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MULTILATERAL DEVELOPMENT BANKS

Public Consultation on Environmental Assessments





**United States
General Accounting Office
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**National Security and
International Affairs Division**

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The Honorable Nancy Pelosi
The Honorable Barney Frank
House of Representatives

This report responds to your request that we review certain aspects of the environmental assessment and information disclosure policies and practices of the multilateral development banks.

We are sending copies of the report to the Secretaries of the Treasury and of State; the Administrator, U.S. Agency for International Development; the Presidents of the institutions we included in our review (the World Bank and the International Finance Corporation, the Asian Development Bank, and the Inter-American Development Bank); and other interested parties. Copies will also be made available to others on request.

Please contact me at (202) 512-4128 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix V.

A handwritten signature in cursive script that reads "Benjamin F. Nelson".

Benjamin F. Nelson, Director
International Relations and Trade Issues

Executive Summary

Purpose

The multilateral development banks, such as the World Bank, have in the past been criticized for funding projects that imposed unacceptably high environmental costs on borrowing countries. Critics linked decisions in favor of such projects to the banks' relatively closed processes for developing project proposals. Specifically, the banks did not (1) require project sponsors (borrowing government agencies or private companies) to consult with local communities and take their concerns into account when preparing project proposals or (2) provide the public with access to information on proposed projects, including environmental assessment reports.

Congress responded to these concerns by enacting legislative measures aimed at improving bank performance in both areas. One such measure, the "Pelosi Amendment," instructed the Secretary of the Treasury to seek adoption of policies and procedures within the banks that would (a) encourage public consultation on proposed projects' environmental impacts and (b) provide concerned members of the public in bank member countries with access to environmental assessment reports at least 120 days before the banks' boards of executive directors voted on funding proposed projects. This legislation was adopted in 1989 and was amended in 1997 to clarify that it applies to bank projects sponsored by private companies as well as government agencies.

Noting that there had been no comprehensive, independent analysis of bank performance in these areas, Representatives Nancy Pelosi and Barney Frank requested that GAO

- Describe the steps the banks have taken to ensure meaningful public consultation on the environmental implications of proposed projects and timely public access to relevant project documents;
- Evaluate the quality of consultation that occurs on bank-supported projects and the documentation on the consultation that is provided to executive directors; and
- Determine the extent to which the banks provide broad, timely public access to project information, including environmental assessment reports.

GAO also sought to identify factors that help to account for differences in the quality of the consultation practices employed in different types of projects.

Background

Project proposals for bank financing are developed by sponsors, with bank staff providing guidance and oversight. When the sponsor is a public agency, the process generally calls for bank staff to assign projects with significant environmental implications an environmental category (A or B) as soon as the bank and the borrower have agreed to invest substantial effort in project design. Category A projects have “diverse and significant” impacts that may extend beyond the immediate project area. Category B projects have less severe, site-specific, or more readily mitigated impacts. Sponsors then prepare project proposals, including environmental assessment reports. Bank staff members appraise sponsor proposals, negotiate any changes needed, and prepare summary materials for executive directors to consider before voting on whether to support the project. A similar process is followed when the sponsor is a private company; however, private companies typically seek bank support only after completing a substantial portion of the project design. Within the executive branch of the U.S. government, the Department of the Treasury has the lead role in working with U.S. executive directors to develop and implement U.S. policies regarding the banks.

In conducting this study, GAO analyzed public consultation on a sample of 44 out of 256 category A and B projects in Latin America and Asia that were approved during 1996 by the World Bank, the Asian Development Bank, the Inter-American Development Bank, and the International Finance Corporation.¹ GAO then developed rating criteria based on the banks’ guidance for public consultation and environmental assessment. Based on these materials, GAO rated consultation as adequate if concerned members of the local public were (a) informed about the project through town meetings or similar methods, (b) given reasonable opportunities to express their concerns in meetings with project sponsors, and (c) provided with subsequent opportunities to review and comment on the environmental assessment report. Consultation that exceeded this standard was rated more than adequate. Consultation not meeting the standard was rated less than adequate. GAO developed a computational matrix and applied it to rate the extent to which bank intervention upgraded the consultation practices employed in these projects above borrowing country norms. GAO also assessed the quality of the summary documentation provided to the banks’ boards of executive directors, using a rating methodology similar to that employed in rating the consultation practices themselves. For example, documentation was rated adequate if it provided a complete and accurate summation of the consultation steps

¹The World Bank (officially known as the International Bank for Reconstruction and Development) and the International Finance Corporation are both members of the World Bank Group of organizations.

employed, the concerns raised by the public, and the measures undertaken to address the concerns. The results of GAO's analyses apply only to the projects reviewed.

The banks have created public information systems, including internet home pages, to provide broad public access to key project documents, including project profiles and environmental assessment reports. GAO obtained and analyzed data from the banks to assess the performance of one element of these systems—the banks' home pages—in providing access to profiles and information about environmental assessments for projects under consideration between mid-1996 and mid-1997.

Results in Brief

The multilateral development banks, led by the World Bank, have taken significant steps to ensure that meaningful public consultation takes place on the environmental implications of the projects they fund. GAO believes, however, that the banks can take further steps to build on the progress that has been achieved by ensuring that executive directors receive complete and accurate documentation about the consultation practices that have been employed in developing proposed projects and by more consistently providing the public with timely access to environmental information on these projects.

The banks have adopted guidelines that require sponsors to consult with the public in developing projects and created systems to provide worldwide public access to information about these projects—including information on their environmental implications. Generally, public consultation on the projects that GAO reviewed was adequate or better, and bank intervention improved sponsor practices on nearly every project. Several factors contributed to the quality of consultation. For example, good consultation was associated with projects employing community-based approaches to project development, as well as those having a "high profile" because of recent adverse publicity on similar projects. Also, in general, World Bank-supported projects received higher ratings than the projects supported by the other banks GAO reviewed. Nevertheless, consultation on 25 percent (11 of 44) of the projects, primarily projects supported by the International Finance Corporation or sponsored by the government of China, was less than adequate. Also, documentation given to the executive directors provided incomplete or inaccurate information about the consultation measures employed on many of the projects. The banks' internet home pages were inconsistent in

meeting their own guidelines for providing public information concerning project profiles and environmental assessment reports.

Principal Findings

Banks Have Taken Steps to Encourage Meaningful Public Consultation and Access to Documents

Over the past decade, the banks have instituted wide-ranging reform programs. These programs acknowledge that meaningful public consultation and increased transparency in designing and implementing projects can make important contributions to improving the banks' operational effectiveness. Among other things, the banks have (1) developed guidelines for consultation, including the preparation of environmental assessments; (2) hired staff to improve their capacity for ensuring that adequate consultation takes place; (3) developed working relationships with nongovernmental organizations; and (4) placed a higher priority on developing environmentally and socially sustainable projects. To improve transparency, the banks have developed systems, including internet home pages, for making key documents, such as environmental assessment reports, accessible to the worldwide general public. The World Bank has taken the lead in these efforts. The banks, particularly the International Finance Corporation, recognize that their efforts are as yet incomplete, and they continue to work on improving their procedures and systems.

Consultation Adequate of Better on Most Projects

GAO found that the public consultation practices that project sponsors employed were adequate or better in 75 percent (33 of 44) of the examined projects. On these projects, for example, sponsors used a variety of means to inform concerned members of the public about the proposals, held community meetings to provide the public with opportunities to voice their concerns while project preparation was going on, and, finally, provided opportunities for concerned parties to review and comment on draft environmental assessment reports. On one infrastructure project supported by the Inter-American Development Bank, for example, project plans were announced in the local media, an information office was created to respond to citizen inquiries, a consultant was hired to ensure that affected people were thoroughly consulted on resettlement issues, and public meetings were held. The measures employed to take public concerns into account were adequate or better in all cases where concerns were raised.

Bank Intervention Generally Improved the Quality of Consultation

In 40 of the 44 projects GAO examined, bank intervention resulted in at least some improvement in sponsor consultation practices and/or in the measures that were employed to respond to public concerns over what might otherwise have been expected in the borrowing country. Bank impact on sponsor practices was great or very great in about 40 percent of the projects. Among the projects where bank intervention had a very great impact, for example, was a proposal for an energy project in a locality where neither an environmental assessment nor public consultation was legally required. In this case, International Finance Corporation policies prescribed a full environmental assessment and provision of the draft results of the assessment for public comment.

Other Factors Associated With Good Consultation

Twelve of the projects that GAO examined employed community-based approaches to project development. On average, these projects employed better consultation practices than the other projects GAO reviewed. By definition, such projects normally employ extensive public consultation measures. For example, on one such project that was supported by the Asian Development Bank, consultants worked with the community to ensure that all affected parties, including women and ethnic minorities, were consulted. The consultants also broadly distributed the resulting environmental assessment report and discussed it at community workshops.

Five of the six projects in GAO's sample with a high profile because of past adverse publicity on similar projects employed good or exemplary consultation practices. For example, one project taking place in a location where both the borrowing government and the World Bank had previously been criticized for poor consultation and adverse environmental impacts in a similar project employed exemplary measures to ensure that local people were actively consulted, beginning with the earliest stages of project preparation.

Among the different banks, projects supported by the World Bank generally rated best, while International Finance Corporation-supported projects generally rated lowest. The World Bank's performance stems from the fact that it has taken the lead among the banks in developing participatory approaches to development. Among the banks, it has published the most comprehensive guidance on environmental assessment and consultation and has greater resources at its disposal to address such matters.

Consultation Less Than Adequate on Certain Projects

Of the 11 projects in GAO's sample that employed less than adequate consultation practices, 5 were supported by the International Finance Corporation, and 3 were sponsored by the government of China.² Private companies, including those that seek International Finance Corporation financing, and the government of China typically submit project proposals for bank consideration only after much of the consultation and design are already complete. This limits the banks' opportunities to work with sponsors—particularly during the early phases of project development when public consultation can have its greatest impact on project design. Bank officials noted that in deciding whether to proceed with such projects, factors other than consultation must also be considered, including the projects' development benefits.

Documentation About Consultation Often Less Than Adequate

Providing a complete and accurate summary of the consultation practices employed during project development is an important part of the process and helps the executive directors to provide oversight of bank policies. However, in nearly 40 percent of the projects that GAO reviewed, the documents normally provided to the executive directors prior to their voting on whether to fund the projects were either incomplete or inaccurate about sponsor consultation practices. The documents did not clearly describe the steps taken to consult with public, the concerns that were raised, and/or the measures intended to address these concerns. Seven of the 11 projects in GAO's sample that employed less than adequate consultation also had documentation that was incomplete or inaccurate about what consultation took place.

Banks Inconsistent in Providing Access to Key Documents

The banks have established information systems, including internet home pages, to provide timely worldwide public access to information on proposed projects. The banks' home pages often did not provide timely access to key project documents. For example, the Asian Development Bank and Inter-American Development Bank home pages listed project profiles for only about 50 percent of the projects that GAO examined. The World Bank home page provided notice that environmental assessment reports were available for only about 54 percent of its category A projects and met its criteria for timeliness for only about 8 percent of these projects.³ The International Finance Corporation met its 60-day standard for providing access to environmental assessment reports in every case.

²One International Finance Corporation project was located in China.

³The World Bank's policy is that sponsors make environmental assessments available to the Bank before proposed projects are appraised. When the Bank receives the assessment, it is made publicly available.

The majority of World Bank and International Finance Corporation environmental assessment reports on category A projects were not available via the internet for 120 days prior to board consideration.

Recommendations

GAO recommends that the Secretary of the Treasury instruct the U.S. executive directors on the boards of the multilateral banks to work with other executive directors and bank management to improve the bank's compliance with their own guidance on providing (a) executive directors with a complete and accurate record regarding public consultation before they vote on proposed projects with significant environmental implications and (b) timely internet access to key project documents, including environmental assessment reports.

Agency Comments

The Department of the Treasury, the U.S. Agency for International Development, and the President of the World Bank Group provided written comments on a draft of this report. These organizations generally concurred with GAO's findings and conclusions. The Treasury stated that the report provided a fair presentation and that the Department would work with the U.S. executive directors, as well as bank management and executive directors representing other bank member countries, to seek implementation of GAO's recommendations. The U.S. Agency for International Development expressed its full agreement with the report's conclusions and recommendations. The Presidents of the World Bank Group commented that his organization had benefited from both the positive comments and the criticisms contained in the report and described a number of actions that are being pursued, both at the World Bank and the International Finance Corporation, to improve consultation and transparency.

The Treasury and the U.S. Agency for International Development also provided technical comments, edits, and other suggestions that have been incorporated in the report as appropriate. Written comments from all three organizations are reprinted in appendixes II through IV, along with GAO's evaluation, where appropriate.

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Abbreviations

EA	environmental assessment
NGO	nongovernmental organization

Introduction

In the 1980s, multilateral development bank-supported projects around the world were criticized for imposing unacceptable environmental and social costs on borrowing countries. The World Bank, the oldest and largest of the multilateral development banks, was the focal point for much of this criticism. Several World Bank projects became the targets of highly publicized international campaigns aimed at convincing officials to withdraw bank support. Two examples—both the subject of congressional inquiries—were the following:

The Plonoroeste Project: This project, which received major World Bank support beginning in 1982, encouraged impoverished Brazilians to take up farming in a previously inaccessible area of the Amazon basin. In 1985, the Bank suspended payments to Brazil when it became clear that the region’s soils could not actually support farming and that, rather than alleviating poverty, the project was resulting in environmental destruction and maltreatment of local indigenous people. Bank support for development in the region was renewed after the adoption of measures to protect the environment and local peoples.

The Sardar Sarovar Dam: In 1985, the World Bank committed to supporting this project—a portion of a larger Indian government plan for developing the Narmada River basin—even though a full assessment of the project’s likely environmental and social impacts had not been completed. The Bank ceased supporting the project in 1993, after years of controversy centering on the forced relocation of tens of thousands of people and the publication of an independent assessment that found substantial flaws in both project preparation and implementation.¹

Concern about such projects prompted Congress to convene a series of hearings on the environmental impacts of bank-supported projects. One Senate report resulting from these hearings concluded that the banks had not “adequately considered the potential unacceptable environmental consequences of many of the projects that are selected for funding” before deciding to proceed.² These inquiries and toher critiques provided the impetus for the introduction of bank policies requiring environmental assessments (EA) on proposed projects. Figure 1.1 describes the EA process.

¹Sardar Sarovar: Report of the Independent Review (1992), known as the “Morse Commission Report.” See also Sardar Sarovar Dam Project, Committee on Science, Space, and Technology, Subcommittee on Natural Resources, Agricultural Research and Environment, House Report 68 (101st Cong., 1st sess.) (Washington, D.C.: U.S. Government Printing Office, Oct. 24, 1989).

²Senate Report No. 99-167, on p. 33 (1985).

Figure 1.1: What Is Environmental Assessment?

