

**Annual Report to Congress on the
Environment and the Multilateral Development Banks
FY 2001**

December, 2001

Executive Summary

The 2001 Annual Report to Congress on the Environment and the Multilateral Development Banks (MDBs) is submitted to Congress in compliance with Section 539(e) of Title V of Public Law 99-591 and Section 533(b) of Public Law 101-167. These provisions instruct the Secretary of the Treasury to detail for Congress how the MDBs are promoting environmentally sustainable development.

The legislation specifically covers the following MDBs: the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the International Bank for Reconstruction and Development (World Bank). In addition, this reports on the International Finance Corporation (IFC), the private sector arm of the World Bank Group, the Global Environment Facility (GEF) and the North American Development Bank (NADBank).

This report covers activities during FY2000 from July 1999 to June 2000 for the World Bank, IFC and GEF, from April 2000 to March 2001 for the NADBank, and from January to December 2000 for all the other institutions.

Due to strong and persistent U.S. advocacy over more than a decade, the MDBs have adopted an array of policies and procedures to incorporate environmental considerations into their analyses and operations. The Treasury Department and the U.S. Executive Directors at the banks continue to use their voice and vote to improve policies, procedures, and specific projects. In particular, we have systematically advocated for:

- Integration of environmental issues and social safeguards into the project development process
- Strong and progressive transparency and information disclosure policies
- Improvements in consultations with affected peoples
- Effective independent inspection panels
- Protection of indigenous peoples
- Adequate planning and implementation of resettlement activities
- Investments for energy efficiency, cleaner technology and renewables
- Better management and protection of natural resources
- Clear project performance indicators; systematic monitoring and evaluation
- Provision of adequate resources for project supervision and monitoring

U.S. leadership and advocacy have led to dramatic changes in the handling of environmental issues in the MDBs. All the institutions have made significant progress in meeting many of the above-mentioned objectives. Information disclosure policies, consultation requirements, and the inspection panels have improved transparency and accountability. Lending for sustainable development has steadily increased in nearly all the Banks. The World Bank has become the world's largest financier of investments to protect ecosystems, reduce pollution, and build capacity for environmental management. Its portfolio of environmental projects has grown to \$15 billion as of September 2000. The Global Environmental Facility (GEF) has become the leading institution for

addressing transboundary environmental problems. It has built up a strong portfolio of projects to protect biodiversity and international waters, and limit greenhouse gas emissions. Its new procedures for small- and medium-sized projects support local efforts by communities and NGOs.

As environmental management has become better integrated into MDB operations, it has become more difficult to separate the environmental activities per se for reporting purposes. All the Banks have made progress in mainstreaming sustainable development principles, environmental analysis, and management. Environmental assessment and mitigation plans are now routine. Environmental components such as energy efficiency improvements and industrial waste treatment are now often incorporated into projects and sectoral programs. Technical assistance and training have helped build environmental management capacity in many agencies in the borrowing countries. Efforts to strengthen institutional capacity are intended to benefit the environmental management of entire sectors, not merely of MDB projects.

Despite the significant progress that MDBs have made up through the reporting year, there remains considerable scope for improving their environmental performance. For example, the World Bank needs to systematically link national social and environmental safeguard analysis and environmental trends to its country programming. The Asian Development Bank's relatively nascent inspection policy requires strengthening. The Inter-American Development Bank needs to mainstream its new energy sector strategy into ongoing sector reform in the region. The African Development Bank must make concerted efforts to identify alternatives and consult stakeholders in preparing its environmental assessments. And despite more systematic consideration of environmental issues, the MDBs continue to treat them primarily as a separate topic, rather than incorporating environmental improvement into broader productivity improvement strategies across sectors.

To strengthen the MDBs' environmental performance, Treasury has continued to press for increasing the attention to and the effectiveness of projects and initiatives for environmental improvement and capacity-building, while holding management responsible for compliance with safeguards.. Treasury supports and advocates a stronger emphasis on quality assurance in the MDBs, focussing on outcomes and development effectiveness as well as proper procedures and planning. In critical areas such as resettlement and projects affecting indigenous peoples, Treasury seeks developmental approaches that increase the likelihood that affected people will have higher standards of living than before the project. The U.S. has reinforced MDB reform efforts by coordinating with other donor countries, and has used our voice and vote to oppose those projects and activities that do not meet the high standards that have been set.

Highlights from the institutions for the reporting year are as follows:

The **African Development Bank** (AfDB) provided \$51 million in loans for environmental projects and \$11 million in grants for environment-related technical

assistance. The Bank adopted a policy for Integrated Water Resources Management and also environmental assessment procedures for private sector operations.

The **Asian Development Bank** (AsDB) published its 18-month environment study as the “Asian Environment Outlook”, outlining opportunities for the Bank to address the connections between sustaining the environment and fighting poverty. It provided \$1.2 billion in loans to twelve environmental projects.

The **European Bank for Reconstruction and Development** (EBRD) approved nine environmental projects totaling \$211 million in loans. The Bank adopted a strengthened information disclosure policy following public consultations.

The **Inter-American Development Bank** (IDB) provided \$470 million in loans for ten environmental projects and \$28 million for technical cooperation in environmental activities. It adopted a new energy sector strategy that aims to help develop more efficient and sustainable patterns of energy production and use.

