

Session A 2
Creating the Framework for Sustainable
Development through Legislative Reform and
Institutional Capacity Building

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Environmental Management Systems – the business case for self regulation and environmental due diligence.

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Responding to a steady increase in public awareness of environmental issues over the last half century, environmental management has become an essential activity for investors, contractors, operators and consultants. This is the result of two major types of incentives which influence the business behaviour of firms, whether private or public:

1. legal requirements to meet environmental standards, and effective means of enforcing compliance with those standards; and
2. the economic interest of the firm.

The two types of incentives may usefully be combined in a legal framework applying the 'polluter pays' principle, and using economic sanctions (fines) for punishing transgressions. By their very nature, these means oblige firms to behave in a manner consistent with the public interest as expressed in the law.

However, having taken various environmental measures in response to incentives of the kind mentioned, many firms have come to realise that to apply fair and reasonable environmental standards is often good business in any case. The business case for environmental management can be summed up in a few headlines. Measures to clean effluents and reduce and recycle waste have positive effects on the need for raw materials. Measures to reduce noise levels and dust emissions enhance health and safety and improve productivity. Measures to optimise production processes reduce energy consumption and improve product quality. Such measures may require initial investments, but those are not necessarily larger nor less profitable than any other investments which may be necessary to ensure profitable production in the medium and long term.

Consumers in many countries are also exercising an influence which becomes stronger each year. They want to know about the environmental impact of what they buy, whether goods or services, and change their buying patterns according to the information provided. This is another strong business reason for firms to engage in environmental management.

As long as they are aware at all of this business case for environmental management, firms act accordingly in their economic self-interest, not just because they are under the threat of sanctions. This is usually a vastly more efficient way of ensuring compliance than by external monitoring and prosecution of offenders. It is also better that firms spend their money on training their staff and making suitable investments in the

production process, rather than on bribing officials to get a false certificate of compliance or otherwise to avoid sanctions.

It is also counter-productive to set legal requirements which do not suitably match and reflect business advantages. In today's globalised world, business conditions are more and more determined on the world market, also for firms acting locally. Norms, rules and regulations should therefore correspond to internationally accepted best practice. Business associations may play an important role in setting rules and standards to be applied by firms in the sector in question; this decreases the need for detailed norms and regulations to be issued by law-making bodies. Such rules and standards set by the business itself are typically applied by some form of self-regulation. If properly devised, this is an effective and efficient way for ensuring compliance.

We have so far considered only the particular case of environmental management. FIDIC and the consulting engineering industry emphasise that environmental management is not sufficient by itself and has to be considered in a wider context. It is also necessary for firms to have adequate management systems available, in order to know and understand their business interests and act accordingly.

In fact, environmental management is only one element dealing with the impact of an investment project. Other important aspects are the social and economic effects of the project. Project activities can produce several types of impacts: positive or negative; on-site or off-site; environmental, socio-economic, physical, psychological; short-term or long-term; financial; internal or external. When properly evaluated, any one of these impacts can be large enough to change the final decision about whether to proceed with a project. Also in this wider context, the incentives for doing the right thing can be legal and economic, as discussed above.

The table below outlines some measures which fall within the scope of the three sustainability dimensions. FIDIC's *Business Guidelines for Sustainable Development in Consultancy Services* specify that firms should use the best available business practices to integrate the scope into project planning, evaluation and implementation. An enterprise or authority should make use of external expertise, like that provided by independent, competent consulting engineering firms, if it does not itself have the know-how required to carry out the necessary assessments and to develop and put into place the corresponding management systems and other measures.