EA is a process that was first introduced in the United States in 1969. EAs are generally conducted as an integral part of project feasibility studies. EA reports identify and describe the likely environmental impacts of proposed projects and their alternatives so that these impacts may be taken into consideration by decisionmakers. The process is intended to improve project design by preventing, mitigating, or compensating for adverse impacts. However, the process does not ensure that only environmentally benign projects gain approval--decisionmakers may determine that other considerations outweigh a proposal's environmental costs. "Environmental" impacts are commonly defined as including not only effects on naturally occurring ecosystems, but also social consequences, such as forced resettlement or disruption of the lifestyles of indigenous peoples.

The Project Development Process

Throughout most of their existence, the banks imposed few requirements on project sponsors (borrowing government agencies or private companies) regarding public consultation on proposed projects. The banks also made few provisions themselves to permit or elicit public involvement in bank decisions on whether to support sponsor proposals. The extent of public consultation in decision-making was regarded as lying within the discretion of individual borrowing governments. The banks themselves did not, as a rule, independently engage the public in dialogue on proposed projects. When working with private companies, the banks also cited the need to safeguard information submitted by these companies so as not to compromise their competitive positions as a reason for limiting public involvement in project development. Bank critics said that the relatively closed nature of the processes the banks used to develop projects was an important cause of unsatisfactory project results. While these processes differ in many details, the banks employ a broadly similar procedure for developing project plans. This process is outlined in figure 1.2.

Figure 1.2: the Process Banks Use to Develop Project Proposals

Project development begins when bank staff and project sponsors **identify** a project idea. During the subsequent **preparation** phase, project sponsors bear primary responsibility for examining all aspects of the proposed project, including environmental impacts, and for preparing a project plan for bank consideration. Bank staff provide guidance during this portion of the process.

After preparation is complete, the lead role passes to the bank. Bank staff **appraise** sponsor proposals (including EA reports); request additional information, if necessary; **negotiate** with project sponsors about the terms and conditions under which the bank will commit funds to the project; and, finally, prepare a complete project proposal.

The final step in the process is **board approval**. The banks' boards of executive directors review and vote on whether to approve each proposed project and, in doing so, exercise oversight over the implementation of bank policies and procedures--including those that govern EA and public consultation.

Note: This description is generally accurate for the banks included in this review. However, since private companies typically seek bank financing only after they have already completed substantial preparatory work, substantive bank involvement in private projects may actually begin only at the appraisal stage.

Bank critics raised two distinct but interrelated problems with the banks' project development processes. These were inadequate consultation and a lack of transparency.

Consultation

Bank critics believed that greater public consultation was needed throughout project preparation. They argued that public consultation could improve the quality of the EA process, as well as decisions deriving from it, by helping to ensure that (1) all important issues raised by a proposal would be identified and examined from diverse points of view and (2) alternatives and possible mitigation measures would be fully explored.

The critics' main concern was that the measures employed by project sponsors to consult with local people—while preparing project proposals for bank consideration were inadequate. Bank critics noted that project

sponsors often did not conduct meaningful consultations with those who would

Likely be directly affected by the proposed project and other concerned members of the public (for example, local nongovernmental organizations—NGO).³ The lack of consultation during the early phases of project development (including EA preparation) was of particular concern, as opportunities for the public to affect project designs are greater in these early phases, when alternative designs and approaches can still be explored at comparatively little cost.

Transparency

The banks' critics' main concern about bank transparency was that there was almost no access to EA reports for proposed projects. Critics believed that interested members of the public, both within borrowing countries and in the broader community, should have access to these documents in advance of final action by the banks' boards of executive directors. This access would permit them to review the EA reports' content and bring matters of concern to the attention of bank staff, project sponsors, and/or executive directors.

Bank guidelines did not provide for making such information available for public review before projects were taken up by the executive directors. The banks did not require project sponsors to share information on such matters, nor did the banks themselves provide public access to EA reports or related documents through either their headquarters offices or their field offices in borrowing countries. Critics contended that this limited the banks' accountability to the public. They said that because of this lack of transparency, neither citizens in borrowing countries, international NGOs with expertise on environmental and social issues, nor officials of the banks' member countries were able to critique EA reports or raise concerns that may not have been adequately examined or addressed.

Congressional Action

While the United States cannot unilaterally mandate changes in bank policies and procedures, it has historically exercised considerable influence over bank operations. Within the executive branch, the Department of the Treasury has the lead role in working with the staffs of the U.S. members of the banks' boards of executive directors to develop and implement U.S. policy regarding the banks. Since 1985, Congress has

³The World Bank defines NGOs as "private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services or undertake community development."

repeatedly called upon the Department and the U.S. executive directors to work for changes in bank policies and procedures that would improve the manner in which environmental impacts are taken into account during

Project development. Among other things, Congress instructed the U.S. executive directors to seek improvements in bank guidelines regarding (a) the steps that project sponsors take to engage in meaningful consultation with people whom the projects might affect and to hear concerned members of the public during project preparation and (b) the steps that the banks themselves take to improve transparency. In 1987, Congress enacted legislation calling upon U.S. executive directors to vigorously promote participation by borrowing country NGOs at all stages of preparation for loans that may have adverse environmental or sociocultural impacts.⁴

In 1989, the “Pelosi Amendment” instructed the Secretary of the Treasury to seek, through negotiations with other bank member countries and bank management, the adoption of policies and procedures within the banks that would (a) provide interested members of the public in all bank member countries with access to ES reports on proposed projects (or summaries thereof) at least 120 days prior to board action and (b) encourage public participation in reviewing project-specific environmental issues.⁵

The amendment’s legislative history emphasized the important role that international NGOs play in facilitating thorough public review of proposed bank projects. (See fig. 1.3.)

⁴22 U.S.C. 262m-5.

⁵The amendment, sponsored by Representative Nancy Pelosi (D-CA), is codified at 22 U.S.C. sec. 262m-7.

Figure 1.3: the Role of International NGOs

According to the World Bank, international NGOs, among others, may have important information and resources at their disposal that can help improve project designs. Their involvement can help identify key concerns and opportunities and may provide differing points of view. International NGOs, like Friends of the Earth and The Bank Information Center, help their affiliates and associates in developing countries to obtain information on proposed projects so that these organizations can provide their own comments on proposed projects. They also apply their expertise on environmental issues in reviewing the adequacy of sponsor EA reports and pointing out omissions and other shortcomings and in monitoring the banks' compliance with their own policies and procedures. The U.S. government's interagency process for reviewing proposed loans relies heavily on international NGOs to flag issues on proposed projects that should be examined more closely before gaining U.S. support.

In commenting on a draft of this report, the U.S. Agency for International Development pointed out that Congress has also mandated a substantial role for the Agency in identifying potential environmental and social problems associated with projects being prepared for consideration by the banks' boards of executive directors. The Agency's written comments, reproduced in appendix III, provide details on the legal provisions in question and the efforts that the Agency has undertaken in response.

The Pelosi Amendment sought to bring U.S. influence to bear in favor of effective implementation of such policies by barring U.S. executive directors from voting in favor of certain proposed actions. U.S. executive directors were called upon to refrain from supporting projects that would have significant impacts on the environment unless project sponsors had prepared EA report and made the reports—or summaries thereof—available for review by affected groups and local NGOs, as well as bank staff and executive directors, for at least 120 days before the executive directors vote on the proposed actions. It also required the Secretary of the Treasury, in his role as leader of the U.S. government's interagency process for reviewing proposed loans, to take public comments on environmental matters into consideration in determining the position that the United States should take on proposed loans.

In November 1997, Congress amended the International Financial Institutions act to make clear that the Secretary of the Treasury should regard the Pelosi Amendment as applying to U.S. participation in the

International Finance Corporation—a member of the World Bank Group that was exclusively with private sector partners—as well as to U.S. participation in the banks’ lending programs for developing country governments. The amendment also instructed U.S. executive directors to “strongly encourage” systematic consultation with local communities in proposed loans.⁶

Objectives, Scope, and Methodology

In response to a request from Representatives Nancy Pelosi and Barney Frank, we reviewed the multilateral development banks’ record in ensuring that meaningful public consultation takes place on the projects they support. Our specific objectives were to

- Describe the steps the banks have taken to ensure meaningful public consultation on the environmental implications of proposed projects and timely public access to project documents;
- Evaluate the quality of consultation that occurs on bank-supported projects and the documentation on the consultation that is provided to executive directors; and
- Determine the extent to which the banks provide broad, timely public access to project information on proposed projects, including environmental assessment reports.

We also sought to identify factors that help to account for differences in the quality of the consultation practices employed in different types of projects. Our study included the World Bank, the Inter-American and Asian Development Banks, and the International Finance Corporation.⁷ Together, these four institutions receive approximately 90 percent of the amounts that Congress annually appropriates for the support of the multilateral development banks.⁸ As an agency of the United States, we have no direct authority to review the operations of the multilateral development banks. Through the Department of the Treasury and the

⁶See The Foreign Operations, Export Financing and Related Programs Appropriations Act, 1998 (P.L. 105-118, sec. 560[b] [1997]). Previously, the Department of the Treasury had taken the position that the Pelosi Amendment did not apply with regard to U.S. participation in the International Finance Corporation.

⁷In addition to the International Finance Corporation’s projects, we included six private sector projects supported by the Inter-American or Asian Development Banks. The World Bank does not have a private sector lending program directly analogous to those operated by these two institutions.

⁸Congress appropriated an average of about \$1.2 billion to support bank operations during fiscal years 1997 and 1998. The International Finance Corporation is a member of the World Bank Group of legally distinct organizations that includes the original “World Bank”—formally known as the International Bank for Reconstruction and Development. The United States is also a member of three other major regionally focused multilateral banks—for Africa, Europe, and the Middle East.

staffs of the U.S. executive directors in each institution, however, we interviewed bank staff at all levels, including the presidents of the World and Inter-American Development Banks, and obtained official bank documents and reports.

To describe the banks' steps to ensure consultation and transparency, we reviewed bank documents and guidance and met with bank staff to gain an understanding of their guidance with regard to public consultation and the systems they have established to provide broad public access to bank documents.

To evaluate the quality of public consultation, we developed rating criteria based on the banks' guidance on public consultation and environmental assessment, as well as other relevant materials, such as bank studies on best practices. These criteria provided a framework for assessing project sponsor consultation practices, including the extent to which (a) concerned member of the public were informed about proposed projects, (b) public concerns were identified, and, subsequently (c) opportunities were provided for public comment on the manner in which public concerns had been addressed. The criteria also provided a framework for evaluating the measures that were adopted to respond to public concerns identified through the consultation process. We applied these criteria to a group of 44 out of 256 projects with significant environmental implications (generally referred to as category A and B projects) in Latin America and Asia that were submitted for approval by the banks' boards of executive directors during calendar year 1996. (See fig. 1.4 for a description of project categories.)

Figure 1.4: What Are Category a and Category B Projects?

Except for the Inter-American Development Bank, which ceased doing so during 1997, the banks separate projects into categories for EA purposes. These categorization systems all resemble that employed by the World Bank, which differentiates between projects that are unlikely to have significant environmental impacts (and therefore do not require analysis) and two types of projects that do require study.

Category A projects are those that have the potential for "diverse and significant" impacts that may extend beyond the immediate project area, such as hydroelectric plants, mineral extraction projects, and large-scale irrigation schemes. Projects that require significant resettlement of local populations or have other important sociocultural impacts are also placed in this category. Such projects are deemed to require full investigation of possible environmental and social impacts.

Category B projects are those that have less severe, site-specific, or more easily mitigated impacts, such as rural water supply projects, small-scale agriculture, and electrical transmission projects. EAs conducted for such projects are more limited in scope and may focus only on certain environmental and social issues that need consideration.

Note: The Inter-American Development Bank now establishes EA requirements on a case-by-case basis.

To evaluate the impact that the banks had on the consultation practices employed on these projects, we employed a computational matrix that took into consideration the extent to which these projects employed practices that were upgraded from local norms and the extent to which these improvements could be directly linked to bank involvement. Our findings from this portion of the review apply only to the projects included in the sample.

To assess bank transparency during project development—that is, the extent to which the banks provide timely public access to information on proposed projects—we obtained data on access to (a) project profiles and (b) EA reports between mid-1996 and mid-1997 via the banks' internet home pages. Although the banks have adopted policies and procedures that are intended to provide public access to project documents (in hard copy) through their headquarters and field offices, we did not assess document availability at these locations. Instead, we focused on the banks' internet home pages to provide a single, unified overview of bank

performance in providing worldwide access to information on proposed projects.

The banks have each established their own requirements regarding timeliness for providing public access to EA reports. We report each bank's performance against its own criteria. The Pelosi Amendment, a U.S. law, does not create a direct legal obligation for the banks but does instruct the Secretary of the Treasury to seek, through negotiation with other bank member countries and bank management, the adoption of policies and procedures that will result in interested members of the public in all bank member countries having access to EA reports at least 20 days before board consideration. Therefore, for comparative purposes, we also report on whether the banks' internet home pages met this time frame.

Our methodology is discussed in more detail in appendix 1.

We conducted our work from January 1997 to June 1998 in accordance with generally accepted government auditing standards.

We received written comments on a draft of this report from the Department of the Treasury, the U.S. Agency for International Development, and the World Bank. These organizations generally concurred with the report. The Treasury stated that the report provided a fair representation and that it would work with U.S. executive directors, bank management, and executive directors representing other bank member countries to seek implementation of our recommendations. The U.S. Agency for International Development expressed its full agreement with the report's conclusions and recommendations. The President of the World Bank Group commented that his organization had benefited from both the positive comments and the criticisms contained in the report and described a number of actions that are being pursued, both at the World Bank and the International Finance Corporation, to improve consultation and transparency.

Bank Efforts to Ensure Consultation and Transparency

Over the past decade, the operations of the multilateral development banks have been the object of a number of critical reviews,¹ and bank management has responded by developing reform programs to improve project effectiveness. Public consultation and increased transparency in designing and implementing projects are acknowledged to be key elements in improving project effectiveness. With the World Bank taking the lead, the banks have taken steps in this direction. These steps have included (1) developing guidelines for consultation, including the preparation of environmental assessments; (2) hiring staff to improve the banks' capacity to undertake consultation; (3) developing working relationships with NGOs; and (4) placing a priority on developing environmentally and socially sustainable projects. To provide transparency, the banks have developed guidelines for making key documents on proposed projects available to the public and have set up public information centers and internet home pages to make this information broadly accessible. Finally, the banks—with the exception of the International Finance Corporation—have created inspection panels to investigate complaints about violation of their policies.

The banks recognize that their efforts are as yet incomplete, and they continue to take steps to further strengthen consultation and advance transparency. The International Finance Corporation, in particular, has recently adopted revised procedures designed to improve performance in both areas.

