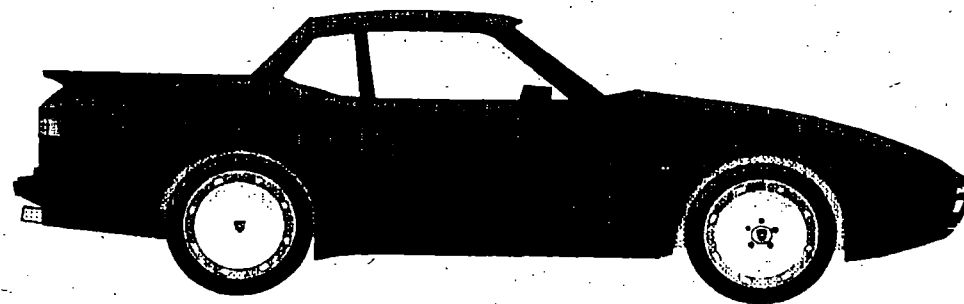




INCENTIVES AND THE CAR

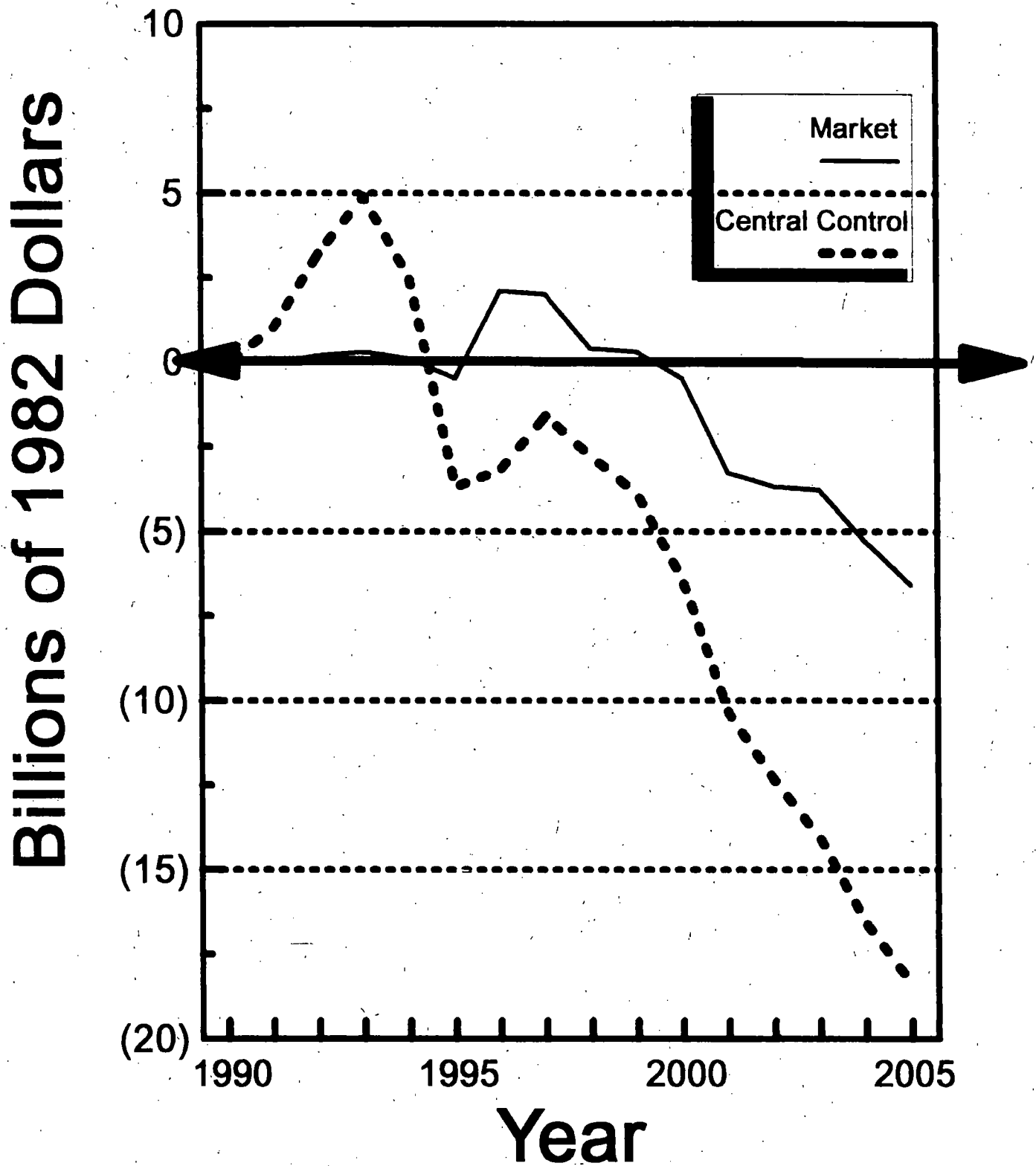


Daniel J. Dudek
Environmental Defense Fund



REAL GNP

(change from no policy)



OVERVIEW

- The Setting
- The Link Between Competitiveness and Environmental Policy
- Environmental Constraints on the Transportation Industry

THE SETTING

- Stationary and Mobile sources managed independently
- Aggregate Vehicle Emissions largely uncontrolled
- Federal Test Procedure uses unrealistic drive cycles
- Off-cycle Emissions may be significant
- High Emitting Vehicles likely significant source of Emissions
- Evaporative Emissions highly variable
- Vehicle Miles Traveled a huge determinant of loadings

COMPETITIVENESS & ENVIRONMENTAL POLICY

■ COST

command-and control vs the market

■ TECHNOLOGY

continuous innovation

■ COMPETITION

in environmental terms?

■ INVESTMENT

in most efficient approach

ENVIRONMENTAL POLICIES AFFECTING VEHICLES

■ Command-and-Control: The Current Regulatory Regime

- * Tailpipes & Fuel Systems**
- * Safety**
- * Fuel Efficiency**

ECONOMIC INCENTIVES APPLIED TO VEHICLES

Taxes and Fees

- * Fuels**
- * Excise**
- * Congestion**
- * Emissions**

Voluntary Action

- * Product Labeling
- * Unusual Coalitions

Emission Reduction Crediting

- * Diesel Engine Emissions
- * Recall Offsets
- * Mobile Emission
Reduction Credits

MOBILE EMISSION REDUCTION CREDITS

Political yield is environmental, not new car sales

Expand emissions trading

- remove barriers between mobile and stationary sources

- integrate Title I and Title IV programs

- create a performance-based Nonattainment Program

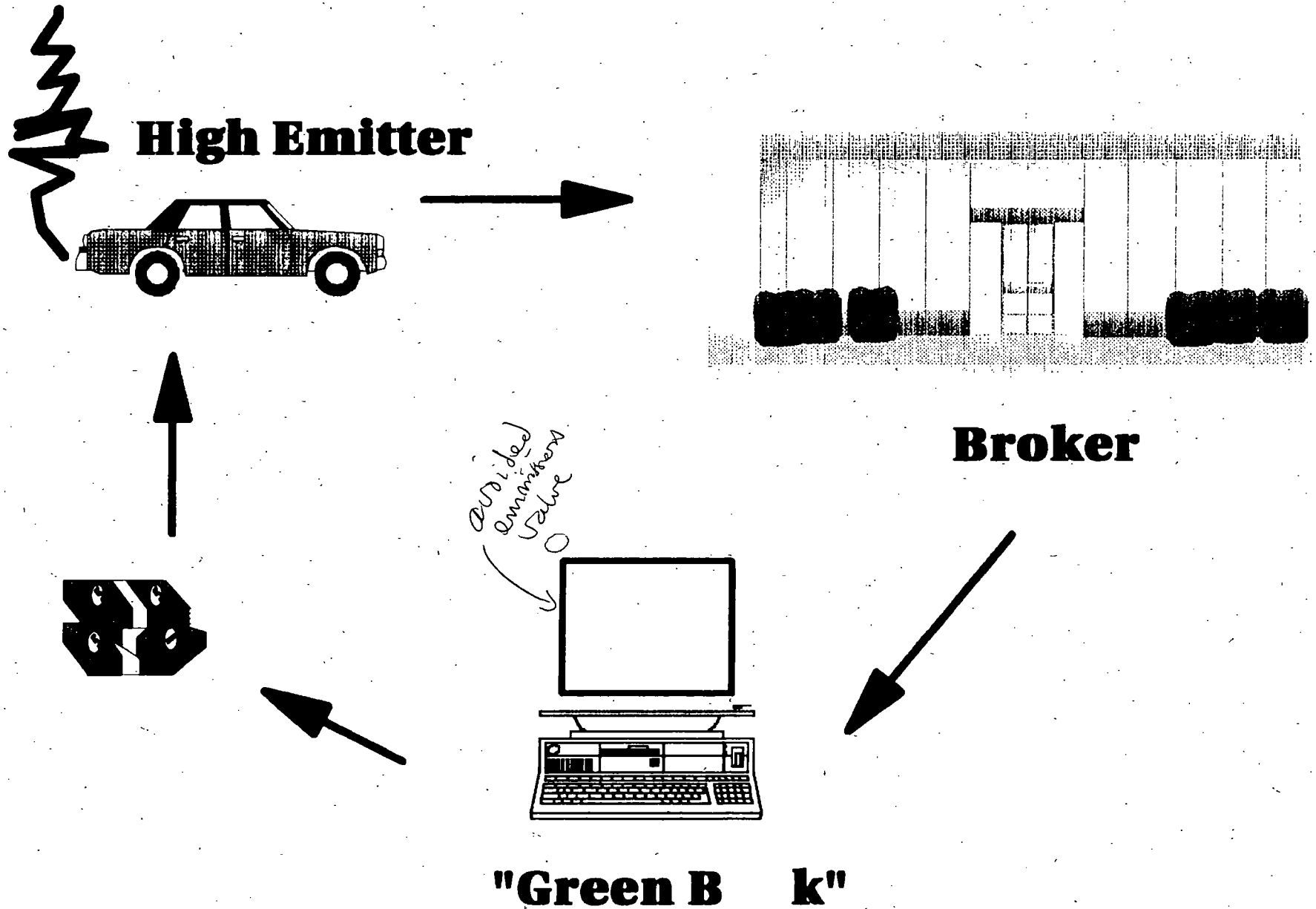
Refocus from "clunkers" to emissions

- create currency with integrity

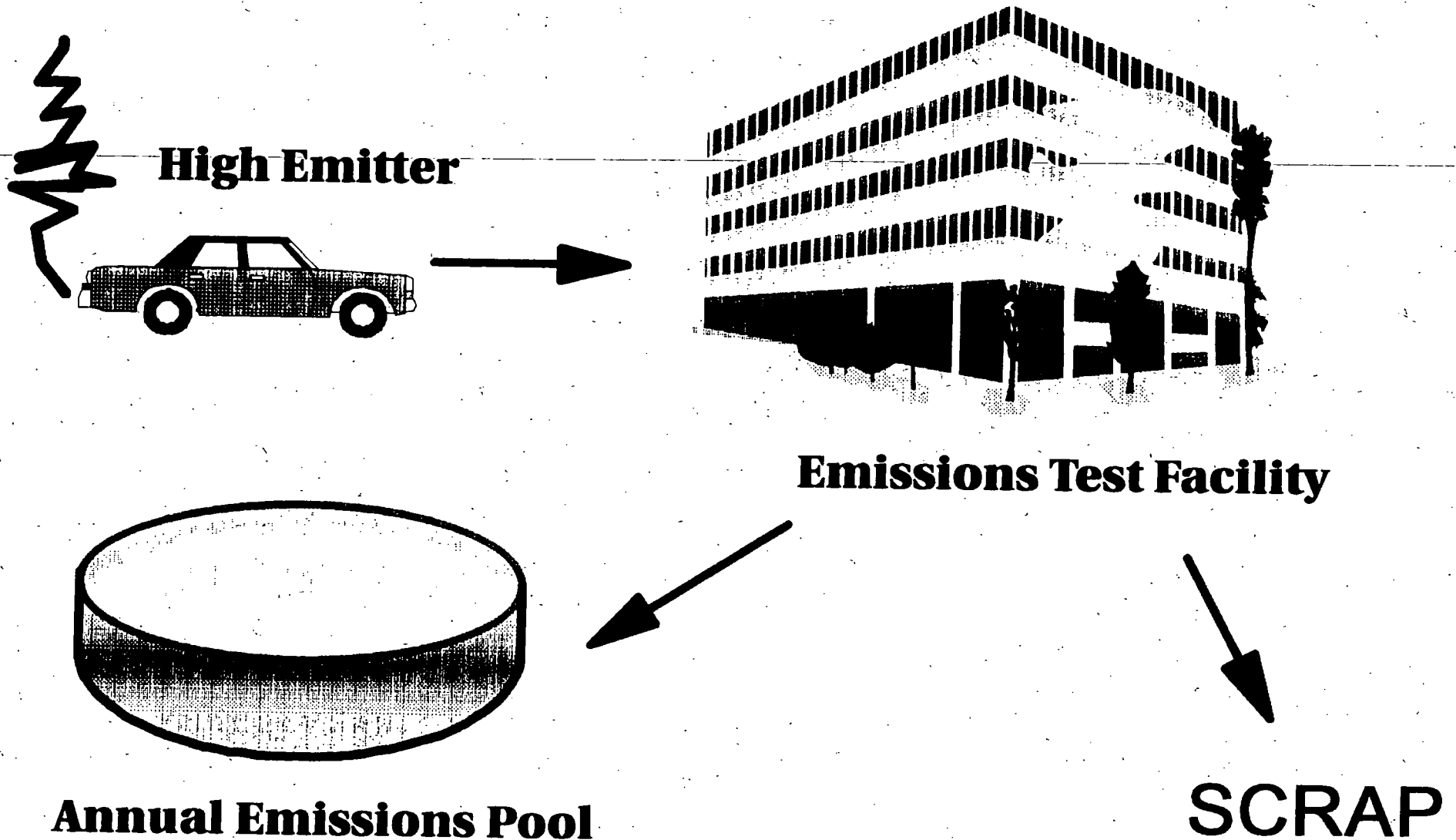
- create positive investment climate

- widen the range of emission reduction options

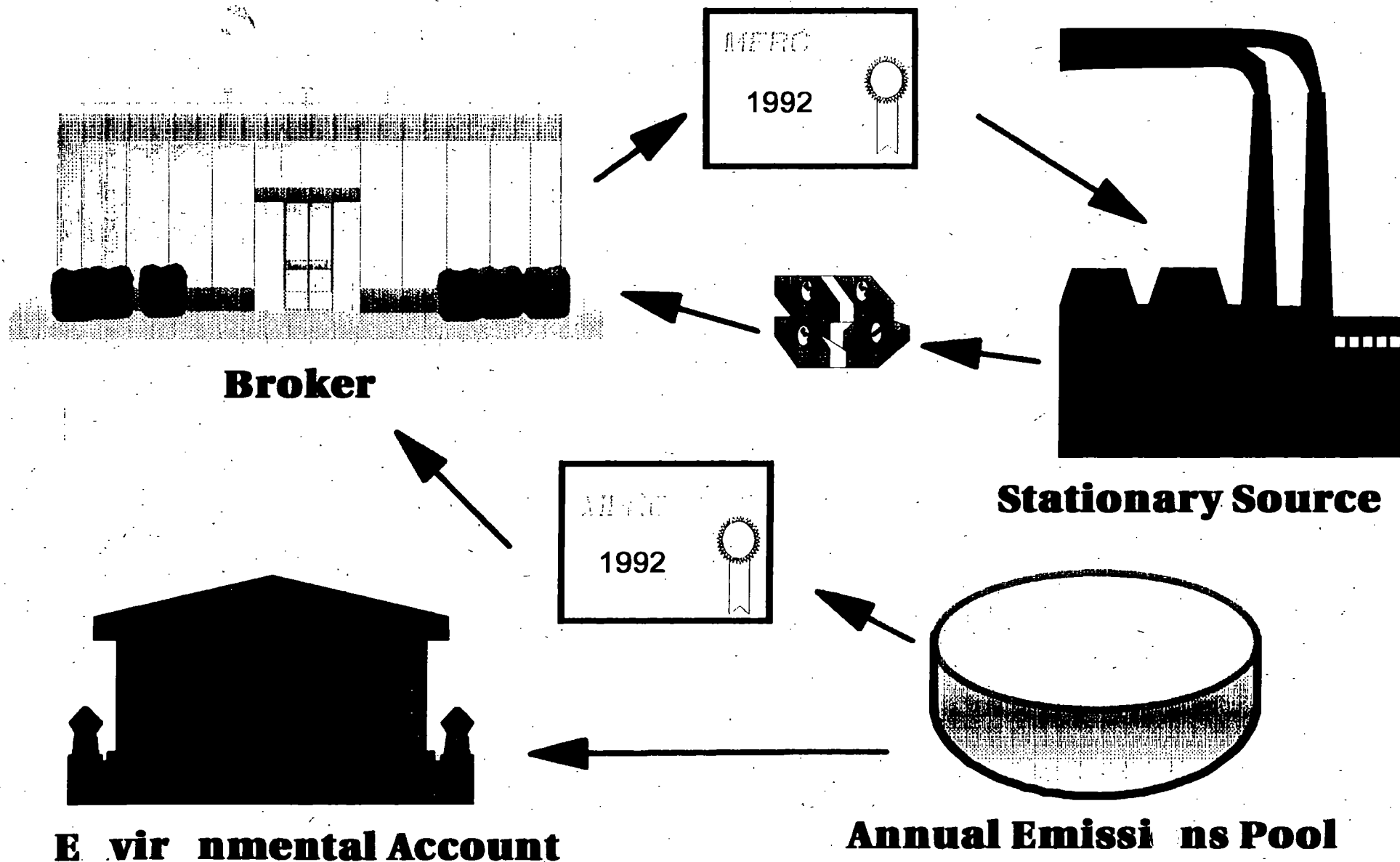
Step One: Target & Acquisition



Step Two: Measurement



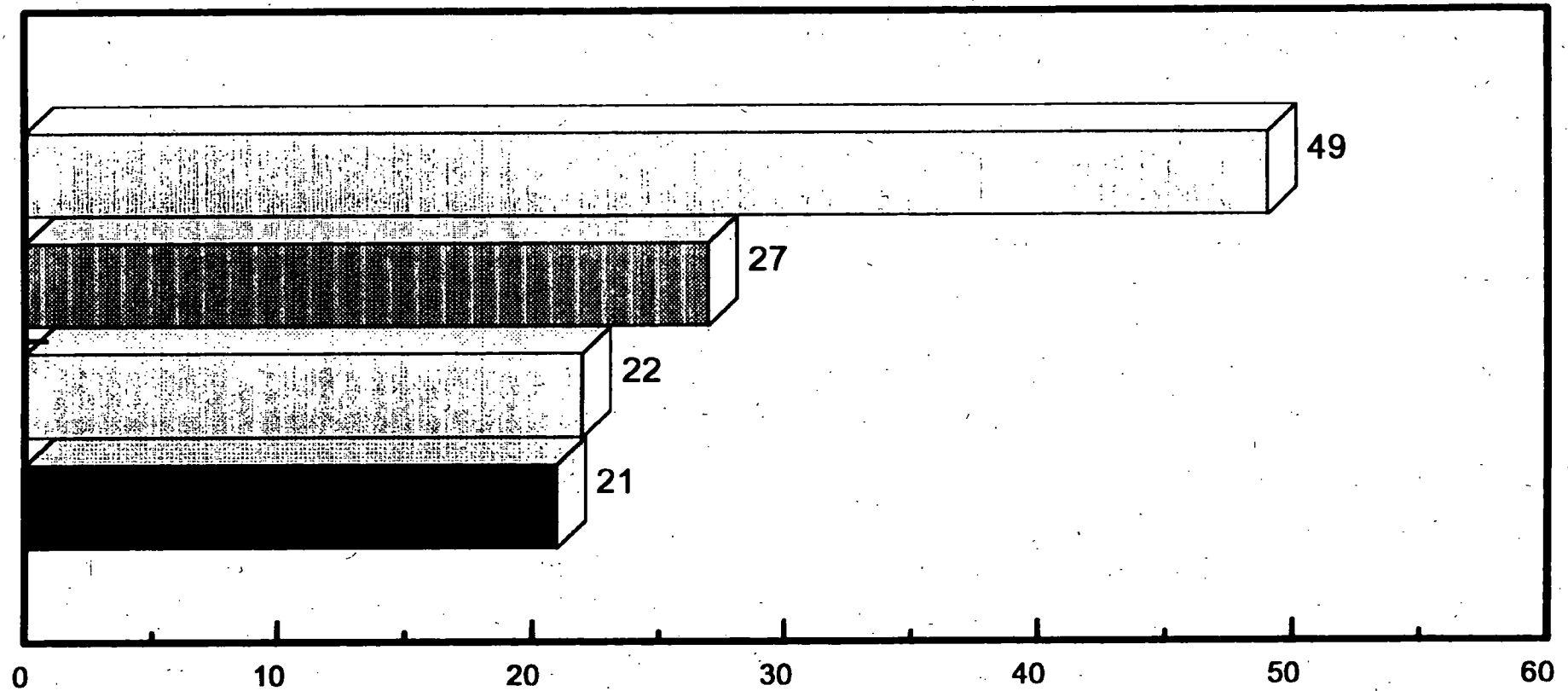
Step Three: Disposition



ECONOMIC FEASIBILITY OF MERCs

	Hydrocarbon Emissions	Tons of HC @ 23,000	Emissions Value
Typical UNOCAL	24.8	0.57	\$1,711
Replacement Vehicle	2.53	0.06	\$175
Net	22.27	0.51	\$1,537
	NO_x Emissions	Tons of NO_x @ 23,000	Emissions Value
Typical UNOCAL	2.94	0.07	\$203
Replacement Vehicle	1.13	0.03	\$78
Net	1.81	0.04	\$125