The **International Bank for Reconstruction and Development** (IBRD, the “World Bank”) provided \$1.6 billion in funding for 13 environmental projects and 30 other projects with significant environmental components. The Bank embarked on the preparation of a new environment strategy and began to implement its newly-adopted strategy for the energy sector.

The **International Finance Corporation** (IFC) financed several projects in renewable energy and clean water supply. The Compliance Advisor/Ombudsman (CAO) held two meetings of the CAO Stakeholder Reference Group which includes business and NGO representatives. The Group reviewed the first year of the CAO’s operations.

The **Global Environment Facility** (GEF) approved new grants worth \$485.8 million. To reach the people closest to actual environmental problems, the GEF is implementing a three-year series of workshops in many countries to establish environmental priorities for action.

The **North American Development Bank** (NADBank) approved \$57 million in grants for four infrastructure projects. It continues to intensify capacity-building activities, primarily in the field of utilities management.

The remainder of the report discusses the efforts taken by the individual MDBs to promote environmentally sustainable development.

African Development Bank (AfDB)

Background

The AfDB has steadily improved its handling of environmental issues in its operations. In the early 1990's, the Bank adopted an environment policy and established procedures for environmental assessment. Environmental specialists and social scientists joined the Bank's staff, both in the Environmental and Sustainable Development Unit (OESU) as well as in the country departments. OESU has responsibility for policy development and has led the way in formulating sectoral policies such as those for energy and forestry operations.

AfDB environmental assessment guidelines provide for the disclosure of environmental impact assessment summaries at least 120 days before projects come to the Board for consideration. The Bank has adopted a general information disclosure policy with standards similar to those of the World Bank. It also provides information to the public through its web site, www.afdb.org.

The Bank has undertaken outreach activities to improve relations with NGOs. An NGO Liaison Committee and an NGO coordinator now serve as channels for communication and cooperation, including a routine process for consulting on draft Bank policies.

Under the auspices of the 8th replenishment of the African Development Fund, the Bank agreed to intensify its efforts to support sustainable development in its borrowing countries and to establish an inspection panel.

Activities in FY00 (January – December 2000)

Reflecting yearly fluctuations in project and technical assistance grant totals, the Bank's environmental loan totals decreased in FY00. A total of \$23 million in loans and \$6.8 million in grants were committed to natural resource management projects. Examples include a forest management project in Benin and an integrated pest management program in the Lake Chad Basin. A total of \$28 million in loans and \$4.5 million in grants were committed to projects and activities in the water and sanitation sector. Specific projects include water supply and sanitation projects in Mozambique and Zambia.

The Bank adopted a policy for Integrated Water Resources Management in March 2000. It also helped formulate the Africa Water Vision for 2025 and its Framework for Action. The Vision and Framework are aimed at addressing the challenges of providing water for a broad spectrum of users in an equitable and sustainable manner. The Bank also adopted, in May 2000, procedures for the environmental assessment of private sector operations.

Taking into account lessons drawn from the evaluation of Bank operations and newly developed global environmental conventions and standards, the Bank is revising its 1992

procedures for environmental assessment and is field-testing guidelines for environmental auditing. Training is also being provided to staff on environmental auditing.

The Bank continues its environmental collaboration with bilateral aid agencies and other international institutions. It is the regional coordinator for the UN Convention to Combat Desertification (UNCCD) and helps implement UNCCD programs in Africa. It is finalizing a memorandum of understanding with the Global Environment Facility (GEF) and has already embarked on two GEF co-sponsored conservation projects. The Bank is also in the process of implementing a four-year, Dutch-funded program on promoting investments in alternative energy. Collaborating with the International Finance Corporation, the Bank provided environmental training for financial intermediaries.

In its reorganization plan, the Bank has outlined the creation of an inspection mechanism. Treasury and the USED's office will continue to press for early implementation.

In FY00, we abstained on a dam project in Algeria because the environmental assessment information was not available on a timely basis and also on a regional energy project because of concern about substantive environmental issues.

Asian Development Bank (AsDB)

Background

In recognition of the many critical environmental problems found in Asian and Pacific countries, the AsDB has steadily strengthened its environmental requirements and its capacity to manage environmental issues. At the same time, it strove to improve the analysis and handling of social issues that arise in the development process. Environment experts and social scientists have been added to the staff to implement the new policies and strategies. The Bank has also engaged its borrowing member countries on a wide range of environmental and social issues, and supported capacity-building to manage those issues. It has encouraged the participation of NGOs and civil society in its activities.

In 1991, the Bank made environmental assessment reports publicly available at least 120 days prior to Board consideration of projects. In 1994, the Bank adopted a comprehensive information disclosure policy. More recently, the Bank created a web site (www.adb.org) to allow for public perusal of policies, summary environmental assessments, country assistance plans, and other documents related to the Bank's activities.

In 1995, in response to U.S. urging, the AsDB established an inspection mechanism to investigate possible violations of Bank policies. The procedures give the Board Inspection Committee (BIC) the responsibility for determining whether requests for inspection are eligible.

Activities in FY00 (January – December 2000)

In late 1999, when the AsDB adopted poverty reduction as its overarching objective, Management realized that the Bank's environment program would be a key component of any poverty alleviation strategy. It also realized that changes in the program might be necessary to better support anti-poverty efforts. An intensive 18-month study, the Asian Environment Outlook (AEO), provided the Bank, member governments, and civil society participants the opportunity to examine the issues, review the Bank's previous efforts, and plan for the future. The AEO, through a series of consultative workshops, has identified high priority policy and institutional reforms to improve environmental quality and promote sustainable development.