Public Consultation Measures

Guided by various studies of the banks' operations, the banks have adopted measures aimed at improving guidance on consultation, enhancing their capacity for ensuring adequate consultation, developing better working relationships with NGOs, and placing a higher priority on environmental and social sustainability in project design.

Adopting Consultation Policies and Guidelines

The banks have devised policies, directives, and other guidance intended to ensure that project sponsors identify public concerns about the environmental impacts of proposed projects and take such concerns into

¹ These reviews include the 1992 report of the World Bank's Portfolio Management Task Force, *Effective Implementation: Key to Development*; the 1993 report of the Inter-American Development Bank's Task Force on Portfolio Management, *Managing for Effective Development*; the Asian Development Bank's 1994 Report of the Task Force on Improving Project Quality; the 1996 report of the Development Committee Task Force on Multilateral Development Banks, *Serving a Changing World*; the 1996 GAO report, *World Bank: U.S. Interests Supported, but Oversight Needed to Help Ensure Improved Performance* (GAO/NSIAD-96-212, Sept. 26, 1996); and the 1997 report of the Center for Strategic and International Studies, *The United States and the Multilateral Development Banks*.

Account in completing project designs. The World Bank, which issued its initial EA policy in 1989, was the first to take steps in this direction. It required sponsors to complete EAs when appropriate (that is, when the nature and magnitude of a project's potential impacts appear to require systematic examination) as part of their project proposals. In doing such assessments, and in implementing projects, the policy required project sponsors to "take the views of affected groups and local NGOs fully into account."

The other banks subsequently adopted similar policies and procedures. In 1990, the International Finance Corporation adopted its first environmental review procedure, which was intended to be consistent with World Bank procedures. Also in 1990, the Inter-American Development Bank adopted procedures calling for public consultation in preparing the terms of reference for project EAs (that is, specifying the assessment's scope and objectives) and in reviewing the results of the EA process. The Inter-American Development Bank also issued guidance that established a policy framework for assessing the environmental and sociocultural impacts of proposed projects, including the need for public consultation on these issues. In 1997, the Inter-American Development Bank adopted new procedures for evaluating social and environmental impacts through an internal bank Committee on the Environment and Social Impact.² In 1993, the Asian Development Bank adopted EA procedures and requirements for public consultation similar to those adopted by the World Bank. Each of the banks has added to these basic policy statements with additional clarification and advice for both staff and project sponsors.

Bank guidance generally advises project sponsors to provide concerned members of the public with relevant information (for example, a description of the project and its likely beneficial and adverse impacts) before asking for comments. International Finance Corporation guidelines, for example, note that truly meaningful public consultation can only take place when project sponsors have first provided affected groups and other interested parties with substantive information on the proposed project. Finally, project sponsors are generally expected to provide feedback to those consulted—for example, through making draft EA reports available for local review prior to completing the report to be submitted to the bank.

²This management-level committee reviews each proposed project to determine the level of analysis needed on environmental issues and to ensure that the analysis is carried out in a satisfactory manner and the resulting conclusions are incorporated into the final project design.

Building Capacity for
Public Consultation

In addition to developing guidelines, the banks—especially the World Bank—have improved their capacity for ensuring that meaningful consultation takes place. As part of implementing the “Strategic Compact” announced in early 1997, the World Bank has relocated staff, functions, and authority to the field.³ By mid-1997, 20 of the World Bank’s 49 country directors were based in field missions. The World Bank also created an internal Environmentally and Socially Sustainable Development Network, including a corps of over 360 social development and environmental specialists, a number of whom are now stationed overseas.

The Inter-American Development Bank has also taken some steps to augment its consultation capabilities, including increasing the number of staff dealing with these issues. As of September 1997, the Inter-American Development Bank’s environmental unit had 12 professional staff, the Indigenous Peoples and Community Development Unit had 4 staff, and the Modernization of the State and Civil Society Division had 24 staff.

In 1995, the Asian Development Bank gave environmental and social issues increased stature within the Bank by combining previously separate units to create an Office of Environment and Social Development. The office employs 24 environmental and social specialists, all located in headquarters. Although its field presence is limited, the Asian Development Bank has also strengthened representation in donor countries and broadened access to its staff. In 1996, the Bank opened 2 representative offices and approved 2 new resident missions—bringing the Bank’s total field presence to 10 resident missions, 3 representative offices, and 1 regional mission.

The International Finance Corporation has a very limited field presence but is working to better address environmental and social issues by adding to its staff. In fiscal year 1997, the Corporation increased the number of senior level staff in its Environment Division from 18 to 24 and added 1 social scientist. In fiscal year 1998, the Corporation plans to add six new senior level staff to its Environmental Review Unit, including three new environmental specialists and two social sector specialists.

All of the institutions we examined are developing ways to incorporate social analysis and participatory approaches into projects and analytical work. For instance, the World Bank has established the Social Development Family—comprised of about 120 World Bank staff—to

³The Strategic Compact summarized the World Bank’s broad reform measures, some of which had been developed in response to the 1992 report of the World Bank’s Portfolio Management Task Force and other criticisms of the Bank’s operations and effectiveness.

increase community-based participation in its projects and to link social and environmental assessments. The Asian Development Bank has issued staff guidelines on mainstreaming participation in bank operations and hosted seminars for its staff on participatory methods. It has also established a regional technical assistance grant fund to catalyze the implementation of participatory approaches to bank operations. In commenting on a draft of this report, the Department of the Treasury stated that the Asian Development Bank has also recently established internal networks for staff with expertise in environmental and social issues.

Forging Relations With NGOs and Other Members of the Public

Legislation passed by Congress in 1990 urged the World Bank to develop and implement mechanisms to substantially improve the ability of bank staff to interact with NGOs and other local groups that are affected by bank-supported projects.⁴ Among other things, Congress urged the World Bank to assign at least one professional staff member in each field office to be responsible for relations with local NGOs.⁵ In 1997, the World Bank completed appointing NGO liaison staff to all 72 World Bank resident missions. More than half of these are full-time NGO specialists working to strengthen communication and information-sharing between the World Bank and NGOs. According to World Bank documents, nearly half of the World Bank's projects in fiscal year 1997 involved NGOs in some capacity.

In addition, the World Bank (1) approved special programs to provide NGOs, as well as academics and others, with small grants (in the \$10,000 to \$15,000 range) for conferences, publications, networking activities, and other information-related activities; (2) recruited NGOs to help prepare the Bank's economic and sector work, country assistance strategies, and poverty assessments; and (3) established partnerships with NGOs on a variety of operational issues, including a program to monitor stakeholder participation in bank projects.

The other banks have also taken a number of steps in this direction. Beginning in 1995, for example, the Inter-American Development Bank sponsored a series of country focus groups for civil society organizations, government officials, and Bank staff. Through these groups, the Inter-American Development Bank encouraged and supported efforts to stragthen the capacity of civil society organizations in borrowing countries

⁴The Foreign Operations Appropriations Act, 1991, Public Law 101-513, section 562 (1990).

⁵This provision referred only to the World Bank; the other multilateral development banks were not included.

to become integrally involved in developing projects. The Asian Development Bank has updated its policy on cooperation with NGOs and is improving its outreach efforts, for example by inviting NGOs to comment on draft policy proposals. The Bank has also appointed NGO liaisons in each of its resident missions. In commenting on a draft of this report, the Treasury Department stated that the Asian Development Bank has also increased the number of projects with NGO involvement and is providing technical assistance to help borrowers improve their own capacity for performing environmental assessments.

Refocusing Bank Operations

As part of their overall reform efforts, the banks have increased their emphasis on ensuring that project designs are environmentally and socially sustainable. This action has reinforced the heightened importance placed on public consultation during project development. For example, the members of the Inter-American Development Bank, on the occasion of the eighth replenishment of the Bank's resources (August 1994), agreed on fundamental changes in the Bank's operations. The members committed the Bank to strengthening environmental institutions and legal frameworks and fostering environmental awareness in borrowing member countries and to improving the environmental quality of bank-financed projects. The members also reaffirmed the Bank's commitment to meaningful public consultation on the environmental impacts of proposed projects and greater transparency in Bank operations.

Asian Development Bank policies on public consultation have changed in response to donor demands and internal evaluations and to accommodate changes in lending structure. Senior Bank staff, for example, stated that during recapitalization and replenishment of Asian Development Fund⁶ resources in the last few years, donor countries have mandated greater consultation on project design and more consideration for the impact of Bank activities on indigenous peoples. The Bank has also changed its lending structure to increase its focus on environment and social development projects, which often require participation of NGOs and local residents for project implementation.

Transparency Measures

The banks have (a) adopted policies that provide for public disclosure of information on proposed projects and (b) created public information systems to provide access to key project documents.

⁶The Asian Development Fund is the Asian Development Bank's concessional lending window.

Adopting Disclosure Policies

In August 1993, the World Bank approved an expanded disclosure policy, providing for an increased number of operational documents to be made available to the public. Among the documents the Bank determined should be made public were basic project profiles and project EA reports. The International Finance Corporation adopted its disclosure policy in 1994 and updated it in 1996 and 1998. The policy requires the Corporation to “operate with a presumption of disclosure.” However, the availability of timely information to the public is tailored to the requirements of the private sector, including the confidentiality of some information and the later disclosure of information.

In January 1995, the Inter-American Development Bank’s Policy of Disclosure of Information became effective. Among other things, it requires that draft EA reports be made locally available before Bank staff conduct project analysis missions. According to the Department of the Treasury, these missions typically occur more than 120 days before board consideration. As for the Asian Development Bank, its Policy on Confidentiality and Disclosure of Information became effective January 1, 1995. The policy emphasizes a presumption in favor of disclosure where disclosure would not materially harm the interests of the Bank and its member countries, borrowers, and private sector clients.

The banks have also required that information on ES efforts be made available for the executive directors’ consideration before they vote on project proposals. Since EA reports themselves are often very lengthy and difficult to readily understand, the banks generally require that summaries of the reports’ findings be made available for the executive directors’ consideration.

Establishing Public Information Systems

Beginning with the World Bank in 1994, the banks have instituted systems for providing public access to key project documents in their possession, including EA reports. Generally speaking, these systems rely on public information centers in the banks’ headquarters cities to provide interested parties with copies of particular documents.⁷ The World Bank established its center in January 1994 to support its efforts to increase accountability and transparency in Bank operations. The center attempts to make a more extensive range of Bank information—including project documents, ES reports, and other studies—available to a wider audience. In 1994, the International Finance Corporation also began making certain information

⁷The World Bank, the International Finance Corporation, and the Inter-American Development Bank maintain their headquarters in Washington, D.C. The Asian Development Bank is located in Manila, The Philippines.

available through the World Bank center. In February 1995, the Inter-American Development Bank began making information available through its newly established headquarters center. The Asian Development Bank established a center within its existing Information Office in 1996.

To extend these centers' effective reach, the banks have established internet home pages, which provide direct access to some (relatively short) documents and list others that can be obtained by request. The banks have also made provisions for public access to documents through their field offices in developing countries, especially for those documents pertaining to bank programs in the country in question. The banks consider access through field offices to be important because many residents of developing countries do not have access to the internet. The World Bank and the Asian Development Bank also make documents available through depository libraries in developing countries. The World Bank center makes documents available through the Bank's field offices in Paris, London, and Tokyo and maintains relations with about 240 depository libraries worldwide. As of December 31, 1996, the Asian Development Bank had 98 depository libraries in 38 member countries. Publications sent to the libraries monthly include annual reports, country and economic studies, and documents on loans and technical assistance projects, including EA reports. During this review, international and developing country NGOs expressed concern about uneven access to documents through bank field offices in developing countries, as well as through the banks' headquarters public information centers.

Inspection Panels

To ensure that bank operations adhere to each of the respective institution's own policies and procedures regarding project design and implementation, three of the four banks we reviewed have established an inspection panel. Any group of individuals who may be directly or adversely affected by a bank-supported project can ask the panel to investigate complaints that the bank has failed to abide by its policies and procedures.

The World Bank established its inspection panel in September 1993, and it became operational the following year. In 1994, the Inter-American Development Bank approved its Independent Investigation Mechanism, which reviewed its first request for an investigation in 1996. The Asian Development Bank adopted its inspection policy in late 1995 and appointed an Inspection Committee as a standing committee of the board of executive directors in March 1996. The inspection policy and panel of

experts became operational in October 1996. The International Finance Corporation has not established an inspection panel.

Ongoing Efforts to Strengthen Bank Systems

Bank staff and officials of the U.S. executive directors' offices in the banks acknowledged that the banks' efforts to ensure meaningful consultation and public access to key documents are as yet incomplete. Despite the banks' commitments in this regard, staff still sometimes find it difficult to ensure that sufficient time and resources are built into project schedules to develop project-specific strategies for obtaining and addressing comments. Bank staff, particularly those with responsibility for environmental and social matters, also commented that some bank staff, as well as project sponsor officials, had simply not yet fully appreciated the value and importance of public consultation and transparency. These views were confirmed at the World Bank and International Finance Corporation by a number of recent studies showing that these institutions' consultation and transparency systems continued to produce mixed results.⁸

Since we initiated this review, the banks—particularly the International Finance Corporation—have taken additional step toward improved consultation and transparency. In July 1998, the Corporation adopted revised EA and information disclosure policies and procedures.⁹ A primary objective of this revision was to eliminate confusion by bringing the Corporation's policies into line with those applied by the World Bank, and to clearly delineate differences in policy when the Corporation's private-sector orientation makes such differences appropriate. The revised policies strengthen the Corporation's consultation and transparency provisions in a number of ways. Figure 2.1 provides an illustration. The International Finance Corporation has also prepared a "Good Practices Manual" to guide project sponsor consultation efforts.

⁸See, for example, *Effectiveness of Environmental Assessments and National Environmental Action Plans: A Process Study*, World Bank Operations Evaluation Department, June 1996; *Policy on Information Disclosure: Review of Implementation*, World Bank Operations Policy and Strategy Department, October 1997; Peter M. Higgins, *An Assessment of the Environmental Review Procedure of the International Finance Corporation* (Washington, D.C.: International Finance Corporation, Sept. 1997); *International Finance Corporation: Review of Public Consultation and Disclosure*, Environmental Resources Management Ltd., October 1997.

⁹Implementation was postponed until September to permit Corporation staff to insure consistency with new business procedures that the Corporation has been developing. According to Corporation staff, this exercise will not result in any substantive changes in the EA policies and procedures adopted in July.

Figure 2.1: an Example of Strengthened Language in Revised International Finance Corporation Policy

Prior Policy: "(The Corporation) expects the project sponsor to take the views of affected groups and local interested parties into account in project design and implementation, and in particular in the preparation of EAs."

Revised Policy: "...the project sponsor is required to consult relevant stakeholders including affected groups, nongovernmental organizations (NGOs) and local authorities about the project's environmental and social aspects and take their views into account."

