving environmentally sustainable economic growth is not possible without a strong private sector, one that sees environmental sustainability as strategic competitive advantage, and engages actively in greening the value chains both upstream and downstream. By being one of the largest depositories of technical knowledge that informs policy making and investment decisions in developing countries, the IFC is ideally positioned to influence the diffusion of sustainability best practices in the private sector, and thus accelerate the transition from ‘business as usual’ to a ‘sustainability society’.

This paper was a first attempt to understand the linkages between IFC’s efforts to promote environmental sustainability in the business sector in developing countries and green economic growth. Further, and more detailed, research is required to map these relationships. Equally, it is worth exploring what other factors influence the transition to environmental sustainability of the private sector in emerging markets. Systems thinking and sustainability transition theoretical frameworks could be useful analytical tools for subsequent research.
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