The AEO also outlined opportunities for the Bank to address the connections between sustaining the environment and combating poverty:

- help member countries manage and conserve their natural resources in order to protect the livelihoods of the poor;
- help stem the tide of urban pollution that disproportionately affects the health and living conditions of the poor;
- facilitate participation by poor communities in the development process, including by addressing the environmental concerns of poor communities and exploring their knowledge for improving the management of natural resources and the environment, and;
- promote sound governmental policies, with environmental objectives being factored into the development policies of national and local agencies.

Beginning in 2000, poverty analyses were prepared for all member countries. For future analyses, the Bank is building up staff capacity to cover country specific environmental issues such as the state of the natural resource base, conflicts over resource use, and the presence of environmental threats to the poor.

Internally, the Bank has sought to improve environmental management by revising its environmental assessment guidelines and strengthening its monitoring programs. The Bank now has improved sector-specific EA guidelines and plans to use, on a trial basis, strategic environmental assessments to fine-tune the country strategy programs and improve the integration of environment into policy based lending. Peer review of environment assessments was initiated for quality control. Guidelines for project implementation are being revised to improve monitoring of environmental risks and mitigation measures.

In FY00, the Bank approved twelve projects with primary or secondary environmental objectives, amounting to \$1.2 billion in AsDB funding. About half of these projects were focused on natural resource management; the others deal with pollution problems in urban areas. Notable projects include an Indonesian program to promote sustainable management of marine and coastal resources, and three loans to Sri Lanka for forest management, water resources, and wildlife conservation. Major water and wastewater

treatment projects in China, India, and the Philippines will improve health and living standards, especially among the poorest segments of urban populations. The Bank also continued to support the environmental capacity of member countries through its technical assistance grants.

The AsDB's collaboration with the Global Environment Facility continues to grow. The Bank worked with the GEF secretariat and the other implementing agencies to expand opportunities for the regional development banks. In addition, GEF collaboration has been explicitly targeted in AsDB country programming missions. In FY00, GEF grants cofinanced two AsDB projects and supported the preparation of six additional projects. A notable project will promote wind power development in China, seeking to mainstream this renewable power source through better institutional support and manufacturing.

Late in 2000, villagers affected by the Samut Prakarn Wastewater Treatment Project in Thailand filed an inspection claim at the Bank, alleging violations of AsDB policies in project preparation. The Board subsequently approved an investigation. The USED's office and Treasury will follow this first inspection closely. It is expected that after the investigation of this project, the Board will re-examine the inspection mechanism with a view to clarifying and strengthening its function.

Although the AsDB's information disclosure policy generally provides for the timely release of environmental information, we abstained on three projects in FY00 because the information was not available on time. These included road projects in China and Laos, and an urban infrastructure project in Nepal. We also voted no on a sanitation project in India both because the information disclosure was untimely and in accordance with the Glenn Amendment.

European Bank for Reconstruction and Development (EBRD)

Background

Since its inception in 1991, the EBRD has had a specific mandate to support environmental recovery and promote sustainable development in central and eastern Europe. Past industrial practices took a heavy toll on the environment in borrowing member countries while ill-applied standards since the collapse of centrally planned economies have exacerbated existing pollution problems. The Bank is committed to addressing these pressing problems within the budget constraints of economic transition. Although its lending for environmental objectives is focused in the energy and urban infrastructure sectors, the Bank has sought to broadly raise environmental standards through all of its operations.

In addition to working with governments, the Bank has fostered better environmental management through its private sector investments and partnerships. Taking "good environmental practice is good business practice" as an operating principle, the Bank has helped companies upgrade their operations to meet international environmental standards

and pursue profitable environmental investments. The EBRD's Environmental Advisory Council includes business leaders as well as environmental experts.

The Bank has sought innovative approaches to bring about environmental improvements. For example, to tap additional sources of financing for energy efficiency investments, the Bank pioneered the use of energy service companies (ESCOs) in the region. These companies can often introduce energy conservation and efficiency measures at no initial expense to clients because energy cost savings over the long term are used to repay the investment costs. The Bank now has fourteen projects involving ESCOs throughout the region.

The 1996 strengthened environmental policy continues to guide Bank operations. The revised policy and guidelines cover sustainable use of natural resources, environmental governance, information disclosure, and public participation. All new projects were subject to the application of European Union and/or World Bank environmental standards. Most projects now include agreements between the Bank and the borrower on key environmental, health, and safety performance criteria.

The Bank's Public Access and Disclosure of Information Policy, adopted in 1996, requires the public release of environmental assessments for public sector projects 120 days in advance of Board consideration. EAs for private sector projects must be released a minimum of 60 days prior. However, even these private sector EAs are often released in time to satisfy the Pelosi Amendment's 120 day requirement in order for the U.S. to support the project. To improve access to information about Bank activities, the Bank established the Business Information Center and a web site (www.ebrd.com).