Among other things, the revised procedures bolster the Corporation's local consultation provisions by mandating proactive dissemination of EA summaries for category A and B projects in local languages in borrowing countries at least 60 days and 30 days, respectively, before the board votes. They strengthen transparency provisions by eliminating management's authority to waive public disclosure of EA reports on category A projects and specifying that the Corporation will suspend further consideration for a project if the sponsor does not agree to public release of EA reports. The revision also increases access to information on projects that the Corporation's board has approved—for example, through the World Bank's public information center making updated project environmental action plans publicly available for the first time.

World Bank staff have also drafted revised EA policies and procedures, and the draft is being discussed by members of the board of executive directors. The draft is being discussed by members of the board of executive directors. The draft strengthens existing policies and procedures regarding public consultation on projects with significant environmental impacts and eliminates ambiguity in the existing guidance by explicitly extending most provision to include category B projects. Figure 2.2 provides an example of these changes.

Figure 2.2: an Example of Strengthened Language in Draft World Bank Policy

Existing Policy: "The Bank expects the borrower to take the views of affected groups and local NGOs fully into account in project design and implementation and in particular in the preparation of EAs."

Draft Policy: "For all Category A and B projects proposed for (World Bank) funding, during the EA process, the borrower consults project-affected groups and local nongovernmental organizations (NGOs) about the project's environmental aspects and takes their views into account."

For category A projects, the draft also strengthens requirement regarding staff reporting to the board on consultation matters. In addition, to address shortcomings in making project profiles available, the Bank is developing a computerized document flow system directed at ensuring that project profiles, and updates to those profiles, are provided to the Bank's public information center as soon as Bank staff create them.

The Inter-American and Asian Development Banks also continue to refine their guidelines and practices. For example, to provide the Inter-American Development Bank public information center with a stronger mandate for obtaining copies of EA reports, the Bank has just recently adopted a new policy requiring staff to provide both the center and relevant bank field offices with copies of EA reports as soon as sponsors submit them. (Inter-American Development Bank staff informed us that they were not previously required to provide EA reports to the center.) The Inter-American Development Bank is also developing a policy on consultation and transparency designed specifically for private sector projects. Asian Development Bank staff are working with private sector sponsors to eliminate business-confidential information from the final reports of the President on project proposals so that these reports may be released to the public upon board approval and has issued several such public versions of final private sector project reports. The Asian Development Bank has also installed a new computer system which, according to Bank staff, should facilitate improved internet access to Bank documents.

Conclusions

The banks have adopted guidelines and created systems to provide for meaningful public consultation during project development, complemented by efforts to enhance public access to relevant information through bank public information centers. All of the institutions, led by the World Bank, are taking steps to further improve their current procedures and systems.

Agency Comments

In commenting on this report, the President of the World Bank Group discussed the measures that the World Bank and the International Finance Corporation are pursuing to facilitate strengthened performance with regard to both consultation and transparency. These include the Corporation's adoption of revised policies and procedures, and elements of the Bank's operationa policy reform initiative, such as enhanced training for staff and pursuit of comprehensive audits for environmentally sensitive projects at critical stages in the project cycle.

Meaningful Public Consultation Occurs on Most Projects

As discussed in chapter 2, the banks have instituted a number of measures over the past several years to improve the public consultation process for environmentally sensitive projects. Using the rating criteria we developed based on the banks' guidelines on public consultation—the details of which are explained in appendix 1—we examined a sample of 44 of 256 projects in Latin America and Asia approved by the bank's boards of executive directors during 1996 and tested whether the measures instituted by the banks had produced the consultation results they desired.

We found that the quality of consultation was adequate or better on 75 percent (33 of 44) of the projects we examined, and project sponsors took positive steps to respond to public concerns, when raised. On such projects, for example, sponsors used radio and print media to inform nearby communities about the project and its potential impacts, held community meetings to provide the public with opportunities to voice their concerns during project preparation, and provided opportunities for concerned parties to review and comment on draft EA reports. On almost all projects, sponsors addressed public concerns through actions such as relocating pipelines or modifying resettlement plans. Several factors contributed to the quality of consultation on the projects we examined. Bank intervention was an important factor and improved sponsor practices beyond the country norm on nearly every project. Consultation was particularly good on projects using a community-based approach to project development and on projects with high visibility. WorldBank-supported projects also employed comparatively good consultation practices.

Public consultation on 25 percent (11 of 44) of the projects was less than adequate. Most of these projects were supported by the International Finance Corporation or sponsored by the government of China. On many of these projects, the banks became involved after much of the project development process was already complete. Thus, their opportunity to influence the consultation practices employed—particularly during the early stages of project development when public consultation can have its greatest impact—was diminished. In deciding whether to proceed with such projects, bank officials said they must balance the need for adequate consultation against the development benefits of the proposed projects.

Providing a complete and accurate summary of the consultation practices employed during projects development is an important part of the process and helps the executive directors provide oversight of bank policies. However, in nearly 40 percent (17 of 44) of the projects we reviewed, the

Documents provided to the executive directors before voting were incomplete or inaccurate about the consultation practices employed.

Consultation Adequate or Better in Most Cases

Bank guidance generally calls for project sponsors to (1) inform concerned groups about proposed projects and their potential environmental impacts, (2) identify and clarify public concerns through such means as community meetings, and (3) ensure that concerned members of the public have meaningful opportunities to comment on the results of the EA process. Table 3.1 provides examples of the types of consultation practices that we rated as exemplary, good, adequate, borderline, and unacceptable.

Table 3.1: Examples of Consultation Practices From Exemplary to Unacceptable

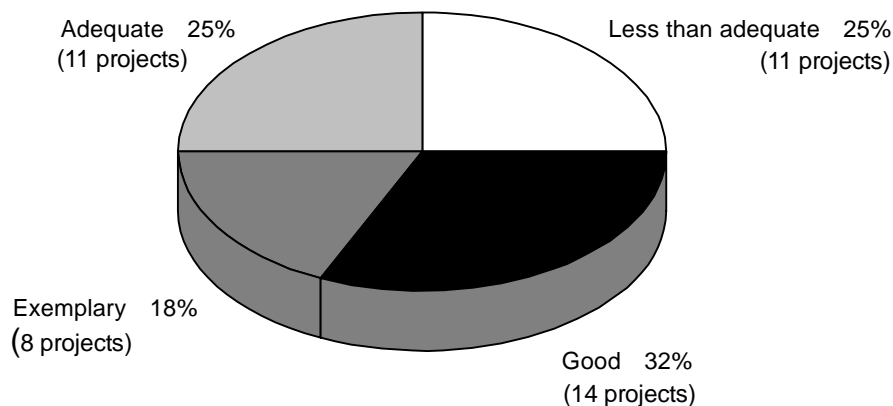
Rating	Types of activities undertaken to achieve each rating
Exemplary	Exceptional measures undertaken to overcome consultation barriers, e.g., inclusion of women and ethnic minorities in the consultation process; project development highly participatory; numerous and frequent workshops; and community meetings held to obtain public feedback.
Good	Numerous local meetings or seminars held to inform people of project and obtain comments; feedback from communities incorporated into design modifications; comments sought on results of consultation process; EA report easily accessible, or made available even when local law does not require it.
Adequate	Public informed about project through notice in newspaper; public presentation of project; involved parties have opportunities to express concerns; EA results made available in an accessible location and in the local language.
Borderline	Affected residents living near the project not consulted until late in project design; insufficient survey or consultative work done to determine affected residents' concerns; EA results not easily accessible to community
Unacceptable	Affected residents and stakeholders not consulted about project; no public discussion occurred, or a meeting held only after the EA was completed; little or no effort made to identify public concerns; EA report not made available to local residents.

For our sample, consultation was adequate or better on 75 percent (33 of 44) of the projects. As shown in figure 3.1, consultation on 50 percent of the projects (22 of 44) was exemplary or good, while it was adequate on 25 percent (11 of 44) of the projects. The remaining 11 projects employed practices that we found to be less than adequate.¹

¹The distribution of project ratings was approximately the same for both the 27 category A and 17 category B projects in our sample.

Chapter 3
Meaningful Public Consultation Occurs on
Most Projects

Figure 3.1: Quality of Public Consultation



Source: GAO analysis.

A major infrastructure project supported by the Inter-American Development Bank provides an example of the eight projects in which consultation with the public was exemplary. In this case, project plans were announced in local media, an information office was created with full-time community liaisons to respond to citizen inquiries, a consultant was hired to ensure that affected people were thoroughly consulted and their views taken into account in planning resettlement, and public meetings were held to discuss issues of public interest. The Bank retained consultants to evaluate the project sponsor's EA report and resettlement plan in light of Bank standards, and the results were discussed in public and made available for further public comment.

On the projects we rated as good, sponsors employed consultation practices similar to the project described in the preceding paragraph, though they were not as extensive. One World Bank-supported project that we found to have employed good practices, for example, solicited public input to project design through (a) two regional seminars for professionals

in relevant fields (including NGO representatives) and (b) an iterative series of community meetings in affected areas.

An example of the 11 projects we found to have adequate consultation was another Inter-American Development Bank projects. Town meetings were held to inform the public about the project. After completing a draft EA report, the project sponsor made it available for public review at a site accessible to local residents. A well-publicized public hearing was subsequently held. The hearing was covered by the local media, and the results were made available for public review.

Among the projects where we found consultation practices to be less than adequate was an International Finance Corporation-supported project that we visited in Asia. Consultation on this proposal was limited to local traditional leaders. In accordance with local custom, women were not invited to participate. In another, supported by the Asian Development Bank, surveys were undertaken to identify public concerns. However, project documents indicated that public participation for a major portion of the project did not occur. In addition, local residents were not given an opportunity to review or comment on the results of the EA process. In 8 of the 11 projects where we found consultation to be less than adequate, the first phase of the consultation process—informing the public about the proposal—was also less than adequate.

Public Concerns Taken Into Account

Bank guidance calls for sponsors to take public concerns fully into account through such steps as undertaking additional studies to explore previously unconsidered impacts and/or adopting measures to mitigate or compensate for adverse impacts. We deemed the measures employed to take public concerns into account to be adequate or better in the 39 cases where concerns were raised. (On five projects we examined, we found no evidence that the public raised substantive concerns.)

In most instances, members of the public were concerned about project impacts that would directly affect their livelihood. On one Asian Development Bank project, for example, proposed highway rights-of-way were relocated in response to residents' concerns that proposed routes would adversely affect productive cropland. Additional interchanges were also added in response to villagers' requests for improved highway access. The sponsor of another Asian Development Bank project responded to local concerns by developing methods to mitigate adverse impacts on migratory fish. In two private sector projects that we examined, one

supported by the Inter-American Development Bank and the other by the International Finance Corporation, pipelines were rerouted to avoid agricultural and/or forested areas. In another International Finance Corporation project in Asia, the sponsor made a number of alterations in project design in response to concerns that villagers raised about adverse impacts on fishing grounds, shrines, homes, and schools.

In some cases, there was no record of any NGO commentary or involvement. However, when activist NGOs did offer comments, the banks generally ensured that the issues raised were taken into account. For example, information provided by an environmental NGO led the Asian Development Bank to decline support for one proposed agricultural development site in an environmentally sensitive forest region. In another Asian Development Bank-supported project, NGO concerns about protecting environmentally sensitive forest areas were addressed by adding several features to the project design, including designation of a portion of project proceeds to support conservation efforts.

Factors Affecting the Quality of Consultation

Several factors were associated with better or worse consultation on the projects in our sample. Bank intervention generally improved sponsor practices. Comparatively good consultation practices were also associated with projects that (1) used community-based approaches in design and implementation, (2) had a “high profile” because of recent adverse publicity on similar projects, and (3) were supported by the World Bank. Bank critics have suggested that the banks’ private sector projects were less likely to employ good consultation practices than the banks’ public sector projects. Our analysis indicated that this perception was true if community-based development projects were included in the sample universe. However, after removing community-based development projects—which are generally not supported by private companies—from our analysis, we found little difference in the quality of the practices employed on private sector projects as compared with those sponsored by the public sector.

Of the 11 projects where consultation was inadequate, 5 were supported by the International Finance Corporation and 3 were sponsored by the government of China.² In many of these cases, the Bank began working

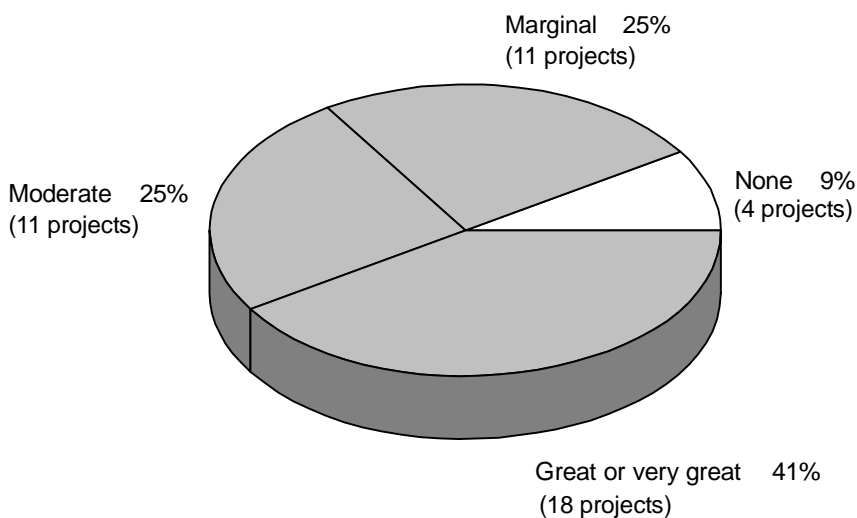
²Although consultation on many of the International Finance Corporation projects was less than adequate, the distribution and average quality of all the banks’ private sector projects, including those of the Asian and Inter-American Development Banks, was comparable to the public sector projects we reviewed, once community-based projects were removed from the analysis.

with project sponsors after much of the design and consultation work was already complete.

Bank Intervention
Improved Sponsor
Practices

In all but four of the cases we examined, bank intervention, such as insisting on public access to draft EA reports, resulted in at least a marginal improvement in the sponsors' consultation practices and/or in the measures that sponsors employed to respond to public concerns.³ As shown in figure 3.2, bank impact on sponsor practices was great or very great on 41 percent (18) of the projects and at least moderate in another 25 percent (11) of the projects. The banks had at least a marginal impact on most of the remaining projects.

Figure 3.2: Bank Impact on
Consultation Practices



Source: GAO analysis.

³Three of the remaining four projects employed adequate or good practices without being prompted by bank staff. A representative of one U.S. company receiving Inter-American Development Bank support, for example, commented that the company simply applied the good practices that it normally employed on U.S. projects in the developing country setting.

One country that we visited provides an example of very great bank impact on project development practices. Government officials, NGOs, and others in this country credited the World Bank and the Inter-American Development Bank with fostering highly participatory approaches to developing both the poverty alleviation and infrastructure projects that we examined. Government officials and NGO representatives commented that these practices contrasted dramatically with prior government approaches that lacked any provisions for public comment. Officials charged with project implementation credited bank staff with introducing mechanisms for engaging concerned member of the public that had not previously been employed in their ministries but that worked very well in practice.