Exhibit 1. Sustainability dimensions and typical measures

Environmental Dimension	Economic Dimension	Social Dimension
Increase material efficiency by reducing the material demand of non-renewable goods	Consider life cycle costs	Enhance a participatory approach by involving stakeholders
Reduce the material intensity via substitution technologies	Internalise external costs	Promote public participation
Enhance material recyclability	Consider alternative financing mechanisms	Promote the development of appropriate institutional frameworks
Reduce and control the use and dispersion of toxic materials	Develop appropriate economic instruments to promote sustainable consumption	Consider the influence on the existing social frameworks

Reduce the energy required for transforming goods and supplying services	Consider the economic impact on local structures	Assess the impact on health and the quality of life
Support the instruments of international conventions and agreements		
Maximise the sustainable use of biological and renewable resources		
Consider the impact of planned projects on air, soil, water, flora and fauna		

Each of the dimensions is addressed by management tools, the classic example being environmental impact assessment. However, the drive for sustainability has focussed attention on equivalents also in the other dimensions.

In response to the interest and demands of their stakeholders in global issues, many organizations in both industry and government are making public commitments to the principles of sustainable development. As a demonstration of those commitments, these organizations are making changes to the way they manage their operations and infrastructure investments. They are starting to build or refurbish facilities and infrastructure using designs and methodologies that make more efficient use of resources and energy, protect ecological systems, and specifically take into account the needs of the communities in which they operate.

As such activities increase in number and importance, several questions arise. How should these facilities and infrastructure projects be designed and implemented in order to make a real contribution to sustainable development? How does one convince stakeholders that true progress toward sustainability is actually being achieved? How does the intent to deliver projects that make a contribution to sustainability get translated into reality and measured?

FIDIC's Sustainable Development Task Force has developed a framework and a process for setting project sustainability goals, measuring progress toward those goals, and identifying actions to be taken in order to ensure they are reached. Embodied in these Project Sustainability Management (PSM) Guidelines, the framework is designed to ensure that a project's sustainability goals are aligned and traceable to recognized and accepted whole society goals and priorities. The PSM process is designed to customize sustainable development project goals to suit local conditions and priorities, and to assist project owners and consulting engineers in achieving and verifying progress toward sustainability.

In the PSM process, the project owner and the consulting engineer work together to select appropriate sustainable development project goals balancing the owner's project vision against available alternatives and costs. Then, working with the owner, the consulting engineer uses the PSM process to create project performance indicators that correspond to those sustainable development goals. If properly done, the indicators will enable all parties to determine whether or not the objectives have been achieved, or if not, take whatever corrective actions that may be appropriate. Stakeholder input is sought throughout the process. In this sense, sustainability objectives are addressed in much the same way as other project objectives are addressed in the project's quality management plan.

PSM enables users to devise and customize indicators to meet stakeholder concerns and issues, while still demonstrating a rigorous, causal link to the fundamental concerns and

goals of sustainable development. The system can be used by firms to demonstrate their clients' commitment, as well as their own commitment, to meeting sustainability objectives. PSM also provides a methodology for benchmarking sustainable development project performance against the performance that others have achieved. At the same time, it provides a way for ensuring that advances in one dimension of sustainability on a project are not accomplished at the expense of others, making the net result sustainability neutral or negative.

Lastly, FIDIC is proposing PSM as a new area of knowledge management, operating in parallel to the conventional areas of quality, risk and business integrity management. Firms providing intellectual services, such as consulting engineers, will be able to add a new dimension of value to their work by helping clients not only apply new and more sustainable processes, systems and technologies, but also demonstrating effectively their contribution to sustainability in a way that encourages the sharing of knowledge. It also will help establish an environment for innovation so that all parties can begin to operate in an atmosphere of openness, transparency and trust.

What are the conclusions to be drawn from this? We may sum them up as follows:

- firms have a clear business interest in environmental management and other aspects of sustainable development: it is essential for ensuring the long term profitability and development of the firm;
- regulations have to set out fair and reasonable standards and requirements, reflecting international agreements and norms;
- a suitable combination of legal and economic incentives cause businesses to act appropriately without a need for extensive enforcement of norms and regulations;
- there are management systems which allow not only environmental issues but sustainable development at large to be handled efficiently by the firms and their associations;
- there are specialised firms with the know-how to help other firms develop and put into place such management systems;
- under these circumstances, self-regulation by the industry, supported by independent, competent consulting firms, is a viable way forward.