REASONS FOR FAVORABLE OPINION



percent



Reduce Pollution



Good Incentive

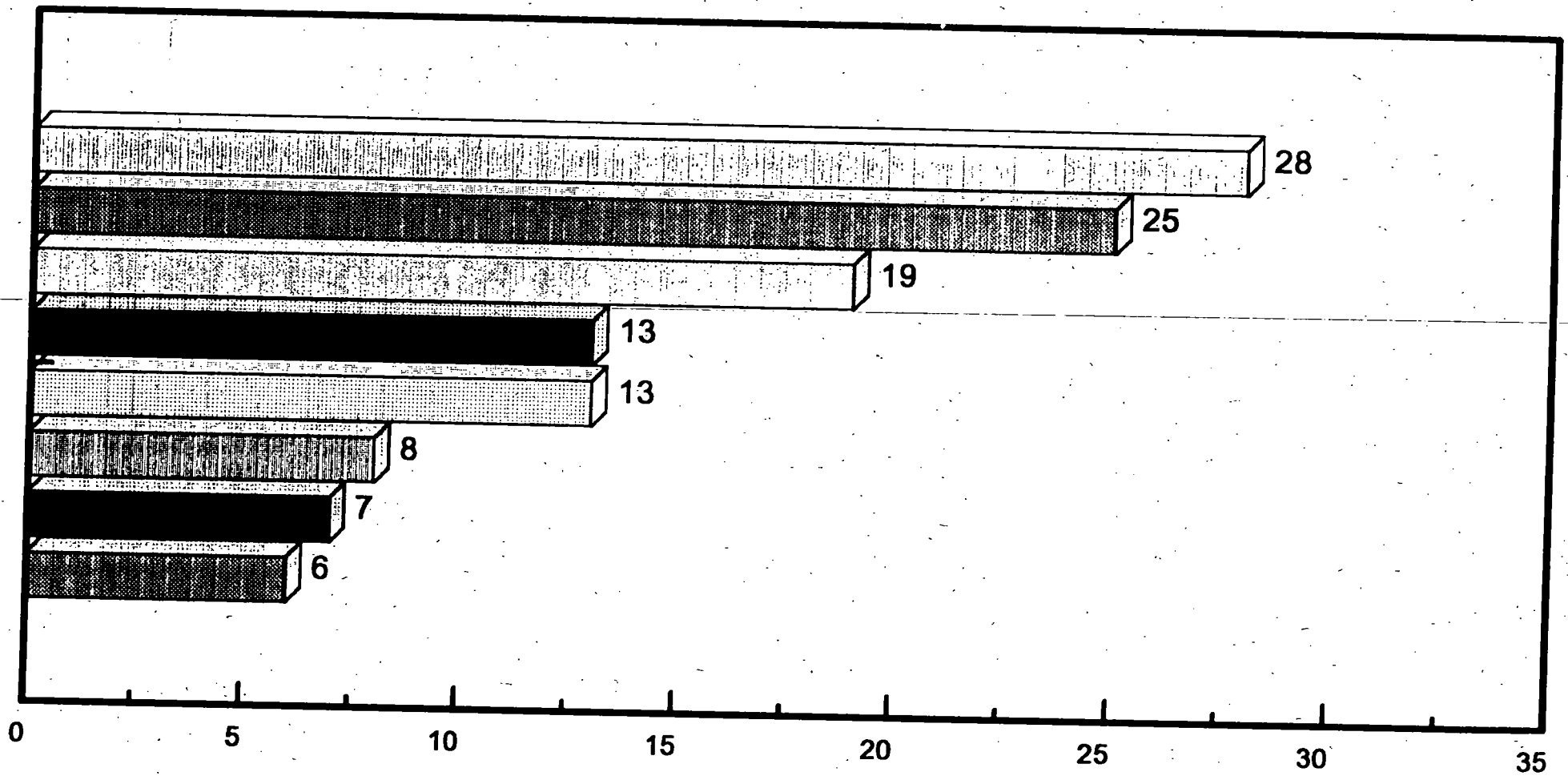


Old Cars Major Source



Good Way to Remove Old Cars

REASONS FOR UNFAVORABLE OPINION



percent

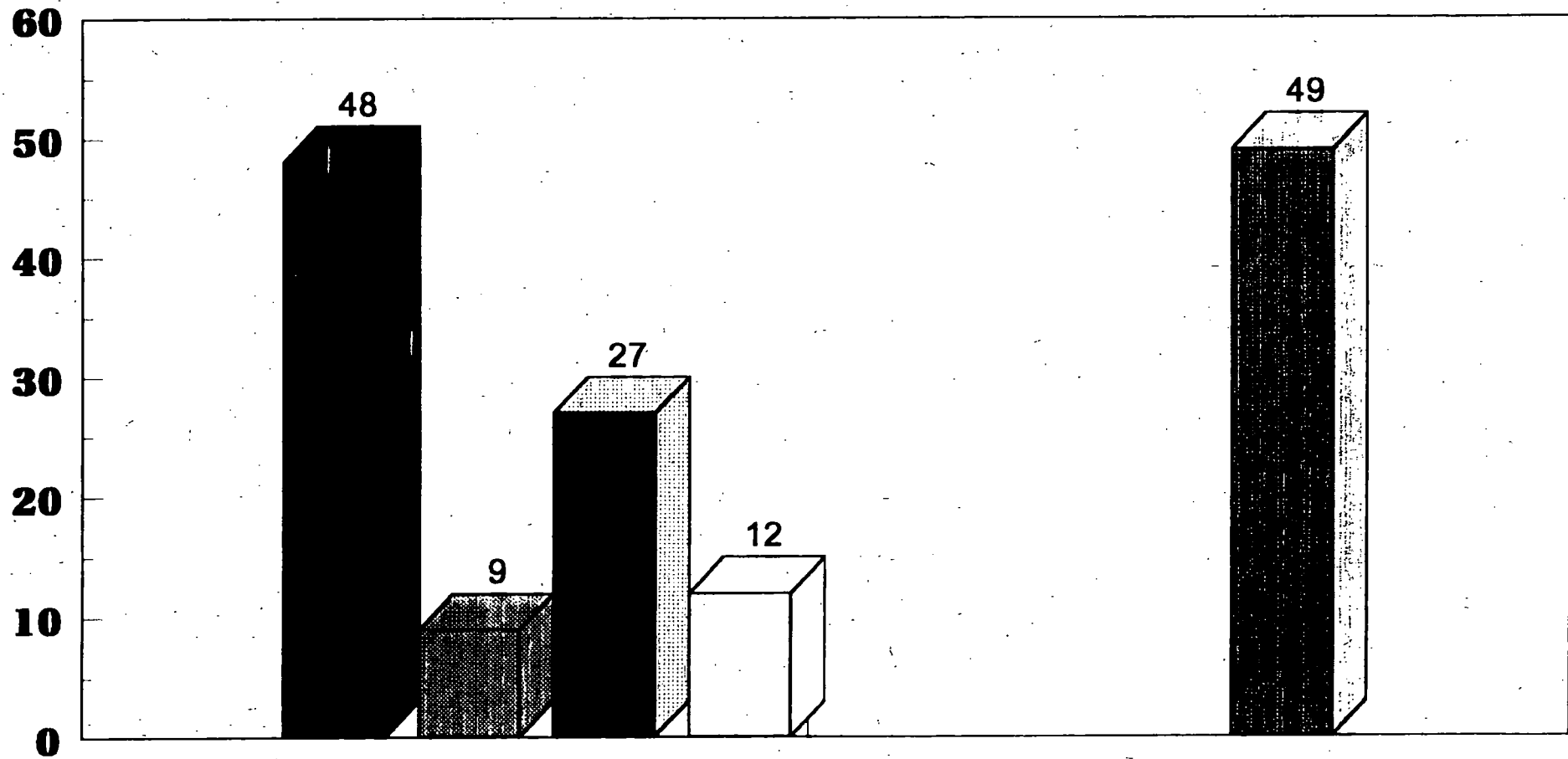
Can't Afford Newer
Small Part Problem
Not Really Voluntary
Old Cars Go Away

\$1000 Too Little
\$1000 Too Much

Gov't Can't Afford
Gov't Shouldn't Do

PLANS TO PARTICIPATE

percent



■ Sell Total

■ Sell & Buy New

■ Not Sell

□ Sell Not buy

■ Sell & Buy Used

THE FUTURE

 **Mobile Sources and Global Warming**

International Trade and Environmental Commodities

 **Comprehensive Vehicle Emissions Reductions**

COMPREHENSIVE FUTURE

- Develop Emission Reduction Credit Banks**
- Build toward Vehicle Emissions Trading**
- Extend and Expand the use of Offsets**
- Break down artificial air quality management barriers**
- Substitute Environmental Performance for Modeling and Discretion**

Environmental Defense Fund

July 27, 1993

- 1. Introduction**
- 2. Overview of Current Environmental Controls on the Automobile and Opportunities for Reform (Dr. Dan Dudek)**
- 3. Comment on the Recent Proposals to Enhance Environmental Controls (Joe Goffman)**
- 4. Opportunities in Infrastructure Investment (Bill Roberts)**
- 5. A Possible Solution: Offsets**

A POLICY AGENDA FOR THE AUTO INDUSTRY

A PRESENTATION BY

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WASHINGTON, D.C.

JULY 22, 1993

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EXAMPLES OF LEAN

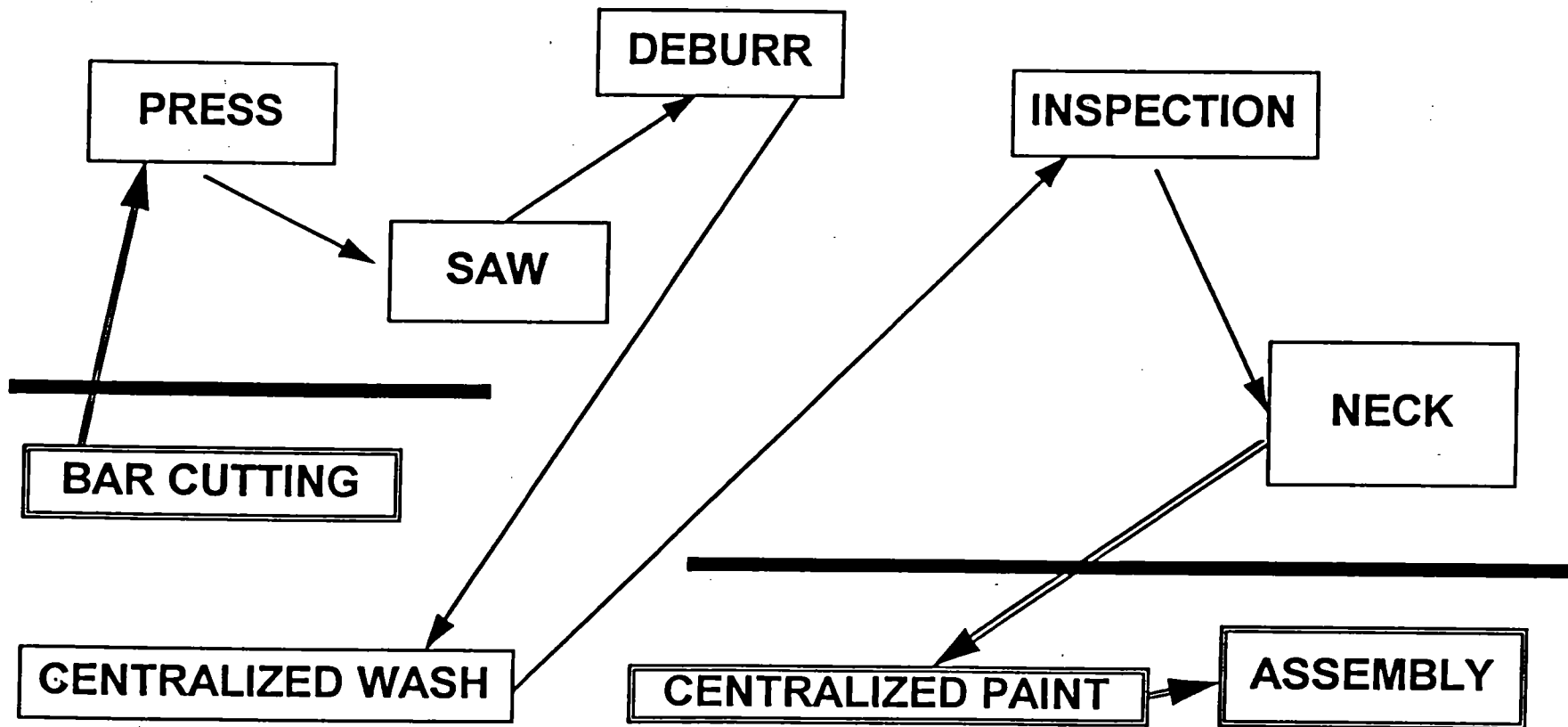
- **FIXING A SINGLE PROCESS**
- **FIXING A FACTORY**
- **FIXING PRODUCT DEVELOPMENT**
- **FIXING THE SUPPLY CHAIN**

LEAN PRINCIPLES:

- **IDENTIFY KEY VALUE STREAMS**
- **OPTIMIZE THE TOTAL VALUE STREAM**
- **STANDARDIZE ALL PROCESSES**
- **MAKE VALUE STREAMS TRANSPARENT**
- **CALCULATE COSTS FROM BOTTOM UP**
- **RECOMBINE LABOR TO CREATE FLEXIBILITY AND ELIMINATE INDIRECT WORK**
- **ASSIGN WORK AND DECISION MAKING TO LOWEST APPROPRIATE LEVEL**

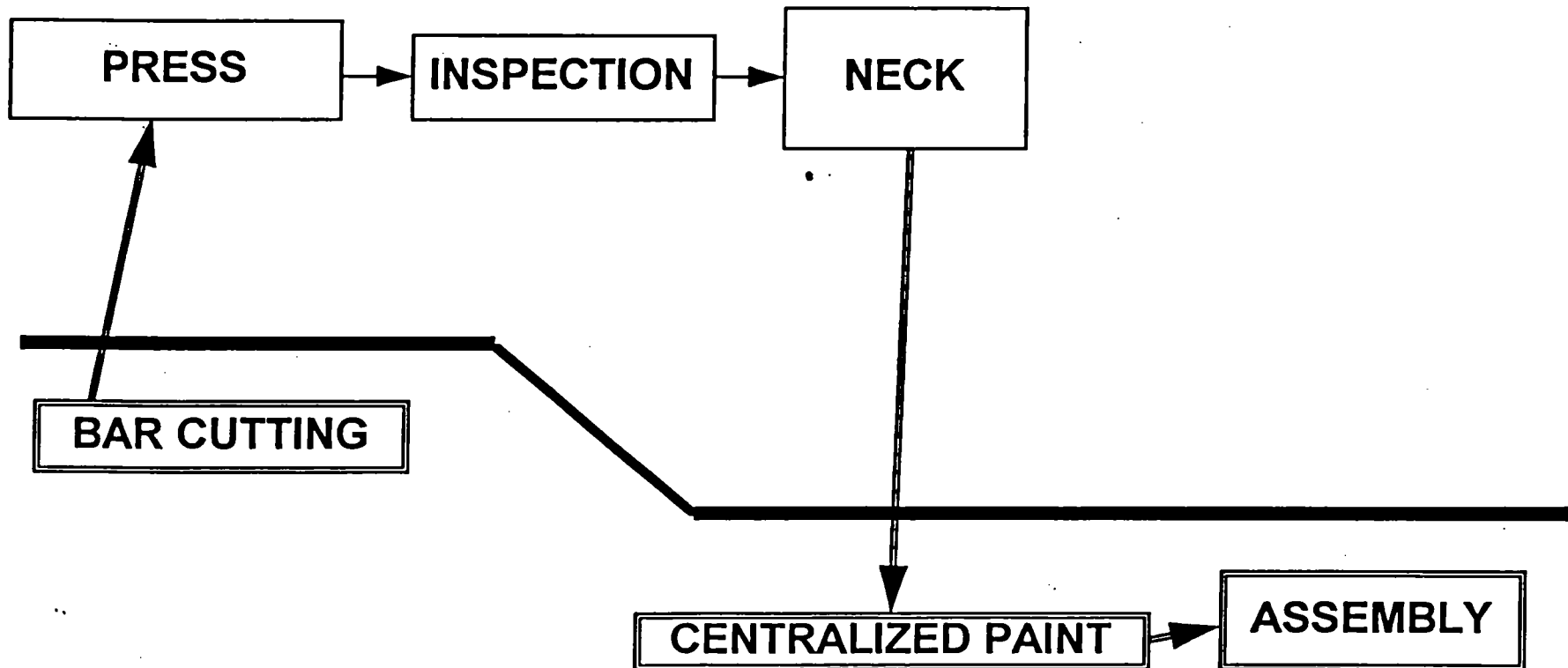
ALUMINUM PRESSURE TANK

PROCESS BEFORE HONDA BP:



ALUMINUM PRESSURE TANK

PROCESS AFTER HONDA BP:



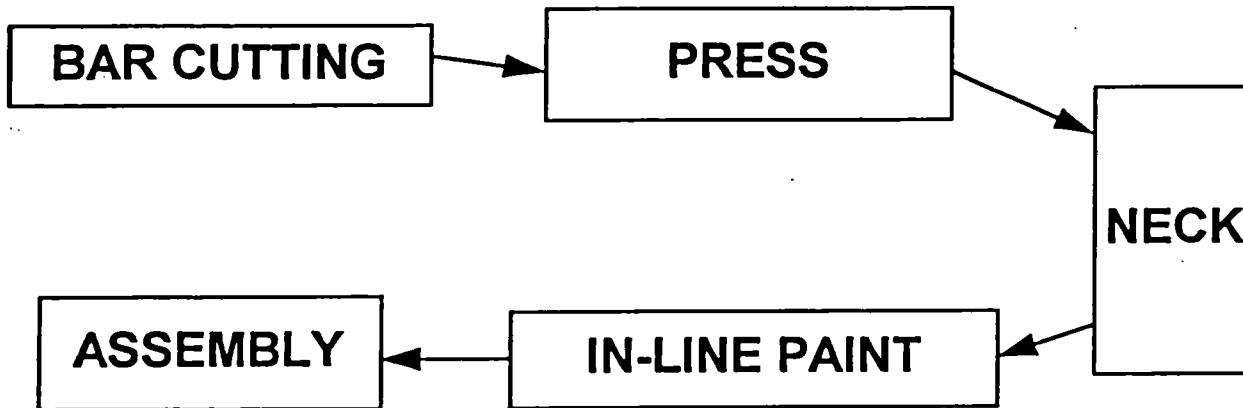
ALUMINUM PRESSURE TANK PLANT:

LEAN TECHNIQUES APPLIED TO SINGLE OPERATION: TANK EXTRUSION & NECKING

<u>PERFORMANCE MEASURE</u>	<u>BEFORE</u>	<u>AFTER</u>
PROCESSING STEPS	6	3
OPERATORS	10	3
SCRAP RATE (% OF PARTS)	5	1.8
DISTANCE IN PROCESS (FEET)	500	35
LINE BALANCE	47	92.4
TIME IN PROCESS	19 DAYS	3.2 MIN
NUMBER OF PIECES IN PROCESS	1000	6
NUMBER OF BOX TRANSFERS	7	1
\$ SPENT TO IMPROVE PROCESS	\$7,826	
ANNUAL COST REDUCTION	\$60,062	
PERCENTAGE COST REDUCTION	8.0	

ALUMINUM PRESSURE TANK

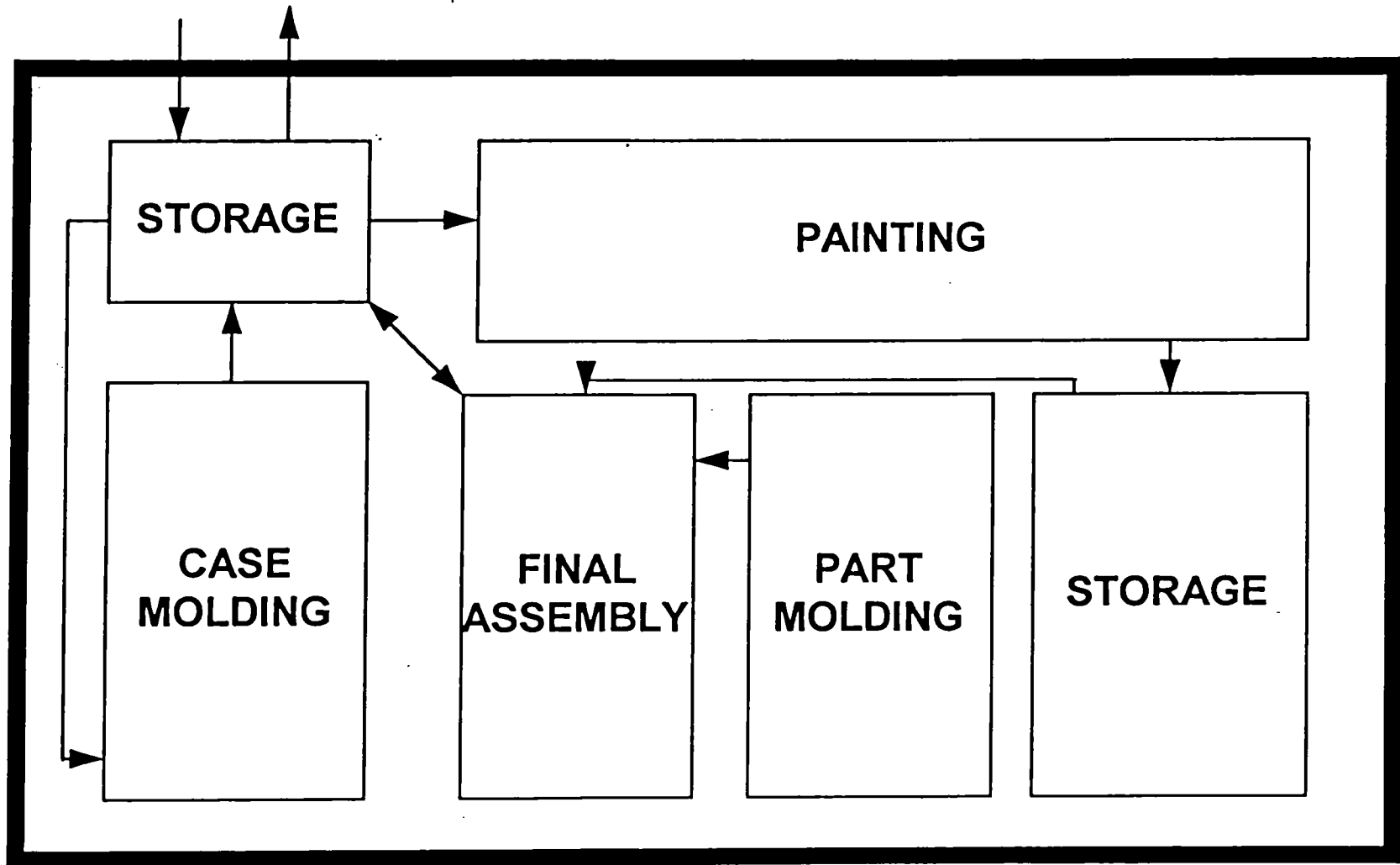
FUTURE CONFIGURATION?



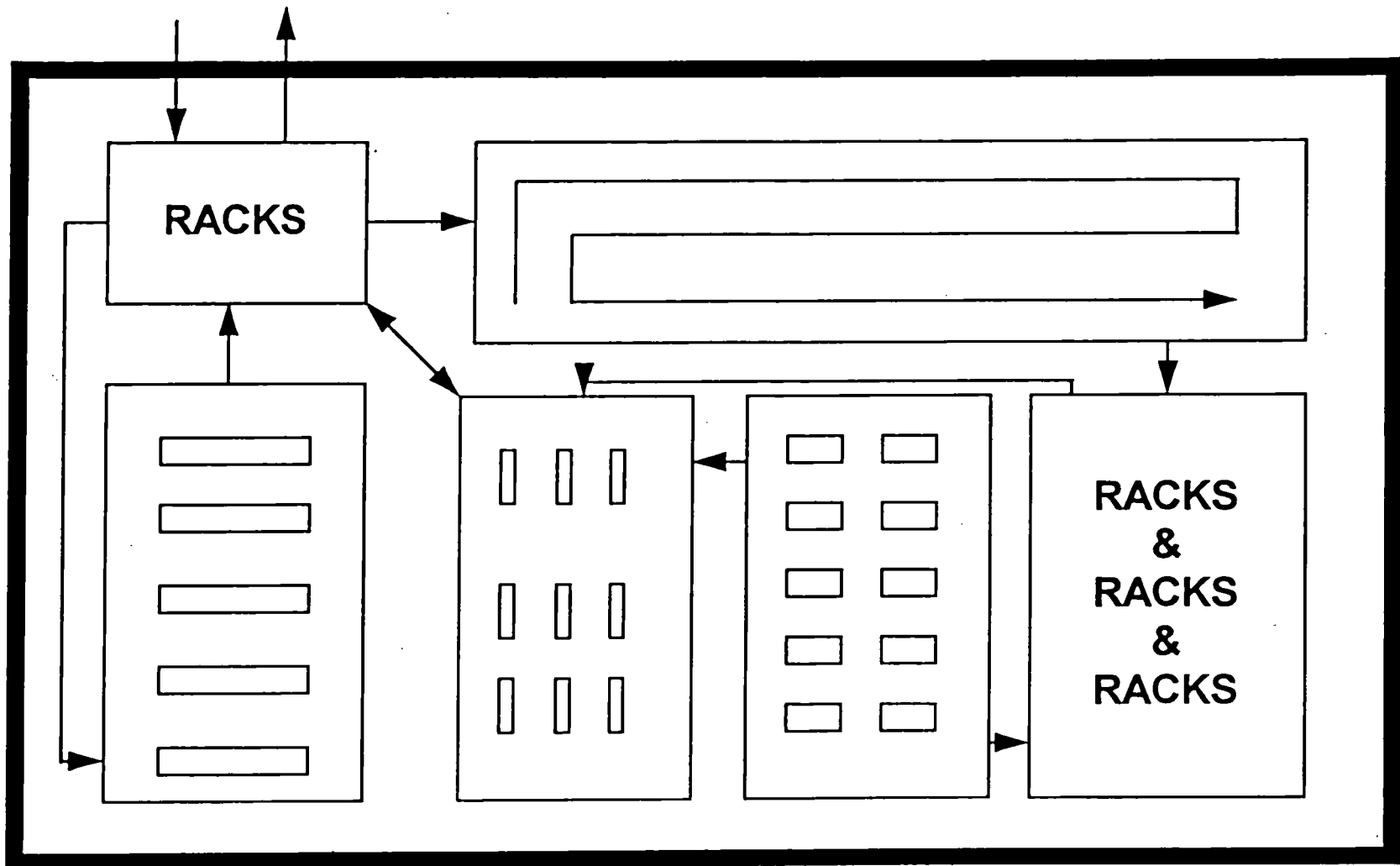
WHAT PRINCIPLES ARE BEING APPLIED IN THIS CASE?

