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MDB [Multilateral Development Bank] Summary July 29, 1993

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MEMO TO DAVID FROM AIMEE
RE: MDB paper, comments
DATE: 7-26-93

Here are my thoughts on the Treasury MDB paper. David, in the body of my notes, as part of my working process, I wrote out each of the options considered. These are followed by the Treasury's recommendations and my own comments. For the most part I agreed with Treasury, but thought that sometimes their views of our options were fairly limited.

I. Background for current situation:

The multilateral development banks have made significant progress on environmental policies, with the World Bank and Asian Development Bank doing the best and the African Development Bank accomplishing the least. However, while many policies are in place, the structure and basic functions of the Banks have made implementation less successful. The emphasis of performance for employees is on capital quantity, less so on project quality.

As a result, the "Wapenhans" Report was requested by the President of the Bank as a major independent review of the Bank's loan portfolio and the sustainability of Bank projects. It resulted in a comprehensive remedial action plan and revealed a steady deterioration in the World Bank's loan protfolio performance. The report stated that this was due primarily to a project appraisal process that often sacrifices objectivity in order to secure Board approval; inadequate attention devoted to project implementation; and the staff incentive system to move cash rather than to fund quality sustainable projects.

MDB progress on environmental policies has often been made because the United States has pressured the MDBs to improve their environmental performance. However, progress is often hampered by lack of support from other member countries for U.S. led environmental initiatives. They resent U.S. pressure especially when it comes out of U.S. legislation; it is easier to sell initiatives purely on their merits.

In addition, policies and practices of our bilateral programs (USAID, Eximbank, OPIC) should be consistent with policies we are pressing for in the MDBs. Sometimes a project we have voted against in the MDBs is approved on a bilateral basis. The U.S. is also in arrears $820 million in payments to the MDBs, and therefore has less severage financially.

Finally, U.S. NGOs must make efforts to encourage "non-Washington NGOs" in other countries to engage governments on the issue of MDB environmental efforts to help counteract the international perception that the

U.S. is acting solely on its own behalf, as a result of pressure from "Washington-based NGOs."

note: the ***s mean that these are options not supported by Treasury which I support at least looking into.

A) U.S. Legislation on MDB environmental policy:

The Pelosi Amendment: The U.S. Executive Director of an MDB cannot vote in favor of a project which would have a significant impact on the environment unless an environmental impact assessment (EIA) or a comprehensive summary thereof has been made available to the MDB, its executive directors, affected people, and local NGOs, at least 120 days before the board vote. Since December of 1991 when the Pelosi Amendment became effective, the U.S. has had to abstain in 15% of MDB public sector projects.

Private sector application of the amendment has not been resolved, partly due to the fact that the 120 day requirement may be difficult to meet as private sector investment has shorter project cycles. The U.S. has not applied Pelosi to the private sector MDB projects due to policy arguments and a statutory interpretation that Pelosi doesn't apply. Congresswoman Pelosi and environmental NGOs believe that Pelosi should be applied to private sector operations, and the U.S. is pressing for MDBs to develop procedures that'd satisfy the spirit, if not the letter, of the amendment.

The FY93 Foreign Operations Appropriations Act: it directs the Secretary of the Treasury to instruct the U.S. Executive Director to encourage MDBs to meet benchmarks in areas of sustainable energy development, forest conservation, forced displacement of populations and environmental impact assessment.

B) MDB Environmental Improvements:

<u>Public Access to Information:</u> The U.S. has pressed MDBs to provide the public with access to information about environmental impact of projects and to consult with the affected groups and local NGOs early; it is not yet occurring consistently.

<u>Energy Efficiency and Conservation:</u> Successful IDA 10 negotiations dictate that the IDA pursue the goals of least-cost energy planning, energy efficiency, and alternative energy sources. In October, 1992 the World Bank passed a policy for the electric power sector incorporating requirements in these areas.

<u>Forest Policy:</u> The U.S. urged all MDBs to revise or develop forest policies to place greater emphasis on protection and conservation of forest areas. The World Bank has already done this and the African Development Bank is in the process of drafting a forest policy.

- what are they and how is the WB policy being implemented?

<u>The GEF and Rio follow-up:</u> The World Bank has made a public

commitment that its operations fully support the global objectives of the Rio documents. The MDBs can play a leading role in supporting developing country activities such as energy efficiency and conservation which can be more cost-effective than investments in new generating capacity.

