

# GREEN AUDIT SYSTEM

Dr WIMAL WICKREMASINGHE

*Minister of Environment and  
Parliamentary Affairs*

*Prof Suriyakumaram,  
Dr Nesiah,  
distinguished guests,  
ladies and gentlemen,*

I am glad that Prof Suriyakumaran has organized an innovative seminar on Environmental audit or 'green audit' system. I am made to understand that this discussion is organized by the 'Center for Regional Development Studies' in association with the Sri Lanka Foundation Institute. I must thank Prof C Suriyakumaran who made available to me one of his papers which dealt with this subject matter. I found it very interesting. This seminar should have been organized by us—either by the Ministry of Environment or by the Central Environmental Authority. We do not find fault with CRDS for being ahead of us in organizing this seminar. However I think in time to come the officials of the Ministry of Environmental and Parliament Affairs and the Central Environmental Authority should get together in devising a scheme for environmental or 'green audit'. I propose to appoint a task force for this purpose, comprising eminent persons from varied professions for the development of green auditing or environmental auditing.

As the late Minister of Environment and Parliamentary Affairs mentioned in his message, environmental management is inextricably linked to development or so called sustainable development. Environmental concerns go beyond environmental impact assessment and cover overall integrated resources management.

Even for us EIA or Environmental Impact Assessment is a new subject. Though the Cabinet of Ministers as far back as 1984 mandated that every project be subjected to an Environmental Impact assessment, we are still at the formative stage in implementing that decision and we are in the process of presenting the environmental assessment regulations to Parliament for approval with a view to enforcing them right through the country. We have faced a number of obstacles at the Cabinet Sub-Committee level and these regulations would become a reality very soon.

To my mind, Environmental Impact Assessment is only one part of the green audit system. I had the privilege of following a course in environmental economics very recently at the Indira Gandhi Institute of Development Research in Bombay as Minister of Environment. I think I was the only Minister of Environment who followed an intensive course in environmental economics as a student. I obtained my PhD in International Economics about 20 years ago. I have tried to keep abreast of environmental developments through the last four to five years. Yet the subject matter of environmental economics is very much new to me. Environmental economists look at natural resources from a totally different angle. We have been dealing with subject matters concerning growth, but we never attempted to evaluate the cost of growth to the total economy and the cost of exploitation of resources that lead to environmental degradation. While I was travelling in the car I had time to run through a book

entitled "GOOD GROWTH IS GREEN GROWTH" written by an eminent economist in India Prof Kirit Parikh. I also had the privilege of listening to him in Bombay. This document offers many insights into the concept of sustainable development. Today the phrase 'sustainable development' has become very hackneyed and it is fashionable for every one of us to talk about this concept. We do need development, but just not any kind of development. It should be responsive to global concerns for environmental development, it should improve life of the poor, it must be sustainable it must be 'green'. Good growth is green growth, the word green has become very popular nowadays, you talk about green labelling. Environmentally friendly products are given a green label, then you have green tax which is designed either to encourage products which have less adverse effects on the human body. Then you have what you call a 'green car' which has less, or no pollution. Earlier we had Green Revolution, now we deal with Green Economics.

Today when I was talking to some of the delegates who were gathered at the Hilton hotel one delegate said that we should be cautious about the production processes that damage the environment. He said that this process is 'green imperialism'! A new kind of imperialism thrust upon us. We also have the 'Green Movement', specially in Europe and also the concept of the Greening of the Environment, the 'green side' of the environment as opposed to 'brown side'. We hear that good growth is 'green growth'. On this basis we must be able to argue and prove that good government is Green government!