Project documents showed that International Finance Corporation intervention in one project in rural Asia had a very great impact on both the process and the measures taken to respond to identified concerns. In this case, neither an EA nor consultation was required by the government. However, the Corporation required that an EA be conducted and that the results be made available for public review. The Corporation was also instrumental in changing the proposed project site to avoid disrupting existing cultivation sites.

On several projects, bank staff indicated that they had suggested innovative approaches to overcome local barriers to effective consultation. One example was a World Bank-supported effort directed at providing small-scale infrastructure for a number of isolated communities populated largely by illiterate people. This project employed a variety of unconventional communication techniques, including dramatic presentations, to effectively inform residents about the proposal.

In several instances, the banks placed conditions on loans to ensure that the sponsors addressed the concerns raised by members of the public. For example, on one of the projects we examined, the World Bank required the borrowing government to address outstanding claims of persons adversely affected by a previous bank-financed project in the same area. In another, the World Bank required the borrowing government to address environmental and social risks on a proposed project by implementing a separate bank-financed project. Satisfactory progress on the latter project had to be demonstrated before the Bank would consider financing the original proposal.

Limits on Bank Intervention and Impact

Despite the banks' impact in improving sponsor practices, public consultation on 11 of the projects in our sample (25 percent) was less than

adequate. In many of these cases, the banks' relatively late involvement in the project development process limited their influence on sponsor consultation practices—particularly those measures employed in the early

íÄPhases of project development when public consultation can have its greatest impact. Bank staff noted that they are generally involved in guiding borrowing governments' project planning efforts from the very beginning of the project development process. This early entry gives the banks the opportunity to influence the approach that sponsors take to preparing project proposals and EA reports. In contrast, bank staff and private sector representatives both noted that private sector projects are typically submitted for bank consideration only after much project planning has been completed. Bank officials also commented that, like private companies, the government of China typically submits projects for bank consideration that are already well on the way to having completed designs ready for approval, placing bank staff in a position similar to that which they occupy on many private projects.

Community-Based Projects Employed Good Practices

Development agencies, including the banks, have found that certain types of objectives—like providing basic infrastructure, ensuring basic services for poor communities, and managing natural resources—can be addressed in a highly effective manner by using community-based approaches to project design and implementation. By definition, control and accountability in such projects are largely transferred to the communities involved. Figure 3.3 describes one such project.

Figure 3.3: Community-Based Development in Practice

One Asian Development Bank-supported project that we examined typifies the consultation measures employed in designing community-based projects. The project's aim was to conserve forest resources through the efforts of rural residents themselves. To ensure that residents would enthusiastically implement the project, extensive consultation took place during project preparation. To identify public concerns and to obtain ideas about how to implement the project, consultants carried out an extensive program of interviews with residents, including women and ethnic minorities. In addition to simply being made available for public review, the EA report (translated into the local language) was distributed to interested local NGOs and subsequently discussed at a public workshop. During this process, residents raised several substantive issues--all of which were addressed to their satisfaction.

On average, the 12 community-based projects in our sample employed consultation practices that we viewed as good.⁴ These projects' average rating for taking public concerns into account was also good. In contrast, the other projects in our sample received an average rating of adequate in both dimensions. Seven of the community-based projects in our sample (more than half) employed exemplary consultation practices, while only 1 of the 32 other projects in our sample achieved this high a rating.

High-Profile Projects Employed Comparatively Good Practices

Six of the projects in our sample entered development shortly after similar bank-financed projects in the same countries had generated substantial adverse publicity because of environmental impacts and resettlement of affected peoples. Five of these six employed consultation practices that we viewed as good or exemplary. On these projects, sponsors and bank staff were well aware of the adverse publicity and took step to ensure that consultation with the local residents on the new projects was good. For example, one World Bank-supported infrastructure project took place in a location where the borrowing government and the Bank had previously been criticized for poor consultation practices and adverse environmental impacts in a project in the same sector. On the new project, the sponsors took extraordinary measures to ensure that affected persons were actively

⁴As indicated in appendix I, most of the community-based development projects in our sample were directed at alleviating poverty through providing basic infrastructure for poor communities or at managing natural resources.

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engaged in extensive consultation early in the project design. These steps included establishing public information centers at the project site and, with NGO assistance, creating a development organization to facilitate ongoing consultations among the stakeholders involved. Among other things, these community consultations—one of which is shown in figure 3.4—resulted in project design and engineering changes to minimize resettlement of local people. World Bank staff had a very great impact on the sponsor's practices in this case. At the Bank's behest, for example, efforts to respond to public concerns were greatly expanded and compensation rates for resettled persons were substantially increased.

Figure 3.4: Village Consultation in Practice



Note: In this photo, a representative of a community development organization established to serve as a liaison between the project sponsor and project-affected people meets with local residents to discuss their concerns.

Source: Project Sponsor

Bank Affiliation Made a Difference

On average, World Bank-supported projects' consultation practices rated highest among the four banks included in our study. More than half of the World Bank projects we examined employed good or exemplary consultation practices. On average, the World Bank also had a great

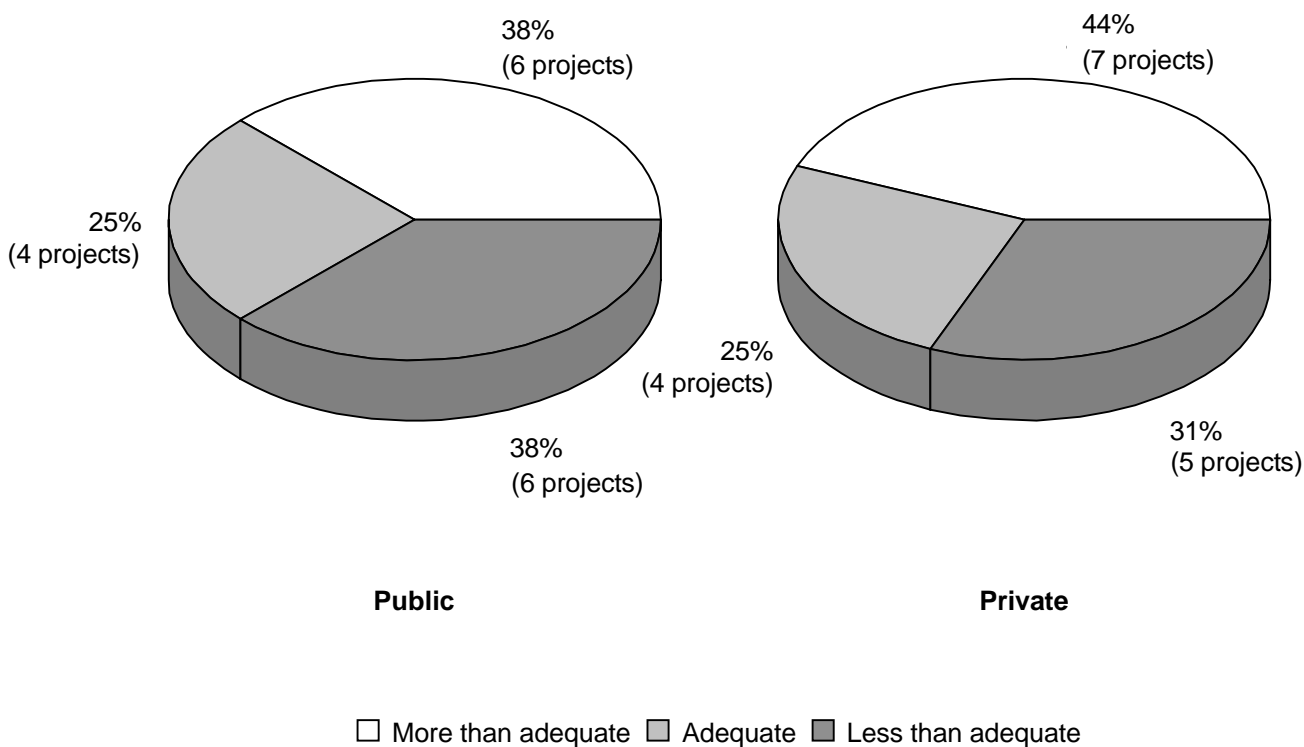
impact on improving sponsor practices compared to a moderate impact on improving sponsor practices by the other banks. The World Bank also provided the most complete information for the executive directors' consideration. (Documentation quality is discussed later in this chapter). International Finance Corporation-supported projects had the lowest average rating on consultation and the other dimensions we examined. The average ratings for Inter-American- and Asian Development Bank-supported projects fall between the World Bank and the International Finance Corporation averages.

The World Bank's better performance on consultation stems from the fact that, among the multilateral banks, it was the lead institution in developing participatory approaches to development. Among the banks, it has published the most comprehensive guidance on environmental assessment and consultation and has the greatest resources at its disposal to address such matters. For instance, it has over 360 environmental and social development staff, a number of whom are assigned to overseas missions. In selected overseas missions, such as one that we visited in Jakarta, Indonesia, the World Bank has a fully staffed environmental and social impact unit. The resident mission in New Delhi, India, which we also visited, has a social development unit. The International Finance Corporation has relatively few staff in these fields, and none of them are assigned to overseas missions.

**Type of Sponsor Not
Associated With
Consultation Quality**

Bank critics have expressed concern about the quality of consultation practices employed on the banks' private sector projects as compared with those employed on public sector projects. However, when we removed community-based development projects (which are generally not supported by private companies) from the analysis, we found little difference between the quality of the practices employed on public and private sector-sponsored projects. This observation applies when we include all private sector projects in our analysis. But as will be discussed in the next section, many of the projects supported by the International Finance Corporation employed less than adequate consultation. Figure 3.5 compares the quality of consultation on private and public sector projects, absent community-based development projects.

Figure 3.5: Consultation Practices in Public Sector Versus Private Sector Projects (Excluding Community-Based Projects)



Source: GAO analysis.

Consultation Less Than Adequate on Some Projects Sponsored by the International Finance Corporation and the Government of China

Each of the four banks included in our review supported at least one project that we found to have employed less than adequate consultation practices. However, 8 of the 11 projects in our sample where we found consultation to be less than adequate were supported by the International Finance Corporation or sponsored by the government of China. Five of the 10 International Finance Corporation projects (including one in China) and 3 of the 5 projects in our sample sponsored by the government of China had less than adequate consultation. The median rating for

consultation on the projects supported by the Corporation or sponsored by the government of China was less than adequate compared to the median rating of good for all other projects.

As noted previously, substantive bank involvement in project development generally begins relatively late in the process for private sector projects, including those supported by the International Finance Corporation, and for projects sponsored by the government of China. International Finance Corporation and other bank officials acknowledged that consultation sometimes is not as good as they would like in such circumstances. However, in deciding whether to proceed with proposed projects, these officials observed that other factors also had to be considered, including the beneficial development impacts that the project promised to deliver. Another factor in deciding to proceed with a project, according to International Finance Corporation officials, is the opportunity to remedy or ameliorate attendant environmental problems that might never be corrected if the project proceeded without bank sponsorship. In these cases, bank officials said that governments or private firms might find alternative financing without conditions.⁵

Consultation on Some Projects Not Adequately Documented

We examined whether key documents presented for executive directors' consideration before they voted on proposed projects provided complete and accurate information about consultation on the projects. These documents included, for example, summaries of EA reports and project appraisal reports prepared by bank staff. Adequate documentation summarized the consultation steps, the concerns raised, and the measures taken to address them. Unacceptable documentation provided little or no information other than a brief statement that consultation occurred.

Documentation submitted to the executive directors was adequate or better for 61 percent (27 of 44) of the projects we reviewed.⁶ For example, documents submitted for executive directors' review on several infrastructure projects in Asia described in detail the public consultation processes employed at each step in project development. In one project

⁵This occurred on two highly controversial hydroelectric development proposals—China's Three Gorges Project and India's plan for development in the Narmada River basin. In both of these cases, severe international criticism focusing on environmental and consultation issues prompted the banks to withdraw support, but this failed to have any real impact as the governments in question proceeded with the projects, using their own resources.

⁶Although bank guidelines generally require more information on category A proposals, we found no significant difference between the quality of the documentation provided for category A versus category B projects.

supported by the Asian Development Bank, the documents provided a detailed discussion on consultation activities—listing where meetings were held, who attended, the issues that were discussed, and how the issues were handled.

On the other hand, we found that 39 percent (17 of 44) of the projects provided less than adequate information. Shortcomings were particularly evident in project documents presented for board consideration at the Asian Development Bank and the International Finance Corporation. Documentation was less than adequate for more than half (12 of 22) of the projects we examined at these two institutions. A number of the EA report summaries submitted to the Asian Development Bank executive directors, for example, contained only short statements that the residents had been consulted and all were in favor of the project. They contained no discussion of what, if any, concerns had been raised, or how they were addressed. Seven of 10 International Finance Corporation projects had less than adequate documentation about consultation. We generally found that the documentation on these projects forwarded to the board members contained little, if any, mention of the actual steps taken to consult with the public, the parties consulted, the concerns raised, and/or the measures intended to address these concerns.

In a few instances, materials submitted for the consideration of the International Finance Corporation and Asian Development Bank boards presented the consultation measures in an excessively favorable light. In one project, for example, the report submitted to the board asserted that the sponsoring company had undertaken a comprehensive public consultation program. However, the report did not provide details of such a consultation program, and other documents and interviews with staff did not indicate such consultation had actually taken place. For another project that consisted of four subprojects, the summary EA report stated that the residents were informed about the subprojects and were generally in favor of them. However, the consultant's report (which is not routinely submitted to the executive directors but is available to them upon request) stated that half of the residents affected by two of these subprojects had no knowledge of them and that participation was lacking throughout the design of another subproject. Furthermore, the report mentioned some residents' concerns that were not reflected in the EA report summary.

**Documentation Important
to Executive Directors'
Role**

According to officials at the U.S. executive directors' offices, providing good summary information is a key point in the consultation process. It provides an official record of what happened and helps executive

directors exercise effective oversight of U.S. policy and law—ensuring that meaningful public participation and consultation take place during project development. U.S. officials also indicated that, while they rely on several sources of information before making decisions, reliable documentation helps them by summarizing relevant information on consultation in one convenient place.

Other officials of the U.S. executive directors' offices said that tracking down information is time-consuming and that, in some instances, they are faced with spending considerable time collecting and analyzing information that should already be prepared for them. For example, officials of the U.S. executive director's office at the Asian Development Bank had to spend considerable effort getting information on a project in which resettlement was to take place. (The documentation provided for the executive directors was incomplete and did not discuss the consultation steps taken.) The information obtained ultimately revealed that the project sponsor had not consulted with the residents until after bank officials required it. By then, decisions on resettling the residents had already been made, according to project documents. The U.S. executive director decided not to vote in favor of this project. Officials of the executive director's office expressed concern because this investigative effort cannot be made on all projects where information is incomplete. Our analysis of sample projects supports this concern. Several of the poorly documented projects that we reviewed had in fact employed consultation practices that were adequate or better. However, in 65 percent of the projects we examined where consultation was inadequate (7 of 11), the summary documentation for executive directors was incomplete or inaccurate.