II. Options for Policy

A) Basic Commitment to the MDBs:

1) Continue support for MDBs and continue existing efforts for the environment;

2) Continue support for MDBs but increase efforts to advance our environmental agenda; or

3) Reduce funding for one or more of the MDBs on environmental basis, as called for by some NGOs.

Comments: Treasury recommends #2. Do not explicitly rule out decreased funding, the silent option could have its place. I can see the reasoning behind not using this threat as it could be seen merely as a rationalization for lower funding when we're arrears in our payments; this could then lead to less influence with MDBs.

B) Strengthening U.S. Oversight of the MDBs:

1) Continue current practice

2) Strengthen relevant U.S. agencies' ability and high-level commitment to provide environmental oversight of MDB activities. (ie., Treasury's International Affairs Office, USAID, State, EPA, etc.)

3) Improve interagency coordination on MDB-environment issues. (perhaps review MDB country lending strategies and national environmental action plans.)

4) Undertake a comprehensive and in-depth evaluation of MDB operations to evaluate the extent to which the MDBs are fulfilling recent policy commitments, meeting U.S. legislative benchmarks, and accomplishing their mission to finance sustainable development.***

5) Provide a portion of the funding needed to develop the World Bank's updated industrial pollution guidelines. A small amount of grant money would be needed.

6) Provide U.S. government environmental staff to the MDBs. The Pelosi legislation directs U.S. government agencies to second environmental staff to the MDBs to help them improve the environmental quality of their lending. This might be funded by the USG or by the MDBs.

7) Create U.S. Environmental and Energy Trust Funds at the MDBs to provide grants for hiring U.S. firms to conduct EIAs, design pollution prevention systems, or provide energy efficiency planning services and technology.

Comments: Treasury recommends option 2 and 3. I would agree, but also recommend option 4 to follow up on policy changes; the World Bank is known for great policy, marginal implementation. Why not have the U.S. prepare an environmental performance review for an MDB prior to its capital increase or replenishment negotiation?

C) Options for Environmental Strengthening of the MDBs:

1) <u>work to ensure support of only the highest quality projects by:</u>

a) urging each of the banks which has not already done so to initiate an independent comprehensive review of its activities along the lines of the "Wapenhans" review recently completed for the World Bank, and press the WB to implement fully the recommendations of the report.

b) press MDBs to improve the staff skills mix to improve environmental performance. Provide greater support for training of MDB staff and in-country personnel in the concepts of sustainable development, environmental impact assessment, resettlement planning, project design and implementation, resource economics, natural resource accounting, and cost/benefit analysis.

c) press the MDBs to strengthen their criteria and procedures for environmental categorization of projects, and to develop procedures for reviewing the categorization of projects that may have been incorrectly classified, in order to ensure that all projects receive adequate environmental assessment.

d) promote timely preparation and availability of high-quality EIAs for all environmentally significant projects.

e) seek to establish an international consensus on MDB and MDB-affiliated lending to the private sector that accomplishes the fundamental goal of the Pelosi Amendment without a rigid legislative requirement.

f) reinterpret the Pelosi Amendment to apply to private sector operations by MDBs and their affiliates. (see "borrowing <u>countries</u>" wording in amendment).

g) take a position that the MDBs should under no circumstances fund projects which would have major adverse environmental or social impacts (e.g. WB Category A projects such as large dams, power plants, and roads in ecologically sensitive areas).***

h) for projects with major environmental impacts establish a two-stage Board review process to allow the Board to review such projects on a streamlined basis early in the design stage, as well as at project approval.**

i) for projects with major environmental impacts require support of a high percentage of member governments for project approval.**

Comments: Treasury recommends options a,b,c,d, and e. I agree, but would add option g, and if not option g, then options h and i. In addition, option b has been done by the Bank, yet it alone is not enough.