Activities in FY00 (January – December 2000)

The financial crises and attendant fiscal cutbacks of the late 1990's constrained new Bank commitments in many sectors, including those related to environmental improvements. As member countries have regained economic stability, environmental investments have recovered. However, as vital as these investments are, the Bank's mainstreaming of environmental issues is equally important. Mainstreaming measures include policy reforms, environmental auditing, clean-up of existing pollution, introduction of cleaner production, energy efficiency upgrades, and monitoring. The Bank estimates that about 20 percent of its financing contributes to environmental improvements. Environmental activities are also spurred by several member countries raising their environmental standards in preparation for accession to the European Union.

During FY00, the Bank approved nine environmental projects totaling about \$211 million, bringing total commitments in municipal and environmental infrastructure to about \$1 billion, spread over 90 municipalities in 18 countries and affecting 30 million people. New projects include waste disposal and wastewater treatment operations in Latvia, Estonia, and Poland, all of which will reduce pollution of local rivers and the Baltic Sea. Other projects with significant environmental benefits entail the clean-up of oil field operations, waste management for a zinc smelter, and hazardous waste

management for electric utilities. The Bank continues to encourage private sector involvement in financing and operating environmental infrastructure. Loans to Bulgaria and Estonia will support private operations of municipal water facilities with the aim of achieving higher levels of service and environmental standards.

The EBRD provides environmental technical assistance and training to borrowing member countries. One notable program supported the training of environmental consultants, focussing on cleaner industrial production, energy efficiency, health and safety. Two other technical assistance projects will develop procedures for environmental due diligence to be used by banks and other financial intermediaries. These procedures will help ensure higher levels of environmental management and compliance in the sub-projects financed by the EBRD's lines of credit.

In June 2000, the EBRD adopted a strengthened information disclosure policy following public consultations. The new policy builds on the original principles of transparency and appropriate confidentiality, guided by the assumption that information will be made public in the absence of a compelling reason for confidentiality. It clarifies the circumstances under which information is treated as confidential. Two new features include the release of draft sector policies for public comment and the posting of timetables for reviewing country strategies to allow for public participation. The new policy also encourages project sponsors to post full project environmental assessments on their web sites. To improve outreach to the public, staff at both headquarters and in-country offices underwent training on environmental issues and public consultations during the summer of 2000. The Bank is also preparing more detailed guidance for clients regarding public consultation requirements and information disclosure.

The Bank's Environmental Advisory Council (ENVAC), comprising independent environmental experts and business leaders from around the world, met twice during 2000 to review issues and policy directions for Bank operations. The Council discussed opportunities for the EBRD to promote financially viable projects with significant environmental benefits. Council members encouraged the Bank on this front while acknowledging that such projects were time-consuming and constrained by environmental liabilities and the underdeveloped regulatory structure in many borrowing countries. Council members were unanimous in their support for the Bank's work on public-private partnerships, especially in the environmental infrastructure sector. Finally, the Council recommended that the Bank report periodically on the environmental performance of its operations, in a consolidated format.

In FY00, the U.S. abstained on two private sector EBRD projects: Thessalonoko-Skopje Crude Oil Pipeline (Greece and Federal Yugoslav Republic of Macedonia) because the environmental information was not available 120 days before Board consideration; and Frontera Resources Oil Development (Azerbaijian and Georgia) because the environmental information was not timely and for substantive environmental reasons.

Inter-American Development Bank (IDB)

Background

The IDB has established a multi-layered structure for managing environmental and social issues in its operations. The Committee on Environmental and Social Impact (CESI) reviews most Bank operations twice during the project cycle; the early review identifies the potential impacts and the required analysis; a second review takes place after the analyses are completed. Environmental units within each regional operations department integrate environmental considerations into project preparation and implementation. Environmental specialists are added to project teams for all projects deemed to have potentially negative effects. A central environmental division is responsible for policy development, quality control of project reviews, and promotion of energy conservation and renewable energy sources.

The Bank has a resettlement policy in place that requires early consultations, inclusion of resettlement costs in project budgets, and integration of resettlement plans into project implementation.

For projects with significant environmental and/or social impacts, the Bank's disclosure policy makes the environmental/social information available prior to the staff's project analysis visit (in country) which is typically well in advance of Board consideration. This policy also applies to the private sector lending window. In 1995, the Bank opened its Public Information Center to provide information about Bank policies and activities. It also established a web site (www.iadb.org) which now provides news, project information, policies, guidelines, assessments, and publications on a range of topics, including environmental and social issues.

At the urging of the U.S. and other governments, the IDB established an independent inspection mechanism to review compliance with Bank policies and procedures. Requests for inspection are forwarded to the Board of Directors which decides whether or not to proceed with an investigation. The mechanism covers the IDB's private sector operations but excludes the operations of the separately incorporated Inter-American Investment Corporation (IIC) that lends to small and medium-sized enterprises. Only one case, regarding the Yacyreta Hydropower Project in Argentina/Paraguay, has been filed (1996).

The Bank continues to collaborate with NGOs and to promote greater participation by civil society in the development process. In addition to consultations on specific strategies and projects, the Bank has sponsored general meetings in member countries to explain Bank activities and encourage civil society participation. For projects with significant or complex environmental/social issues, the Bank may make use of advisory committees that include NGO members. The Darien Sustainable Development Program in Panama benefits from such a committee.

The Bank's Sustainable Markets for Sustainable Energy (SMSE) program, initiated in 1996, focuses on industrial energy efficiency, renewables, and efficiency improvements in urban transport. In its pilot phase, the program mobilized nearly \$5 million in external donor funds to prepare projects. In addition, the IIC and the Multilateral Investment Fund (MIF), both IDB affiliates dealing with the private sector, finance pilot projects under this program.