It is a challenging task to work out the national accounts and also the cost of depreciation of resources. What are the objectives of environmental economics? One is to discuss from an economic stand point, the causes of environmental degradation, and to provide a conceptual framework for the organization of information in order to enhance environmental decision making. Another objective is to provide an overview of economic methods that can assist in the valuation of environmental cost and benefits and to give examples of application of the theoretical methods that are being developed. The environmental problems operate at many levels and I can think of three levels. One is the general policy level, where the links with environmental damage may not be obvious, but it may become apparent at times. Another is at the environmental policy level where conscious decisions are made to limit environmental damage. When we look at the issue of environmental degradation against the

perspective of environmental economics, we can see it at various levels, at the general policy level, at the environmental policy level and also at the project level. I can see two components of this subject matter one relates to macro issues other to micro issues. The subject under discussion today is more micro than macro. Therefore I will deal with the macro issues first and get on to micro issues such as environmental auditing. We must initially deal with national income accounting and environmental resources. At present, a system of national accounts that has been developed by the United Nations is in use in Sri Lanka. Professor Parikh has referred to it several times in his articles, the objective of which is to provide a data base or macro economic analysis and also to provide aggregate measures of economic performance and economic welfare. For example GNP Gross National Product is used as a measure of economic progress, but this concept of GNP or GDP has come under severe criticism for quite some time for neglecting important environmental issues. It has a number of weaknesses though it is the only available method that can be used for the purpose of policy formulation and also for measuring the economic progress. Some argue that it does not include distributional considerations, and they say that GDP does not deduct the cost of capital depreciation and therefore some argue NNP, Nett National product is more appropriate. Now a new concept of green accounting system is being developed. It is simply a modification to the accounting system that is currently in use. For example the officials of the central bank compute GDP, collecting data from various sources and they do it in a mechanical manner.

I am not aware whether Professor Suriyakumaran invited the officials of the Central Bank for this seminar. I hope they are present, because they are the officers who must take up this challenge. They cannot think compartmentally and argue that we are only concerned with the conventional concept of Gross National Product and that it is a matter for someone else to adopt green accounting methods. There shouldn't be any kind of dichotomy when it comes to accounting and I hope the officials of the Central Bank will initiate a process by which they could develop a new system of accounts in addition to conventional system of accounts. It is possible for them to introduce and evaluate the cost of growth into the system. If you say it is  $C + S$ , then you can have a minus point<sup>o</sup> which is environmental degradation. They should be able to incorporate these changes in their economic format. To incorporate environmental resources, we need a new Account, namely an environmental account. If GDP is consumption plus



saving, then you should be able to add another element to it, that is  $C + S$  minus ED, minus ED denoting environmental degradation. The net national product can take into account environmental damage and changes in environmental stocks. For example a large reservoir system increases irrigation and food production. That is the main purpose of having a reservoir system, or a tank system. It also can lead to water logging, forest submergence, displacement of people, destruction of up-stream forest and soil erosion. Therefore whenever you launch a developmental activity most of the people fail to understand the adverse effects of that development activity. When he started the massive Mahaweli Scheme which helped us go along the development path in terms of increased production, increase in hydro electricity, and the like, it also had an adverse effect on the environment which has not been evaluated by most of us. We have been blind to that aspect because we were more development oriented and less concerned with environment. For example, a Petro Chemical Complex may provide new products, but it can also destroy traditional artisans and occupations and pollute the surrounding air and water etc.

An Indian journalist once raised a question about monuments of development "are these temples or tombs?" I hope most of us who deal with matters concerning development should have some concern about its effects on the environment. That is why we are trying to work out a 'green accounting system'. This system advocates a measure of human well being. We have to differentiate this from the conventional national accounts. We are now developing a system or notion of concept called 'net welfare measure' (NWM). NWM is equal to the conventional net national product that is NNP plus environmental rents. This is a very important concept. Green accounts is still a new subject. The World Bank and the UNEP are planning to undertake country studies and are involved in new designs of accounting systems in order to incorporate environmental concerns. Many countries such as Germany and Sweden are planning to create satellite accounts that will include parts or all of this accounting framework. Therefore, we will shortly know the practicality of green accounts. When such accounts are available the sustainability of the current development process can be monitored in an efficient manner. Even if conventional GNP is increasing if the net welfare measure is on the decrease, there is no overall gain to the country. It is possible that the GNP is increasing, but it does not mean that the development path is sustainable. Therefore, there is now a change in the interest from GNP to NNP,

that is the net national product. This is very important for designing economic policies and also for providing incentives that would create policies that take environmental concerns into account. National income accounting can be undertaken in two ways, one is in monitoring terms, which I described, the other is in terms of stocks and flows of national resources in physical units. This is being done in countries such as France and Norway. When you say in terms of stocks you can speak in terms of fish populations in the reservoirs or standing timber in the forests.