- **CREATE A CONTINUOUS FLOW FOR ENTIRE VALUE STREAM**
- **MAKE THE VALUE STREAM TRANSPARENT**
- **MAKE THE EQUIPMENT SIMPLE & FLEXIBLE**
- **REMOVE ALL EXCESS: SPACE, STEPS, HUMAN EFFORT**
- **STANDARDIZE ALL ASPECTS OF PROCESS**
- **LET LINE MANAGEMENT AND WORKERS REMOVE IMPEDANCE, WITH ADVICE FROM THE INDUSTRIAL ENGINEERS**

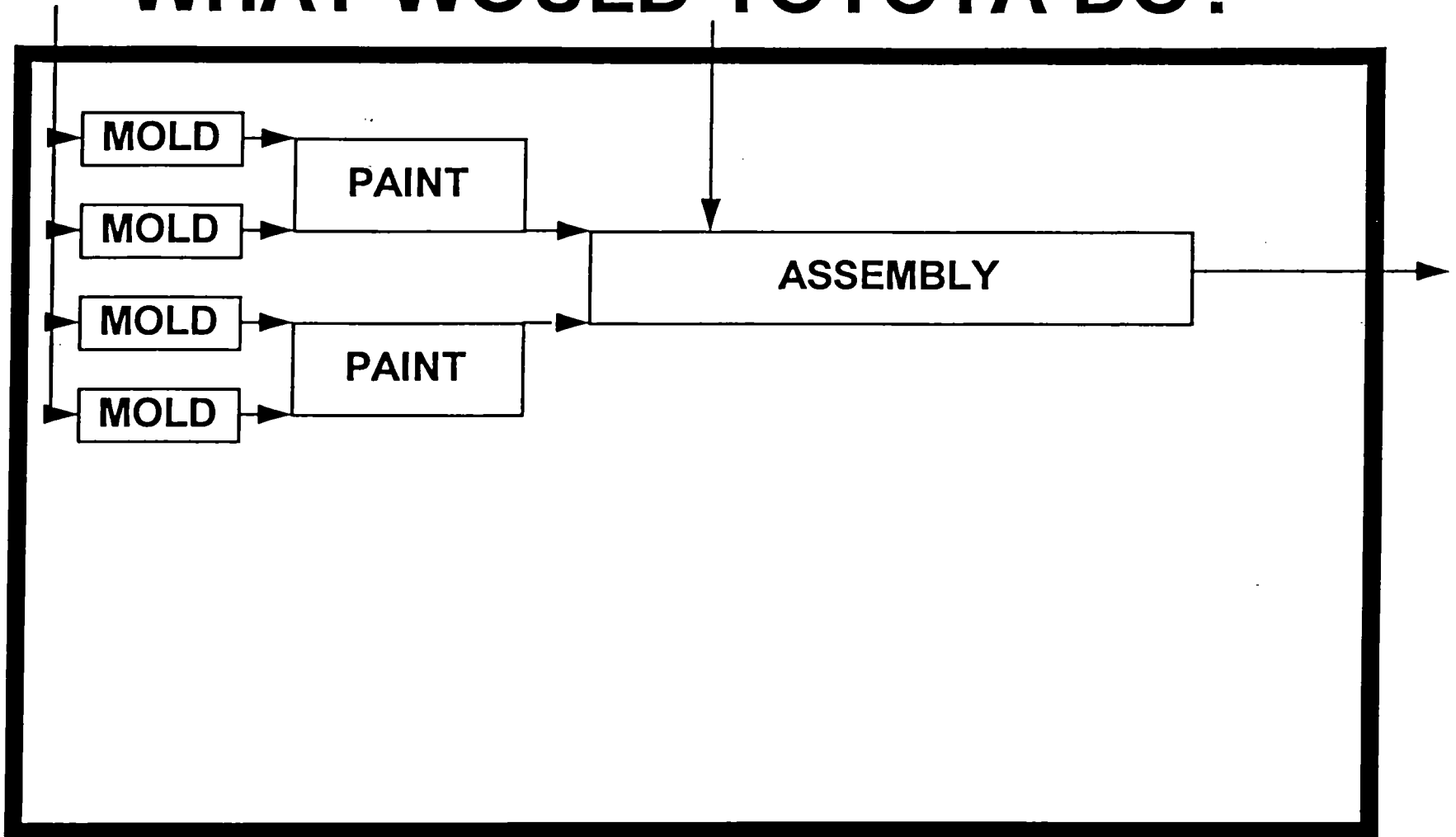
REARVIEW MIRROR PLANT



REARVIEW MIRROR PLANT



REARVIEW MIRROR PLANT: WHAT WOULD TOYOTA DO?



WHAT CAN BE DONE FIRST?

- **INTRODUCE JUST-IN-TIME WITHIN PLANT**
- **TEACH LINE MANAGERS & LINE WORKERS TO THINK ABOUT FLOW AND WAYS TO REMOVE IMPEDANCE**
- **KAIZEN EACH DISCRETE PROCESS IN CURRENT LAYOUT**
- **MAKE ALL PROCESSES FULLY CAPABLE**
- **INTRODUCE QUICK TOOL CHANGES**
- **REPLACE EXPENDABLE PACKAGING & RACK PARTS FOR TRANSPARENCY**

WHAT CAN BE DONE NEXT?

- **DEVELOP OUTSIDE SUPPLIERS TO MAKE SMALL PARTS & DELIVER JIT**
- **DEVELOP MINI-PAINT BOOTH TECHNOLOGY TO PERMIT IN-LINE PAINTING**
- **REDESIGN MOLDED PARTS TO ELIMINATE MOLDING PROBLEMS AND EASE PAINT & FINAL ASSEMBLY**
- **MULTI-SKILL WORKERS & MANAGERS TO TAKEOVER INDIRECT TASKS**

WHAT ARE THE FINAL STEPS?

- **REALIGN ENTIRE PRODUCTION PROCESS TO CREATE CONTINUOUS FLOW**
- **MAKE STATUS OF THE SYSTEM VISIBLE TO EVERYONE**
- **REMOVE ALL EXCESS SPACE & PEOPLE (FIND MORE BUSINESS!)**
- **MAKE ALL EQUIPMENT MOVABLE (“IF YOU CAN’T MOVE IT, YOU CAN’T IMPROVE IT!”)**
- **BEGAN KAIZEN ACTIVITIES ON NEW LAYOUT!**
- **STRIVE FOR PERFECTION!**

CHRYSLER EXAMPLE:

JA CAR (FALL 1994):

- **3 YEARS FROM START TO JOB 1 (VERSUS 5+)**
- **700 ENGINEERS VS 1400 PREVIOUSLY**
- **40 % REDUCTION IN TOOL COSTS (DUE TO DFM)**
- **LOCATION OF TEAM IN ONE BUILDING; NO TURNOVER**
- **300 SUPPLIERS (VERSUS 2500) DOING HALF OF ENGINEERING**
- **ALL COMPONENTS TARGET PRICED ("NO BIDS IN CAR")**
- **ORGANIZATION DESIGNED TO REMOVE IMPEDANCE ("NEVER LET ORGANIZATION INTERFERE WITH WORK FLOW")**

SUPPLIER COORDINATION:

A RANGE OF IMPORTANT EXPERIMENTS:

- **CHRYSLER JA PROGRAM:**

- ROUGHLY 300 FIRST-TIER SUPPLIERS
- 100% PRE-SELECTION OF SUPPLIERS
- 100% TARGET PRICED
- 100% SOLE-SOURCED
- 100% LIFE-OF-THE-PRODUCT CONTRACTS
- MAJOR SUPPLIER PERSONNEL INTEGRAL PART OF DEVELOPMENT TEAM, STATIONED ON SITE

- **JAPANESE TRANSPLANTS:**

- MOVING FROM QUALITY TO “COST-DOWN” FOCUS AS NORTH-AMERICAN CONTENT RISES
- WIDESPREAD USE OF “SUPPLIER DEVELOPMENT TEAMS” TO PERFORM HANDS-ON MANUFACTURING SYSTEM UPGRADING IN SUPPLIER PLANTS

OBJECTIVES FOR A POLICY AGENDA

- **CREATE A MOTOR VEHICLE INDUSTRY
ABLE TO CREATE HIGH VALUE/WORKER**
- **DAMP THE CYCLICALITY WHICH
UNDERMINES “LEAN” ORGANIZATION**
- **CREATE A MOTOR INDUSTRY WHICH
UNIFIES/STRENGTHENS NORTH AMERICAN
REGION**

MEANS TO OBJECTIVES

- **ENCOURAGE FDI IN U.S. AS MEANS TO SPUR COMPETITION**
- **MAKE THIS PALATABLE BY NEGOTIATING “TRADE BALANCING” APPROACH TO DEFICIT REDUCTION**
- **ENACT THE NAFTA**
- **MAKE IT PALATABLE BY NEGOTIATING “TRADE BALANCING” APPROACH TO DEFICIT REDUCTION**
- **STABILIZE DEMAND WITH AMERICAN EQUIVALENT OF A “SHOKEN”**
- **PREVENT “GREEN MANDATES” FROM BECOMING COMPETITIVE BARRIERS**

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PRESIDENTIAL REVIEW DIRECTIVE NSC-12; ITEM 4A
MULTILATERAL DEVELOPMENT BANKS AND ENVIRONMENT

July 15, 1993

Controlled by
Date

Matthew P. Henessey
July 19, 1993

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE
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PRESIDENTIAL REVIEW DIRECTIVE NSC-12:
ITEM 4A: MULTILATERAL DEVELOPMENT BANKS AND ENVIRONMENT

SUMMARY OF RECOMMENDATION

Background on the Multilateral Development Banks

The World Bank and the four regional banks (African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, and Inter-American Bank) are charged with the promotion of sustainable growth in developing countries and countries with economies in transition. Their large financial resources and technical expertise give them a central role in the economies of many developing countries. Experience has demonstrated that borrowing countries are more likely to accept and act on loan conditions set by multilateral development banks (MDBs) than on those set by bilateral donors. Because of the impact which the MDBs have on their borrowers, the United States not only can, but must, make use of them to advance its environmental agenda in the developing countries.

The MDBs are proven, cost-effective tools for promoting U.S. economic, strategic, and humanitarian interests in the developing world. Their cost-effectiveness is demonstrated by the extent to which U.S. financing generates higher levels of MDB lending. For example, the soft loan window of the World Bank lends six dollars for every dollar contributed by the United States, while the World Bank's hard loan window has made 119 dollars in loans for every dollar contributed by the United States.

The United States has had considerable influence in shaping policies, including environmental policies, in all the MDBs, but it does not have the voting power to impose change unilaterally. We need to avoid the appearance of dictating policy, which has been demonstrated to be counterproductive. U.S. budgetary realities, including over \$820 million in arrears in payments to MDBs, could make it more difficult for the United States to manage its financial support for the MDBs in a way which safeguards U.S. interests and retains U.S. policy leadership in the MDBs. The United States therefore needs to approach MDB issues by seeking the support of other member countries for U.S. positions.

Assessment of Current Situation

Overview

In the past several years, the international community has been moving toward a consensus that development assistance must be environmentally sound as well as socially equitable in order to be viable and sustainable over the long term. The MDBs, as the major source of development assistance, are of fundamental importance in helping reach this goal through their integration of these principles into their lending activities.

The MDBs have made very significant progress in the environmental area over a relatively short period of time. Progress has, however, varied among the MDBs. The World Bank and the Asian Development Bank have accomplished the most, while the African Development Bank has accomplished the least.

Problems continue to arise in all the banks from inadequate environment-related policies, and from inadequate implementation of existing policies. As a result, the banks have, on a number of occasions, continued forward with projects that have clear negative impacts on the environment and on local people.

Progress has also been hampered by the lack of support from other member countries for U.S. led environmental initiatives. Many members, even other G-7 countries, resent U.S. pressure to implement a detailed environmental agenda, particularly when U.S. policy initiatives are identified as arising from U.S. legislation. It is far easier to sell proposals for policy changes on their merits, where a genuine dialogue makes other members part of the decision and implementation process.

When the U.S. vote on a project is predetermined by a legislative requirement not to support projects under certain circumstances, there is the risk that the MDBs and other members thereof will discount the merit or the relevance of any U.S. interventions to improve that project. These restrictions can also be perceived as being based on narrow commercial or single-issue self-interest, rather than on genuine concern for development and human welfare.

U.S. NGOs have taken an active interest in the MDBs' handling of environmental issues. Their criticisms have focused particularly on the pace of improvement in the MDBs' loan portfolios, the importance accorded the role of the MDBs' environmental departments, transparency in bank operations, responsiveness to the needs of affected people, the quality of projects, and the emphasis on the volume of lending as opposed to the quality of project design and implementation.

What
is
%
breakdown

The NGOs' involvement has reinforced the momentum of environmental activism by the USG that has resulted in many important changes. By the same token, however, other MDB members have characterized some U.S. environmental initiatives as designed to accommodate only the interests of "Washington-based NGOs". This perception underscores how important it is for U.S. NGOs to make greater efforts to encourage their colleagues in other countries to engage their own governments on the issue of strengthening MDB efforts on the environment.

Current U.S. Policies on Key MDB Environmental Issues

- **The Pelosi Amendment:** Effective since December 1991, the amendment requires the U.S. Executive Director of an MDB not to 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. This requirement has caused the U.S. to abstain on approximately 15 percent of MDB public sector projects since the amendment came into effect.

The application of the Pelosi Amendment to the private sector operations of the MDBs remains an unresolved issue. The 120 day requirement may be difficult to meet in the private sector given the nature of private sector investment with its shorter project cycles. The United States has not applied Pelosi to these projects, basing this decision on policy arguments and on a statutory interpretation that Pelosi does not apply to the private sector, while pressing the MDBs to develop procedures that would satisfy the spirit of the amendment. Congresswoman Pelosi and many environmental NGOs believe that Pelosi should be applied to MDB private sector operations.

- **MDB Environmental Benchmarks:** The FY93 Foreign Operations Appropriations Act directs the Secretary of the Treasury to instruct U.S. Executive Directors to encourage the MDBs to meet benchmarks in the areas of sustainable energy development, forest conservation, forced displacement of populations, and environmental impact assessment. An important benchmark calls for all MDB loans in the energy sector to be based on, or support the development of, least cost integrated resource plans that include analysis of demand side and alternative supply side investments. Other significant benchmarks call for the MDBs not to make forestry loans that support commercial logging in primary forests; to increase support for protection of biodiversity; to maintain lists of all ongoing projects involving forced displacement of populations; to increase opportunities for public comment during EIA preparation; and to apply EIA requirements to sector and structural adjustment loans.

- Public Access to Information: The United States has pressed the MDBs to provide the public with systematic access to information about the environmental impacts of their projects, and to consult with affected groups and local NGOs from the earliest stages of project design through project implementation. Public access to environmental information and public consultations are increasing, but are not yet occurring consistently. We have considered these issues to be of the highest priority. The NGO community shares this view.
- Energy Efficiency and Conservation: The United States has pressed the MDBs to promote integrated least cost energy planning, energy efficiency on the demand and supply sides, and alternative energy sources. We were successful in reaching agreement in the recent IDA 10 negotiations that IDA would pursue these goals. This is reflected in paragraph 26 of the IDA 10 agreement, "Additions to IDA Resources: Tenth Replenishment." In October 1992, the Board of the World Bank approved a new policy for the electric power sector incorporating requirements in these areas. We are pressing the other MDBs to develop similar policies.
- Forest Policy: The United States has urged all the MDBs to revise or develop forest policies to place greater weight on protection and conservation of forest areas. The World Bank, as a result of U.S. leadership, has already done this. The new World Bank policy prohibits lending for commercial logging in primary tropical forests and conditions Bank support to a country's forestry sector on that country's overall policy framework with respect to such issues as land tenure, indigenous peoples, and agricultural development. The African Development Bank is in the process of drafting a forest policy.

Linkages of MDB Environmental Policies to Other Environmental Issues

- Global Environment Facility and UNCED Follow-up: The World Bank has made a public commitment to ensure that its operations fully support the global environmental objectives of the global environmental agreements signed at the 1992 UNCED.

In our view, the MDBs can play a leading role in supporting developing country activities that provide climate change benefits but that are economically viable on the basis of domestic costs and benefits. One of the most important examples of this is investment in energy efficiency and conservation, which can be more cost-effective than investments in new generating capacity.

- **U.S. Bilateral Policies:** The policies and practices of our bilateral programs (USAID, Eximbank, OPIC) should be consistent with policies we are pressing for in the MDBs. This is particularly important as other MDB members are increasingly asserting that the U.S. bilateral programs are not required to adhere to some of the environmental measures which the United States is advocating for the MDBs, a charge that may be accurate in at least some instances. It may be appropriate to discuss this issue in another section of NSC-12.

Background to Recommendation

As directed by Presidential Review Directive NSC-12 on U.S. Policy Toward Global Environmental Affairs, the Treasury Department has coordinated an inter-agency review of current U.S. policy toward the multilateral development banks (MDBs) and options for new policy initiatives on environmental issues. The policy options set out, and the assessment of the pros and cons of these options, represents a diverse range of opinion on the subject that includes views from non-governmental organizations.

The reader should note that inclusion of an option in this paper does not constitute endorsement by Treasury or any other federal agency, unless so stated. There is, for example, no U.S. government agency that advocates any reduction in agreed U.S. financial commitments to the MDBs.

There is a wide range of policy issues related to the MDBs. Many issues for discussion are closely bound up with the subjects of other Presidential Reviews of environment and foreign policy issues, including Directive NSC-20 on International Programs and Resources. Within the range of options presented, there is considerable flexibility for designing a U.S. approach.

Accordingly, Treasury's recommendation to the National Security Council does not focus on the details of each issue for discussion. Rather, Treasury and other U.S. government agencies jointly propose the following broad strategy.

Recommendation

1. *The United States should continue strong support, at internationally negotiated funding levels, for the multilateral development banks as institutions for promoting United States interests, while intensifying its efforts to promote environmental strengthening of the institutions.* The MDBs are proven, cost effective institutions through which we are able to advance a broad range of U.S. economic, strategic, and humanitarian interests and objectives. We have made considerable progress in advancing our environmental agenda in the banks.

{NSC-12, Item 4A: U.S. Policies Towards the Multilateral Development Banks}

Nevertheless, the process of environmental strengthening is moving too slowly. Therefore we do not recommend the option of continuing to support the MDBs while maintaining only existing efforts to promote environmental strengthening of the institutions. We also strongly recommend against the option of reducing or eliminating U.S. funding to the MDBs. Although this would demonstrate dramatically our discontent with certain aspects of the MDBs' operations and would be supported by some NGOs, it would have serious negative impacts on a wide range of critical foreign policy and economic interests, and it would also reduce our influence in the institutions and thus our ability to affect needed improvements. Given the benefits to the U.S. of MDB activities and the recent progress with respect to MDB environmental policies, a threat to reduce funding in order to obtain environmental policy concessions -- on top of large and growing arrears to these institutions -- would not be seen as credible at this time and would be resented as heavy-handed.

2. *The United States government should strengthen its ability to provide effective oversight of MDB environmental performance.* This effort may require additional resources, given the fact that the already large MDB-environment workload is increasing as the banks prepare and make available an increasing number of environmental impact assessments, national environmental action plans and environmental policies.

- This effort should focus on strengthening the capability and commitment of key federal agencies and improving interagency coordination. Strengthening of the relevant policy and technical agencies, and improved coordination among them, would allow better coverage of MDB projects and policies and provide greater consistency and credibility for the U.S. on MDB environmental matters.
 - There should be a reexamination of the staff skills mix in the relevant USG agencies.
 - We should engage relevant technical and policy agencies in examination and discussion of MDB projects at the very earliest stages of their development, when there is a greater opportunity to influence the projects.
 - It would be useful to extend the interagency process, now used to review MDB projects and policies, to the review of MDB country lending strategies and the incorporation therein of the policies and objectives of national environmental action plans and country studies prepared for the Climate Change and Biodiversity Conventions.

- Other options for action which were considered but are not recommended are:
 - The U.S. could prepare an environmental performance review for an MDB prior to its capital increase or replenishment negotiation. While such environmental performance reviews would be useful in identifying MDB strengths and weaknesses, and needed areas of improvement, it is not recommended because of the drain on limited staff resources dedicated to higher priority tasks. It might become feasible if agencies can mobilize additional staff or financial resources.
 - The U.S. could provide a portion of the funding needed to develop the World Bank's updated industrial pollution guidelines. While we support updating these guidelines, this would cost money and possibly risk marginalizing such studies by reducing Bank ownership of them.
 - U.S. governmental staff could be provided, on a temporary basis, to the MDBs. While this could be a mutually educational opportunity for both government staff and MDBs, some MDBs would see view this as unwelcome interference in their operations. Furthermore, federal agency staff dedicated to MDB-environment oversight is already overstretched.
 - The U.S. could 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. While this would have short-term benefits for U.S. businesses, experience in the MDBs has shown that such trust funds lead to inefficient management and poor coordination. An alternative would be for the U.S. to seek to eliminate all trust funds, thus creating a level playing field for procurement from which the U.S., which has a competitive advantage in environmental technology, would be likely to benefit.

3. *The United States should work to advance a number of specific near-term improvements in MDB policies and procedures to strengthen the environmental and social sustainability of MDB activities, including:*

- Changes needed to ensure that MDBs design and implement only high-quality projects:
 - Full implementation in the World Bank of an action plan based on the recommendations of the World Bank's Wapenhans Report, and call for similar reports and action plans from each regional MDB. The Wapenhans report has received much attention and is highly regarded, indicating that such reports have the potential for important positive impacts on MDB operations.
 - Improved procedures for environmental screening of projects, to ensure that all projects receive an adequate level of environmental assessment.
 - Timely preparation of high-quality, publicly available environmental impact assessments for all projects with significant environmental impacts. This will help to ensure well-informed decision-making by MDB staff and Executive Directors, which should lead to more sustainable projects, increased protection of natural resources, and strengthened rights of affected populations.
 - Increased staff skills in the areas of environment and social issues. While possibly increasing costs, this should enhance the integration of environmental considerations into country strategies and projects from the earliest planning stages, resulting in fewer environmentally damaging and more environmentally beneficial projects.
 - Seek to develop an international consensus on an approach to MDB-affiliated lending to the private sector that accomplishes the fundamental goal of the Pelosi Amendment -- ensuring the EIAs are available for environmentally significant projects well in advance of Board vote -- without the rigid legislative requirements. For example, the U.S. could work with MDB member governments to make EIAs publicly available well in advance -- say 60 days -- of Board vote for environmentally significant private sector projects, with the provision that if a Director raises concerns about a particular project, the Board vote could be delayed an additional period of time -- perhaps another 60 days -- to allow more time to address important environmental issues. This would accomplish the main goal of the Pelosi Amendment without subjecting every project to a rigid 120 day requirement.

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- Other options for action were considered, but were thought to require further study. One of these is reinterpreting the Pelosi Amendment to apply to MDB private sector operations. Others relate to projects which would have major adverse environmental or social impacts. Some NGOs have suggested that we take a position that the MDBs should not fund any such projects. Alternatively, we could press for establishing a two-stage Board review process for projects with major environmental impacts, and/or requiring the support of a high percentage of member governments for such projects. We do not believe it would be possible to achieve an international consensus in support of these options in the foreseeable future.
- Policy and procedural revisions needed to ensure dramatic improvements in transparency and public participation.
 - Public availability of environmental information from the early stages of the project cycle. While some member countries will resist this, it is crucial to informed public participation, informed decision-making by Executive Directors, and protection of the rights of affected populations. There is also a legislative basis for pressing this issue in the Pelosi Amendment and in the FY93 Foreign Operations Appropriations Act.
 - Greater use of local NGOs in developing, implementing and monitoring projects. NGOs may have essential local and technical knowledge and experience. Not all countries, however, have truly independent, qualified NGOs able to perform these functions.
 - Creation of formal NGO committees, like that at the World Bank, in each of the regional MDBs. This would formalize and facilitate bank-NGO relations, thus expanding opportunities for public participation in MDB activities.
 - Establishment of public information centers in each of the MDBs analogous to that recently proposed by the World Bank. This would make it easier for the public to identify the source of information on MDB activities and to ensure accountability for availability of information. Such a proposal is under active consideration at the World Bank.

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- Creation of appropriate independent inspection panels for each MDB to investigate violations of MDB policies and procedures, or violations of loan agreements that threaten a project's sustainable development impact, for MDB projects under preparation or implementation. This would provide a mechanism for review of MDB projects which might have adverse impacts on the environment and local people by parties with no personal stake in projects. Such a proposal is under active consideration at the World Bank.
- Work with other MDB member governments to establish a new information policy which would define categories of information that would be treated as confidential and enable all other information to be made publicly available. Such a proposal is under active consideration at the World Bank.
- Greater MDB support for environmentally and socially beneficial projects.
 - Greater support to poverty reduction through better sanitation, health, education, and other social services to marginalized populations, conservation of natural resources, and other priority investments.
 - Increased support for energy efficiency and conservation, including reducing lending for heavy industries and power production where power prices are subsidized. This is essential to achieving our climate change objectives. We are also required to press for this by the FY93 Foreign Operations Appropriations Act.
 - Increased support for population programs, which are essential to reducing long-term pressures on limited natural resources.
 - Establishment of small projects programs for local environmental projects and other activities. This would give the MDBs a capability that would be very useful for activities, such as biodiversity protection, that require small, targeted interventions.
 - Greater and more effective MDB support to institutional strengthening in developing countries, particularly through training and technical assistance. This should improve project implementation and sustainability. Institutional weaknesses are often a critical factor in developing country environmental degradation.

- Other options for action were considered, but were thought to require further study. These were to call for a specific percentage of lending in each MDB to be directed to environmentally and socially beneficial activities, or to take the more extreme position that MDB operations should be limited to investments in basic social infrastructure.
- Leadership by MDBs in developing and applying the economic tools needed to ensure environmentally sound decision-making. The MDBs often have greater influence in developing countries than do other types of institutions, including bilateral agencies.
 - Development and implementation of methodologies for environmental and social impact assessments for structural adjustment programs. This would ensure that negative environmental and social impacts of adjustment programs are identified and mitigated.
 - Explore the feasibility of depletion accounting and other natural resource accounting work being developed, including integrating environment criteria into valuation of national accounts. We should also urge the MDBs to explore the role that purchasing power parity can play in valuing countries' output. This should reduce overuse of natural resources due to undervaluing.
- Commitment to environmentally sound policies, procedures and standards.
 - Increased emphasis on the use of environmentally sound technologies in MDB projects. This could benefit U.S. businesses, which in some cases have a comparative advantage in such technologies, in addition to providing environmental benefits to the developing country.
 - Improved policies in key sectors such as energy, agriculture, forestry, industry, transportation, water resources, and global environmental issues. Sound policies in these areas would protect natural resources and critical ecosystems, and would support the global environmental conventions and the GEF.
 - Another option, which was considered but thought to require further study, would be to 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.