Activities in FY00 (January – December 2000)

The IDB approved ten environmental loans totaling \$470 million in FY00.¹ Recognizing the rapid pace of urbanization in Latin America, the Bank has made a significant effort to address water pollution and sanitation issues through its environment portfolio. These urban environment projects are also consonant with the Bank's poverty alleviation goals as they disproportionately benefit the poor segments of the population. In addition to loans, the IDB granted \$28 million for technical cooperation projects covering a wide spectrum of environmental issues.

In 2000, the Environment Division of the Bank performed an internal review of its environmental due diligence procedures, which have been in place since 1997. This led to a process of modernizing procedures, to be implemented starting in 2001. The thrust behind the changes come from reviewing environmental due diligence in the region which revealed that although formal EA processes are now well established, the design and implementation of mitigation measures required additional efforts. Within the Bank, this translated into getting project teams to focus more on results rather than on impact analysis per se. This focus on results implies greater attention to developing environmental management plans or mitigation measures for specific projects.

In March 2000, the IDB Board approved a new energy sector strategy. The strategy is intended to guide the Bank in supporting the restructuring of energy sectors in borrowing member countries. In addition, it is expected that the strategy will further mainstream environmental concerns into Bank energy projects. One of the major aims of the strategy is to assist countries in developing patterns of energy production and consumption that are both efficient and environmentally friendly.

This dovetails with the IDB Action Plan on Climate Change which encourages member countries to undertake greenhouse gas reduction projects that are "no regrets" in nature. Such projects will help mitigate the long-term effects of climate change while bringing immediate benefits in the form of lower pollution levels and higher energy efficiency. The Action Plan also addresses the need for capacity building at the national level, measures to reduce vulnerability to natural disasters, and measures to adjust to non-catastrophic change. As part of this plan, the IDB will undertake new partnerships to help manage climate change issues. A strengthened collaboration with the Global Environment Facility will create a pipeline of climate change projects for Latin American countries. A joint project with the UN Development Programme will assist Caribbean

¹ This does not include natural disaster mitigation projects.

island nations with assessments of the climate change effects and potential mitigation efforts.

The Bank generally makes EAs available on a timely basis, typically at least 120 days prior to Board consideration. In FY00, the U.S. abstained on an electricity transmission line project in Peru because the EA was not disclosed on time, and on a toll road project in Chile for substantive environment concerns.

International Bank for Reconstruction and Development (IBRD, “World Bank”)

Background

In large part due to pressure from civil society and governments—particularly the U.S.—the World Bank has become a leader in integrating environmental and social issues into development banking. It has adopted policies for environmental impact assessment, resettlement, indigenous peoples, natural habitats, forestry, energy efficiency and water resources. Environmental experts and social scientists are assigned to all six regional departments of the Bank. The Vice President for Environmentally and Socially Sustainable Development leads a central group of experts who provide policy advice and undertake sectoral and bank-wide initiatives. In addition to funding pollution prevention and abatement, and natural resource management, the Bank supports environmental institution building for nearly all of its borrowing member countries.

Since the Bank’s adoption of an information disclosure policy in 1993, much information about the Bank’s activities has become available to the public. The policy provided for the release of country economic and sector reports, and project documents. For projects with significant environmental effects, the Bank releases the environmental assessments and any related documents such as resettlement plans at both headquarters and in the affected countries well before projects come up for Board consideration. The public can access Bank documents through the Public Information Center in Washington, D.C., Bank offices in borrowing countries, and the web site, www.worldbank.org. The Internet has enhanced the Bank’s outreach efforts, allowing for more widespread dissemination of information and reception of comments from all over the world. To improve public consultations and participation in borrowing countries, the Bank has recruited NGO/civil society liaison officers for most of its borrowing country offices. The Bank plans on revising its information disclosure policy in FY01.

At U.S. urging, the World Bank became the first MDB to create an independent inspection mechanism to examine alleged violations of Bank policies in the preparation and implementation of projects. The Bank’s Inspection Panel consists of three outside experts appointed by the Board to review requests for inspections and to carry out any project investigations authorized by the Board. The Panel is supported by a small secretariat and, from its inception in 1994 through the end of FY99 (June 30,1999), has considered fourteen requests for inspection from people affected by Bank projects. In 1999, the Board changed the Panel’s procedures with a view to assuring the Panel’s independence, and reducing conflict between donor and borrowing countries. While the

U.S. supported the changes with some hesitation, we have been pleased by the positive experience with subsequent requests for inspection.

Activities in FY00 (July 1, 1999 – June 30, 2000)

The Bank provided \$1.6 billion in funding for 13 environment projects and 30 projects in other sectors with significant environmental components. This represented 10 percent of total Bank lending in FY00.

As of the end of FY00, there were 97 active environment projects in the Bank's overall portfolio, amounting to a total of \$5.16 billion. In addition, projects in other sectors with significant environmental components amount to about \$10 billion. Thus the Bank's broad "environment portfolio" totals approximately \$15 billion, with about 36 percent of the funds devoted to natural resource management and rural development, 47 percent to pollution and urban environmental management, 9 percent to GEF collaboration, and 8 percent for institutional capacity building.