Conclusions

The banks have taken significant steps toward ensuring that meaningful public consultation becomes an integral part of their project development processes. Meaningful consultation occurred on most of the projects we examined, and bank intervention nearly always improved sponsor practices. Nonetheless, consultation on some projects was not adequate. In many of these cases the sponsors asked the banks to fund the projects only after the sponsors had completed much of the project preparation and consultation. In these instances, the executive directors are presented with a dilemma. Critical to their decision in these cases is complete and accurate information on the projects, including a description of the public consultation that has taken place. Given that the executive directors must balance multiple factors in considering these projects, the lack of a

complete record of the consultation that has taken place is a distinct disadvantage to efficient and effective decision-making.

Recommendation

We recommend that the Secretary of the Treasury instruct the U.S. executive directors at the banks to work with other executive directors and bank management to seek improvements that will result in executive directors being provided with a complete and accurate record of public consultation on all proposed projects with significant environmental implications.

Agency Comments and Our Evaluation

The Department of the Treasury agreed with our findings regarding consultation and committed to continuing its efforts to work with U.S. executive directors, bank management, and executive directors representing other member countries to ensure rigorous and consistent implementation of bank public consultation policies. The Treasury also said that, as we recommended, it would work with U.S. executive directors, bank management, and other executive directors to ensure that executive directors are provided with complete and accurate records of public consultation on proposed projects with significant environmental implications.

The U.S. Agency for International Development also agreed with our findings and noted that there is room for improvement in the consultation practices employed in preparing bank-supported projects. The Agency also pointed out that good implementation of environmental and social mitigation measures during the lifecycle of a project is another important indicator of bank commitment to sustainable development.

The President of the World Bank Group commented that the World Bank and the International Finance Corporation are continuing their efforts to improve performance in this area. He noted that the Bank will shortly be undertaking the third in a series of evaluations of EA practices on bank-supported projects (including both impacts during implementation and the quality of the public consultation practices employed.)⁷ With regard to our findings on the consultation practices employed on International Finance Corporation-supported projects, the President acknowledged our recognition of the different circumstances faced by Corporation staff as compared with their counterparts in the World Bank's

⁷See *The Impact of Environmental Assessment: The World Bank's Experience*, World Bank Environment Department, November 1996.

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public sector lending programs but reiterated that there should be no qualitative difference in the consultation standards employed on public or private sector projects.

Banks Provided Inconsistent Public Access to Key Project Documents

The banks have established information systems, including public information centers and internet home pages, to provide timely public access to information on proposed projects. We focused on the performance of one part of these systems—the bank’s home pages. We determined whether, as expected by the banks, their home pages provided timely internet access to key documents on proposed projects, including EA reports.¹ We found that the home pages often did not provide timely access to these documents.

Project Documents

Bank public information systems are generally expected to provide public access to two key documents.² These are the following:

Project profiles: The purpose of project profiles is to provide “as much information to the public as early as possible” so that proposed project designs can benefit from consultation with all concerned parties, beginning at the projects’ formative stages. These profiles are expected to include an outline of the main environmental issues raised by proposed projects and are to be posted on the banks’ home pages and made available in hard copy at headquarters public information centers. According to bank guidelines, field offices are also supposed to make profiles available for borrowing country residents to review. Profiles should be periodically updated through board approval.

EA reports: As explained in chapter 1, the banks generally assign projects with significant environmental implications to a category for assessment purposes. The banks inform the worldwide general public that EA reports for category A projects are available by listing the, on internet home pages. These listings are sometimes accompanied by a summary of the report’s contents. The full reports—which may be several hundred pages long—are made available on request from public information centers and field offices.³ The banks also generally require that environmental information

¹The projects used for this chapter were not the same projects used to evaluate consultation. In cooperation with banks, we selected more recent projects to avoid including projects that were processed under information disclosure guidelines that have since been superseded. Appendix I describes our methodology.

²The various banks produce a number of documents that may contain relevant information. We concentrated on those that bank officials agreed were of interest and that were available in all four of the banks we reviewed.

³The Asian Development Bank provides copies of full EA reports free of charge. The World Bank and the International Finance Corporation charge \$20 to cover the cost of photocopying these documents but provide copies free of charge to nationals of the borrowing country in question. Like the World Bank and the Corporation, the Inter-American Development Bank charges nominal fees to cover photocopying costs.

on category B projects be accessible through their home pages. Sometimes this information is directly available on the home pages. In other cases, relevant documents are listed on the home page and may be obtained by request. As noted in chapter 1, the Inter-American Development Bank no longer assigns projects to categories for EA purposes. Bank policy is to provide broad access to all sponsor EA reports by listing them as available on the Bank’s home page.

Project Profiles Often Not Available on the Internet

Project profiles for category A and B projects are supposed to be directly available on the banks’ home pages. As shown in table 4.1, profiles were available for all of the International Finance Corporation projects for which we obtained data, but this was not the case at the other banks. Profiles were available for about 71 percent of World Bank projects and for about half of Inter-American and Asian Development Bank projects. For example, profiles were provided for 10 of the 20 Asian Development Bank projects for which we obtained data.

Table 4.1: Category a and Category B Project Profiles’ Availability

Bank	Percentage of projects with profiles available on bank home pages
World Bank	71
Asian Development Bank	50
Inter-American Development Bank ^a	56
International Finance Corporation	100

^a We included all Inter-American Development Bank projects for which EA reports had prepared.

Source: GAO analysis of bank data.

With regard to timeliness, World Bank, Inter-American Development Bank, and Asian Development Bank guidelines specify that project profiles should be made available early on in projects development—that is, when projects are identified and enter the bank’s “pipeline” of projects under development. The International Finance Corporation, in contrast, ties issuance of project profiles to the end, rather than to the beginning, of the project development cycle. Corporation policy states that profiles should be made available at least 30 days before board consideration. Corporation staff explained that their guidelines were designed with private sector concerns about limiting access to information about prospective projects

in mind. Private companies we interviewed were concerned that widespread disclosure of project information could provide competitors with financial and other data to develop or strengthen a competing proposal after they had invested heavily in project preparation.

On average, project profiles for the World, Asian, and Inter-American banks were available on these institutions' home pages about 2-1/2 years prior to board votes. On average, International Finance Corporation project profiles were available about 68 days before board consideration.

Timely Access to EA Reports Sometimes Not Provided

The banks have different requirements for when, and where, public access to EA reports is to be provided. The World Bank specifies that sponsors should provide category A project EA reports to the Bank and make them available in the borrowing country before Bank staff appraise the proposals. When the EA report has been officially received by the Bank, a copy is sent to the public information center and its availability noted on the Bank's home page. Asian Development Bank criteria state that category A project reports must be provided to the executive directors at least 120 days prior to scheduled board consideration of the project. Bank officials added that Bank practice is for public access to these reports to be simultaneously provided via the Banks' public information center and their availability posted on the Bank's home page. The International Finance Corporation requires that these reports must be made available to the public (via the Corporation's home page and the World Bank's public information center) at least 60 days before board consideration.

The Inter-American Development Bank requires that EA reports be made available in the borrowing country before appraisal missions begin. Though Bank policy is for broad access to be provided to these reports through their posting on the Bank's home page, the Bank did not, during the period for which we collected data, require staff to also send these reports to the public information center, nor did the Bank systematically record these reports' arrival at the public information center or the date of their posting on the Bank's home page. We could not, therefore, report on access to EA reports via the Inter-American Development Bank home page. We did, however, obtain data on when these reports were made available in the borrowing countries.

As shown in table 4.2, the banks' home pages sometimes did not provide notice that category A project EA reports were available or did not provide such notice within the banks' expected time frames. About 8 percent of

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the reports for category A World Bank projects in our sample were posted on the Bank’s home page in the required time. Forty-six percent were not

Posted at all. Most Asian Development Bank reports for category A projects were posted in the required time. The International Finance Corporation met its 60-day standard for the sample of category A projects we examined. EA reports for Inter-American Development Bank projects were made available in the borrowing country in all cases, though about 33 percent of the reports were not made available for the required time.

Table 4.2: Category a Project EA Reports: Access Via Bank Home Pages Relative to Bank Time Frames

Percentage of Reports				
Bank	Access in required time	Access but not in required time	No access	
World Bank	8	46	46	
Asian Development Bank	87	0	13	
International Finance Corporation	100	0	0	

Source: GAO analysis of bank data.

Table 4.3 shows the performance of the banks’ internet home pages in providing access to EA reports for proposed category A projects, using the 120-day time frame advanced by the Pelosi Amendment for comparative purposes.⁴

Table 4.3: Category a Project EA Reports: Access Via Bank Home Pages Relative to 120-Day Time Frame

Percentage of reports				
	No Access	Less than 60 days	61 to 119 days	120 days or longer
World Bank	46	15	15	23
Asian Development Bank	13	0	0	87
International Finance Corporation	0	0	62	38

Source: GAO analysis of bank data.

The banks generally met their own requirements with regard to providing access to information on EA reports on category B projects. However,

⁴As explained in chapter 1, the Pelosi Amendment instructs the Secretary of the Treasury to seek, through negotiation with other bank member countries and bank management, the adoption of policies and procedures that will result in interested members of the public in all bank member countries having access to EA reports at least 120 days before board consideration of the projects under review. The amendment, a U.S. law, does not create a direct legal obligation for the banks.

These requirements contain several features that limit the timeliness of public access to this information. For example, the Asian Development Bank divides category B projects into “sensitive” and “non-sensitive” subcategories. No information on EA results is provided on “non-sensitive” projects until after the board has voted. The International Finance Corporation does not require that information on the results of category B projects EA reports be posted until 30 days before board votes.

Conclusions

The banks are not consistently meeting their goal of providing the public with timely access to key project information through the internet. The information that has been made publicly accessible is useful, and the banks have taken the initial steps in providing worldwide access to project information. However, the banks are not fully meeting their commitments on a regular basis.

Recommendation

We recommend that the Secretary of the Treasury instruct the U.S. executive directors at the banks to work with other executive directors and bank management to have the banks improve compliance with their guidelines on providing timely public access to project profiles and EA reports through their internet home pages.

Agency Comments and Our Evaluation

In commenting on a draft of this report, the U.S. Agency for International Development noted that its experience in attempting to monitor bank projects reflect our findings regarding difficulties in obtaining access to project profiles and EA reports. The Agency reiterated the importance of the banks’ ensuring timely public access to these documents.

The Treasury Department agreed with our findings and said that the Department would work with U.S. executive directors, bank management, and executive directors representing other member countries to ensure timely access to project information for concerned of the public, particularly affected populations, via the banks’ information centers, the internet, and local venues in borrowing countries.

The President of the World Bank Group agreed with our conclusions that performance in this area should be improved. He said that performance had improved since the completion of our review⁵ but that the Bank and

⁵For example, the Bank reports substantially improved performance in providing public access to project profiles.

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the Corporation both need to perform even better. Because the actions described by the President of the World Bank Group have only recently begun to take effect, we did not attempt to verify their impact.

Methodology

This appendix provides additional information on the methodology we used to evaluate (a) the consultation processes employed on projects supported by the multilateral development banks and (b) access to key documents on proposed projects through the banks' internet home pages.

Analysis of the Consultation Process

To analyze the consultation process, we evaluated a judgmental sample of 44 projects that the 4 banks in our review approved during 1996.¹ In selecting projects for analysis, we included those supported by the banks' market-rate lending programs, as well as those supported by their concessional-rate lending operations.² The sample included 11 projects supported by the World Bank, 13 by the Asian Development Bank, and 10 by the International Finance Corporation. The sample was equivalent to approximately 20 percent of the 114 Inter-American and Asian Development Bank category A and B projects approved during 1996³ and included about the same percentage of the 53 relevant World Bank projects in these same regions (that is Latin America and Asia) during that year. While our International Finance Corporation sample included approximately the same number of projects as we examined for the other banks, this amounted to only about 11 percent of the 89 eligible Corporation projects.

The sample was selected to represent the wide variety of sectors and legal and sociocultural situations that bank staff encounter as they develop project proposals for board consideration. It includes projects in a number of sectors (for example, power plants, natural resources management, road building, agriculture, and poverty reduction) and projects being carried out in very different circumstances (for example, rural areas in Laos and Bangladesh, large cities in Argentina and Brazil.) The

¹Three of the 44 projects were approved during 1995. Two of these were included because they were located in countries where other projects of interest, approved during 1996, were also located. Including them expanded the number of projects that we could reasonably expect to visit. The third was included because the documentation available to us during the planning phase of our review indicated that the project had been approved during 1996. However, additional documents obtained some months later showed that the financing approved during 1996 represented an additional investment in the project. The original proposal had been approved the previous year.

²The World Bank, the Asian Development Bank, and the Inter-American Development Bank each make both market-rate loans (supported primarily through bank borrowing on world financial markets) and concessional-rate loans (supported primarily through contributions from member countries.) Access to the latter category of funds is limited to the poorer developing countries. In the World Bank, concessional financing is provided through the International Development Association. The Asian and Inter-American Development Banks provide their concessional lending through the Asian Development Fund and the Fund for Special Operations, respectively.

³As noted in chapter 1, the Inter-American Development Bank no longer assigns projects to categories for EA purposes. However, the Bank's categorization system was still in effect during 1996.

**Appendix I
Methodology**

Inter-American and Asian Development Bank samples also included 6 of the 11 private sector projects that these institutions supported in 1996.⁴ We examined projects from 15 countries in all. Table I.1 lists the projects we selected.