4. *The United States should improve its diplomatic efforts to seek international support for environmental strengthening of MDBs.* Lack of international support for U.S. efforts and positions has been the principal reason for slower than desired progress on MDB environmental issues. Increased diplomatic efforts are called for in our legislation, and may be essential if we are to achieve the goals of our legislation. These efforts could include the following:

- Treasury could arrange meetings between Vice-President Gore (and Secretary Bentsen, as the U.S. Governor of each of the MDBs) and the Presidents and Executive Directors of the MDBs to discuss environmental issues. This would demonstrate high-level concern for MDB environmental issues.
- Use the upcoming (1994) anniversary of the Bretton Woods Meeting to make a review of the work of MDBs, including with respect to the environment, a component of ongoing G-7 consultations. This would signal the high priority which the U.S. accords to MDB environmental issues. We would need to be careful to avoid creating the impression among developing country governments that the "rich man's club" is trying to force unwanted conditionality on struggling economies.
- Reinforce efforts to use MDB replenishment and capital increase negotiations as opportunities to advance our environmental and social agenda. These provide a ready-made forum for negotiations of MDB policy and one where we have some clout.
- Strengthen bilateral discussions at appropriate levels with key donor and developing countries. Establishing ongoing relationships with counterparts in other member countries would facilitate obtaining their support on specific projects and policies in the MDBs.
- Propose a working conference on key environmental issues among MDBs, bilateral donors, and NGOs, possibly in conjunction with the OECD's Development Assistance Committee and Environment Committee. Such a conference would highlight the issue, enhance coordination, and identify opportunities for cooperative efforts.
- Use the World Bank's Development Committee Meeting to advance key environmental issues. The Development Committee has in the past helped advance environment issues.
- Expand use of U.S. Executive Director's Office to hold workshops for MDB management and interested Executive Directors on environmental issues. This can be an effective means of fostering open discussion of key issues, particularly among groups that may not otherwise interact.

- Incorporate environmental policies of the MDBs as a major component of the dialogue among G-7 Executive Directors. This can be a convenient and cost-effective mechanism for seeking support for our agenda.

Implementation Strategy

Specific measures for implementation of individual recommendations are described in the discussion of each option considered. Broadly speaking, however, implementation will require the Treasury Department and other U.S. agencies to initiate:

- A reevaluation of Treasury and other agencies' resources: optimum use of staff and skills mix and how to achieve these, and procedures for using a broader range of USG expertise;
- More effective coordination among Treasury and other policy and technical USG agencies, and increased support from USG technical agencies;
- An ongoing dialogue with the MDBs on a wide range of environment-related subjects, at both the management and Board levels;
- Intensified diplomatic efforts toward other MDB donor countries to build coalitions on positions on environmental issues in the MDBs.

International Reaction

Our experience to date indicates that we can expect support in principle from other donor countries for much of our environmental agenda in the MDBs, but little in the way of rigorous efforts to secure needed changes. We must take steps to encourage the other donors to support common positions more vocally and actively than they have to date.

The borrowing countries are likely to be unenthusiastic about much of the U.S. agenda, and can be expected to resist efforts which they perceive as likely to impose additional costs on them or to impinge on their sovereignty. As has been noted, however, the MDBs have considerable leverage in many of these countries, which borrowers will find difficult to resist if donors present a united front. Over the long term, developing country resistance to our environmental agenda may decrease as the economic and social benefits of sound environmental policy become more apparent.

MDB managements, too, subscribe to the same broad principles on which the U.S. bases its agenda. There remain disagreements, in some banks and in some areas, on what actions should be taken to implement those principles. Managements can be expected to resist what they see as "micromanagement" by the U.S. or undue scrutiny by NGOs, particularly Washington based NGOs. Also, the MDBs are large, well-established organizations which by their nature will have some difficulty incorporating new policies and procedures into their operations. Nonetheless, the managements are aware that their role is to serve their respective Boards.

The environmental NGOs, on the other hand, are likely to be sympathetic to U.S. efforts while remaining frustrated by the pace of proposed reform and the degree of success achieved. They will in some cases feel that the U.S. is not going far enough in its efforts to push its agenda, that a harder line should be taken on some issues and backed up by U.S. sanctions in the form of, for example, opposition to MDB projects or reductions in MDB funding. There may be instances in which we will have to make clear to NGOs that, given that the U.S. cannot unilaterally impose its will on the MDBs, it can in fact be counterproductive to our long-term environmental agenda for us to appear too heavy handed.

INTRODUCTION

The Presidential Review Directive

The President has called for a comprehensive review of international environmental issues in order to allow the new Administration to establish an early, positive leadership role in global environmental affairs. The Administration seeks a coherent and positive United States policy that considers U.S. economic, environmental and foreign policy objectives. As part of this effort, the U.S. Treasury has been asked to undertake a review of U.S. policies towards environmental issues in the Multilateral Development Banks.

This review does not include a discussion of the International Monetary Fund, as the role of that institution is fundamentally different from that of the multilateral development banks.

The Role of the Multilateral Development Banks

The World Bank and the four regional banks were established to promote sustainable growth in developing countries. Although the MDB concept is now almost fifty years old, it appears well suited to the present environment of multilateral cooperation.

The MDBs have distinct management structures which operate through Executive Boards appointed by member governments. The United States Executive Director in all the banks is a Presidential appointee.

The World Bank and the Inter-American Development Bank are headquartered in Washington; the Asian Development Bank in Manila, the African Development Bank in Abidjan, and the European Bank For Reconstruction and Development in London. With the exception of the European Bank, each MDB has both a "hard" and "soft" loan window.

The hard loan windows lend on near market terms to the more advanced developing countries. Loans are largely funded by MDB borrowings in private capital markets backed by the members' subscriptions.

- Members subscribe two types of capital to the hard windows: (1) actual cash transfers of "paid-in" capital, and (2) "callable capital", a contingent liability of members who pledge to provide capital if necessary to meet MDB debt servicing obligations on their market borrowings. There has never been a call on members for their callable capital subscriptions, nor is any call envisioned in the future.

The soft loan windows, the World Bank's International Development Association (IDA) being the largest, lend on highly concessional terms to the poorest and least credit worthy developing countries. Loans are financed largely from donor contributions.

The MDBs' large financial resources and their technical expertise give them a central role in the economies of many developing countries. Annual MDB commitments total roughly \$40 billion.

The MDBs are also repositories of important technical and analytical expertise. Their non-lending activities, e.g., resource mobilization, consultative groups, economic and sector work, policy guidance, and research are of major and growing benefit to the international community. The MDBs are also well positioned to play major roles in specialized collaborative multilateral efforts such as the Mediterranean Environmental Technical Assistance Program and the Gulf Initiative.

Experience has demonstrated that borrowing countries are more likely to accept and act on loan conditions set by the MDBs than on those of bilateral donors. Although solidarity of bilateral donors has at times been an important complementary factor in inducing reforms, the World Bank has effectively orchestrated this policy coordination among donors. In addition, effective cross-conditionality among multilateral donor programs has proved to be a very powerful tool. This type of conditionality and donor coordination has concentrated largely on economic policies, but has considerable potential for improving donor efforts in such specific areas poverty reduction and environmental protection.

The developmental impact and quality of MDB lending are of paramount importance. The rising incidence of unsatisfactory project performance is therefore a serious concern. The problem extends across all the MDBs (and bilateral donors) and reflects both the inherently difficult task of development (including the major limitations posed by borrowers' implementing institutions), deficiencies in donor processes and procedures, and an over-emphasis on the importance attached to lending quantity as compared to lending quality. Many developing countries also attribute development failures to unfavorable external circumstances, such as trade barriers in OECD countries.

The World Bank has recognized the problems in portfolio performance and commissioned a hard-hitting internal study, the "Wapenhans Report," aimed at correcting them. A comprehensive action program based on the recommendations made in the Wapenhans Report to improve portfolio performance will be initiated in July. This program has World Bank President Lewis Preston's strong personal commitment. The United States believes the Wapenhans process is to the Bank's credit and has strongly encouraged and supported the adoption and implementation of a sound action program to carry out its recommendations. However, the need to improve project implementation also poses a major challenge for the other MDBs (as well as for bilateral donors).

Since the ultimate responsibility for project success or failure depends heavily on the borrowing countries, the managerial and institutional limitations of developing countries pose

a serious difficulty for the MDBs as well as for all members of the donor community. The problem is particularly acute in many low income countries, e.g., in Sub-Saharan Africa. While efforts are underway to strengthen developing country skills and institutions, such capacity building is a difficult, long-term process, and greater MDB efforts may be needed.

The MDBs and U.S. Interests

The MDBs account for about 10 percent of the U.S. foreign assistance budget. They are proven, cost-effective tools for promoting United States' economic, strategic and humanitarian interests and objectives in the developing world.

MDB cost effectiveness is demonstrated by the extent to which United States' financing generates larger levels of lending.

- Because paid-in subscriptions to the hard loan windows are much smaller than the callable portions, relatively low budget outlays are leveraged to support substantial lending. For example, for every dollar of U.S. paid-in capital, the World Bank has loaned almost \$119. There is also major leveraging in the hard loan windows of the regional MDBs:
 - \$40:1 in the Inter-American Development Bank, \$60:1 in the Asian Development Bank, and \$88:1 in the African Development Bank. (The European Bank for Reconstruction and Development has not been operating long enough to derive a meaningful, comparable number.)
- Leveraging in the soft loan windows is less than in the hard windows, but is still significant, e.g., for every dollar the U.S. will contribute to the Tenth Replenishment of IDA, IDA will be lending almost six dollars.

The MDBs pursue a broad range of inter-related activities which directly advance U.S. economic, strategic and humanitarian interests. Key U.S. goals and priorities, which we believe must be promoted in a dignified and orderly manner, range from the adoption by borrowers of sound open market economic policies that strengthen country and regional stability and contribute to a healthy world economic environment, to the effective implementation of sustainable development policies emphasizing poverty reduction and the provision of basic social services, environmental protection, and good governance.

The MDBs can mobilize far more assistance than is feasible from the accounts of bilateral donors. Consequently, the United States has consistently encouraged and relied heavily on the MDBs to address country and regional issues of critical importance to United States' interests. Examples include:

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|----------------|--|
| <i>past</i> | Baker/Brady debt plans, particularly Latin America;
Sub-Saharan Africa reform (ongoing effort);
Assistance to countries affected by Gulf Crisis; and
Eastern Europe reform. |
| <i>current</i> | Support for Russia and other FSU Republics;
Support for India's new economic reform efforts; and
Lebanon reconstruction and other Middle East initiatives. |
| <i>future</i> | World Bank and Asian Bank roles in the former Soviet Republics in Asia;
Reconstruction of Indo-China; and
Support for new government in South Africa. |

The extent of the resources which the MDBs can mobilize is illustrated by the recent efforts of the World Bank and the Inter-American Development Bank to provide financial assistance and policy guidance to help reform and revive the economies of Latin America. (It should be noted that Latin America is the fastest growing market for United States' exports; with U.S. exports to the region reaching an estimated \$76 billion in 1992.) Over the last five years, new MDB commitments to Latin America totalled about \$50 billion, with Mexico accounting for about \$13.5 billion.

U.S. Budget Constraints and U.S. Leverage

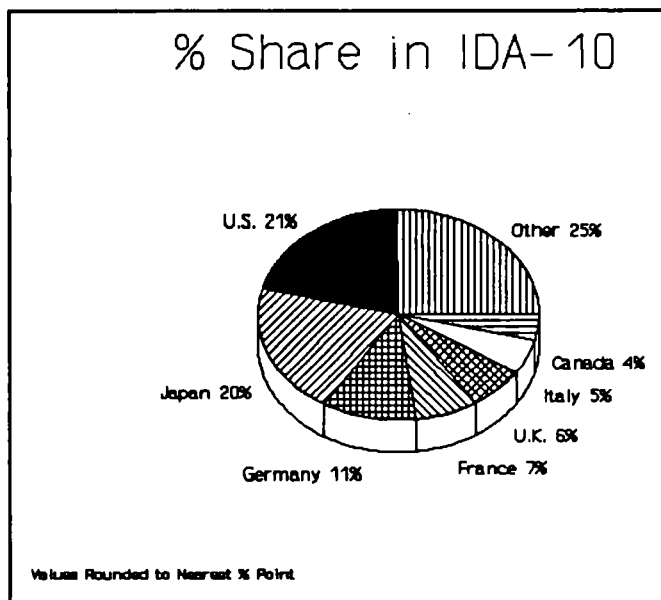
The United States needs to approach MDB issues by seeking the support of other contributor countries. We do not have sufficient voting power to impose change unilaterally, no matter how desirable our goals may appear to us. In this respect, the process of seeking change is as important as our objectives. We need to avoid the appearance of dictating policy, which experience has demonstrated to be counterproductive, while at the same time maintaining our leadership. This is a delicate balance.

Despite a decline in the United States' share of MDB contributions, we have retained a major influence in shaping MDB policies and operations. As a result of persistent U.S. efforts, most of our key objectives -- e.g., greater MDB stress on country performance and market forces, and renewed emphasis on poverty reduction, private sector development and the environment -- are now broadly shared by other donors. This was recently reflected in the policy framework negotiated for the IDA-10 replenishment.

United States' influence -- which has also enabled us to be very responsive to key Congressional concerns -- is strongest in the World Bank and the Inter-American Bank, and weakest in the African Development Bank.

We are now at a point where the Europeans and Japanese are working actively to increase their own leverage in the MDBs to a level commensurate with the increased financial support they are now providing to the institutions (See IDA 10 shares listed below). In this context, they have specifically pointed out the inconsistency between the United States' efforts to promote policy change in the MDBs and both our declining share of financial contributions to the MDBs and our inability to meet internationally agreed funding commitments to the institutions. They have also pointed out inconsistencies in the U.S. position -- for example, when the U.S. opposes an MDB loan but provides cofinancing to the same project through USAID or guarantees through EXIM or OPIC.

United States budgetary realities, including over \$820 million in MDB arrears, underscore the enormous challenge we face in managing our financial support for the MDBs in a way which safeguards U.S. interests and retains U.S. policy leadership in the institutions.



PART I: ASSESSMENT**Overview**

In the past several years, the international community has been moving toward a consensus that development assistance must be both ecologically sound as well as socially equitable in order to be viable and sustainable in the long term. The multilateral development banks, as the major source of development assistance, are of fundamental importance in helping reach this goal through their integration of these principles into lending activities.

Reaching a consensus and applying it to the MDBs are not easy tasks to accomplish. As in the United States, economic development in the developing world can often involve trade-offs with environmental concerns. Environmental protection as a mandate is also quite recent: except for the references to the environment in the European Bank for Reconstruction and Development's charter, the charters of these organizations focus on development and poverty reduction.

It is important to recognize the very significant progress that has been made by the MDBs in the environmental area over a relatively short period of time. In the case of the World Bank, for example, this includes the development of policies and operational directives in such key areas as environmental impact assessments, forestry, power, energy efficiency, resettlement, and indigenous peoples. Economic and sector work is increasingly focused on issues related to sustainable development, and country assistance strategies systematically incorporate environmental considerations. The World Bank also supports a very highly regarded research program that is breaking new ground on environment economics and methodologies for valuing environmental costs and benefits. In addition, there have been major increases in MDB budgets and staff for environmental activities, the development and implementation of environmental impact assessment procedures and policies, and increased consultations on environmental issues with NGOs and other affected groups.

Progress has varied among the MDBs. The World Bank and the Asian Development Bank have accomplished the most, while the African Development Bank has accomplished the least. Descriptions of recent and on-going work of the World Bank and each of the regional MDBs are appended as Annexes 1 and 2.

In spite of the progress which has been achieved, however, the United States has had varying degrees of difficulty with all of the MDBs. In some cases, this stems from inadequate policies; more often, it centers around the inadequate or incomplete implementation of the Banks' environmental policies in their operations. Progress has also been hampered by the lack of support from other member countries for U.S. led environmental initiatives. Developing countries have offered virtually no support in the Boards of Directors. The OECD countries have been somewhat more responsive, especially on matters relating to resettlement, energy efficiency, and the general concern over poor design and implementation of projects, but they too resist initiatives that they view as "micromanagement" or that appear to be imposed unilaterally by the United States. The performance of some developed countries in this regard has been particularly disappointing as most profess support for the same broad environmental objectives as does the United States. A reluctance to confront developing country opposition could be a factor.

NGOs have been particularly critical of the progress by the MDBs in implementing their environmental policies. NGO criticisms have focused on: the pace of improvement in the loan portfolio, an emphasis on top-down, large scale infrastructure projects, transparency in Bank operations, responsiveness to the needs of affected people, the importance accorded to the role of the Environment Departments, the quality of projects, and the emphasis on the volume of lending as opposed to the quality of project design and implementation.

Many of these concerns are recognized by the U.S. as valid or deserving of careful evaluation. Despite active U.S. leadership in pressing the MDBs to pursue environmentally sound activities and a willingness on our part to abstain or vote no on projects on environmental grounds, the Banks have, on a number of occasions, continued forward with projects that have clear negative impacts on the environment and on local affected people. In some cases these are older projects developed at a time when the development community (including bilateral agencies) were less environmentally conscious.

The most widely publicized example of this is the Narmada dam project in western India, which was partially financed by the World Bank. An independent review of this project identified serious resettlement and environmental problems associated with this loan and noted that these problems had occurred in other Indian projects. Last September, although 41 percent of the shareholders -- six Executive Directors including the three largest shareholders -- called for the suspension of disbursements for this project, continued funding for the project was approved by the World Bank on a provisional basis subject to specific remedial measures. It should be noted that the March 30 announcement that the Bank is withdrawing from the project constitutes a positive and significant precedent.

The September, 1992 decision of the Executive Board of the World Bank to continue funding for Narmada also illustrates the significant policy limitations facing the United States in all of the MDBs. The MDBs are international institutions and in some cases have over one hundred member countries (the World Bank has 172 members). They are not subject to U.S. law. While the United States is the largest country shareholder in most of the institutions, its vote alone cannot stop projects (except for soft loans extended by the Inter-American's Bank's Fund for Special Operations).

If the United States desires to advocate a particular agenda, such as environmental assessment procedures, it must secure the support of other member governments, especially the OECD members who collectively are the major donors and have the major voting power. Other countries also express concerns about overburdening borrowing countries with limited institutional capacities. The management and career staff of these institutions reflect the international character, and in some cases the biases and beliefs, of the member countries.

Many countries, even other G-7 members, resent U.S. pressure to implement a detailed environmental agenda, particularly when United States' policy initiatives are identified as arising from U.S. legislation. In such cases, other members complain that an international institution should not be driven by the legal prescriptions of one member country. Although the United States has been successful in its environmental initiatives in some MDBs, such as in securing environmental assessment procedures which meet the Pelosi Amendment requirements set out below, other member countries' tolerance for U.S. legislatively mandated policy changes is wearing thin. It is far easier to sell proposals for environmental, and other, policy changes on their merits, where a genuine dialogue makes other members feel part of the decision and implementation process. Where such dialogue occurs and consensus is reached, the multilateral character of the Bank provides a platform for even greater progress on environmental issues than agreements reached bilaterally.

When the United States' vote is predetermined by a legislative requirement to abstain or vote no on a large number of projects, there is the additional risk that the MDBs and other members will discount the merit or the relevance of any U.S. interventions to improve individual loan operations. These restrictions can also be perceived as being based on narrow commercial or single-issue self-interest, rather than on genuine concern for development and human welfare.

Clearly, public and NGO interest in environmental issues is much greater in the United States than in virtually any other member governments. This involvement has reinforced the momentum of environmental activism by the USG that has resulted in many important changes. On the other hand, other MDB members have openly and frequently characterized some U.S. environmental initiatives as designed to accommodate only the interests of "Washington based NGOs". This underscores the importance of U.S. NGOs making greater efforts to encourage their foreign affiliates and contacts to engage their own governments on the issue of strengthening MDB efforts on the environment.

As noted earlier, questions about the "sustainability" of World Bank projects recently resulted in the President of the Bank requesting a major, independent review (known as the Wapenhans Report) of the Bank's loan portfolio. This report -- which has led to a comprehensive remedial action plan -- revealed a steady deterioration in the World Bank's loan portfolio performance, due primarily to a project appraisal process that often sacrifices objectivity in order to secure Board approval; inadequate attention devoted to project implementation; and a staff incentive system that rewards project managers for moving large amounts of money rather than for the quality and sustainability of their projects. The U.S. will need to monitor progress and problems as the action plan is implemented. The Inter-American Development Bank and the African Development Bank have indicated that major reviews of their loan portfolios will be undertaken.

The USG, in close cooperation with the environmental community, has promoted, with considerable success, substantial policy and procedural reforms within the MDB system. We need to take a close review of MDB activities to ensure that these reforms are having the intended impact on Bank operations and to identify where gaps remain. Areas for particular review include quality and adequacy of environmental assessments and analyses; quality and effectiveness of national environmental action plans; adequacy of local consultation; and consistency of project pipeline with new sectoral policies. The results of this comprehensive technical review would form the basis for follow-up initiatives on the part of the United States.

Current U.S. Policies on Key MDB Environmental Issues

○ The Pelosi Amendment:

The Pelosi Amendment was enacted in late 1989 and became effective in late 1991. It requires the United States Executive Director of an MDB not to vote in favor of a project that would have a significant environmental impact unless an environmental impact assessment (EIA) or a comprehensive summary thereof has been made available to the Executive Directors, local NGOs, and affected groups at least 120 days before Board vote.

The application of the Pelosi Amendment to the private sector lending activities of the MDBs remains an unresolved issue at this time. The MDBs argue that private companies cannot meet the 120 day requirement. The United States has not applied Pelosi to U.S. votes on private sector projects, basing this decision on the nature of the project cycle for private sector lending and on a statutory interpretation argument that Pelosi does not apply to private sector lending.

Congresswoman Pelosi and the environmental groups disagree with this position. Treasury is pressing the MDBs to develop private sector procedures that satisfy the spirit if not the letter of Pelosi. We are optimistic that a recent Executive Board review of IFC's proposed environmental procedures will result in a tangible improvement along these lines, but recognize that it may not result in full compliance with the Pelosi benchmarks. (No other countries support the 120 day rule; the Germans have proposed that environmental assessment summaries be available 60 days before Board vote.)

○ MDB Environmental Benchmarks:

Section 532 (a) of the FY 1993 Foreign Operations Appropriations Act directs the Secretary of the Treasury to instruct U.S. Executive Directors to encourage the MDBs to meet benchmarks in the areas of sustainable energy development, forest conservation, forced displacement of populations, and environmental impact assessment. The benchmarks include detailed recommendations in each area, and require the Secretary to submit to Congress on March 1, 1993 and 1994, reports describing the progress made by the MDBs in meeting the benchmarks. The 1993 report is currently under preparation.

An important benchmark calls for all MDB loans in the energy sector to be based on, or support the development of, least-cost integrated resource plans that include analysis of demand-side and alternative supply-side investments. Other significant benchmarks call for the MDBs not to make forestry loans that support commercial logging in primary forests; to increase support for protection of biodiversity; to maintain lists of all ongoing projects involving forced displacement of populations; to increase opportunities for public comment during EIA preparation; and to apply EIA requirements to sector and structural adjustment loans. We have already requested and received information from the World Bank on these points.

○ Public Access to Information:

The United States has pressed the MDBs to provide the public with systematic access to information about the environmental impacts of their projects, as required by the Pelosi amendment and the FY 1993 Appropriations Act. We have also encouraged transparency in MDB operations and decision making. Further, we have pressed the Banks to consult with local affected groups and NGOs in the early stages of project design and in project implementation. This is now required by the World Bank for all environmental category A projects, and relevant IDA environmental category B projects. Nevertheless, we have not been assured of public access for all environmental documentation, an issue that raises major concerns in the NGO community. The World Bank is developing a strategy for ensuring routine access to environmental information at Bank Headquarters and field offices. We are working with other members of the World Bank to ensure that the information available in the process includes relevant non-sensitive information, including technical, energy and environmental information.

○ Energy Efficiency and Conservation:

The United States has pressed the MDBs to place greater importance on promoting end-use energy efficiency alongside, or in lieu of, increases in supply. In October 1992, the World Bank Executive Board approved a new policy for the electric power sector that requires comprehensive energy strategies incorporating both demand and supply side efficiencies and conservation. In addition, we were successful in reaching agreement in IDA 10 negotiations for the promotion of environmentally sustainable energy strategies that minimize costs by expanding least cost planning analysis that takes account of both demand side and alternative supply side options employing energy conservation and renewable energy sources. We have also called for appropriate changes in organization, structure, staffing and training to strengthen the application of policies in these areas. We have stressed to the other development banks the importance of encouraging borrowers to develop energy conservation measures and improve energy efficiency on the demand side.

○ Forest Policy:

As a result of U.S. leadership, the World Bank revised its forest policy to place greater weight on protection and conservation of forest areas. The policy requires that the Bank's forestry investments be part of a borrower's overall strategy for sustainable use and conservation of forest resources. The policy also prohibits the use of funding for support of commercial logging activities. The U.S. has urged the Inter-American Development Bank and the Asian Development Bank to revise their forest policies. The African Development Bank is in the process of drafting a forest policy at this time.