A major thrust of the Bank's environment efforts of the past few years is mainstreaming. The results have been mixed. While projects now routinely incorporate environmental assessment and mitigation measures whenever appropriate, mainstreaming environmental considerations into broad Bank interventions such as country programming has been less consistent. However, the Bank is continuing along several paths to intensify mainstreaming efforts. These include 1) integrating environmental considerations into country assistance and poverty reduction strategies; 2) identifying indicators that can measure the environmental outcomes of Bank interventions; 3) doing more cross-sectoral work to identify ways to build in local and/or global environmental benefits; and 4) improving the Bank's ability to identify environmentally preferable alternatives.

The new environment strategy, approved by the Board in July 2001, is expected to be a key directive for mainstreaming. Three basic principles guide the formulation of the strategy: 1) build on the Bank's poverty alleviation efforts; 2) link the environmental agenda to overall development objectives and shift the focus from process to outcomes; and 3) be selective and build partnerships to improve effectiveness. The main development objectives of the strategy are to: a) improve human health by reducing exposure to environmental risks such as indoor and urban air pollution, water-borne diseases, and toxins; b) support sustainable management of natural resources to maintain livelihoods; and c) reduce people's vulnerability to environmental risks such as natural disasters, severe weather fluctuations, and climate change impacts. Many NGOs and other members of civil society have provided comments and suggestions for the strategy. The U.S. sees the shift from inputs and processes to outcomes as key to successful implementation of the strategy.

Since 1999, the Bank has classified some sectoral adjustment loans as environmentally sensitive and subjected them to environmental assessment. However, Treasury would like to see a more consistent effort on this important issue. Through comments on the

environment strategy, Treasury and the USED's office have pressed the Bank to step up its efforts.

Following up on its recently adopted strategy for the energy sector, "Fuel for Thought", the Bank has started preparing energy environment reviews for borrowing countries. New projects promoting energy efficiency include a program in Ukraine to reduce energy use by public buildings and a program in India to promote demand-side management investments. The Podhale Geothermal Heating Project in Poland aims to reduce air pollution by increasing use of geothermal heat and natural gas.

The Bank's pioneering Prototype Carbon Fund (PCF) has met with an enthusiastic reception from the private sector. In FY00, fifteen corporations as well as six countries subscribed \$135 million in the Fund. The PCF will finance carbon emission-reducing activities and will distribute the reductions achieved to PCF participants on a pro-rata basis. The focus will be on renewable energy technologies and efficiency projects with strong potential for widespread replication.

In late FY00, the Bank initiated a major consultation process to solicit input for updating its forest strategy. NGOs and other members of civil society were able to contribute to the formulation of the new strategy.

The Bank continues its collaboration with the Global Environment Facility (GEF) to tackle transboundary problems. As one of the implementing agencies of the Facility, the Bank hopes to speed up progress on global environmental issues by mainstreaming GEF activities into its regional operations. In FY00, the Bank's GEF program reached a new, all-time high of \$280 million in GEF grants. These funds complemented Bank loans to 37 projects. Notable new projects include forest conservation in Costa Rica and Benin, and biodiversity protection in Turkey. In total, the Bank's GEF portfolio consists of 180 projects entailing \$1.39 billion in IDA/IBRD loans, \$1.23 billion in GEF grants, and \$4.1 billion in other co-financing.

Following the FY99 changes to its procedures, the Inspection Panel has functioned smoothly. Four requests for inspection were filed in FY00, coming from affected people in Argentina, Brazil, Ecuador and Kenya. Of these, the Panel recommended investigations of the Ecuador Mining Project and the Kenya Lake Victoria Environmental Project. Both investigations were approved by the Board without conflict.

The Bank continues its capacity building and environmental training for both staff and borrowing country personnel. Many projects include components for institution-strengthening and training which extend benefits beyond projects to entire sectors. The World Bank Institute's Environment and Natural Resources Division offers programs ranging from economic analysis of environmental issues to management of pollution abatement.

In FY00, the U.S. abstained on a wetlands project in Vietnam because the environmental information was not disclosed on a timely basis. We also abstained on a road project in

India because of the timeliness issue and according to the Glenn Amendment. Finally, we voted no on an irrigation project in Mauritania for disclosure and substantive environmental reasons. This represents a significant decrease from the previous year when the large number of projects with untimely information disclosure raised serious concern in Treasury.

International Finance Corporation (IFC)

Background

The IFC, the World Bank Group's private sector arm, introduced procedures for environmental assessment and management in the early 1990's. In 1998, IFC's environmental and social policies and procedures were updated and harmonized with those of the rest of the World Bank Group, following public consultations. The IFC Environmental and Social Review Unit examines potential projects for their effects on the people and environment of the project area. EIAs and environmental management plans are required for projects that have significant impacts. IFC projects may also entail the preparation of resettlement plans or indigenous peoples' development plans.

The IFC helps clients improve their capacity for evaluating and managing environmental and social issues, focusing in particular on inexperienced small and medium-size firms. Another high priority for the IFC is training for financial intermediaries such as banks and equity funds which now handle approximately 40% of the IFC funds. These clients must demonstrate their capacity to assess environmental issues or take steps to develop that capacity. They are assisted by the IFC's Financial Markets Environmental Services Unit. Sometimes the IFC requires prior approval on sub-projects to assure oversight of the environmental risks. In addition to direct assistance for its clients, the IFC seeks to elevate global environmental standards and to encourage the adoption of best practices.