2) <u>Actions the U.S. could promote to ensure improvement in</u>

transparency and public participation:

a) press for improvement in transparency and public participation: make information on environmental aspects of projects and related policies available during the design and implementation of both.

b) encourage MDBs to make greater use of NGOs, particularly local ones, in developing, implementing, and monitoring projects.

c) formalize the working relationships between MDBs and NGOs by setting up bank-NGO committees in MDBs which do not already have them, and as needed strengthen those which already exist.

d) support the World Bank's proposal to create a public information center open to visitors. The staff would serve as a central source of information, be experienced with Bank work, and respond expeditiously to public requests for information.

e) the World Bank has proposed creation of an independent inspection panel to investigate violations of MDB policies and procedures, or violation of a loan agreement that threaten a project's sustainable development impact, for MDB projects under preparation or implementation. U.S. would support this and work to establish provisions for public disclosure of panel findings and recommendations.

Comments: Treasury recommends options a through e. I agree and especially support options b,d, and e.

3) To strengthen MDB support for Environmentally and Socially Beneficial Activities.

a) support the development and implementation of projects and policies which will achieve the following: poverty reduction; support the objectives of Rio docs; conservation of soil and forest resources; prevention of desertification; conservation of biological diversity at all levels, terrestrial and marine; watershed management; environmentally sound agricultural production; improved industrial practices and pollution prevention; transportation systems with minimal environmental impacts; and alternative energy generation and more efficient energy generation and use.

b) press MDBs to increase support for population programs. Work for higher education for girls.

c) encourage the MDBs which have not done so already, to set up a facility for funding small projects, including environmentally beneficial projects.

d) call for MDBs to provide greater support for strengthening of in-country institutions, including training for local professionals in environmental impact assessment, resettlement planning, project design and implementation, natural resource planning, and cost/benefit analysis.

e) seek to implement the objective of increased support for environmentally and socially beneficial activities by calling for a specific percentage of lending in each MDB to be directed to environmentally and socially beneficial activities.

f) take a position that the MDBs operations should be limited to investments in basic social infrastructure: education, health, water supply and sewerage, justice systems, libraries, affordable transportation, etc.

Comments: Treasury recommends a,b,c, and d. Regarding option e, I feel that a round target percentage should be aimed for, but regulated minimums would be difficult. Environmental projects should be seeked out.

4) <u>To ensure MDB leadership in environmentally sound decision-making.</u>

a) call for the development and implementation of methodologies of environmental and social impact assessments in the development of adjustment programs.

b) call for MDB support for the development and incorporation of natural resource accounting and other appropriate methods to internalize environmental costs and benefits in all economic evaluation, including GNP.

Comments: Treasury recommends both options. I concur and especially with option b--it's about time!

5) <u>To ensure MDB commitment to sound environmental policies and standards:</u>

a) call for increased emphasis on environmentally sound technologies for industrial development, efficient energy generation and use, and food production.

b) work with MDBs, especially the regional development banks, to improve/develop policies for sectors with impacts on the environment: agriculture, forest, energy, industry, transportation, water, etc.

c) promote the use of environmental impact assessment procedures in the MDBs in the development of sector policies, country strategies, and other planning processes involving environmental issues.

Comments: Treasury recommends a and b, and support c, but it would overhaul how country/project investments are approached, so may take more time to work on.

D) Possible Diplomatic Efforts to Advance U.S. Policies:

1) continue current practice.

2) insert environmental and related concerns fully into MDB replenishment negotiations.

3) strengthen bilateral discussions with key donor and developing country ministries. (ie., Japan, Switzerland, Germany, Canada, the U.K., Australia, the Netherlands, and the Nordic countries.

4) use the occasion of the upcoming 50th anniversary of the Bretton Woods meeting to make MDB environmental issues a central component of G-7 Summit negotiations.

5) Vice-President Gore and Secretary Bentsen, the U.S. Governor to each of the MDBs, could meet with the President and Executive Directors (or Board of Governors) of the World Bank and regional development banks to express the U.S. environmental vision and hear concerns from other countries regarding U.S. initiatives in the MDBs.

6) propose a working conference among the MDBs and bilateral donors, NGOs and other development practitioners to consider ways to srengthen sustainable development.

7) use the World Bank's upcoming Development Committee meeting to advance the U.S. agenda.

8) expand use of U.S. Executive Directors' workshops on appropriate topics. Last year there were workshops for Bank staff and other EDs on energy efficiency and on the power sector in Central America.

Comments: Treasury recommended all options. I generally agree, but with options 2 and 4, I wonder if we will not look like we are providing conditional investment: this was not recommended above, due to the likely perception that the U.S. were being heavy-handed. (however I do support both options)