Linkages of MDB Environmental Policies to Other Environmental Issues**○ Global Environment Facility (GEF) and UNCED Follow-up:**

The United States' goals for UNCED's Agenda 21, Climate Change, Forests and Biodiversity are not likely to be achieved unless we leverage the MDBs' \$40 billion annual lending programs. The World Bank has made a public commitment to ensure that its operations fully support the objectives of the global environmental agreements signed at the 1992 UNCED. This may require review of its policies and operational directives to determine their adequacy in meeting this commitment.

In our view, the World Bank and the regional development banks must play leading roles in supporting LDC activities that provide global environmental benefits but that are economically viable on the basis of domestic benefits and costs. These types of projects are currently funded by the GEF only if the Participants agree by consensus that a compelling case has been made that despite the attractive rate of return to the national economy, the operation in question would not proceed without GEF investment (e.g., because of a non-market barrier). If a permanent GEF is created, it may not be the appropriate mechanism to fund such projects because such projects can be undertaken at no incremental cost to the developing country.

One of the most important examples of this type of project is investment in energy efficiency and conservation, including especially end-use efficiency. Such investments typically provide electric power benefits at only a fraction of the cost of investments in new generating capacity, yet they clearly can have important climate benefits when they displace fossil-fuel burning power plants. Because they are typically more cost-effective than investments in new generating capacity, there is no incremental cost to the developing country, and in fact there is an "incremental savings." Thus, these types of projects are well suited for ordinary MDB financing terms.

Another area of comparative advantage for the international financial institutions is in sector and macroeconomic policy dialogue with developing countries. The World Bank, especially, conducts high level policy dialogue with developing countries and should work to ensure that developing country policy frameworks are supportive of the objectives of UNCED, the global environmental conventions and the GEF.

The Regional Development Banks have a comparative advantage in providing support for developing country institution building. In many developing countries, institution building will be essential to successful implementation of the Climate Change Convention. The Regional Development Banks can also help foster a sense of local ownership among developing country borrowers, many of whom feel that their Regional Development Bank is more responsive to their concerns than the World Bank.

○ U.S. Bilateral Policies:

The policies and practices of our bilateral aid programs should be consistent with policies we are pressing for in the multilateral development banks. Any review of MDB operations should be accompanied by a parallel process to review and evaluate whether United States bilaterally financed operations (e.g., USAID, Eximbank, OPIC) adhere to the same standards. This is particularly important as other MDB members are increasingly asserting that U.S. bilateral programs are not required to adhere to some of the environmental measures which the United States is advocating for the MDBs, a charge that may be accurate in at least some instances.

PART II: OPTIONS FOR POLICY**Basic Commitment to the Multilateral Development Banks****Issue for Decision:**

The fundamental issue for decision regarding U.S. participation in the MDBs is whether the U.S. should (i) continue support for the MDBs at internationally negotiated funding levels and continue existing efforts to advance our environmental agenda in the banks; (ii) continue to support the MDBs at internationally negotiated funding levels but increase efforts to advance our environmental agenda; or (iii) reduce funding for one or more of these institutions on the basis of environmental considerations, as called for by some NGOs. Increasing our funding level in the MDBs is not a feasible option at this time given the large arrearage which the U.S. already owes to the banks.

Options:

○ **Option 1:**

The United States should continue strong support, at internationally negotiated funding levels, for the multilateral development banks as institutions for promoting United States interests, while continuing existing efforts to promote environmental strengthening of the institutions.

Pro MDBs are viewed internationally as key central players in efforts to promote global stability and growth.

MDBs are also proven, cost effective institutions for advancing a broad range of critical U.S. economic, strategic, and humanitarian interests and objectives in developing countries, including Eastern Europe and the countries of the former Soviet Union.

U.S. contributions to the MDBs are highly leveraged; there are no financially viable alternatives.

MDBs will also be a major source of funding for objectives endorsed in the UNCED Accords. The United States has a vital interest in shaping the level and direction of MDB support for these activities.

The United States retains a major influence in shaping MDB policies, due to the fact, for example, that the U.S. nominates the President of the World Bank. We have successfully used this influence to promote initiatives which strengthen MDB operations in areas of concern (e.g., poverty reduction, loan quality). Even in the area of environment, significant progress has been achieved over a relatively short period.

Con The NGO community is critical of the MDBs' record on environment and poverty reduction (including impacts of structural adjustment lending).

MDBs face a rising incidence of unsatisfactory project performance; while some of the underlying factors are largely beyond the control of the MDBs, others relate to deficiencies in policies and procedures.

○ Option 2:

The United States should continue strong support, at internationally negotiated funding levels, for the multilateral development banks as institutions for promoting United States interests, while intensifying its efforts to promote environmental strengthening of the institutions.

Pro All pros listed under Option A (1), above.

We would expect to achieve greater success at promoting environmental strengthening in the MDBs.

This strategy would have the support of many NGOs.

Con Both cons listed under Option A (1), above.

Likely to require additional U.S. resources.

The U.S. is already resented in the MDBs and other member countries for, as some see it, trying to impose its agenda unilaterally on multilateral institutions. This con could be mitigated by the way we undertake our efforts, as will be discussed later in this paper.

improve
policies
&
procedures

○ Option 3:

The Administration should reduce its funding requests for one or more of for the Multilateral Development Banks, particularly IDA, on the basis of environmental considerations. NGO advocates of this option do not call for a reduction in overall development assistance, but rather for its redistribution.

Pro Recommended strongly by some NGOs, citing MDB problems with environment, poverty, and loan quality.

Would be a dramatic demonstration of new Administration's discontent with the MDBs.

Would increase international attention on MDB environment policies and practice.

Would reinforce the emphasis the Administration is placing on budget constraint.

Con To the best of our knowledge, no U.S. agencies support this option.

Would hamper our ability to correct those environmental problems that are not merely the result of MDB policies or programs, but are caused by in country institutional weaknesses, poor government policies, etc.

We have already accumulated large arrears on our internationally negotiated commitments to the MDBs. In this context, reduced U.S. funding as a punishment for poor environmental performance might appear to be merely a rationalization of lower U.S. funding to MDBs and would lead to a reduction in U.S. influence in policymaking in MDB and other international fora.

Would undermine institutions which have served U.S. economic, strategic and humanitarian interests well, at the same time the U.S. is pressing the MDBs to be responsive to a whole series of regional/country issues of critical importance to the United States.

Would undermine U.S. leadership and leverage in the institutions; including our ability to maintain progress on the environment. Would be perceived internationally to be heavy handed, and if concentrated on IDA, directed at the poorest and least credit worthy countries.

Some NGOs would oppose this option.

Other donors would be confused given significant progress U.S. efforts are achieving on environment and the U.S. success in negotiating a sound economic policy framework for IDA 10. Also, we have not yet made an up to date and in-depth assessment of the status of MDB environmental efforts.

Would generate pressure to shift these resources elsewhere, possibly to the UN system, where we have much less control.

Channeling any savings into bilateral programs would not produce the leveraging which MDB contributions achieve. USAID's bilateral programs have also received much criticism, including from Congress, and are currently being revamped.

It is not clear that there are other institutions better suited to fulfilling U.S. objectives now served by the MDBs and which would perform better from an environmental standpoint.

Would reduce our ability to shape MDB operations, which will continue to represent a significant portion of international development assistance.

Recommendations: We recommend Option 2, continued strong support for the MDBs but with increased attention to environmental and social strengthening. We believe this option is the most likely to improve environmental performance at the MDBs, and will protect other vital U.S. foreign policy interests. Option 1 is not likely to lead to sufficiently rapid improvement in the MDBs' environmental performance. Option 3 would be counterproductive to U.S. interests on a number of foreign policy and economic fronts, including environment. We recommend against Option 3.

Strengthening U.S. Oversight of the MDBs**Issue for Decision:**

Whether the U.S. government should strengthen its capability and commitment to provide environmental oversight of MDBs, and if so how.

Additional Background:

U.S. government oversight of the MDBs is coordinated by the Treasury Department and includes a number of agencies - including the Department of State, Agency for International Development, Council on Environmental Quality, Environmental Protection Agency, and National Oceanic and Atmospheric Association - with a variety of comparative advantages. The U.S. government devotes far more effort to oversight of the policies and projects of the MDBs than any other country. This is true for all issues, not just environment¹.

Treasury coordinates an interagency process (the Working Group on Multilateral Assistance, or WGMA: see Annexes 3 and 4) that determines the U.S. position on each of the over 700 MDB projects that U.S. Executive Directors vote on each year. Along with other economic, development, and foreign policy considerations, this determination takes into account the environmental soundness of the project, whether the project meets the MDB's own environmental standards, and whether the project has met the requirements of the Pelosi Amendment. The U.S. also conducts interagency reviews of MDB sector and macroeconomic policies. NGOs meet with relevant U.S. agencies on a monthly basis to discuss projects and policies of the MDBs, and communicate informally on a regular basis with Treasury and the U.S. Directors' Offices.

¹ Issues considered by the U.S. government in its evaluation of MDB activities includes economic and financial policies; human rights issues; social and environmental concerns; personnel policies; World Bank-International Monetary Fund collaboration; administrative budget; project evaluations and audits; recruitment and compensation; donor coordination; and internal World Bank Group coordination.

In 1992, Treasury increased the number of staff dedicated to MDB environmental issues from two to three, and is currently exploring the possibility of recruiting a fourth person. In addition, Treasury is working more fully to involve more of its international economists and desk officers in environmental issues. USAID has two full-time staff working on this issue, and involves environmental staff from its regional bureaus and field missions as appropriate. EPA has one full-time MDB-environment officer. State does not have a full-time MDB-environment staffer, but four officers cover these issues on a part-time basis totalling approximately 2-3 person-years annually. Other agencies dedicate less than one full-time staff position to MDB-environment issues.

The USG has pressed, in many cases successfully, for strengthened environmental policies, procedures and programs in the MDBs. Despite this progress, we are continuing to hear criticisms of the performance of these institutions and encountering problem projects. Annexes 1 and 2 include stocktaking of recent initiatives in the MDBs. The USG has not, however, undertaken an in-depth, comprehensive assessment of the degree to which the strengthened policies and procedures are being implemented and where fundamental policy and operational gaps remain. This limits our ability to evaluate the criticisms or to base future proposals on hard empirical evidence.

There may be opportunities for improving the ability of the federal agencies to provide effective oversight of MDB activities and to achieve better interagency coordination, particularly with agencies that have scientific and technical expertise and with U.S. bilateral assistance agencies. Legislative requirements may need to be streamlined, in consultation with Congress, to reflect new priorities and ensure maximum U.S. leverage. In addition, there may be opportunities for other unilateral actions the U.S. can take to streamline its oversight activities and increase its leverage in the MDBs.

Options:

- Option 1: Continue current practice.

Pro Would not require additional staff or any organizational changes.

Con The U.S. reviews over 700 MDB loans annually. Work load for Treasury, State, USAID, and EPA, which provide most of the MDB environmental oversight, is so large that many projects and policies are not given the scrutiny they could be receiving.

The large MDB-environment work load is increasing as the Banks prepare and make available an increasing number of environmental impacts assessments, national environmental action plans and environmental policies, and as new mechanisms such as the GEF come into operation.

Without a change in the status quo, it might be difficult for the relevant agencies effectively to undertake new MDB-environment initiatives, including the diplomatic efforts that such initiatives require, or even to maintain the quality of existing coverage.

Current interagency coordination is spotty. Technical agencies and bilateral assistance agencies are not involved as much as they need to be. U.S. credibility can be weakened when the U.S. calls for stricter environmental standards in MDBs than those we apply to our bilateral assistance.

Over the years, a growing number of legislative requirements on environmental matters have been applied to Treasury, USAID and other agencies. These requirements consume a significant proportion of time in preparing and coordinating responses. They also limit the flexibility needed to respond to new priorities and launch new initiatives.

- Option 2: Strengthen relevant U.S. agencies' ability and high-level commitment to provide environmental oversight of MDB activities. This could include strengthening the overall MDB-environment coordination in Treasury's International Affairs Office, and strengthening MDB-environment oversight at USAID, which should play an important role in U.S. MDB oversight by providing information from the Agency's field missions in developing countries; at State and other agencies, which need to provide coordination with international environmental issues and negotiations and with policy toward other international organizations; and at EPA and other technical agencies, which should provide essential guidance on technical environmental issues. We could also tap, as needed, expertise at specialized agencies, such as the Army Corps of Engineers, the National Science Foundation, and others that are not routinely involved in the WGMA process.

Pro Strengthening of the relevant policy and technical agencies capabilities would allow better coverage of MDB projects and policies and provide greater consistency and credibility for the U.S. on MDB-environment issues. The U.S. is increasingly expected, by Congress and NGOs, to evaluate complex and technical projects to ensure their viability and sustainability.

Such strengthening might also allow the federal agencies to put more staff time into diplomatic efforts, which will be essential to the success of U.S. efforts to improve MDB environmental performance.

The large MDB-environment work load is increasing as the Banks prepare and make available an increasing number of environmental impacts assessments, national environmental action plans, and environmental policies.

Con While such strengthening in these and other agencies could take a number of forms, care would need to be taken to ensure that environmental issues are considered alongside economic and development issues.

This option has budgetary implications.

Might require increasing staff or moving staff from other agency functions.

Would increase criticism of U.S. micromanagement of the MDBs.

○ Option 3: Improve interagency coordination on MDB-environment issues. This could include coordination of the review of MDB policies and projects, as well as the coordination with U.S. bilateral assistance, including USAID, EXIM and OPIC.

Improved coordination on MDB policy review would require greater involvement of appropriate technical agencies on issues such as biodiversity protection, energy efficiency, transportation, water resources, and sustainable agriculture. It might require the creation of temporary working groups on such issues. It would be useful to set up an interagency process to review MDB country lending strategies and national environmental action plans. U.S. government staff involved in implementing the international environmental conventions should be included in the coordination process.

Improved coordination on MDB project review will require an ongoing effort to ensure greater input from technical and bilateral assistance agencies. Increased input would be most valuable at three stages in the MDB project cycle: (1) at the time of environmental screening, when the project is categorized according to the significance of its potential environmental impacts; (2) when the project's environmental impact assessment (EIA) is made available to the public, typically 4-6 months before the project is presented to the Board; and (3) shortly before Board presentation, when the U.S. receives the project documents and determines its position on the project. We would also seek to strengthen our review and evaluation of MDB project implementation after approval.

As the lead agency on the MDBs, Treasury could provide coordination on MDB environmental oversight activities and integration of these activities into the U.S. government's overall approach to these institutions. Treasury would look to State for strong policy support on international environmental issues and larger foreign policy considerations. USAID could contribute its expertise on the integration of environment and development. EPA and other technical agencies could provide much-needed scientific and technical expertise.

Pro Would improve technical quality and timeliness of U.S. input to MDB projects and policies by promoting regular and effective involvement by technical agencies.

Would help the U.S. to shape MDB program and project quality and over time identify gaps in policies and their implementation.

Could reduce duplication of effort and promote more efficient division of labor among technical and policy agencies.

Would allow greater consistency among U.S. positions on MDB projects and possible co-financing of such projects by USAID, EXIM and OPIC.

Con Would require sustained commitment of staff time from technical agencies.

Care would need to be taken to avoid creation of unduly bureaucratic coordination mechanisms.

○ Option 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. Of particular interest are: quality of Environmental Assessment work, including public consultations; adequacy and effectiveness of National Environmental Action Plans; and project consistency with strengthened sector policies and procedures and U.S. bilateral policies and procedures. Such an evaluation could produce guidelines for U.S. agencies to use in evaluating MDB policies and projects in key sectors, such as water resources. Technical agencies would have to make a firm and sustained commitment to collaborate in the process. This would require clear commitment of staff resources and supportive activities.

Pro Could provide an assessment of the success/failure of the many U.S. initiatives that we have adopted in recent years.

Would provide an analytical and empirical basis for setting future priorities and U.S. initiatives.

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Would enhance U.S. effectiveness in the Executive Boards and in securing the support of other countries for our positions.

Con Would require additional staff resources, including dedicated staff from technical agencies.

Agency commitment to this initiative would need to be made at high levels and sustained over the needed period of time.

Would take staff time away from review of upcoming projects, policies, and other essential MDB oversight activities.

○ Option 5: Provide a portion of the funding needed to develop the World Bank's updated industrial pollution guidelines. This covers different pollutants. A small amount of grant money would be needed.

Pro The development of updated industrial pollution guidelines, which has been hampered by lack of funding, is seen as a priority by the USG, as well as by U.S. firms.

Con Budgetary considerations. This contribution to the World Bank would presumably come from scarce USG resources.

Some risk that this would marginalize such studies by reducing Bank ownership.

Other countries are already providing funding for aspects of the development of the guidelines.

○ Option 6: Provide U.S. government environmental staff to the MDBs. The Pelosi legislation directs U.S. government agencies to send 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.

Pro If funded by the U.S., this would be seen by some MDBs (the Inter-American and African Development Banks) and their member governments as a good faith effort by the U.S. to help MDBs achieve the needed reforms.

Could improve U.S. understanding of the workings of the MDBs and their strengths and weaknesses.

Con Other MDBs' managements and Executive Directors (including those of the World Bank) would view presence of USG environmental staff as costly and unnecessary interference, especially if funded by the MDBs.

If funded by the Banks, would be viewed as a back-door attempt at increasing the number of U.S. nationals employed by the MDBs. Waivers for hiring additional U.S. nationals would be required. Unclear if a similar waiver would be required if funded by U.S.

Budgetary impacts, if funded by the U.S.

Given the limited number of federal agency staff dedicated to MDB-environment oversight, temporary absence of these staff could weaken the ability of U.S. agencies to carry out their own responsibilities to provide oversight of the MDBs.

- If this approach is taken, guidelines would need to be established to ensure that U.S. personnel do not work on activities that could be carried out by MDB environmental personnel, but rather have clear and time-bound assignments and unique expertise that justify such secondment.
- Option 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.

Pro Japan, the Netherlands, and other industrialized nations have established such trust funds at the MDBs which may give their environmental business communities a competitive advantage over U.S. firms.

Con The proliferation of trust funds at the MDBs, each with its own eligibility criteria procurement rules, is leading to inefficient management and poor coordination. Project managers must devote excessive time to accommodate restrictive criteria of one or more trust funds as they search for supplemental finance for sector work and project preparation.

An alternative would be for the U.S. to seek to eliminate all trust funds from the MDBs, which would put U.S. firms on a level playing field without adding to the management burden. The World Bank is currently reassessing the issue of having trust funds at the Bank. Some members have called for their elimination. There is some sentiment that tied bilateral consultant trust funds contribute to project delays. Project managers must devote excessive time to accommodate restrictive criteria of one or more trust funds as they search for supplemental finance for sector work and project preparation. Nevertheless, the elimination of such trust funds will be difficult as it will require agreement from the trust funds' sponsors and many countries actively support these funds.

- Given the U.S. competitive advantage in environmental technology, our companies would probably get a greater share of business in this field if there were no trust funds at all.

Recommendations: Options 2 and 3 are recommended. Improvement of the U.S. government ability to conduct and coordinate MDB environmental oversight is needed to speed the pace of MDB environmental strengthening. If these recommendations are adopted, the WGMA should immediately reexamine the staff skills mix in the relevant agencies, recommend needed resource allocations, and develop a comprehensive action plan for implementing these initiatives. Option 4 and 5 are not recommended due to cost and because of the drain on limited staff resources dedicated to higher priority tasks. We do not make a recommendation on Option 6, as we believe the pros and cons are roughly balanced and could vary from one MDB to another. We recommend against Option 7. We believe U.S. business interests would be best served by eliminating all trust funds at the MDBs.

Options for Environmental Strengthening of the MDBs

Issue for Decision:

The U.S. must decide what measures would be most effective in strengthening the MDBs' contribution to environmentally sustainable development.

Additional Background:

To ensure that environmental sustainability is built into the MDBs' lending activities, the Administration should ensure that recently improved environmental policies are fully implemented and should evaluate the degree to which further strengthening efforts are warranted. These reforms would support several fundamental goals. Efforts to achieve some improvements are already underway and can be continued in the near term. Others may require further review, as discussed in the previous section, but can be considered options for the long term.

Options for MDB environmental strengthening are broken into five major categories: (1) measures to ensure MDB support of only the highest-quality projects; (2) measures to ensure increased transparency and public participation; (3) measures to encourage increased MDB support for environmentally and socially beneficial activities; (4) measures to ensure that the MDBs provide leadership in environmentally sound decision-making; and (5) measures to ensure MDB commitment to sound environmental policies and standards.

1. Options for MDB Actions that the U.S. Could Promote to Ensure MDB Support of Only the Highest-Quality Projects. Elements of a Near Term Strategy could include the following:

a. Urge 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 World Bank fully to implement the recommendations of the report. The Wapenhans review team made a number of important suggestions. One was that MDB staff should be rewarded for excellence in project design and implementation, rather than for the number and size of projects approved by the Board. Another was that projects should be modified during implementation as required based on environmental monitoring and achievement of quantifiable targets. Such recommendations should be fully implemented.

Pro The Wapenhans report has received much attention and is highly regarded. The president of the World Bank, Lewis Preston, is committed to following through on its recommendations. This indicates that such reviews have the potential for important positive impacts on MDB operations.

Borrowing countries have recognized the need for improved project quality and implementation.

This has been called for by NGOs.

Con Increased public cynicism about the MDBs if studies are poorly carried out or their recommendations not implemented.

Will be viewed as hypocritical by other governments if we do not submit our bilateral programs to similar outside scrutiny.

Costs associated with carrying out such a review.

b. Press MDBs to improve 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.

Pro Increased integration of environmental considerations into country strategies and projects from earliest planning stages.

Should result in fewer environmentally damaging and more environmentally beneficial projects.

Increased protection of customary and formal rights over land, water, and their resources.

Con Costs associated with new hires, training.

U.S. has criticized MDBs for having high administrative costs.

May be difficult to secure needed staff given geographical and other personnel considerations. If hiring were too heavily weighted toward OECD country nationals, this would raise concerns among other Board members.

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. To date, there have been a number of projects in different MDBs that we have felt merited more in-depth environmental assessment than they received. The MDBs have not been responsive to requests to upgrade environmental categorizations of specific projects.

Pro Enable managements and Boards to make sound, fully-informed decisions at all stages in the project cycle.

Ensure transparency, public participation, and protection of rights of affected peoples.

Provide clear rules whereby we can seek to have projects reclassified.

Con We have not undertaken systematic assessment to determine the scope of the problem, although we have encountered classification issues in several individual instances.

d. Promote timely preparation and availability of high-quality EIAs for all environmentally significant projects. (Legislative basis: Pelosi Amendment, FY93 Foreign Operations Appropriations Act)

Pro Should lead to increased preservation of natural resources, strengthened rights of affected populations, and increased project sustainability.

Environmental assessments have been demonstrated to improve project design and reduce implementation problems and long-term costs.

Increase transparency of and public participation in MDB activities. This is not only legitimate but desirable in view of the fact that the MDBs are funded by taxpayers.

Con Imposes additional short-term costs on MDB and borrower.

Could make some smaller projects economically less attractive.

Can slow project development if planning is inadequate.

Some borrowing countries and their EDs resist full public availability of environmental documentation of MDB 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 -- ensuring the EIAs are available for environmentally significant projects well in advance of Board vote -- without a rigid legislative requirement.

Currently, Treasury does not interpret the Pelosi Amendment as being applicable to the private sector lending by the MDBs or their affiliates. Strict application of Pelosi to these projects would require the USED to the MDB not to support any environmentally significant private sector project for which an EIA, or a comprehensive summary thereof, has not been available to the USED and affected groups for at least 120 days before Board vote on the project.

Although Treasury has not applied Pelosi to private sector MDB-affiliated projects, the U.S. has pressed the MDBs to meet the requirements of Pelosi on private sector projects by making EIAs publicly available 120 days before Board vote. To date, only the Asian Development Bank has established a policy that its private sector projects will meet this requirement. The other MDBs claim that private sector projects are developed much more quickly than public sector projects, thus making the 120-day requirement difficult if not impossible to achieve for every project. We do not have any support from other governments on this issue. The 120 days has also become a sore point and constant reminder to other Bank Board members of US Congressional mandates.

By adopting a flexible approach toward achieving the fundamental goal of Pelosi, the Administration could signal to the MDBs that we are serious about the need for timely, publicly available EIAs on all environmentally significant projects; retain greater latitude than is available under the rigid Pelosi Amendment law; increase the likelihood of receiving support from other governments; and reduce the risk of receiving additional legislative requirements on this issue.

For example, the U.S. could seek to negotiate an international consensus with other MDB members that the MDBs should make EIAs publicly available well in advance -- say 60 days -- of Board vote for environmentally significant private sector projects, with the provision that if a Director raises concerns about a particular project, the Board vote could be delayed for an additional period of time -- perhaps another 60 days -- to allow more time to address important environmental issues. This would accomplish the main goal of the Pelosi Amendment without subjecting every project to a rigid 120 day requirement.

Similarly, we could establish a policy that in general we are not likely to support projects that fall short of these targets, but we might build in a certain amount of flexibility depending on the nature of the project and its environmental effects. Under Pelosi, in order for the U.S. to support an environmentally significant project for which an EIA or summary has not been released 120 days before the board vote, the Secretary of the Treasury would need to certify to Congress that the release of the EIA to the public would jeopardize the confidential relationship between the borrowing country and the respective bank.

Pro Would accomplish main goals of Pelosi, while avoiding adherence to rigid and inflexible rules which do not allow for exceptions when they are merited.