When you talk about flows, you can talk about discharge of oil or surplus dioxide or production of hydro electricity. The analysis of stocks and flows can be a micro analysis of income. Accounting can be macro. Under this concept, we must always try to evaluate the cost of growth or cost of resource depletion or degradation. Therefore, negative effects of environmental damage should be identified measured and quantified in terms of cost or expenditure of development. This is the point I wanted to make.

There is a fair amount of interest at the moment in harmonization of environment with development specially after the Earth Summit UNCED which was held in June 1992. It is not only conservation management, but also resource management. This involves a vast number of professional disciplines. In this competitive world we will be behind time if we do not keep pace with developments. If you take a stress test, you will find that you still have to keep on running for you to remain at one place. You may have to run faster if you have to keep pace with new developments.

When we prepared our national environmental action plan in coordination with all the agencies including the NGOs, we still failed to mention national environmental accounting, environmental audit. I in fact ran through the national environmental action plan to-day, 1992-1996, there is no reference to green environment, though the cover was green. In fact I ran through that famous book called AGENDA 21 which was put out by the UNCED, one of the most important documents in the field on environmental and sustainable development. I do not find any reference to green audit or even green national accounting. Our productions are always out of date. This is a new field and it is very necessary to ensure that our development is sustainable. For this purpose, we may have to evaluate the cost of development against the progress that is now being made in various fronts.

Now if you go through that famous book called "OUR COMMON FUTURE" Brundtland Report, which was put out by the World Commission on Environment & Development as far back as 1987, it had different definitions, all not consistent with each other. But there is one known definition which you all know, that is 'sustainable development'. It is development that provides for the need of present generations without compromising the ability of future generations to meet their own needs. Many people do not go beyond that definition, but I have seen Prof Parikh has analysed this definition taking various variables into account.

I have seen another path breaking book put out by an environmentalist economist from Sweden. Prof Maler who also visited Sri Lanka. I listened to him in Bombay. There were few economists who lectured to us in Bombay, such as Prof Partha Das Gupta from the University of Cambridge, Prof Karl Goran Maler who has put out a number of publications on environmental economics and development. There was another gentleman called Dr John Dixon from the World Bank, then of course the Director of the Indira Gandhi Institute of Development Research, Prof Fareed, who wrote this book "GOOD GROWTH IS GREEN GROWTH" and his wife Dr (Mrs) Jyoti Parikh all have written on this subject matter.

Prof Maler defines the concept of sustainable development in terms of environmental economics which is important for us because we do deal not only with sustainable development, but also we look at development from the perspective of environmental economics. He says that economic development in a specified area, region, nation is sustainable, if the total stock of resources that is human capital, physical reproducible capital, environmental resources and, exhaustible resources do not decrease over a period of time. It is also a very simple explanation. What is the basis of his argument? The basis is the notion of substitutability between resources. In that context I have dealt with some issues concerning macro matters and national green national accounting.

I may add a few words about environmental audit or green audit which is micro as opposed to green national accounting. The objective of green audit is to assist producer organizations to establish and implement sound environmental policies and operations that enhance efficiency and also to help organizations to develop and adopt the most appropriate policies. It is concerned with development organization. That is why I call it 'micro'. Environmental audit has been identified a 'relevant system' or 'development sensitive' or

'development supportive' system. It has also been argued that environmental or green audit is designed to help the organizations to find possibilities for enhancing their own resource availabilities, quality, prices and profits. That is why I say that it has a wider scope than the EIA.

EIA may be a mechanical process based on a number of stipulations that should conform to the quality of the environment. You expect users of resources to conform to these stipulations and conditions so that the adverse effects on environment could be minimized. While EIA is also micro, environmental audit or green audit goes beyond the frontiers of the concept of environmental impact assessment. This is close to development of a resource balance sheet system as against the system of economic environmental accounting. Green audit also became an integral part of a larger system. It embraces entrepreneurial objectives and national needs in both development and environment. It is thus a field certainly for accountants, but it is equally important for environmentalists, economists and other specialists.