Table I.1: Multilateral Development Bank Projects Reviewed for This Report

Dollars in millions

Project name	Country	A/B	Project focus	Estimated cost	Public/private
World Bank					
Coal sector environmental and social mitigation ^a	India	A	Environmental mitigation	\$ 84	Public
Flood protection	Argentina	A	Infrastructure, institutional development	420	Public
Ghazi-Barotha ^b	Pakistan	A	Hydroelectric power	1,864	Public
Henan (Qinbei) thermal power	China	A	Coal-fired power	1,161	Public
Kerinci Seblat integrated conservation and development ^a	Indonesia	A	Natural resource management	46	Public
Native forests and protected areas ^a	Argentina	B	Natural resource management	30	Public
Power development	Vietnam	A	Gas-fired power	230	Public
Rural water supply and sanitation ^a	Nepal	B	Rural infrastructure	21	Public
Sierra natural resources and poverty alleviation ^a	Peru	B	Poverty reduction	93	Public
Strategic urban roads infrastructure	Indonesia	A	Roads	168	Public
Yunnan environment	China	A	Pollution abatement	308	Public
Asian Development Bank					
Anhui industrial pollution	China	A	Pollution abatement	266	Public
Anhui municipal wastewater	China	B	Pollution abatement	70	Public
Bahawalpur rural development ^a	Pakistan	B	Poverty reduction	65	Public
Chongqing expressway	China	A	Roads	348	Public
Fauji Kabirwala	Pakistan	A	Gas-fired power	170	Private
Forestry sector ^a	Bangladesh	B	Natural resources management	92	Public
Integrated pest management ^a	Indonesia	B	Agriculture	80	Public
Jamuna bridge access roads	Bangladesh	B	Roads	196	Public
Kali Gandaki	Nepal	A	Hydroelectric power	453	Public
Nam Leuk hydropower	Lao P.D.R.	A	Hydroelectric power	113	Public

(continued)

⁴The Inter-American Development Bank made six private sector loans during 1996. The Asian Development Bank made five. The World Bank sponsors small private sector risk and credit guarantee programs but does not have a directly analogous lending program.

**Appendix I
Methodology**

Dollars in millions

Project name	Country	A/B	Project focus	Estimated cost	Public/private
Banjarmasin Agrojaya Mandiri	Indonesia	A	Plantation agriculture	183	Private
Second road improvement	Vietnam	A	Roads	237	Public
South Java flood control	Indonesia	A	Infrastructure, institutional development	184	Public
Inter-American Development Bank^c					
Aguaytia	Peru	A	Natural gas extraction, processing; power generation, transmission	253	Private
Barrio improvement ^a	Argentina	B	Poverty reduction	170	Public
DECOPAZ ^a	Guatemala	B	Poverty reduction	56	Public
Edenor	Argentina	B	Energy distribution	508	Private
FONCODES ^{a,d}	Peru	B	Poverty reduction	430	Public
Mexico valley sanitation	Mexico	B	Pollution abatement	1,035	Public
Peten sustainable development ^a	Guatemala	B	Natural resources management	22	Public
Port modernization	Argentina	B	Infrastructure	208	Public
Termovalle	Colombia	B	Gas-fired power	156	Private
Yellow line toll road	Brazil	A	Road	161	Private
International Finance Corporation					
Basic petroleum	Guatemala	A	Oil production	73	Private
Upper Bhote Koshi	Nepal	A	Hydroelectric power	98	Private
Caltex Ocean	China	A	Petrochemical, shipping	146	Private
Green Line	Thailand	A	Urban mass transit	1,648	Private
Jalalabad gas	Bangladesh	A	Natural gas production	80	Private
Kalimantan Sanggar Pusaka	Indonesia	A	Plantation agriculture	162	Private
Thai Petrochemical Inc.	Thailand	A	Petrochemical, shipping	2,028	Private
Uch power	Pakistan	A	Gas-fired power	630	Private
Vina Kyoie	Vietnam	B	Steel processing	71	Private
Western access tollway	Argentina	A	Road	272	Private

(Table notes on next page)

Appendix I Methodology

Note: Cost includes projected bank and project sponsor financing as of 1996, in then-year dollars.

^aCommunity-based development project.

^bThe Asian Development Bank assisted in funding this project, but the World Bank took the lead in negotiating with the borrower.

^cOur sample included the only two category A projects submitted for consideration by the Inter-American Development Bank board of executive directors during 1996.

^dThe World Bank assisted in supporting this project.

Sources: World Bank, International Finance Corporation, Inter-American Development Bank, and Asian Development Bank.

To determine what actually occurred on these projects, we interviewed bank project managers and environmental personnel and examined project documents at bank headquarters in Washington, D.C. (site of the World Bank, International Finance Corporation, and Inter-American Development Bank), and Manila, The Philippines (site of the Asian Development Bank), and solicited comments via telephone and/or E-mail from nongovernmental organization (NGO) active in relevant sectors and/or regions. We supplemented this examination with field visits to 20 of the 4 projects, travelling to 9 countries to discuss relevant matters with bank staff in the field; projects sponsors (including government agencies and private companies); and concerned members of the public, including private citizens living in affected areas and officials of concerned NGOs. To broaden our understanding of the private sector perspective on relevant issues, we interviewed officials from selected private firms who were not involved in the projects we included in our sample but who nonetheless could offer informed observations (for example, international bankers, multinational corporations, and consultants and attorneys specializing in relevant matters).

To develop criteria for evaluating project practices, we consulted the policy statements and associated guidance on environmental assessment (EA) and public consultation issued by the four banks we included in our review, as well as other relevant materials prepared by recognized

authorities on such matters.⁵ Using these materials—especially the relatively extensive guidance on relevant topics issued by the World Bank⁶—we developed a scale ranging from exemplary to unacceptable and rated each project on three dimensions of the consultation process. The three dimensions of the consultation process were the following:

- Sponsor consultation practices. Each project received one overall rating, derived by averaging ratings on the extent to which project sponsors (a) informed potentially affected groups and local NGOs about the proposed project, (b) identified public concerns, and (c) provided opportunities for public comment on the manner in which such concerns had been addressed.
- Measures adopted to take public concerns into account.
- Documentation normally provided to the banks' executive directors so that they may evaluate the consultation practices used and the measures employed to take public concerns into account.

Evaluating Sponsor Consultation Practices

Table I.2 displays the scale that we applied in rating the consultation practices that sponsors employed in completing project EAs. To obtain a single overall rating for each project, we averaged the ratings each project received in the three rating dimensions.

⁵ See, for example, Asit K. Biswas and S.B.C. Agarwal, eds., *Environmental Impact Assessment for Developing Countries*, sponsored by Pollution Control Research Institute, United Nations Industrial Development Organization, United Nations Environment Programme et al. (Boston: Butterworth-Heinemann, 1992); *Environmental Impact Assessment: Basic Procedures for Developing Countries*, United Nations Environment Programme, (London: Environmental Resources Unit, 1988); Stephen G. Hildebrand and Johnnie B. Cannon, eds., *Environmental Analysis: The NEPA Experience* (Boca Raton, Florida: Lewis Publishers, 1990); Frank Vanclay and Daniel Bronstein, eds., *Environmental and Social Impact Assessment*, sponsored by the International Association for Impact Assessment (New York: John Wiley and Sons, 1995).

⁶ See, for example, *Environmental Assessment Sourcebook: Volume I*, 1991, World Bank Environment Department, World Bank Technical Paper #139 (Washington D.C. 1991).

Table I.2: Rating Criteria for Evaluating Sponsor Consultation Practices

Rating	Informing the public	Identifying public concerns	Providing opportunities for comment
Exemplary	Extraordinary measures employed to overcome local barriers, ensure that all concerned parties fully informed.	Extraordinary measures employed to ensure that local concerns fully identified and clarified through meaningful, informed consultation.	Extraordinary measures employed to ensure that all concerned members of the public were fully informed of EA results and that remaining concerns were fully clarified.
Good	Program adopted, taking local conditions into account, to ensure that all concerned parties could become fully informed about major impacts.	Local conditions taken into account, program adopted to ensure that all elements of concerned public could express informed comments.	In addition to simply making information available, sponsors actively sought comments on EA results.
Adequate	Standard measures (e.g., public meetings) employed to inform concerned parties about major impacts.	After being provided with substantive information, interested parties given opportunities to express their concerns.	Meaningful information on EA results made available in an accessible location, of other steps (e.g., public meeting) taken to provide information on EA results.
Borderline	Some steps taken to inform potentially affected communities and concerned NGOs, but efforts had substantial shortcomings.	Some steps taken to identify concerns and obtain views of affected communities and concerned NGOs, but efforts had substantial shortcomings.	Information of EA results (e.g., draft report) made available for review, but significant obstacles reduced the usefulness of this step. No other meaningful steps taken to inform the public about EA results.
Unacceptable	Little or no effort invested in informing local people or interested NGOs until after draft EA report completed.	Little or no effort made to identify public concerns prior to publication of a complete EA report.	Concerned elements of the public provided with little or no opportunity to review or comment on EA results.

Evaluating Measures Employed to Take Public Concerns Into Account

We rated each project on the extent to which project sponsors addressed (in the final project plan) the issues raised by the public during identification of public concerns, public comment on the results of the EA process, and additional public commentary obtained through general posting of project information. When rating each project's performance, we considered (a) whether or not members of the public raised any substantive concerns, and the nature of these concerns; (b) the steps that were taken to respond to these concerns; and (c) changes in project design or implementation plans that were developed as a result. Each project was given a rating based on a 5-point scale ranging from exemplary measures employed in addressing public concerns to unacceptable measures where little or nothing was done to address public concerns.

**Evaluating Documentation
Provided to Bank Executive
Directors**

We rated the extent to which the documents normally provided to each bank's executive directors prior to voting on proposed projects provided them with a basis for arriving at informed judgments about the quality of the consultation process. To conduct our assessment, we obtained the documents normally provided to the executive directors at each bank and reviewed them to determine whether or not these documents provided information that was complete and accurate about (a) steps taken to obtain public comment, (b) parties responding, (c) concerns raised, and (d) steps taken to respond to concerns. Documentation for each project was then given a rating based on a 5-point scale ranging from exemplary documentation with detailed accounts of public consultation efforts and results to unacceptable documentation with little or no information about the public process.

**Evaluating Bank Impact on
Project Processes**

To evaluate bank impact on the consultation processes employed on the projects in our sample, we did the following:

- (1) We reviewed each project to determine the extent to which the consultation processes used, and the measures employed to take public concerns into account in finalizing project designs, were upgraded from prevailing practices in the localities where the projects we examined were situated. In conducting this portion of our review, we took into account the legal frameworks and customary norms in effect in project areas. We then gave each project a rating ranging from a substantial upgrade in prevailing practices to no upgrade in practices.
- (2) We determined if such upgrading as occurred could be clearly linked to the need to meet bank requirements and/or to the active intervention of bank staff members. In conducting this portion of our analysis, we attempted to separate bank influence from the impact of other actors. In some instances, for example, project practices were upgraded over local norms because of the intervention of international NGOs or because sponsoring companies employed practices that exceeded local expectations.
- (3) We rated the banks' overall impact on a project, based on a computational matrix that took into consideration the extent to which bank intervention was directly linked to the upgrade in practices.

Transparency Analysis

We assessed timely access to key project documents (project profiles and EA reports) through the banks' internet home pages. To test performance

against the banks' own guidelines on making such documents available, as well as the Pelosi Amendment's 120-day time frame for EA reports, we obtained and analyzed data on whether—and when—relevant documents became available on each bank's home page. We did not attempt to independently verify the accuracy of the data that the banks provided on this matter, though we did review it for internal consistency. With the exception of the Inter-American Development Bank, each of the banks provided us with separate data sets for category A and category B projects. As already noted, the Inter-American Development Bank stopped employing a categorization system during 1997. Data obtained from that institution therefore did not differentiate among projects on the basis of their EA category.

The time periods covered by the data employed for this analysis varied among the banks and in no case matched the time period reflected in our analysis of consultation practices (that is, calendar year 1996.) In each case, we coordinated with bank staff to ensure that the time frames selected were (1) recent enough to avoid including projects that were processed under information disclosure guidelines that have since been superseded and (2) of sufficient duration to include enough projects to reach reasonable conclusions about performance under updated guidelines. The following discussion describes the time frames employed and the numbers of projects involved in our analyses of information from each bank.

World Bank

The project profile sample included all 4 category A and 10 category B projects whose review dates for developing project concepts occurred between April 1, 1997, and June 30, 1997. (Bank approval at this point in the process adds the project to the Bank's pipeline of projects under development.)

The EA report sample included all 13 category A projects whose EA report arrived at the Bank during the period July 1, 1996, through June 30, 1997, and all 15 category B projects with appraisal missions that began during the period April 1, 1997, through June 30, 1997.

Asian Development Bank

The project profile sample included all 4 category A and 16 category B projects for which Technical Assistance Fact Finding Missions (which

occur near the beginning of the project cycle) took place during the period October 1, 1996, through March 31, 1997.⁷

The EA report sample included all 15 of the category A projects considered by the Bank's executive directors during the period October 1, 1996, through September 30, 1997, and all of the 4 category B projects approved by the Bank's executive directors during the first half of calendar year 1997.

**Inter-American
Development Bank**

We employed one comprehensive data collection instrument for this bank, which included all of the 77 projects approved by the executive directors during the period October 1, 1996, through September 30, 1997. Since the Bank did not systematically record when (or if) EA reports were provided to the Bank's public information center—or when they were posted on the Bank's home page—we obtained data on when these reports were made available in the borrowing countries, as required under Bank guidance.

**International Finance
Corporation**

The project profile sample included all 5 category A and 102 category B projects that the International Finance Corporation executive directors considered during the time period April 1, 1997, through June 30, 1997.

The EA report sample included all 8 of the category A projects considered by the executive directors during the period July 1, 1996, through June 30, 1997, and all 100 category B projects considered by the executive directors during the period April 1, 1997, through June 30, 1997.

⁷The project profile data sets provided by the Asian Development Bank and the International Finance Corporation each contained one category B project that fell slightly outside of the indicated time frames. We decided to retain these projects in our analyses.

Comments From the Department of the Treasury

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

JUL 31 1998

Mr. Henry L. Hinton, Jr.
Assistant Comptroller General
General Accounting Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Hinton:

I welcome the opportunity to comment, on behalf of the Treasury Department, on the General Accounting Office's (GAO) report on the Public Consultation on Environmental Assessments in the Multilateral Development Banks (Banks). The report provides a fair presentation and many of GAO's conclusions are consistent with Treasury's views and with major positions taken in the Banks for years.

The Treasury Department has actively pressed the Banks to develop and fully implement public consultation and environmental assessment standards. As GAO's report shows, these efforts are yielding positive results. Nevertheless, we fully agree with GAO that better implementation of the Banks' policies can be achieved and, indeed, we have been pressing actively on this issue for some time. We will continue to work with other Executive Directors and Bank management to ensure that:

- Executive Directors are provided with a complete and accurate record of the public consultation that takes place on proposed projects with significant environmental implications;
- Project information is provided to the public, particularly affected populations, via information centers, the Internet, and locally available venues; and
- Banks effectively implement their public consultation policies rigorously and consistently.

Thank you for the opportunity to review and comment on the draft and your consideration of the attached comments and edits.

Sincerely,

A handwritten signature in cursive script that reads "William E. Schuerch".

William E. Schuerch
Deputy Assistant Secretary
International Development, Debt
and Environment Policy

**Appendix II
Comments From the Department of the
Treasury**

General Comments

See comment 1.

See comment 2.