The Environmental Projects Unit seeks out projects with overt environmental goals. It will collaborate with the Global Environment Facility and other institutions to finance innovative projects in renewable energy and other sectors.

In response to the U.S. and other governments' call for an inspection mechanism for the IFC and the WB insurance affiliate MIGA, the IFC created the position of "compliance advisor/ombudsman" (CAO) in late 1998. The CAO reports directly to the President of the World Bank Group and will address external complaints as well as provide advice to IFC/MIGA management on sensitive environmental and social issues. The terms of reference for the CAO do not include a formal linkage to the World Bank Inspection Panel aside from those cases where a claim is filed regarding a project jointly financed by the Bank and the IFC. While pleased with the creation of the CAO position, the U.S. remains concerned that it can by itself serve as an inspection mechanism for the Bank Group's private sector operations.

The IFC's information disclosure policy requires public consultations and "presumes disclosure where disclosure does not harm the clients' business interests." For projects

with significant environmental effects, the client must make public the EIA no later than 60 days prior to Board consideration. Information regarding IFC operations are available at the World Bank Public Information Center, at World Bank overseas offices, and via the website, www.ifc.org.

Activities in FY00 (July 1999 – June 2000)

Sometimes working alone and sometimes in concert with the Global Environment Facility (GEF), the IFC has financed several projects in renewable energy and clean water supply. Since 1995, the IFC/GEF Small and Medium Enterprise Program has made 15 loans that improve energy efficiency or preserve biodiversity. The IFC is also seeking to expand into innovative sectors such as the private provision of health services and education facilities. A project involving a health insurance company in Kenya now offers health insurance for employees of local businesses as well as health clinics in low-income communities.

An example of mainstreaming environmental considerations can be found in the IFC's investment in Favorita Fruit Company in Ecuador. Following a detailed environmental and social evaluation by the IFC, the company adopted environmental protections (land use, pesticide use) and social measures (labor standards, working conditions) that have qualified it as the first banana grower to receive certification under the Rainforest Alliance's "Better Banana" Project. Favorita's management now believes their business has been strengthened rather than hampered by these IFC initiatives.

In FY00, the Compliance Advisor/Ombudsman (CAO) held two round table meetings with the CAO Stakeholder Reference Group which includes business and NGO representatives. The Group reviewed the first year of the CAO's operations. One concern that emerged is the need to better publicize the availability of the CAO's services to affected people. This year the CAO will conduct a compliance audit of recent IFC/MIGA commitments in the oil, gas and mining sectors. In FY02, the CAO will commence a three-year review of the application of safeguard policies in IFC/MIGA operations.

In FY00, the U.S. abstained on four IFC projects (Argentina, Bangladesh, Kenya and Turkey) because the environmental information was not released on a timely basis, and voted no on one project (Mexico) for substantive environmental reasons as well as the timeliness issue.

Global Environment Facility (GEF)

Background

The GEF was created on a pilot basis in 1991 as a collaborative effort among donors using the World Bank, the United Nations Development Program (UNDP) and the United Nations Environment Program (UNEP) as implementing agencies to help finance

investments in developing countries that yield global environmental benefits. It uses a multilateral framework to address transboundary problems such as loss of habitat and species, and climate change. The GEF has four primary program areas: conservation of biodiversity; renewable energy and energy efficiency/conservation; international waters and fisheries; and phase-out of ozone-depleting chemicals.

With U.S. support, the GEF underwent a fundamental restructuring in 1993 and began full-scale operations in July 1994. The restructuring process created the GEF Council, a governing body with voting based largely on contributions. The U.S. has a chair on the GEF Council. NGOs gained observer status for the Council's semi-annual meetings.

The GEF secretariat is a lean organization with only forty staff members in Washington. It maintains this high level of efficiency because its projects are implemented by other agencies. It is highly focused in what it funds—providing assistance to only the parts of projects that demonstrate global environmental benefits.

In 1997, the GEF streamlined procedures for medium-size projects (\$1 million or less) to increase flexibility in programming resources and to encourage a wider range of participants in its projects, including NGOs. The GEF also reorganized its work, creating ten Operational Programs (OPs) with detailed guidelines for projects in clean energy; biodiversity conservation in forests, arid zones, coral reefs and other critical habitats; clean-up of polluted international waters; protection of fisheries; and phase-out of ozone-depleting chemicals. The OPs are also designed to help determine optimal allocations among the GEF's programs.

Activities in FY00 (July 1, 1999 – June 30, 2000)

The GEF approved new grants worth \$485.8 million. These funds helped mobilize nearly \$2 billion in co-financing from governments, development institutions, private companies, and NGOs. Since its inception, the GEF has allocated \$3 billion in grants for projects supported by \$8 billion in co-financing, largely from the governments of the project countries. It should be noted that the high level of U.S. arrears (around \$200 million) has constrained the level of activities undertaken by the GEF.

In FY00, the GEF lent support to biodiversity projects with a total of \$205.3 million in new grants. About half of the cumulative biodiversity portfolio (\$1174.5 million) is devoted to the protection of tropical forests while the remaining projects focus on arid zones, coastal regions, and montane areas. Notable recent projects include the Amazon Region Protected Areas Program in Brazil, Control of Invasive Species in the Galapagos Archipelago of Ecuador, and the Maloti-Drakensberg Conservation Project in southern Africa. The GEF has also supported capacity building and the creation of information and management tools for conservation. Its "Global Biodiversity Assessment" has become a standard scientific reference on the main issues of biological diversity.