Would give the MDB "ownership" of the policy and result in more effective implementation.

Greater likelihood of reaching agreement with MDBs (other than the Asian Bank) on more flexible procedures than on inflexible Pelosi requirements.

Reduce risk of receiving additional legislation on MDB private sector EIAs.

Con Could result in more U.S. abstentions on MDB projects, although fewer than if Pelosi were unilaterally applied to private sector lending.

Relaxation of 120 day requirement could undercut environmental unit at the Asian Development Bank, which has already established policy that meets the requirement.

In addition the above options for a short term strategy, the following **Long Term Options** could also be explored:

f. Reinterpret Pelosi Amendment to apply to private sector operations by MDBs and their affiliates. Language of Pelosi Amendment is ambiguous on this point. A reference to "borrowing countries" has thus far been interpreted by Treasury to suggest the amendment was not intended to apply to private sector operations.

The U.S. currently is pressing the MDBs to meet the requirements of the Pelosi Amendment in their private sector operations, but with little support and limited success. The change this option represents is that in addition to pressing for this improvement, the U.S. would establish a position that it would abstain or vote "no" on all private sector MDB projects that do not meet these requirements.

Pro Would further emphasize importance U.S. attaches to timely environmental assessment of projects and public availability of environmental documentation on projects.

Asian Development Bank has already made it policy to perform environmental assessment of private sector projects which would have a significant environmental impact, and to make environmental documentation of such projects publicly available 120 days before Board votes.

Con At least in near term, would necessitate U.S. abstentions on many more projects. If we are seen as being on automatic pilot in our voting, our vote will carry less clout, as will our ability to shape projects during the project development phase.

Shorter project cycle for many private sector projects makes 120 day requirement difficult to meet. While we want the 120 day requirement to be met as a rule, and believe this is possible in many cases, if we apply the letter of Pelosi we would not have any flexibility in our voting even in rare cases when a shorter time frame might be justified.

Stronger basis (than for public sector projects) for argument that project information may be proprietary and for competitive reasons can not be publicly disclosed. Methods are available, however, to assure adequate public disclosure without compromising the confidentiality of proprietary business information. It is not clear that all information a business might wish to keep secret, e.g., a lack of public support, should be kept secret.

Could discourage private investment in developing countries.

No support among Boards or other members for this position, which is perceived as arbitrary and legislatively imposed.

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

Pro Supported by some NGOs.

Reduce adverse environmental and social impacts stemming from MDB financed activities.

Con Countries would look to other sources of financing, such as bilateral donors, that may not impose standards as high as those of the MDBs. It is not clear, however, that this is a major risk, given bilateral funding capabilities and other constraints.

Identification of such projects would require subjective assessments. Who would decide.

This is much more stringent than U.S. (NEPA) requirements.

Position would not be supported by MDB managements or other member countries.

Would also eliminate benefits of such projects, including poverty reduction and removal of bottlenecks impeding development of the private sector.

Likely negative effect on procurement in donor countries including U.S.; opposition by U.S. business interests.

h. For projects with major environmental impacts (e.g., World Bank Category A), 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.

Pro Board review early in project cycle would allow EDs to recommend modifications at a stage when they can be made with minimal expense.

Con Constitutes major change in project development/approval process. Might risk precipitating calls for other major changes which could be less advantageous to U.S. interests.

Would require use of a significant amount of political capital which might be better spent on other issues. Board agreement on this is not likely to be attainable in any event.

Imposes greater burden on EDs and staff supporting them. Other EDs do not have the capability to review and comment meaningfully on technical environmental aspects of projects, and most do not see it as within their mandate or an appropriate role for the Board.

Would not receive support of other countries which have called for streamlining Board procedures and reducing Board "micromanagement".

Recent changes in World Bank procedures - supported by U.S. - have reduced Board involvement in project approval while placing greater emphasis on oversight of country assistance strategies and sector policies. This would be seen as a contradictory to the initiative to strengthen the overall country portfolio and sector lending operations.

MDB managements and other Directors would resist this type of Board oversight of their work.

U.S. can review projects at any stage, without a formal process whereby all Board members weigh in. Also, sometimes quiet contacts outside the Board have more impact than Board statements, which often prompt counter-statements and backlashes.

- i. For projects with major environmental impacts (e.g., World Bank Category A), require support of a high percentage of member governments for project approval.

Pro Easier for U.S. to build coalition large enough to oppose projects.

Presumably fewer such projects would be approved, and thus less environmental damage incurred.

More intensive/higher quality environmental preparatory work presumably would be done on projects to ensure Board approval.

Con Likely opposition to idea by Boards, managements.

Would require amendment of the bank's articles of agreement. This would be very difficult. In the World Bank, for example, amending the articles would require approval by three-fifths of the members having 85 percent of the total voting power of the Bank.

The voting structure is a complex and sensitive issue, and negotiations to change it would be tricky. Opening up the articles would open the door to changes not supported by the U.S.

Recommendations: Options a, b, c d and e are recommended. Each of these recommended actions by the MDBs is achievable and would provided clear environmental benefits. Options f, g and h and i are not recommended at this time. There are significant cons to each of these options, and more careful consideration, including discussions with other governments, would be needed before these actions could be recommended.

2. Options for MDB Actions the U.S. Could Promote to Ensure Dramatic Improvement in Transparency and Public Participation in MDB Activities. Elements of a Near Term Strategy could include the following:

a. Press for improvement in transparency and public participation. Information on environmental aspects of projects and related policies should be made fully available to the public during the design and implementation of projects and policies. Ensure participation of local communities including women, indigenous peoples, and other vulnerable groups, in all bank operations. (Legislative basis: Pelosi Amendment, FY93 Foreign Operations Appropriations Act)

We would work with other MDB member governments to establish a new information policy which would define categories of information that would be treated as confidential in both Bank-generated and country-generated documents which are required by the banks. Each category of information which is designated as confidential should be justified by compelling national security or competitive business reasons, or FOIA type exclusions. All information not specifically listed as confidential should be made available in its entirety upon request in both borrower and donor countries.

It must be recognized that the degree to which we can, or perhaps should, influence this is limited. Even countries with open and democratic governing structures often do not have the institutional or legislative structure to support a U.S.-style participatory system. Full realization of this goal would require a major, high level initiative that might conflict with other strategic interests and objectives.

Pro Increase transparency and accountability of MDB operations.

Promotes principles established in the Brundtland Report and reaffirmed at UNCED, including democratization and human rights.

Public participation has consistently been shown to improve project quality and sustainability by fostering local ownership of projects.

Helps to ensure recognition of customary and formal tenurial rights of people affected by projects.

Leverages resources and expertise of NGOs and other grassroots organizations, thereby enhancing local acceptance of projects and strengthening local capacity.

Supported by NGOs.

Con Administrative effort required to establish and implement new procedures to carry out such a policy.

Increased short-term financial costs of projects. On the other hand, should lower long-term costs and enhance benefits.

May lengthen project cycle if not planned for in advance.

Strong resistance by some borrowing countries as intrusion by U.S. and U.S. NGOs on sovereign right. Resisted by borrowing governments that do not share U.S. democratic principles and experience.

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

Pro NGOs have essential local and technical knowledge and experience. They can oversee projects on day to day basis, thus improving project quality and sustainability.

NGOs may have closer ties to local people than the MDB or government institutions involved in a project, and could promote greater local understanding and acceptance of MDB projects.

Con Effort required to identify qualified NGOs and NGOs that are genuinely representative of affected communities, oversee their work.

Not all borrowing countries have NGOs that would be able to perform these functions.

Some NGOs have been established, in some cases by borrowing governments, to capture resources.

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.

Pro Supported by NGOs.

Facilitates continuity in bank-NGO relationships.

Expands public participation in MDB activities.

Reduces demands on bank staff (other than those who serve on committee).

Con Depending on how such committees were structured, they could serve to "compartmentalize" bank-NGO relationships and work against integration of NGOs into MDB activities.

Increased costs to MDBs.

Especially in the banks based in Washington and Europe, NGO committee membership could be biased toward OECD country NGOs.

International and local NGOs do not always share the same agenda.

d. Support the World Bank's proposal to create a public information center. The staff of such a Center would have the professional expertise necessary to serve as a central source of information, be experienced in Bank work, interact directly with Bank operational staff in processing information requests, and respond expeditiously to public requests for information. The public would be welcome to visit the Center. We would call for other MDBs to create analogous public information centers.

Pro Principle supported by NGOs.

Easier for public to identify source of information on MDB activities and to ensure accountability for availability of information. This is a long-standing method for insuring accountability and improving efficiency.

Con Possible increased administrative costs to banks, whose mission is to help promote development and reduce poverty in developing countries.

Would be resisted by other members.

e. The World Bank has proposed creation of an independent inspection panel appointed by Bank Executive Directors to investigate violations of MDB policies and procedures, or violations of loan agreements that threaten a project's sustainable development impact, for MDB projects under preparation or implementation. The U.S. would support this proposal and work with other member governments to establish provisions for public disclosure of panel findings and recommendations after an appropriate period of time. We would call for establishment of such panels in other MDBs as appropriate and work with other governments to implement this.

Pro Oversight of MDB operations by parties with no personal stake in projects or constituent loyalties.

Greater influence by taxpayers who fund MDBs and people affected by MDB projects.

NGOs have called for such a commission to be established at the World Bank.

Morse Commission which reviewed the World Bank's Narmada dam project in India is a successful example of what a temporary and project specific commission of this type can do.

Con Determining the membership of the committee would be tricky. For one thing, members with adequate technical capacity are likely to be drawn from institutions/organizations which have their own agendas.

Would not necessarily support/could oppose U.S. positions.

Would raise concerns in the U.S. private sector.

Difficulties maintaining independence from institutions and shareholders.

Enabling such a commission to override Board decisions would require amendment of the bank's articles of agreement. In the World Bank, for example, this would require approval of three-fifths of the members, representing 85 percent of the total voting power in the Bank.

MDBs already have internal evaluation units which should be reviewing projects to improve overall performance. It is not clear that the creation of an independent panel would be more effective than strengthening of these existing units.

Recommendations: All options, a through e, are recommended. Each of these recommended actions, if adopted by the MDBs, would provided clear environmental benefits. Over time, we believe that we can persuade the other members of the MDBs to support much of the substance of these recommended actions.

3. Options for MDB Actions that the U.S. Could Promote to Ensure Strengthened MDB Support for Environmentally and Socially Beneficial Activities. Elements of a Near Term Strategy could include the following:

a. Support the development and implementation of projects and policies which will achieve the following:

- Poverty reduction;
- Support for the objectives of UNCED and the Climate Change and Biodiversity Conventions;
- Conservation of soil and forest resources;
- Prevention of desertification;
- Conservation of biological diversity at genetic, species, and ecosystem levels, both terrestrial and marine (Legislative basis: FY93 Foreign Operations Appropriations Act);
- Watershed management, more efficient and environmentally sustainable use of water resources;
- Environmentally sound agricultural production, including support for small farmers, research, integrated and ecological pest management, and reduced pesticide use;
- Improved industrial practices and pollution prevention;
- Transportation systems with minimal environmental impacts; and
- Alternative energy generation and more efficient energy generation and use. (Legislative basis: FY93 Foreign Operations Appropriations Act).

Pro These are all desirable goals.

Con Requires more meaningful USG oversight.

b. Press MDBs to increase support for population programs. An important corollary to this effort is education for girls since, statistically, the more highly educated a woman is, the fewer children she will have. Even primary education alone makes a significant difference in birth rates.

Pro Contributes to goal of poverty reduction.

Reduces pressure on natural resources.

Increases economic opportunities for women and increases control over issues managed by women, which often include management of basic resources.

Con MDBs do not have a strong record on this type of project.

This is a politically sensitive issue.

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

Pro Small projects have been shown to have important poverty reduction impacts.

Small projects are unlikely to have significant adverse environmental impacts.

Likely opportunity for NGOs to participate in project development and implementation.

Con The returns on small projects are unlikely to cover the banks' costs of developing them.

- 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. Further work is needed to determine how MDBs can best go about this, since to date their track record on this type of project has been weak.

Pro Improve borrowing country environmental standards/regulations/legislation, quality of environmental impact assessment, effectiveness and sustainability of projects.

Reduce borrowing country dependence on bilateral and multilateral financial and technical assistance.

Con This type of project is perceived by many borrowing countries to have low or negative short-term economic return.

Possible perception that MDBs are inappropriately trying to influence borrowing countries' internal affairs.

MDBs have had limited success in this area so far.

In addition the above options for a short term strategy, the following **Long Term Options** could also be explored:

- 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.

Pro Supported by some NGOs.

Con Appropriate amount of environmentally and socially beneficial lending would be more effectively determined in the context of country lending strategies and policy dialogue.

Earmarking could cause crowding out of funds which might be used to serve other desirable goals.

We have urged that environmental goals be integrated into overall development strategies and not segregated or marginalized.

Possible negative impacts on MDBs' financial viability due to lower economic returns on these types of projects.

"Environmental" projects have a mixed track record.

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, and the like.

Pro Such projects most directly address the needs of the poorest.

With the exception of water supply and sewerage projects, such projects are unlikely to have major adverse environmental impacts. Water supply and sewerage projects can be designed to avoid negative environmental impacts, and can have beneficial impacts on health and the environment.

Supported by some NGOs.

Con These types of projects do not generate much income with which to pay back loans. On the other hand, MDBs can only provide so much concessional lending or grant funds and still remain financially viable.

Bank managements and borrowing countries, both of whom have vested interests in continuing lending/borrowing for a wider variety of projects, are not likely to support this shift.

Infrastructure investments are important to overcoming economic bottlenecks and supporting the private sector. Prohibiting the MDBs from supporting these types of projects would have serious economic and social implications for developing countries.

Development priorities, including means of achieving poverty reduction, depend on individual country circumstances.

In the case of development of justice systems, there is the issue of sovereignty.

OECD countries are unlikely to support.

Adverse for U.S. businesses. Congress may not support for this reason.

Recommendations: Options a, b, c and d are recommended. Each of these recommended actions by the MDBs is achievable and would provide clear environmental benefits. Options e and f are not recommended at this time. There are significant cons to both of these options, and more careful consideration, including discussions with other governments, would be needed before these actions could be recommended.

4. Options that the U.S. Could Promote to Ensure MDB Leadership in Environmentally Sound Decision-Making. Elements of a Near Term Strategy could include the following:

- a. Call for the development and implementation of methodologies of environmental and social impact assessments in the development of adjustment programs. (Legislative basis: FY93 Foreign Operations Appropriations Act)

Pro Opportunity to mitigate negative environmental and social impacts of structural and sectoral adjustment programs.

Reduce criticism that MDBs focus on macro issues at the expense of the environment and the poor.

Con Data on long-established economic and financial factors is scant in developing countries, and data needed to incorporate environmental considerations is virtually non-existent.

Difficulties in developing and implementing methodology, risk that the issue could be politicized.

Mitigating adverse environmental and social impacts of adjustment programs may reduce or slow positive impacts of such programs.

Requires additional MDB and/or borrower resources.

World Bank plans significantly to reduce structural adjustment lending. Some other MDBs don't do SAL. Therefore not good use of resources to develop methodology to do EA of SAL.

- 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 evaluations, including GNP. (Legislative basis: FY93 Foreign Operations Appropriations Act) Where appropriate, this should include measures in adjustment programs to stabilize natural resource assets.

Pro Insistence on explicit qualitative and quantitative valuations of externalities would force needed baseline statistic gathering, improving assessment and decision-making.

National accounts would not overstate or understate countries' wealth.

Natural resources would no longer be overused due to undervaluation.

Preservation of natural resource assets for possible future use.

A larger number of environmentally beneficial projects would produce MDBs' minimum rates of return and therefore be carried out. (See discussion of environmentally beneficial projects above.)

Support of NGOs and local populations in some areas.

Con Data is scant and irregular in developing countries, even in areas that have been addressed for many years. Quantifying environmental costs and benefits can be difficult.

Possible resistance by borrowing countries, which may feel they can't afford the short-term costs.

Possible trade implications.

Could be politicized, e.g., is conservation of marine ecosystems in one country compared with pollution in another.

Could reduce economic gains from structural adjustment measures in near term.

Could have implications for a country's eligibility to receive development assistance, which is a highly sensitive area.

Recommendations: Both options are recommended. Although there are unresolved problems in developing and applying a methodology to integrate environmental considerations into economic decision-making, the potential benefits are great enough to justify immediate action by the MDBs.

5. Options for MDB Actions that the U.S. Could Promote to Ensure MDB Commitment to Sound Environmental Policies and Standards. Elements of a Near Term Strategy could include the following:

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

Pro Environmental benefits.

Economic benefits: pollution is waste. Efficient energy generation and use can forestall need for and be cheaper than additional energy production.

Opportunities for U.S. businesses.

Con Costs of developing, purchasing, and operating such technologies, if these costs are greater than those associated with current technologies.

Requires use of scarce foreign exchange if such technologies are not produced locally. Also, maintenance and spare parts will pose a challenge if no one is trained to operate and spare parts must be imported.

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.

Pro Ensure strong policies to conserve and protect natural resources based on integrated, least-cost approaches to resource management.

Ensure consistency across MDBs.

Ensure consistency with domestic U.S. environmental agenda.

Con In some cases the standards which the U.S. wishes the MDBs to adopt are higher than domestic standards.

We have not undertaken the systematic review of operations needed to get a clear empirical basis for pressing for specific policy reforms.

In addition the above options for a short term strategy, the following **Long Term Options** could also be explored:

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.

Pro EIA procedures provide a comprehensive, standardized framework for decision-making.

Would ensure consideration of alternative approaches, since this is a key part of the EIA process.

Would expand transparency and public participation of MDB decision-making processes, since the EIA process calls for informed public participation.

Con Would require additional MDB resources.

The methodologies and underlying baseline data are not available to pursue this now.

Much work is still needed to develop in country capability to undertake EIAs for projects.

MDB managements likely to resist, on basis that this could slow and unnecessarily interfere with internal bank work.

Many other member countries would not support such openness regarding bank work.

Asking for additional categories of EIAs might cause a backlash from countries resistant to micromanagement. There are still certain categories of projects for which we are pursuing mandatory EIAs.

Recommendations: Options a and b are recommended. Both of these recommended actions by the MDBs are achievable and would provided clear environmental benefits. Option c is not recommended at this time. There are significant cons to this option, and more careful consideration, including discussions with other governments, would be needed before it could be recommended.

POSSIBLE DIPLOMATIC EFFORTS TO ADVANCE U.S. POLICIES

Issue for Decision:

Whether the U.S. should increase its efforts to gain international support for environmental strengthening of the MDBs, and if so how.

Additional Background:

Historically, the United States has consistently been the leader in calling for environmental reform and increased transparency and accountability in the MDBs. U.S. diplomatic efforts to gain international support for our objectives have focused on several fora, including (1) replenishment negotiations for the individual MDBs; (2) the MDBs internal coordination mechanisms, such as the World Bank's Annual Meeting or Development Committee meeting; (3) sporadic bilateral efforts; (4) G-7 Economic Summits; and (5) corridor discussions in related international fora, such as the Participants Meetings of the GEF.

Unfortunately, although U.S. leadership has resulted in considerable environmental progress at the MDBs, we have often received inadequate support from other donors and the developing countries on important issues. The new Administration has an opportunity to raise international awareness on these issues and to conduct more effective diplomatic efforts to find support for needed reforms in both donor and developing countries. U.S. options in this area might include:

Options:

- Option 1: Continue current practice.

Pro Current efforts have resulted in significant environmental progress at the MDBs.

Would not require new demands on environmental staff.

Con Lack of international support has been the principle reason for relatively slow progress on MDB environmental strengthening, suggesting that we need to increase our efforts in this area in order to make more rapid and sustained progress.

Increased diplomatic efforts in this area are called for in our legislation, and may be essential if we are to achieve the goals of our legislation.

Expanded diplomatic efforts at environmental strengthening of MDBs would provide benefits in related areas of U.S. concern, including the GEF and the follow up to UNCED.

- Option 2: Insert environmental and related concerns fully into MDB replenishment negotiations.

Pro Provides a ready-made forum for negotiations of MDB policy and one where we have some clout.

Avoids having to treat the subject in an unfamiliar context or to gear up for a special conference.

Con May not generate enough high-level attention within participant governments to make much of a difference.

Replenishment negotiations give some guidance to MDB managements but do not necessarily commit governments to support those policies in MDB board discussions.

- Option 3: Strengthen bilateral discussions with key donor and developing country Ministries. Developed country opportunities for high-level discussions might include Japan, which has informed the State Department of its desire to collaborate more closely with the U.S. on environmental issues; Switzerland, a new member of the World Bank; and traditional supporters such as Germany, Canada, the U.K., Australia, the Netherlands and the Nordic countries. Discussions should be conducted with ministries of environment, finance and foreign affairs and directed toward specific objectives or proposals.

In addition to high-level discussions, U.S. agencies could consider making an interagency trip to European capitals to establish staff-level contacts in key Ministries. These sorts of staff-level contacts have proven quite valuable in U.S. efforts to improve individual MDB projects. A lower-cost alternative would be to organize a meeting of staff-level environmental personnel at the World Bank's Annual Meeting in Washington next September.

Developing country "bloc" opposition to MDB reforms is also a major impediment to MDB environmental reform. The U.S. could undertake a concerted effort to identify a few key developing country governments that are more receptive to MDB environmental reform and target these for high-level bilateral discussions.

Pro This is an essential first step in any program of action that might be taken.

Bilateral discussions at an appropriately high level would signal our seriousness about these issues.

Conducting bilateral discussions before making any major policy initiatives would signal our willingness to take into account the views of other countries.

Con Few, if any, drawbacks.

○ Option 4: Use the occasion of the upcoming 50th anniversary of the Bretton Woods meeting (1994) to make MDB environmental issues a central component of G-7 Summit negotiations. At the Tokyo Summit, we were successful in adding language to the Summit communique encouraging MDBs to become more transparent and to focus more intensively on the sustainability of development.

Pro This is a high-profile forum, and the G-7 nations are generally the most supportive of U.S. efforts for environmental and social reform of the MDBs.

Until we elevate the issue to the level of a summit we will not signal that it has a high priority.

Con The issue would need to be handled sensitively to avoid creating the impression among developing country governments that the "rich man's club" is trying to force unwanted conditionality on struggling economies.

This initiative would not benefit from the results of the proposed evaluation of MDB-environment issues.

This issue could be overwhelmed by other high-priority initiatives.

○ Option 5: Vice-President Gore and Secretary Bentsen, the U.S. Governor to the 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.

Pro Demonstrates high-level concern for and commitment to MDB environmental performance.

Demonstrates willingness to hear the views of other interested countries and senior Bank management.

Con Could raise undue expectations regarding future financial commitments to the institutions.

○ **Option 6:** Propose a working conference among the MDBs and bilateral donors, NGOs and other development practitioners to consider ways to strengthen sustainable development. This might take place under the aegis of an appropriate coordination mechanism, such as the OECD's Development Assistance Committee (DAC).

Pro Would highlight issue, enhance coordination and identify opportunities for cooperative efforts.

Would encourage other countries, through their bilateral assistance agencies, to take environmental issues more seriously.

Would bring NGOs to the table on an issue about which they have much expectation and strong views.

Con Could be seen by developing countries as another way of increasing conditionality after UNCED.

Might overlap with ongoing or planned activities at the DAC, the CSD or other fora.

○ **Option 7:** Use the World Bank's upcoming Development Committee meeting to advance the U.S. agenda a key MDB-environment issue. This meeting is generally attended by Finance Ministers or their high-level representatives, approximately half from developing countries. Discussion papers are prepared in advance by World Bank staff.

Pro The Development Committee has in the past helped advance the U.S. agenda on environment and other key issues.

The Development Committee is viewed more favorably by developing countries than the Executive Board.

It would highlight the issue and could encourage support from both developed and developing countries.

Con Although the Development Committee meeting produces an agreed communique, the meeting itself is too formal for meaningful discussion of complex issues to take place.

NGOs are not observers at the Development Committee.

○ Option 8: Expand use of U.S. Executive Directors' workshops on appropriate topics. Last year, the U.S. Executive Director to the World Bank held workshops for Bank staff and other EDs on energy efficiency and on the power sector in Central America.

Pro Can be quite effective at fostering open discussion of key issues, particularly among groups that may not otherwise interact.

Con Requires considerable staff work to pull together an effective workshop with appropriate outside experts.

○ Option 9: Incorporate environmental policies of the MDBs as a major component of the dialogue among G-7 Executive Directors.

Pro Convenient and cost-effective mechanism for seeking support for our agenda.

Con Few, if any, cons.

Recommendations: All options are recommended. The U.S. should push its agenda for MDB environmental strengthening in as wide a variety of fora as resources permit. This will help to ensure that there is widespread international support for integrating environment into the MDBs' lending programs, which is essential to successful UNCED follow-up.