We must ensure that there should be a departure from the compartmentalisation we are used to in the past. That is why I earlier argued that the officials of the Central Bank should not be confined to their Units and to their GDP figures. I have not seen a paper from the Central Bank which has expressed any view on this matter. Central Bank is the appropriate agency to initiate Green Audit because the objectives of the Central Bank are very wide and therefore it can accommodate this subject. We expect them to lead us or to tell us what sort of policy formulations we should follow. We consider them as 'think tanks'.

In other countries this function is performed by Central Banks. If you go to Indonesia or to many other countries, they are best known and the most recognized 'think tanks' and they do not confine their activities to annual reports.

The annual reports in Sri Lanka speak of an increase of GDP or GNP or employment in 1993 by 10% as compared to 1992. That type of reporting will not help anybody. You read the Central Bank Report and you will find that economic performance in 1991 is 5.6% as against 4% in 1990. Hence, it is an increase of 20% over the previous year. There must be an economic analysis showing the past performance and giving the reader an account of what is happening in the country, rather than giving figures in isolation. I have been saying all this time, as I was myself one of them one time. With close



co-operation among all these specialisations a new profession of environmental auditing is now emerging. That is why Prof C. Suriyakumaran is making it known to you and to everyone concerned. We should thank him for taking pains to popularize this concept, particularly among the accountants and financial managers. This is considered as a second complement to financial audit and therefore environmental audit should ensure, environmentally friendly products and techniques, the use of residues for re-use and also for transformation of rejects or residues into productive use. This also helps in enhancing management, increasing profits and the improving country's overall development.

Any environmental or green audit should be sensitive to priorities. The results would not be counter productive or anti-developmental. Therefore good business management should lead to good environmental management. Environmental audit system should comply with all laws and legislations that concern the environment and they should operate within that framework. Accounting is one of the challenges we face today and therefore for the benefit of all concerned, I wish to suggest that we should prepare a manual for environmental audit. We must have a manual that should be tailor made to the local need. We are requesting even commercial banks to check whether their projects conform to environmental standards and EIA stipulations in releasing loans to industrialists. As such, environmental considerations would become very important even for procuring bank finances.

We are thinking of alternative systems of assistance to industrialists who have started their industries before environmental standards were enforced. These industries may be polluting the environment. There is a question of correct siting. If by any chance, these industries are to adopt new systems which will reduce or minimize environmental pollution, they may have to go into a very vigorous investment programme. In this case even some of these industrialists who are now at the break even point even may find it difficult to make any new investments. We are trying to obtain donor

assistance for this purpose from other countries and also from the World Bank. This will enable them to introduce some sophistications into the processes. The need for a manual should be felt all the more in this background. Otherwise much of discussions would become theoretical and abstract and may not yield any tangible results. We Sri Lankans are a seminar loving nation and every organization wants to have at least one seminar annually or many seminars. They feel that it will go to their credit. Results of seminars are mostly unknown and they are also not bothered to know what the results would be. They want to enjoy the organizing of an International seminar at Hilton under their leadership.

We must also have a task force to implement these proposals. What matters in this process are the externalities that form the core of Environmental Audits. We do not assess the effects of externalities, that is the impact of the growth of a company on environmental degradation. Environmental auditing should minimize environmental degradation by use of lesser pollutants for production processes. Professor Suriyakumaran could help the Ministry of Environment to develop a system of Environmental auditing for Sri Lanka. I like to appoint a task force for this purpose under the chairmanship of my Secretary Dr Nesiiah. We will work out the terms of reference for the preparation of a manual of Environmental Auditing. Professor Suriyakumaran's work will also be associated with this exercise so that we could benefit from his wide knowledge of the subject. For example we can take up issues like recycling of waste under this exercise. These observations are made on the basis of my personal knowledge of the subject. I have made a strong investment on learning and acquisition of skills during the last 20 years and I can fall back on that investment any time. I enjoyed sharing my thoughts with you at this seminar.

THANK YOU !

SPEECH DELIVERED AT THE CRDS TO THE  
SEMINAR ON ENVIRONMENTAL AUDIT ON 21 APRIL 1993  
AT THE INSTITUTE OF CHARTERED ACCOUNTANTS