GEF climate change projects fall into three operational programs: 1) removal of barriers to energy efficiency and conservation; 2) promotion of renewable energy by removing

barriers and reducing costs; and 3) reducing the long-term costs of energy technologies that lower greenhouse gas emissions. Worldwide, the GEF is the chief source of funds for renewable energy. All programs are designed to provide energy for development while reducing risks of global climate change. To date, the GEF has allocated \$1080.6 million to these programs, including \$195.3 million for sixteen new initiatives in FY00. Projects include a rural energy program in Uganda, a hybrid solar power plant in Mexico, and the introduction of hydrogen-fueled buses for urban transport in Brazil.

Since its inception, the GEF has provided \$399.3 million to combat water pollution and protect fisheries. In FY00, the GEF international waters and fisheries program committed \$48.6 million for five initiatives, focusing in particular on assessments and strategic planning. New projects include regional assessments of persistent toxic substances, a program to reverse water and land degradation in the Lake Chad region of Africa, and a strategy to reduce environmental stress in the Yellow Sea marine ecosystem.

In its program to phase-out ozone-depleting chemicals, the GEF seeks to help countries in transition to comply with commitments under the Montreal Protocol in the most cost-effective manner. In FY00, the GEF committed \$7.5 million to help cover the phase-out costs in Kazakhstan. Since its inception, this program has granted a total of \$159.6 million to assist fifteen countries. Six of these countries have completed their GEF projects and are achieving full or nearly full compliance with the Protocol. Eight others are expected to reach compliance by 2003. The GEF has played an important role in helping these countries meet their goals.

To reach the people closest to the actual environmental problems, the GEF has planned a series of fifty workshops in different countries to take place over three years starting in 2000. It is hoped that the workshops will engage broad national audiences about their priorities and the GEF's mission, programs and procedures. The workshops should also facilitate country-level information sharing and encourage people to develop proposals to access GEF resources for applicable projects. In 2000, workshops were held in eleven countries including South Africa, Nigeria, Egypt, Vietnam and the Philippines. In addition, two regional workshops were convened for Caribbean countries.

The GEF web site is at www.gefweb.org.

North American Development Bank (NADBank)

Background

The NADBank and its sister institution, the Border Environment Cooperation Commission (BECC), were created by an agreement between the United States and Mexico to assist communities in addressing the serious environmental problems in the U.S.-Mexican border area. The U.S. and Mexico are equal partners in governing and capitalizing the Bank. Ninety percent of NADBank capital is dedicated to environmental

infrastructure projects and ten percent is dedicated to community adjustment and investment activities in both countries. Priority is given to projects dealing with wastewater treatment, drinking water supply and municipal solid waste. The NADBank seeks to structure affordable financial packages by identifying both public and private funding. Its loans are intended to fill financing gaps not covered by other sources while its guaranties encourage the participation of other lenders. It also provides communities with funding and technical assistance for long-range infrastructure planning and development.

The project development process at the NADBank is different from that of the other international development banks. The BECC works with communities to develop and certify infrastructure projects before they are considered eligible for NADBank financing. Representatives from the U.S. and Mexican federal governments, border states, local communities and the public sit on the BECC Board. This helps ensure that the border region's environmental priorities will be set at the local and state level with full public consultation. The BECC brings together both in-house and external environmental expertise to evaluate projects, applying guidelines related to the environment and public health, sustainable development, and public participation.

A notable accomplishment has been the creation of the Border Environment Infrastructure Fund (BEIF) with contributions from the U.S. Environmental Protection Agency (EPA), which provides the Bank with a separate window for grant financing. The NADBank also provides technical assistance to strengthen communities' environmental management capabilities. For example, the Project Development Assistance Program helps communities to design feasible and environmentally sustainable infrastructure projects. Through the Institutional Development Program and the more recently created Utility Management Institute, which provides professional training for utility managers, the Bank is striving to significantly improve the financial management of regional utilities, and upgrade the quality and cost-effectiveness of their services.

Activities in FY00 (April 1, 2000 – March 31, 2001)

In FY00, the NADBank approved \$57 million in BEIF grants for four infrastructure projects. This brings the Bank's portfolio to a total of \$276 million in loans and grants for 32 projects, representing a total investment of \$870 million (including co-financing).

The Bank continues to intensify its capacity building activities. The Institutional Development Program has assisted 65 communities with studies for improving development and management of utilities. Thirty-three projects have been completed and the rest are in progress. Since its launching in August 1999, the Utility Management Institute has served a total of 82 utility professionals representing 39 border communities. The second session began in September 2000 and to date, 39 new participants representing 24 communities, have completed the first half of the training course. In April 2001, the Institute will sponsor a seminar on public-private partnerships in utility development and management.

Under the auspices of the Solid Waste Environment Program pilot approved in 1999, the Bank is currently working on the development of 21 solid waste projects on both sides of the border.

In an ongoing effort to help small municipalities provide affordable utility services, the NADBank is exploring the development of regional facilities that serve two or more communities. One product of this effort is a manual to guide the drafting of interlocal service agreements for U.S. municipalities.

Extensive information concerning the Bank's activities are available at www.nadbank.org and at www.cocef.org, the web site of the Border Environment Cooperation Commission.