ANNEX 1: REVIEW OF RECENT WORLD BANK INITIATIVES TO PROMOTE SUSTAINABLE DEVELOPMENT²

1. Agriculture Sector

In FY93, the Bank completed an agriculture sector review that identified ways to strengthen the performance of Bank-financed projects. The review recommends a sector strategy approach that includes: attention to relevant non-agricultural policies; greater involvement of local people in design and implementation of rural projects; reform of property rights and land tenure systems; strengthened community institutions. The review further recommended a wider range of design options and consideration of alternative solutions to agricultural issues; a scaling down of projects to reflect institutional capacity; flexibility to permit modification during implementation; and better assessment and management of risk. Options for greater participation include contract or lease arrangements with farmer groups and NGOs, partnership arrangements with domestic private firms, and inclusion of the non-farm economy in sector analysis. The Bank is evaluating the staffing needs and relevant skill mix to address the recommendations.

2. Brazil Rainforest Pilot Program

In December 1991, the World Bank was given the coordination of a three-year pilot program for the Amazon Rainforest launched by the G-7, EC, and other donors in cooperation with the Government of Brazil. The Bank administers the Rainforest Trust Fund, to which \$58 million has been committed, and coordinates relevant bilateral and multilateral projects. Information on co-financed, bilateral, and multilateral projects is stored in a data base at the Bank and is updated periodically to help promote coordination among donor activities. The Program supports a three-pronged approach designed to reduce the rate of deforestation of the Brazilian Amazon: (a) strengthening capacity of the public sector to enforce sound policy; (b) improving management of protected areas, and (c) increasing the knowledge base regarding conservation of the rainforest and sustainable use of resources.

Recent political developments in Brazil have stalled progress under the Program. The U.S. has also been frustrated with the lack of willingness on the part of the Government to ensure a fully participatory approach. On the other hand, Brazil has complained about the slow pace of disbursements of additional resources promised at the 1990 Houston G-7 Summit, and the fact that much of those resources are for existing projects. At some point, the USG may want to explore the link of this initiative to the Forests for the Future Initiative.

3. CGIAR

Together with FAO, the Bank serves as a co-sponsor of the Consultative Group on Agricultural Research (CGIAR), an association of 40 public and private sector donors that support a network of 16 agricultural research centers. The Bank provides the chairman and an executive secretariat located in Washington. CGIAR's mission is to ensure that international scientific capacity is brought to bear on issues related to food, agriculture, forestry, and fisheries problems.

² This annex is intended to summarize recent World Bank initiatives in environment and related areas. It is not intended to be a final USG critique of the Bank's work in this area.

Priority areas for the Group, which has been associated with the Green Revolution, include germplasm exploration, breeding and improvement of tree species, conservation and management of natural forests, ecosystems policy and marketing research, information management, and training.

4. Environmental Assessment Procedures

The Bank strengthened its Operational Directive on Environmental Assessment Procedures in FY92 (Oct 1991). The new Directive requires environmental assessments to be conducted for projects with diverse and significant impacts on the environment. For major highly risky or contentious projects with serious and multi-dimensional environmental concerns, the OD calls for a panel of independent international specialists to advise on EA preparation and implementation. The Directive also urges that sectoral and regional EAs be used where cumulative impacts or sectoral investment programs are planned, and that global environmental impacts be considered where relevant and feasible. The Bank's Environment Department is currently preparing guidance on global environmental issues.

In FY92, the three-volume Environmental Assessment Sourcebook was issued as a working handbook for preparing EA report. The first volume provides detailed guidance on social issues, economic analysis, strengthening of local management capabilities and institutions, financial intermediary loans, and community involvement and the role of NGOs. The other two volumes address specific sectors, including agriculture, industry, transport, urban infrastructure, and energy.

The second annual review of the EA process is highly critical of the EA work that has been done by Bank borrowers with support from Bank staff, although it recognizes steady improvement in the quality of the EAs and increased staff and borrower capacity and appreciation of the importance of the EA process. At the request of the United States, the Board will consider the report and its implications at a special meeting on April 13.

5. Energy Sector

Bank lending has begun to shift away from direct financing of power expansion toward projects that emphasize the appropriate sectoral policy and regulatory framework, although the shift has not been as quick or as systematic as we would like. Criticism that the Bank was not moving quickly enough to promote efficiency (particularly on the demand side) and conservation prompted a review and strengthening of the policy for Bank lending in the electric power sector, with a companion work plan for energy efficiency and conservation. A third major policy on Rural Energy, to address efficiency improvements in the delivery and use of rural energy, will be completed in FY94.

The new electric power policy was prepared in close consultation with NGOs and other practitioners, although only under much USG pressure. The policy strengthens the framework for operations in several key ways:

- oo Transparent Regulation: Requires all power sector lending to be done within the context of explicit country movement toward an appropriate legal and regulatory framework. This is defined as a framework that is transparent and independent; supports competition and promotes efficiency; and provides a sound basis for open discussion of power sector economic, financial, environmental, and service policies.

{NSC-12, Item 4A: U.S. Policies Towards the Multilateral Development Banks}

- oo Integrated energy strategies: Bank lending should be based on, or support the development of, integrated energy strategies that help borrowing countries take advantage of all energy supply options, including conservation-based supplies and renewable energy.
- oo Commercialization and Corporatization: The Bank should aggressively pursue the commercialization and corporatization of, and private sector participation in, developing country power sectors. Power enterprises must operate as commercial businesses and have the autonomy to manage their own budgets, borrowing, procurement, salaries, and staff.
- oo Commitment: Bank lending should be focused on countries with a clear commitment to improving sector performance, and the Bank should not continue to finance power projects where poorly performing and polluting utilities are unwilling to carry out needed structural reforms. Governments should reduce their role in funding and operating electric power facilities.
- oo Efficiency: The Bank will better integrate energy efficiency into policy dialogue so it can be addressed at an earlier stage of policy and project development. The Bank should be more selective in lending for supply, and approaches for addressing demand side management and end-use intermediation should be supported and given high level in-country visibility. Energy saving and pollution abating technology should receive greater attention in sector and project work. The Bank should assist borrowing countries to develop integrated energy strategies that consider supply and demand side measures, unconventional renewable options, and environmental issues. For all sectors, the Bank should actively monitor, review, and disseminate the experience of new efficiency-enhancing supply side and end-use products, technologies, and processes, and pollution-abating technologies as they are developed and reach the market place; help finance their application; and reduce barriers to their adoption.

The 1993 reorganization within the Bank strengthened the profile of energy, particularly energy efficiency and conservation, within the Bank. It is hoped that the new staffing and organizational arrangements will facilitate quick implementation of the strengthened policy framework. Nevertheless, we recognize that there is still resistance to this reorientation among Bank staff and some other member countries. The USG has established a working group, including NGOs, to ensure that the new policy is fully reflected in Bank operations.

6. ESMAP

The Energy Sector Management Assistance Program was established in 1983 jointly with UNDP as a technical assistance program that promotes more efficient use of energy in developing countries and provides assistance for local capacity building. The Program, which is funded by bilateral donors, is currently active in 30 countries, providing technical assistance for energy conservation strategies, power system strengthening, rural energy planning, energy efficiency, and the development of new and renewable energy sources. USAID discontinued support for the Program, pending resolution of several policy and organizational concerns. One concern was addressed in the recent Bank reorganization, whereby ESMAP was integrated fully into the newly constituted Energy Department.

{NSC-12, Item 4A: U.S. Policies Towards the Multilateral Development Banks}

7. Environment Sector

The U.S. has expressed reservations about targeted environmental lending, because we have pressed for integrating environmental criteria into all development activities and because we have found serious problems with certain "environmental projects." However, because there are regular requests for data on the Bank's commitment to environment, the Annual Report on Environment breaks out projects and components along these lines.

According to the Annual Report, in FY92, the Board approved 19 projects that were "primarily environmental,"³ totalling \$1.2 billion (up from 13 in FY91). The breakdown by region:

- oo Africa: 6 projects, totalling \$184 million (compared with 3 in FY91). The Region has pledged that the number of such projects will continue to increase.
- oo Asia and Pacific: 8 projects, \$495 million
- oo LAC: 5 projects, \$500 million

By subject:

- oo Ten were primarily concerned with better management of natural resources;
- oo Six with building institutional capacity to plan and implement environmental strategies and action plans;
- oo Several focused on both priorities.

Another 43 projects contained "significant environmental components" (30% of projects approved in FY92):

- oo Africa: 11 projects;
- oo Asia and Pacific: 16 projects;
- oo Europe & Central Asia + Mid East & North Africa: 6 projects;
- oo Latin America & Caribbean: 10 projects.

Over half the Bank's agricultural projects and two-thirds of its education projects include specific measures to help women.

For policy based loans, a preliminary review of 58 countries with World Bank adjustment programs over the period FY88-92 determined that 60% of the countries had structural or sectoral adjustment programs that included environmental objectives or loan conditionalities that addressed environment concerns in the areas of agriculture, forestry, energy, trade, and industry. This compares with 37% for the previous review period, FY79-87. Environment programs have also been undertaken in several stand alone sectoral adjustment programs.

8. Environmental Economics

³ Project is primarily environmental if either the costs of the environmental protection measures or the environmental benefits exceed 50% of the project's total costs or benefits. Projects have significant environmental components if these exceed 10% of total costs/benefits.

The Bank has intensified its policy and analytical work in the area of environmental economics, with a view to developing approaches and methodologies that can be used in project design and appraisal as well as by other decision makers. Work is underway on issues related to land and water pollution, atmospheric emissions and air quality, and global climate change. The Bank is also working to develop global environmental indicators and identify major determinants of change in key environment indicators as an aid to policy analysis. Operational policy models for use by Task Managers are being developed to link economic activity to environmental change. Development of appropriate incentive systems for environmental improvement is also underway, with a focus on industry and technical issues.

Research is underway also in the area of trade and environment. Early results have pointed to the conclusion that the product mix is much more pollution intensive in countries with strongly protectionist trade policies as well as in countries with little environmental protection. Pollution intensity is also strongly correlated with capital- and technology-intensity. As industrial pollution data for developing countries are quite limited, the Bank is also working to develop information systems to gather and review needed information. This is likely to be an area of growing interest within the U.S. government and the environmental community.

A recent publication, "Natural Resource and Environmental Information for Decision Makers" (1992) explores how to use environmental technology and tools, which have been expanding rapidly, to gather and assimilate environmental information into decision making.

9. Forest Sector

In 1991, the World Bank adopted a new forest policy developed in close consultation with the environmental community and has been widely praised for its process as well as its substance. The policy work, which set a standard for future policy development activities, recognized that the sector is characterized by externalities that result in a divergence between national and global costs and benefits. The policy also recognizes the distinction between long term and short term cost/benefits.

The new policy focuses on country commitment and capacity, and recommends a fourfold strategy to address deforestation:

- oo economic development and diversification, in order to reduce poverty and income inequalities;
- oo forest protection through legislative and regulatory measures;
- oo changing private incentives through enforcement of zoning and other regulations; and
- oo public investments preceded by much more careful environmental assessments.

The policy endorsed a "measured approach" to the sector to ensure these are present prior to full scale investment operations. The policy further states that the Bank will not under any circumstances finance commercial logging in primary moist tropical forests, and that infrastructure projects that might result in the loss of primary forests will be subject to rigorous environmental assessment. Forest sector activities will be linked more closely to country economic and sector work. Since the adoption of the new policy, Bank lending for this sector has declined sharply.

The new policy has led to specific regional initiatives. The Africa Region is preparing regional guidelines to supplement the policy paper on The Forest Sector. The Asian Forestry Development Strategy advocates different approaches for forest-surplus and -deficit countries. In the latter, the Bank will press for designation of areas large enough to safeguard critical habitats and biodiversity and protect watersheds and forest dwellers. In the former, assistance will support forest management institutions, assisting with strategic planning, revising incentives, and encouraging public participation.

10. IDA-10 Agreement

The policy framework to guide the next phase (FY94-96) of operations of the International Development Association (IDA) was approved by the IDA Executive Board on January 12, 1993. The framework contains most of the key U.S. objectives for the Association, which were developed in close coordination with the environmental community. These include:

- oo commitment to increased operational effectiveness in poverty reduction, including through country poverty assessments;
- oo strengthened environmental focus involving a strategy of policies and programs for sustainable development, including ensuring that National Environmental Action Plans are integrated into the policy dialogue and country assistance strategies;
- oo commitment that country economic memoranda systematically take account of environmental considerations and their impact on development strategies;
- oo improved scope and quality of Environmental Assessments and Analyses, with annual reviews of the EA process;
- oo further analytical work on integrating environmental costs and benefits into national accounting systems;
- oo commitment that energy lending will be based on or support development of comprehensive energy strategies that incorporate energy efficiency and conservation;
- oo greater attention to governance issues, including accountability, transparency, and consultation with NGOs and affected groups;
- oo commitment to strengthened project quality, including through improved monitoring and supervision;
- oo confirmation of public access to environmental information, regardless of the project type or category.

The United States will be working to ensure that these and other commitments are implemented fully and quickly.

11. Indigenous People

An Operational Directive approved in 1991 expanded Bank policy to ensure "informed participation" of indigenous people in the preparation of development plans and project design, implementation, and evaluation. The OD provides specific guidelines for preventing or mitigating adverse impacts of Bank development projects on indigenous peoples. A number of projects were prepared in FY92 with Indigenous Development Plans, as called for in the OD. A series of sector studies was also undertaken to better understand how to strengthen involvement of indigenous people in the development process. These studies included an analysis of health and nutritional

needs of tribal people in India, a diagnosis of poverty and indigenous people in Latin America, and a review of traditional community based forest management systems in Indonesia.

In 1992, the Bank published "Protecting Amerindian Lands: Review of World Bank Experience with Indigenous Land Regularization Programs in Lowland South America." The report reviews the operational problems encountered in indigenous land tenure programs in Bank-funded projects, including unintended effects of road construction, land settlement, and resource extraction. The report concludes that future Bank programs affecting indigenous groups should be accompanied by more detailed baseline studies, active participation by indigenous groups and NGOs, technical assistance, and institution strengthening components.

12. Industrial Pollution Guidelines

The Bank is in the process of preparing new Industrial Pollution Abatement Guidelines, which will supersede the current Environmental Guidelines developed in the early 1980s. The new guidelines should be consistent with stricter pollution control laws, skyrocketing waste management costs, and growing traffic of toxic and hazardous waste. The new guidelines will reflect pollution prevention through reduction at the source, rather than managing the waste after it has been produced. The guidelines will also stress application of cleaner production technologies, conservation of resources, and waste minimization. A total of 85 new guidelines is planned, including ones addressing sectors and contaminants not covered in the previous guidelines (such as thermal power plants, PCBs, etc.). It is expected that these will be published in 1993 as they are completed. The U.S. has urged the Bank to accelerate this process in order to apply the higher standards to projects in the pipeline. Most of this work is being financed by external sources, including from the bilateral donors (not including the U.S.), but funding sources have not been identified for all 85 guidelines.

13. Land Degradation

A Bank-sponsored experts meeting on land degradation and management held in 1991 identified the need for better information on social conservation programs and underscored the relative ineffectiveness of such programs. As a result, a series of studies was undertaken on social conservation programs in Central America in conjunction with a regional agronomic institution. Preliminary findings stress the importance of preserving and building upon traditional cultivation techniques and the incremental adoption of small scale cultivation techniques.

14. Marine and Coastal Zone Issues

The Bank is working with UNEP and FAO on the preparation of "Integrated Coastal Zone Management Guidelines", pursuant to Agenda 21. The technical portion of the guidelines will be presented to the Conference on Climate Change and Coast Zones, The Hague, November 1-5.

The Bank is also supporting an initiative, involving case studies and training, to develop practical and effective procedures for management of coastal ecosystems. Other activities include the Caribbean-wide Marine Program, a case study of urban coast zone management in Brazil, and an inventory and assessment of upcoming Bank projects in coastal zones. The Bank is also collaborating with IUCN on a global research effort to map out marine biodiversity. The data will be used to identify areas in need of immediate protection for further financing, and to determine

which areas are merely "paper parks." Where important ecosystems are found to be under threat, they will be given higher priority for conservation initiatives.

Work is underway to identify regions for pilot projects in marine management: Southeast Asia and the South Pacific are leading candidates. The Bank has also undertaken a series of case studies examining the potential for linking marine conservation with economic feasibility. The first of the studies, on the Caribbean, is near completion.

15. National Environmental Action Plans (NEAPs)

The Bank is assisting all borrowing countries to prepare National Environmental Action Plans. Most countries have begun to prepare the Plans, and several have been completed. NEAPs are intended to help focus policy and research efforts on critical environmental issues and identify priority areas for investment. The Plans should also help other development institutions, including NGOs, set targets and priorities for funding. The NEAP is expected to be part of a continuing process for government environmental decision making and management. The preparation of NEAPs involves a broad process of public participation, organized through various levels of government, including local authorities, and through civic groups, research and academic institutions, NGOs, and other private sector organizations.

The goals of NEAPs are to further environment policy and legislation, strengthen the institutional framework for dealing with environmental issues, build national capacity for environmental management, establish environmental monitoring and information systems, develop human resources, and address natural resource management issues. Responsibility for preparation and implementation of the Plan rests with the government. The Bank provides advice and, if requested, technical assistance. The Bank also works to integrate the NEAP in the country's development plans and its own country assistance strategy.

The USG has not undertaken a systematic review of the NEAPs for their overall quality or their impact on development strategies. We have expressed concern that the time frame for completing the Plans has continued to slip and that our preliminary assessment is that they are uneven in quality. We also note that they are considered the property of the host government, and therefore not automatically made available to the public. We are working to ensure this access.

16. NGOs

In FY92, 66 (33%) approved projects involved NGO participation: 63% of agricultural and rural development projects; 63% of population, health, and nutrition projects; and 45% of water and sewerage projects. NGOs were also involved in development of Bank policies on indigenous people, forest, electric power and energy efficiency, and water resources management, as well as in the preparations of the 1992 World Development Report on Environment and the Poverty Reduction Handbook. Of the NGO associated projects, 48% involved indigenous NGOs, 28% grassroots groups, and 24% international NGOs. The greatest share of NGO-assisted projects was in Africa.

The NGO-World Bank Committee, formed in 1982, is the principle vehicle for policy dialogue between the Bank and the NGO community. The Committee considers issues ranging from structural adjustment, poverty, and participatory development to funding mechanisms for NGOs. This dialogue was the catalyst for a three-year Bank-wide program on improving

participatory development begun in FY92. The midterm report was issued in October 1992 (see section on Participatory Development, below). A separate research project was initiated in 1992 that will examine NGO-government relations in a number of developing countries.

17. Organization and Staffing

In FY92, 140 high level staff were involved full time in environmental activities, in the Central Environment Department and in the Regional Departments. On the basis of time, 279 staff years were devoted to environmental activities.

The Bank reorganization that went into effect January 1, 1993, underscored the primacy of environment to Bank operations with the creation of a new Vice Presidency for Sustainable Development. As part of the reorganization, the Environment Department was restructured and expanded better to address analytical, policy, and operational work and support for regional operations. The Director of the Department was also designated the chief environmental adviser to the President.

Bank President Lewis Preston recognizes that the Bank still does not have the full range of skills and tools needed. In his keynote address at the 10th Anniversary Celebration of the World Resources Institute, he stated: "It is clear that we need to do more to incorporate the lessons of our successes and failures and to improve on-the-ground implementation -- which is where development really counts." The Bank is reviewing its skill mix for meeting the new operational emphasis on environment. This assessment will be the basis for recruitment of environment-related personnel beginning July 1993. An environment/social technical panel has been established to screen all promotions of staff to senior environment/ social positions.

18. Participatory Development

In 1991, as a result of discussion within the NGO-World Bank Committee, a three-year program was established with a \$1.3 million trust fund to strengthen participatory development in Bank-funded activities. As part of this initiative, the Bank sponsored a workshop on participatory development, including NGOs and other development specialists. NGOs concluded that the Bank should be more proactive in encouraging borrowing governments to share information and promote local participation. The interim report of the program, which was issued in October 1992, confirms the positive link between local participation and development effectiveness, particularly in areas requiring changes in local behavior. The report also identifies the potential risks of widening participation, which include higher administrative costs, creation of overly high expectations, and capturing of resources by local elites. Overall, the report concludes that the benefits exceed the costs, particularly if the latter are identified and addressed. The findings should help to promote operational mainstreaming of participation as a priority through a number of vehicles, such as economic and sector work, policy dialogue, lending operations, technical assistance, and preparation of NEAPs and EA reports. The core team recommends that the training curriculum for Bank staff be strengthened and expanded better to address issues related to participatory development.

The Metropolitan Environment Improvement Program for five Asian cities (Beijing, Bombay, Colombo, Jakarta, and Manila) seeks to address urban problems through an integrated planning and management approach. Work in each city is guided by a steering committee composed of representatives from the central and local government agencies responsible for economic planning,

environmental protection, sectoral development, land use, and urban planning, as well as private sector reps, and NGOs.

19. Project Quality

As a result of a November 1992 task force report (Wapenhans Report) that documented deterioration in the performance of its project portfolio, the Bank is undertaking an action program to improve loan quality. The program will place more emphasis on improving the quality of MDB projects, as opposed to increasing lending volumes. The recommendations of the report were discussed in four Executive Board sessions and reflect USG concerns. Many of these recommendations are already being implemented and a detailed, time-bound action plan is scheduled to be released April 6 and expected to be considered by the Executive Board in May.

20. Regional Initiatives

Africa: The work program consists of regional studies addressing environmental management in broad areas such as forest and dryland management; country-specific work on national and sector strategies; lending operations for natural resource management, institutional development, and urban management; and strengthened capacity to undertake environmental assessment of Bank operations. In 1992, the region issued an "African Environmental Status Report," which recommended strengthened work with affected groups and NGOs; increased EA training; strengthened NEAP process; more work on environmental economics; and better information and in-country data base systems. The region has committed to focus future operations more on supervision and monitoring and to increase the share of the lending program for environmental projects that (a) strengthen natural resource management, especially of soils, water, and forests, and (b) strengthen the environmental policy frameworks and environmental institutions. The Bank has initiated a program to build local capacity in environmental economics, including training for local economists, civil servants, and others involved in preparing EAs and NEAPs. The Bank is also funding a network to support indigenous research. To address the problem of inadequate data, the Bank is supporting pilot programs to establish environmental information and monitoring systems for use by planners and other decision makers. To date, 13 countries have participated in the program and are beginning to exchange information among themselves.

Asia: Asia encompasses a vast range of economic systems and a similarly wide range of economic challenges and priorities. Bank strategy involves improving institutional capacity and increasing investments in priority sectors. A key aspect of this is integrating environment into national policy and planning through strengthening indigenous capacity to develop and implement sound policies and programs; aligning pricing to environmental costs; strengthening monitoring and enforcement capacities; and encouraging broader public participation. The Bank administers the Metropolitan Environmental Improvement Program (MEIP), a collaborative approach to urban/industrial management using government, the private sector, NGOs, and community groups. The Asia Forestry Development Strategy lays out specific operational approaches to forest deficit and surplus countries and calls for policy reform, training, participation, and data gathering in connection with forest projects.

Europe and Central Asia: Many of the region's environmental problems have resulted from central planning policies and practices that left a legacy of large, inefficient, and highly polluting industries and unsustainable agricultural practices. Regional priorities include fundamental

structural changes in economic and management systems, and modernization of key industries, such as energy, mining, and chemicals. The Bank is working with the OECD in preparing an Environmental Action Plan for Central Europe, to be submitted to the Conference of Environmental Ministers in the spring of 1993. The Plan will establish investment priorities and policy and institutional prerequisites. The Bank is also on the task force of the Baltic Sea Environment Program that has prepared a 20-year action program to restore the ecology of the Sea's catchment area.

Latin America and Caribbean: In 1992, the region published an assessment of its work, "Environment and Development in Latin America and the Caribbean: Role of the World Bank". Country economic memoranda also include chapters devoted to environment problems, priorities, and recommended approaches. Studies were conducted in Mexico and Chile to quantify the costs of urban pollution and other environmental problems.

Middle East and North Africa: Strategic priorities for the region are water scarcity and pollution, pressures from urbanization, and coastal zone management. The Mediterranean Environmental Technical Assistance Program (METAP) was established in 1990 in conjunction with the European Investment Bank, UNDP, and the EC to curb and reverse environmental degradation in the Mediterranean. Current activities involve increased emphasis on the coastal environment and efforts to step up regional cooperation on common issues. The Program also supports training, protected areas network, pollution monitoring, and research.

21. Research

The World Bank supports a large program of operationally-oriented research on sustainable management of ecosystems. The pivotal report for FY92 was the World Development Report on Environment, which stressed the positive linkages between development and environmental objectives. The FY92 WDR concluded that sound economic policies have beneficial environmental impacts but must be accompanied by strong public institutions and environmental protection measures. Public participation, especially at the local level, is essential for policy making, monitoring, and enforcement, as well as for policy design and implementation.

A new series of environment papers has been initiated in FY93, addressing conservation of rainforests in West and Central Africa, economic analysis of sustainable development concepts, and the role of environmental economics and valuation in development. Other research is looking at the link between macroeconomic policies, such as on trade, and environment. To examine the implications of macroeconomic policy on environment, country case studies have been started on Bolivia, China, Mexico, Indonesia, Philippines, Poland, Sri Lanka, Tunisia, and Zimbabwe.

Through expanding its research in environmental economics, the Bank has begun to develop the necessary methodologies for environmental management through a comprehensive analysis of the environmental costs and benefits of country economic policies. (See section on environmental economics, above.)