- A matrix describing the public consultation mechanisms employed for each of the sample projects would be useful. It is not clear why specific projects "failed" GAO's determination of adequate public consultation.
- GAO might also discuss whether the information provided to the public during consultation was routinely accurate and complete.
- The report could make reference to the considerable technical assistance that the ADB has been providing to borrowers to develop internal standards and capacity to undertake environmental assessments and social analyses as part of project preparation and implementation.
- For your information, recent ADB developments of relevance to the GAO report are:
 - Approval of Policy on Indigenous People, 1998;
 - Revised Policy on Cooperation with NGOs, 1998;
 - Revised Policy on Gender and Development, 1998;
 - Appointment of NGO liaisons in resident missions;
 - Translation of Bank documents into local languages;
 - Increases in number of projects in which NGOs are involved in project design, monitoring, and evaluation; and
 - Establishment of internal networks of staff with expertise in environment and social dimensions.
- Although there is room to improve, IFC has made progress in strengthening its environmental policies and working considerably more effectively with NGOs. As the report notes, for example, IFC adopted a model public consultation process to critique its environmental and social policies.

See comment 3.

See comment 4.

The following are GAO's comments on the Department of the Treasury's letter dated July 31, 1998.

GAO Comments

1. Our review was directed at assessing the overall quality of the consultation practices employed on bank-supported projects, rather than the strengths or weaknesses of individual projects.
2. Our review of project consultation practices, the results of which are presented in chapter 3, included an assessment of the extent to which concerned members of the public were informed about proposed projects before being asked to comment. The Objectives, Scope, and Methodology section of chapter 1 has been revised to make this clear. The quality of the information on these projects that was provided to the public was a key element in our evaluation of performance in this area. As already noted in chapter 3, we found that in 8 of the 11 projects where consultation was less than adequate, the measures employed in informing the public about the proposed project were also less than adequate.
3. We have updated the report to reflect several of these points.
4. Chapter 2 acknowledges that the International Finance Corporation has strengthened its environmental assessment policies and is otherwise working to improve its performance in relevant areas.

Comments From the U.S. Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

AUG 5 1998

Mr. Henry L. Hinton, Jr.
Assistant Comptroller General
National Security and International Affairs Division
U.S. General Accounting Office
441 G. Street, N.W. - Room 4039
Washington, D.C. 20548

Dear Mr. Hinton:

I am pleased to provide the U.S. Agency for International Development's (USAID's) formal response on the draft GAO report entitled, "MULTILATERAL DEVELOPMENT BANKS: Public Consultation on Environmental Assessments" (July 1998, GAO Code 711230).

The GAO study is well done and thorough. The analyses presented firmly support the conclusions and recommendations, with which USAID fully agrees. The fact that 25 percent of the projects studied had less than adequate public consultation is a significant finding, and indicates that there is much room for improvement by the multilateral development banks (MDBs) in this area.

USAID's monitoring of the multilateral development banks through its Early Project Notification System and other means has supported many of GAO's conclusions. For example, we are increasingly frustrated by the lack of timely public information presented by the World Bank and other multilateral development banks (MDBs) on their proposed projects and related environmental reports (e.g. the World Bank provided project profiles for about half of its projects and only 8 percent had met the Bank's own criteria for timeliness). Lack of project information and timeliness inhibits USAID's potential collaboration, coordination, review or evaluation of the banks' programs. USAID -- indeed, any donor organization, affected community, or interested party -- could greatly benefit from timely information provided by the MDBs. It will make for more participatory and successful MDB projects and sustainable development programs in general.

1300 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20523

**Appendix III
Comments From the U.S. Agency for
International Development**

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Our comments on specific sections of the report are enclosed. Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,



Terrence J. Brown
Assistant Administrator
Bureau for Management

Enclosure: a/s

**Appendix III
Comments From the U.S. Agency for
International Development**

ENCLOSURE

See comment 1.

Specific comments on the report include:

Now on pp. 15-18.

1. It would help to explain USAID's role in monitoring environmental aspects of proposed MDB projects. The GAO report should include additional history and context to the passage of the Pelosi amendment in 1989, which the report evaluates. Text similar to below should appear in the Introduction under "CONGRESSIONAL ACTION," page 17 and 18:

"In 1986 and 1987 Congress passed legislation (section 537(h) of Public Law 100-202) supporting USAID's Early Project Notification System, begun in 1983. It directed USAID to enhance the operation of the "early warning system" by instructing USAID missions and embassies to analyze the impacts of proposed MDB projects well in advance of board approval. Particularly, the analysis should include the project's adverse impacts on the environment, natural resources, public health and indigenous peoples, and recommend alternatives and mitigation measures. A list of projects likely to have adverse impacts on the environment, etc., was to be made available to appropriations committees semiannually. In practice this has been done annually.

Another piece of legislation was passed in 1988 which supports USAID review of environmental aspects of proposed MDB projects, including "affirmative investigations" (i.e., fact finding missions) of projects likely to have significant negative impacts (22 USC 262m-2). This is section 1303 of Title XIII--THE ENVIRONMENT in the International Financial Institutions Act, of which the Pelosi amendment is included as section 1307.

See comment 2.

This legislation and the Pelosi amendment have prompted the formation of the "Tuesday Group," which has met on the first Tuesday of the month since the fall of 1988, and includes international non-governmental organizations (NGOs) and U.S. government agencies concerned with environmental performance of the multilateral development banks (MDBs). It is co-chaired by the USAID and the Bank Information Center (BIC). It is an important vehicle for monitoring MDB projects and policies and providing input into their formulation.

2. GAO developed a methodology for evaluating the 44 projects reviewed in the report. Appendix 1 describes the methodology and presents a summary table of the projects

**Appendix III
Comments From the U.S. Agency for
International Development**

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Now on p.57.

reviewed (Table I.1, page 68). However, the individual project evaluation results are not presented anywhere in the report (the body of the report presents only the summary results of analyses). It would be very useful to provide a summary table with the evaluation results of each individual project in Appendix 1. These results would provide GAO and others with the ability to conduct further analyses or follow-up evaluations of the projects in question (see point 3), as well as help verify the analyses presented in the report.

See comment 3.

3. It is implicit that good public consultation in environmental assessments and MDB project planning means good project implementation. A successful project would achieve its sustainable development objectives, in part, through implementation of environmental or social mitigation measures while avoiding any tragedies such as the Polonoreste project in Brazil or Sardar Sarovar in India. The GAO study provides a very useful and detailed baseline study by which these same 44 projects could be evaluated at a later date when they are closer to completion. It is an excellent opportunity for GAO, or another appropriate organization, to do a follow-up study to test the above hypothesis. USAID suggests that GAO make this recommendation for further studies.

Now on p.43.

See comment 4.

4. Two minor points: On page 52, it would be useful to expand the analysis of environmental and social development staff (it only mentions that the World Bank has 360). For comparison purposes, it should include a percentage or ratio of each bank's environmental/social staff to overall staff. On page 5, line 11, it should read "...World Bank-supported projects received..."

The following are GAO's comments on the U.S. Agency for International Development's letter dated August 5, 1998.

GAO Comments

1. This is useful background information, and we have inserted a brief reference to the Agency's legislatively mandated role in chapter 1. However, we did not evaluate the Agency's efforts in this area.
2. Our review was directed at assessing the overall quality of the consultation practices employed on bank-supported projects rather than the strengths or weaknesses of individual projects.
3. We agree that a follow-up study would be useful and will take the Agency's suggestion into consideration when planning future work.
4. While the World Bank clearly employs a substantially greater number of environmental and social development staff than the other banks, precise comparisons are difficult because of differences in the personnel systems used by the institutions we reviewed. We could not present the type of precise analysis suggested without substantial additional data collection and analysis, which would delay publication of the report.

Comments From the World Bank



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

AUG 18 1998

Mr. Henry L. Hinton, Jr.
Assistant Comptroller General
General Accounting Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Hinton:

We invited the World Bank to provide its independent views on the General Accounting Office's report on Public Consultation on Environmental Assessments in the Multilateral Development Banks. Enclosed is a letter from World Bank President Wolfensohn to Treasury Secretary Rubin setting forth his comments.

Sincerely,

A handwritten signature in cursive script, appearing to read "J. B. Eichenberger".

Joseph B. Eichenberger
Acting Deputy Assistant Secretary
International Development, Debt
and Environment Policy

Enclosure

Appendix IV
Comments From the World Bank

The World Bank
Washington, D.C. 20433
U.S.A.

JAMES D. WOLFENSOHN
President

August 5, 1998

The Honorable Robert E. Rubin
United States Department of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

My staff and I have read with great interest the GAO draft report to U.S. Representatives Nancy Pelosi and Barney Frank, on "Multilateral Development Banks' Public Consultation on Environmental Assessments." The study was conducted in a very professional manner, and we have benefited from both the positive comments and the criticisms, which will serve as a basis for our further action. We appreciate the opportunity to provide you with our comments on this draft. I understand that a copy of this letter will be included in the final version of the GAO report.

As you know, the MDBs covered in the study included both the World Bank and the International Finance Corporation (IFC). And the draft report's conclusions on each of these institutions differ in several respects.

It is gratifying to me that the GAO report finds that the World Bank has taken the lead among the MDBs to ensure meaningful public consultation on the environmental implications of MDB-financed projects. This indicates that our recruitment of environmental experts and social scientists is paying off, as is the hard work of our frontline staff who ensure that our operational policies in these areas are implemented effectively on the ground. The World Bank staff and I very much appreciate the GAO's recognition of these efforts.

That said, I want to assure you that we remain vigilant, and are not complacent about our performance with respect to public consultation on the environmental implications of projects we finance. As part of our operational policy reform initiative, we are focusing on strengthening compliance with our policies, including our environmental and social policies. Our action plan calls for enhanced training of staff coupled with comprehensive, real-time audits of representative samples of environmentally sensitive projects at critical stages in the project cycle; prompt remedial action to address issues flagged in these audits; and dissemination of best practice to our staff as well as our clients. Social assessments are helping us to identify stakeholders,

**Appendix IV
Comments From the World Bank**

The Honorable Robert E. Rubin

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August 5, 1998

understand social issues and risks, and improve public consultation and participation. Following our second review of environmental assessment in 1996, we will be undertaking our third such review later this fiscal year. Weaknesses identified as part of this review will be vigorously addressed.

In reviewing the Bank's compliance with its policies on consultation and disclosure, the GAO has carried out its analysis at two levels: within the country, locally, with parties affected by the project, and internationally through the Bank's InfoShop (which makes World Bank Group documents available to the public).

As the GAO report states, the World Bank is engaging in meaningful public consultation at the local level with affected parties. Our success in this area is partly due to improved compliance with our requirement that public consultation include making environmental assessment reports available in the borrowing country, at a public place accessible to affected groups and local non-governmental organizations (NGOs). I consider our record of public disclosure and consultations at the local level to be indicative of our responsiveness to the concerns of affected parties and borrowers.

We agree with the GAO's findings that the World Bank needs to improve its compliance with its policies for disclosure of project profiles through the Bank's InfoShop and through the internet, and of how the public may obtain environmental assessment reports. While compliance has improved subsequent to the timeframe studied by the GAO, we must do even better. Realizing this need, the World Bank's Environment Department and InfoShop have put in place a more effective tracking system as of July 1, 1998, to facilitate early identification of non-compliance.

We are, of course, concerned about the GAO's findings regarding public consultation in IFC-financed projects. While IFC can and must do better, I am pleased to report that IFC has made significant progress since the GAO study was undertaken. We also appreciate the authors' recognition that there are some fundamental differences in working in a private sector context as IFC does, particularly with respect to the timing of IFC's initial involvement in a prospective project – often substantially later than is the case for other MDBs. I want to stress, however, that there should be no qualitative difference in consultation standards, whether the project is financed by the public or private sector. This is the objective IFC will continue to seek to achieve going forward.

The GAO report has helped to reinforce the importance of IFC's just concluded 18-month exercise to substantially improve its environmental, social and disclosure policies and procedure. This effort was carried out in part to harmonize IFC's environmental and social policies with those of the Bank and, more broadly, across the World Bank Group. The GAO's findings also corroborate reviews conducted by IFC's external consultants during this 18-month period. As you are aware, IFC initiated a public comment period on its draft policies and procedure of more than two months in

**Appendix IV
Comments From the World Bank**

The Honorable Robert E. Rubin

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August 5, 1998

duration. Interested parties, including the business community and many NGOs (with whom IFC has been engaged in an ongoing and constructive dialogue for several years), took this opportunity to provide IFC with their views on the proposed policies. These efforts culminated on July 2, 1998, when IFC's Board approved a major strengthening of IFC's policies and procedure. As a result, there is far greater clarity as to environmental, social, disclosure and consultation requirements and good practice for IFC's staff and its private sector clients.

Naturally, the key to IFC's improved performance will be implementation of the new policies and procedure. In this regard, the addition of social scientists as well as a substantial increase in environmental staffing over the last two years has expanded IFC's institutional capacity to exercise environmental and social due diligence during project appraisal, as well as to monitor implementation of agreed mitigation measures to be undertaken by project sponsors. In addition, IFC will shortly be publishing a "Good Practice Manual" on public consultation and disclosure to address one of the findings of the GAO study – namely, the need to provide better guidance to clients on how to conduct effective consultation with local communities. This manual will be widely disseminated to help compensate for the fact that IFC's often later entry in private sector project planning and design means that it is not always in a position to help initiate the consultation process with affected publics at the outset. Another major step forward for IFC is its active participation in the World Bank Group's Environmentally and Socially Sustainable Network, which is resulting in more effective sharing of skills and pooling of expertise.

Regarding disclosure of information, I am very pleased that IFC achieved a 100% compliance rating from the GAO in terms of timely release and availability of documentation on the internet. IFC continues to improve its disclosure and consultation at the local level. Disclosure of project-specific information is critical to ensuring an effective consultation process. Therefore a new requirement of IFC's revised disclosure policy provides that publicly available project documentation be made available in a place accessible to local communities, translated into the local language, and communicated in a culturally appropriate manner. Environmental impact assessments are also being made available locally, and meaningful consultation during environmental impact assessment preparation is an IFC requirement, as is documentation of the consultation process.

Before concluding, I should mention that while the MDBs are critically interested that the projects they help finance achieve sustainable results, their contribution to project implementation is necessarily limited. Similarly, compliance in and of itself with MDB policies cannot assure project outcomes. Outcomes, in terms of results on the ground, depend largely on borrower ownership and implementation capacity, which in turn depend on appropriate regulatory frameworks, institutional capacity, availability of information, and the political "culture" in borrower countries. Implementation of a

**Appendix IV
Comments From the World Bank**

The Honorable Robert E. Rubin

-4-

August 5, 1998

project is primarily the borrower's or sponsor's responsibility. The MDBs should assist their borrowers to build on lessons learned and to mainstream effective public disclosure and consultation processes. This is an essential element of the Bank's and IFC's development agenda. The World Bank Group will continue to exercise leadership in advancing this work.

Thank you for the opportunity to comment on the GAO draft report.

Sincerely yours,



James D. Wolfensohn

cc: Ms. Jan Piercy (EDS01)

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