22. Resettlement

The Bank is conducting a Bank-wide review, now near completion, of all ongoing projects entailing involuntary resettlement. The purpose of the review is to determine the quality and consistency of project implementation relative to Bank policies and guidelines, as well as agreed

provisions in loan documents. The review will also explore the effectiveness of Bank policy and institutional capacity to address this issue in future work. The report will indicate the extent to which appraisal work and implementation assistance in resettlement and rehabilitation conform to the Bank's Operational Directive on resettlement. As part of this initiative, there have been a series of conferences, and the Operations Evaluation Department (OED) has launched a review of resettlement in Bank-supported energy and agriculture projects. Four case studies are underway to examine hydroelectric and irrigation projects. The report on resettlement will be submitted to the Board of Directors in the fall of 1993. In addition, the new Vice Presidency for Sustainable Development includes a new Resettlement Division.

23. Sector Work

The Bank's increased attention to sector policies is reflected in the growing number of policy papers, progress reports, and sector reviews prepared for the Board. In FY91, six such reports were completed, including reports on poverty reduction and urban development. For FY92, 12 sector reports were prepared covering, inter alia, forestry, governance, and family planning. EA procedures, energy, water resources management, and health are among the subjects of the 15 papers scheduled in FY93. The progress report on the Bank's environment activities is not an annual report for Board consideration, and the poverty report will be updated biennially. At the urging of the U.S. and other Directors, the Bank has agreed to complete a sector review of transportation by early FY95.

24. Social Dimensions of Adjustment (SDA) Program

The SDA Program was launched in 1987 as a joint undertaking of the World Bank, African Development Bank, and UNDP to help African governments incorporate social concerns into their economic reform programs and long term development plans. The Program provides assistance at regional and country levels to improve management of macroeconomic and sectoral policy, formulate social action programs for poor and vulnerable groups, strengthen national statistics services for better policy design, and build institutional capacity. Thirty African countries are taking part in the program.

25. Transportation Sector

The United States has had growing concerns about the failure of Bank lending in transportation to take an integrated approach to the sector. Consequently, the U.S., in collaboration with several other World Bank Directors, has received agreement for a comprehensive sector review of Bank work in transportation. The review would be completed by early FY95. Work is to begin soon. The USG has already established a working group, including NGOs, to begin to review current practices and identify areas for strengthened operations.

26. Water Resources Management

In 1992, the World Development Report on Environment highlighted the problems faced in water resources management, including through Bank-funded operations. These include implementation, operation, and social problems, as well as inadequate attention to environmental concerns in management of water resources. Recognizing that water is increasingly a scarce resource requiring careful economic and environmental management, in March 1993, the World Bank adopted a new policy on water resources management.

The policy, developed in consultation with NGOs and outside interested groups, calls for a new approach to address three key problems: (a) fragmented investment planning and sector management, (b) excessive reliance on weak public institutions that have neglected economic pricing, financial accountability, user participation, and delivery to the poor, and (c) public investments and regulations that have neglected water quality and environmental concerns. The strengthened approach to water focuses on adoption of a comprehensive policy framework, treats water as an economic good, and urges the decentralization of management and delivery structures as well as greater reliance on pricing and stockholder participation. The new approach calls on the Bank to incorporate water resources policy and management in country assistance strategies and policy dialogue, to ensure adequate progress in meeting identified priorities, and to identify priority areas for Bank support.

27. Women in Development

The 1992 Progress Report on Environment notes that women contribute over half of all food grown in developing countries and have primary responsibility for finding and using fuelwood and water. Women are also de facto managers of natural resources, but with little or no control over the means for managing them. Bank research indicates that investment in education, especially for girls, is the single most important way of breaking the cycle of poverty, population growth, and environmental degradation. Because of the fundamental role of women, a Bank working group on Women in Environment has been meeting since 1991. Its objectives are to disseminate information on how women's issues can be incorporated into Bank programs and projects.

In cooperation with UNDP, the Bank has also undertaken a study of women as food producers and land managers in Africa. Case studies identify ways to address the special problem faced by women -- health, inadequate access to credit and information, and lack of economic opportunities -- through community action and gearing agricultural extension toward women's needs. Such efforts may not result in significant additional costs, since they involve retraining and reorientation of existing staff and programs. The Bank is also reviewing 12 years of experience in Sub-Saharan Africa with addressing the social issues and disincentives facing women. A review of women's issues in South Asia resulted in a strategy to incorporate gender into water supply policies and projects. The Bank has also pledged to give more operational attention to gender in addressing poverty and ensuring sustainable development.

ANNEX 2: LENDING FOR THE ENVIRONMENT IN THE REGIONAL DEVELOPMENT BANKS**1. African Development Bank**

The African Development Bank Group⁴ is a newcomer to specifically designing projects in support of the environment. While the first environmentalist joined the staff in 1985, most of AFDB work in the environment really dates from June 1990 when the Executive Board approved the environmental policy. Since then, and motivated by provisions negotiated by the United States into the AFDF sixth replenishment agreement, the Bank has focused on developing internal guidelines, procedures, and institutional capacity to support design and implementation of its projects within an environmentally sustainable framework.

The AFDB currently has an environmental staff of eleven, of which eight deal with policy formulation and oversight and three deal with operations. Short-term consultants supplement the staff and either provide training or work directly on operations. Also, an Environmental Dimension of Development Secretariat (EDDS), with a core professional staff of three, has been established at AFDB headquarters under the joint sponsorship of the AFDB, World Bank and United Nations, Sudano-Sahelian Office (UNSO).

Staff work has emphasized integration of environmental considerations into the ongoing development of the project pipeline. In 1992, the AFDB/AFDF financed roughly \$600 million for projects with environment-oriented components. Projects designed specifically to enhance the environment and energy efficiency and conservation are expected to follow in the future.

The Bank plans to prepare environmental country profiles for all its regional member countries by 1995. The profiles will be used as basic reference documents for Bank staff to integrate environmental considerations into every stage of the project cycle. The Bank has also participated in the financing of National Environmental Action Plans (NEAPs) in Madagascar and Rwanda.

The AFDB has taken the initiative to improve public access to information. In September 1992, AFDB started Eco-Afrique, a newsletter on Environment and Social Policy, to raise environmental sensitivity within the region and increase the flow of information to the public on Bank activities. The AFDB also hosted meetings in December 1992 with international and African-based non-governmental organizations (NGOs) to facilitate coordination and cooperation.

2. Asian Development Bank

The Asian Development Bank has more than doubled its lending for environmental projects in the past three years and has expanded its staff and resources for environmental work. In 1992, the Bank extended over \$1 billion dollars in loans to its developing member countries for environment-oriented lending. This compares to \$437 million for such lending in 1989. Types of lending approved in 1992 included: \$418 million for pollution control in industry and power; \$180 million for integrated urban development; and \$205 million for tropical forest management and

⁴ The Bank Group consists of the African Development Bank (AFDB), African Development Fund (AFDF) and Nigerian Trust Fund (NTF).

conservation of biodiversity. The attachment shows the expansion in lending by sector for environment-oriented projects over the past few years.

The Asian Development Bank has also designed and financed a number of innovative projects addressing critical environmental conservation needs over the past few years. These include: a biodiversity conservation project in Indonesia, a marine resources evaluation and planning project in Indonesia for institutional strengthening in the planning and management of coastal marine areas, and a participatory forestry project and fisheries sector project for Sri Lanka designed to mobilize the help of local communities in managing their resources on a sustainable basis.

The Bank has devoted a substantial amount of its resources to promoting energy efficiency improvements in its developing member countries. The Bank estimates that 30 percent of its loans in 1992 went to energy efficiency. A power efficiency sector loan to India and an industrial energy conservation and environmental improvement loan to China are examples of such lending. As the attachment shows, the trend in project formulation for power plants is increasingly focused on demand side management and rehabilitation of existing plants rather than expansion or new plants.

The Bank has also refocused its lending in the forestry sector. In the early 1980s, the major emphasis was production-oriented management of forest resources, with little emphasis on forest ecosystem protection. Since 1985 there has been a major shift in emphasis, as the Bank has begun to focus on reforms geared to sustainable forest management, rehabilitation of forests, and afforestation/reforestation with NGO and private sector involvement.

The Bank has been active in capacity and institution building for the environment. Work in these areas has included projects in China, India, Indonesia, Lao PDR, Malaysia, Mongolia, and the Marshall Islands. In addition, the Bank also assisted the developing countries of the South Pacific in preparing their national reports to UNCED.

Over the past few years, the Bank has prepared and finalized operational guidelines for its environmental lending activities, and in particular, procedures for environmental impact assessments. Further, the Bank has made an effort to integrate environmental considerations into its country strategies and country programming exercises.

The Bank has also undertaken staff training in the areas of sustainable energy development, specifically training its people in integrated resource planning, environmental accounting, and demand side management.

The Bank has worked to strengthen and develop its lines of communication with non-governmental organizations on environmental issues, and has held two consultative meetings with the NGO community on issues of mutual concern.

3. European Bank for Reconstruction and Development

The Bank is committed under its charter to promoting, in the full range of its activities, environmentally sound and sustainable development. Assistance in implementing structural and sectoral economic reforms, including demonopolization, decentralization, privatization, and integration into the international economy, are intended to contribute to improving environmental

conditions in the region. The Bank also addresses environmental issues through investment projects and technical cooperation,

Environmental programs and projects

Environmental activities have been undertaken at two levels. At the regional level, the Bank has launched a program of preinvestment studies. Within the scope of the Danube River Basin Environment Program, the Bank is managing five preinvestment diagnostic studies covering the river basins of the Drava (Croatia, Hungary), Iskar (Bulgaria), Siret (Romania), Tisza (Hungary), and Vah-Nitra (Slovak Republic). Within the Baltic Sea Environment Program, work has focused on industrial waste management, waste water treatment, and the pulp and paper sector.

At the local level, a number of environmental projects is being prepared in the context of the Bank's municipal development work. The Bank is involved in the preparation of a range of environmental projects involving treatment of waste water, solid waste management, and industrial pollution.

The Bank's infrastructure projects will help economies in transition to reduce their reliance on the most polluting, energy intensive heavy industries. Its energy programs seek to increase the efficiency of existing energy supply facilities and of end users. Transport programs target the balanced development of transportation systems, including restructuring of railways, construction of modern road networks including, for example, bypasses to relieve congestion, and upgrading of urban mass transit systems. The Bank's agricultural projects seek to minimize the use of chemical inputs.

Industrial projects approved by the Bank are required at least to comply with existing environmental regulations. Lending for the construction of new plants or for the modernization of existing industrial facilities often results in the closing of outdated and polluting production plants. Opportunities for waste reduction, recycling, and energy efficiency measures, which would benefit the environment without reducing efficiency, are sought in the Bank's projects.

The Bank also uses its technical cooperation resources to address environmental issues. Some of these resources are used to prepare specific environmental projects. Technical cooperation from the EBRD also supports a major project to address the issues raised by the harmonization of environmental standards and legislation between western and eastern Europe, which will result in an investor's guide to emission and product standards, a guide to environmental product standards affecting trade, and strategic analyses of the implications of harmonization in economic and institutional terms.

Energy: Enhancing Efficient Supply and End Use

The Bank seeks to encourage improved efficiency of existing energy supply facilities, as well as end use efficiencies. This approach should maximize sector development with the available resources, and improve the environmental performance of the sector.

Energy sector operations in 1992 included emergency repairs to energy supplies in Latvia and Lithuania; power generation projects in Bulgaria, Estonia, and Poland; and oil and gas development in Romania and Russia. Each project included significant programs of technical cooperation and assistance to strengthen the institutional capacities of the beneficiaries and their

ability to implement important sectoral reforms. Particular attention was given to pricing reforms, and each project has secured significant progress in adjusting domestic tariffs to world market levels. In Albania, the Bank advised the government on issues to be considered when drafting petroleum legislation. All of these efforts should result in new efficiencies which will have environmental benefits.

4. Inter-American Development Bank

In the past few years, the Inter-American Development Bank (IDB) has significantly increased its lending and technical assistance for environmental projects.

In 1992, the Bank approved ten loans totalling \$1 billion that were designed either to benefit the environment or to ensure conservation and management of natural resources. Several projects were approved to improve the urban environment, including an ecological conservation project in Mexico City and water and sanitation projects in Brazil, Mexico, Nicaragua, and Guatemala. The \$450 million loan for the clean-up of the Tietê River in Sao Paulo, Brazil, is the largest single loan ever approved by the IDB.

In addition to these loans, the Bank approved several technical cooperation agreements to strengthen environmental institutions in the Latin American and Caribbean region. The goal of these operations is to strengthen the national capacity to manage environmental matters, particularly by increasing the capability to perform environmental impact assessments for prospective development projects.

As early as 1979, the IDB adopted an Environmental Management Policy to guide its environmental analysis of projects. Subsequently, in 1983, the Bank set up an Environmental Management Committee, composed of department managers, to review environmentally sensitive projects.

In 1987, the Bank sponsored a conference that focused on measures to incorporate environmental aspects into the project cycle at the earliest stage. Public officials responsible for the environment as well as non-governmental organizations (NGOs) participated. The conference was followed in 1988 by the creation of three Interdepartmental Working Groups to examine the recommendations that emanated from the conference.

The Working Groups focused on the participation of NGOs in the Bank's project cycle; the use of funds to finance environmental projects; and the establishment of an informal training program aimed at field office staff. Also in 1988, the Bank incorporated environmental information and objectives into the IDB's programming process, strengthened the supervision of projects with special missions to the field, and conducted a series of environmental training seminars attended by some eighty percent of the Bank's professional staff.

The pace of environmental activities at the IDB accelerated in 1990, partly due to U.S. urging in the context of the Bank's Seventh Capital Replenishment negotiations. The Environmental Protection Division (ENV) was created as part of a 1990 Bank reorganization. It works closely with other operational and technical divisions to formulate components to mitigate the environmental effects of investment projects and to prepare environmentally beneficial projects.

It was also in 1990 that the Bank's Environment Committee (CMA) adopted and began implementation of an ENV-designed system of procedures to classify and assess the environmental impact of Bank operations. All IDB loans, small projects, and technical cooperation operations are classified according to a set of criteria to determine their environmental impact.

Bank environmental lending also increased in 1990, to ten projects totaling \$400 million.

IDB Environmental Assessments

The increased level of environmental lending and technical cooperation in 1992 evidences a continuing trend. In 1991, for example, the IDB approved nine loans totaling \$846.9 million and another twenty technical cooperation agreements totaling \$2.7 million specifically designed to benefit the environment. Many other projects that were approved had environmental protection and/or natural resource management components.

1987	16
1988	15
1989	13
1990	255
1991	228

ANNEX 3: WGMA AND THE ENVIRONMENT

The Working Group on Multilateral Assistance (WGMA) is the primary mechanism for U.S. Government agencies to offer their views on particular MDB loans/projects. (The legal background of the WGMA and the National Advisory Council is set forth in Annex 4.)

The WGMA reviews projects in the following multilateral development banks:

- International Bank for Reconstruction and Development (part of the World Bank Group)(IBRD)
- International Development Agency (part of the World Bank group making low interest, "soft loans" to the poorest LDCs) (IDA)
- International Finance Corporation (part of the World Bank group making loans to private entities)(IFC)
- Multilateral Investment Guarantee Agency (part of the World Bank group which issues guarantees to private investors in LDC's)(MIGA)
- European Bank for Reconstruction and Development (EBRD)
- Inter-American Development Bank (IDB)
- Asian Development Bank (ADB)
- African Development Bank (AFDB)

The Secretary of the Treasury is responsible for instructing the U.S. Executive Directors of the MDBs as to what position to take on loans that are presented by the banks' managements for approval by the Boards of the banks. These Treasury instructions are based on consultations with the WGMA agencies. The following agencies send representatives to the weekly WGMA meetings:

AID
Agriculture
Commerce (NOAA)
EPA
Export-Import Bank
Interior
Labor
OMB
State
USTR

After each agency performs its own review of loan information, the WGMA reviews the economic, environmental, and technical aspects of each loan and the criteria contained in relevant legislation. (There are, for example, over 70 legal provisions related to U.S. participation in the World Bank.) Each agency can raise questions about any loan on the agenda.

{NSC-12, Item 4A: U.S. Policies Towards the Multilateral Development Banks}

Interagency groups may review a project for environmental purposes up to three times. The first review considers whether the project has been assigned the appropriate environmental category by the MDB. This review takes place as far in advance as possible of Board consideration of the project. The second review analyzes and evaluates the environmental assessment summary or the environmental assessment, and comments received from the public on this documentation. The third review is conducted by WGMA shortly before Board consideration of the project, and considers the position of the U.S. Government on the action.

During the third review, Treasury and the other USG agencies discuss how the U.S. will vote (yes, abstain, or no). Treasury makes the final determination as to how the United States will vote and prepares voting instructions for the MDBs. Treasury usually decides on its voting position in advance of the WGMA meeting, and if an agency disagrees with this position it may refer this issue to a more senior level. These senior level discussions may focus on economic, developmental, environmental, or foreign policy concerns raised by a particular project. Of course, there are statutes such as the Pelosi Amendment which may require the United States to vote no or abstain on a particular project.

No other MDB member country reviews loans as carefully as does the United States. Other member countries rarely abstain or vote no on projects. The United States therefore must act carefully and attempt to focus as much as possible on the soundness of particular projects, since U.S. actions which are politically motivated can cause problems with other members and undermine U.S. efforts to build consensus on issues such as the environment, human rights, or the financial viability of projects.

ANNEX 4: THE LEGAL HISTORY OF THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL POLICIES (NAC) AND THE WORKING GROUP ON MULTILATERAL ASSISTANCE (WGMA)

The NAC

The National Advisory Council on International Monetary and Financial Problems was created by Section 4 of the Bretton Woods Agreements Act of 1945 ("the Bretton Woods NAC") in order "to coordinate the policies and operations of the representatives of the United States on the Fund and the Bank and of all agencies of the Government which make or participate in making foreign loans or which engage in foreign financial, exchange or monetary transactions."⁶ The functions of the Bretton Woods NAC were as follows:

- (1) recommending to the President general policy directives for the guidance of U.S. representatives on the IFIs⁶;
- (2) advising and consulting with the President and U.S. IFI representatives on major problems in the administration of the IFIs;
- (3) coordinating, by consultation or otherwise, so far as is practicable, policies and operations of U.S. IFI representatives, the Eximbank, and all other agencies of the Government to the extent they make or participate in making foreign loans or engage in foreign financial, exchange or monetary transactions;
- (4) deciding, under the general direction of the President, whether U.S. approval, consent or agreement shall be given to certain acts under the Articles of Agreement of the IFIs;
- (5) making such reports and recommendations to the President as he may request from time to time or as the Council may consider necessary for the effective fulfillment of the purposes of the Act or the purposes from which the Council was created; and
- (6) transmitting to the President and to the Congress an annual report on U.S. participation in the IFIs containing such data and recommendations as the Council deems appropriate.⁷

⁶The members of the Bretton Woods NAC were the Secretary of the Treasury (as Chairman), the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the President of the Export-Import Bank of Washington, and the Director of the Foreign Operations Administration.

⁶ The attention of the NAC was originally directed only at the World Bank and the International Monetary Fund; however, as the U.S. became a member of the various multilateral development banks, the provisions of section 4 were made applicable to them as well.

⁷For the development and details of this reporting requirement, see P.L. 91-599 (1970) and P.L. 101-240 (1989).

The NAC operated under the statutory authority of the Bretton Woods Agreements Act until mid-1965, when President Johnson submitted Reorganization Plan No. 4 ("the Reorganization Plan") to Congress. Pursuant to the Reorganization Plan, which took effect on July 27, 1965, the Bretton Woods NAC was abolished, and all of its functions were transferred to the President.⁸ However, on July 28, 1965, the President issued Executive Order 11238,⁹ which established a "new NAC" with the same membership, functions, and status as the Bretton Woods NAC.

After several months of consultations within the Executive Branch concerning the permanent organization of the NAC and its functions, the President issued Executive Order 11269 on February 14, 1966.¹⁰ Under Executive Order 11269, the current legal basis for the NAC, all of the functions of the Bretton Woods NAC that were vested in the President pursuant to the Reorganization Plan were re-delegated to the NAC, with a few important exceptions.

Executive Order 11269 transferred two functions formerly vested in the NAC to the Secretary of the Treasury, acting in consultation with the NAC. These are:

- 1) the authority to instruct the U.S. IFI representatives, and
- 2) the authority to give the consent of the U.S. when such is required by the Articles of Agreement of these institutions (e.g. amendments to Articles).¹¹

In addition, the general authority of the Bretton Woods NAC to coordinate, by consultation or otherwise, the policies and operations of the U.S. IFI representatives and U.S. Government agencies involved in foreign loans or foreign financial, exchange or monetary transactions was delegated to the NAC only "to the extent that such functions consist of coordination of policies." Executive Order 11269 deemed such functions to include "the authority to review proposed

⁸The Message to the Congress that accompanied the Plan stated that the Reorganization was necessary because management and control of interagency committees had become "a matter of growing concern to both the executive branch and the Congress. The taking effect of the reorganization plan will contribute significantly to better management of interagency committees and will assist efforts to simplify and modernize coordinating arrangements within the executive branch." More specifically, the Message noted that in many instance "the statutory provisions creating these committees are very specific as to membership and describe in detail the functions to be performed. These provisions are rarely sufficiently flexible to permit the membership or role of the committees to be accommodated to changing circumstances to permit their termination when they have outlived their usefulness." The Reorganization would create "the flexibility promptly to make such changes in functions and membership as might be required to eliminate overlapping and duplication and to adjust to the development of new programs and shifts in executive branch responsibilities."

⁹With effect retroactive to July 27, 1965.

¹⁰With effect retroactive to January 1, 1966, the date on which Executive Order 11238 terminated.

¹¹With respect to these authorities, the Director of the International Development Cooperation Agency has responsibility for advising the Secretary of the Treasury (and the appropriate IFI representatives) regarding the development aspects of matters relating to the IFIs and their activities.

individual financial, exchange, or monetary transactions to the extent necessary or desirable to effectuate the coordination of policies."¹²

The WGMA

The Working Group on Multilateral Assistance (WGMA) is a staff-level body under the Subcommittee on Multilateral Aid of the Development Coordination Committee (DCC) which meets weekly to deal with problems involving multilateral assistance and individual loan reviews.

The DCC was originally established by Executive Order 11841 (1975)¹³, pursuant to section 21 of the Foreign Assistance Act of 1973.¹⁴ Section 21 directed the President to establish a "system for coordination of United States policies and programs, which affect United States interests in the development of low-income countries." A Development Coordinating Committee¹⁵ was to advise the President with respect to "coordination of U.S. policies and programs affecting the development of the developing countries, including programs of bilateral and multilateral development assistance." The DCC would also be responsible for advising the President regarding "the degree to which bilateral and multilateral development assistance would focus on critical problems in those functional sectors which affect the lives of the majority of people in the developing countries".

In 1978, the White House announced a reorganization of U.S. development assistance policies, which was formally implemented by Reorganization Plan No. 2 (1979) and Executive Order 12163. Under the reorganization, the DCC was to coordinate U.S. development and assistance programs and policies, and to "include multilateral, as well as bilateral, aid policy and strategy in its analyses and recommendations".

¹²Executive Order 11269 also made less significant changes in the NAC such as changing the final word in the NAC title from "Policies" to "Problems" and eliminating the foreign assistance administrator as a member of the NAC. The Assistant to the President for Economic Affairs (Deputy Chairman), the United States Trade Representative, and the Director of the International Development Cooperation Agency were added as members of the NAC.

¹³Revoked by Executive Order 12163 (1979), which established the Development Coordination Committee in section 1-506.

¹⁴This provision is now section 640B of the Foreign Assistance Act of 1961, as amended.

¹⁵Pursuant to Executive Order 12163, the members of the DCC are the Administrator of the Agency for International Development (Chairman), the Director of the Institute for Scientific and Technological Cooperation, the Under Secretary of State for Economic Affairs, the Under Secretary of the Treasury for Monetary Affairs, the Under Secretary of Commerce, the Under Secretary of Agriculture, the Under Secretary of Labor, the Under Secretary of Energy, a Deputy Special Representative for Trade Negotiations, an Associate Director of the Office of Management and Budget, a National Security Affairs, the President of the Export-Import Bank, the Director of the Peace Corps, and the President of OPIC.

The reorganization resulted in the establishment of the DCC subcommittee on Multilateral Aid ("the Subcommittee"),¹⁸ which was discussed in a May 1978 explanatory memorandum annexed to an inter-agency memorandum from President Carter's National Security Advisor. The Subcommittee, to be chaired by Treasury, was to provide advice on IFI loans to the Secretary of the Treasury, who would continue to instruct the U.S. Executive Directors of the multilateral development banks. The Subcommittee would have authority to review individual loans and projects as well as overall IFI policies and budgets. The NAC would continue to advise the Secretary of the Treasury on policy toward the IFIs and on such IFI-related issues as administrative replenishments. Policy differences in the Subcommittee were to be referred to the full DCC, or, as appropriate, to the NAC.

The WGMA was established at the first meeting of the Subcommittee. The functions to be exercised by the WGMA are nowhere formally delineated, but rather must be derived from those assigned to the DCC and the DCC Subcommittee by the Foreign Assistance Act and the Executive memoranda discussed above.

¹⁸The member agencies of the Subcommittee are Treasury, State, AID (IDCA), ExIm Bank, Agriculture, OMB, and NSC.