USAID Report to Congress

November 2000

Multilateral Development Bank Loans
Raising Environmental and Related Concerns

Abstract

This report reviews the process used by US agencies and the public to review multilateral bank loans and describes a number of loans that have potentially serious effects on the environment. Many of these also raise questions concerning their impact on indigenous peoples, their economic viability, and other issues within the scope of AID's review. In recent years, nearly half of the money lent by the Multilateral Development Banks has been in "structural adjustment" loans and a large number of other loans are for capacity development or financial institutions that will promote natural resource exploitation, power production or highway development -- all areas with potentially large environmental impact. The report finds that U.S. legislation requiring environmental assessment and review is generally not being implemented with regard to these loans. For projects that do fall within the existing Treasury Department regulations requiring assessment, the review is usually later and involves fewer interested parties than either the law or the regulations anticipate. In this report we recommend steps to help ensure that the responsible agencies fully implement the law and help the MDBs more effectively achieve development goals. We further recommend that the MDBs, relevant agencies and interested public use the best available measures of development, including environmental sustainability, to develop a system that can ensure that MDB actions will sustain the environment while enhancing the human condition, or be corrected rapidly if they are failing to do so.
ABBREVIATIONS AND ACRONYMS USED

BANKS, LENDING INSTITUTIONS AND NGOs:

ADB  Asian Development Bank
AfDB  African Development Bank
BIC  Bank Information Center
CIDA  Canadian International Development Agency
DOE  Department of Energy (USG)
EBRD  European Bank for Reconstruction and Development
EEC  European Economic Commission
EU  European Union
EXIM  Export Import Bank (USG)
EXIMBANK  Export Import Bank (Japan)
GEF  Global Environmental Facility
GTZ  German (bilateral) Technical Assistance Agency
FAO  United Nations Food and Agriculture Organization
IDB  Inter American Development Bank
IBRD  International Bank for Reconstruction and Development (WB)
IDA  International Development Association (WB)
IFC  International Finance Corporation (WB)
IFAD  International Fund for Agricultural Development
IMF  International Monetary Fund
IUCN  World Conservation Union
KfW  Kreditanstalt fiir Wiederaufbau (German Bank for Reconstruction and Development)
MIGA  Multilateral Investment Guarantee Agency (WB)
MDB  Multilateral Development Bank
MRC  Multinationals Resource Center (an NGO)
NGO  Non-Governmental Organization
NRC  Nuclear Regulatory Commission (USG)
ODA  Overseas Development Agency (United Kingdom)
OECF  Overseas Economic Cooperation Fund (Japan)
SIDA  Swedish International Development Agency
USAID  United States Agency for International Development
USG  United States Government
WB  World Bank Group (including IBRD, IDA, IFC, and MIGA)
WWF  World Wildlife Fund

OTHER ABBREVIATIONS:

EA or EIA  Environmental Assessment /Environmental Impact Assessment
EDS  Environmental Data Sheet (WB)
GIS  Geographic Information System
Gwh  Gigawatt hours
ha  hectare(s); 1 ha = 2.47 acres, 1,000 ha (10 km²) = 3.87 miles²
ICDP  Integrated conservation and development project
IEE  Initial Environmental Examination
km  kilometer(s); 1 km = .62 miles
kV  kilovolts
MOS  Monthly Operational Summary (World Bank)
MW  Megawatts
N/A  Not applicable
PID  Project Information Document (WB)
USED  U.S. Executive Director
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Executive Summary

The Congress has directed the U.S. Agency for International Development (USAID) to work with other key U.S. agencies to help the Multilateral Development Banks (MDBs) to set performance standards with an emphasis on environmental sustainability, economic viability, and indigenous peoples and to ensure that those standards are met. In this report we summarize these requirements, review current practices and trends, consider recent constructive criticism of MDB lending and identify options for improvement. We then review a sampling of loans posing risks to the environment and related values.

Key findings of this report are:

• MDBs continue to have a mixed performance in their environmental review of loans and in the effectiveness of the environmental and related performance:

• Nearly half of the money lent by the Multilateral Development Banks in recent years has been in "structural adjustment" loans. A large number of these and other loans such as loans for capacity development or financial institutions will promote natural resource exploitation, power production or highway development, all areas with potentially substantial environmental impact. The Banks generally do not do environmental assessments for structural adjustment, capacity building and many financial institution loans, even for those with substantial environmental impact.

• U.S. legislation requiring environmental assessment and review before the USED can vote in favor of any proposed MDB action that would have a significant effect on the environment is not being applied with regard to most structural adjustment and capacity building loans with probable substantial environmental impact. This is due, in part, to regulations that apply the statute narrowly. Given the wording of the statute and its legislative history we believe the scope of the regulations should be expanded.

• The U.S. agencies should examine how to include a broader set of expert agencies and other partners, within the constraints of limited resources.

• USAID continues to allocate the limited human resources available to address this issue so as to maximize their effectiveness. The Agency will assess the role of each mission and regional bureau in reviewing not only the occasional notices from the early notification system, but the Monthly Operational Summary updates of the World Bank\(^1\), and similar summaries of the other MDBs. Missions and Bureaus will continue to be encouraged to investigate further, in consultation with Bank country or regional officers, any projects that are likely to have substantial environmental or negative social impacts.

• For MDB projects that fall within the existing Treasury Department regulations requiring assessment, the review is usually later and involves fewer interested parties than the either the law or the regulations anticipate.

• The regulations promulgated by Treasury call for interagency review of proposed projects at three stages. The first, where leverage may be greatest, is intended to review the classification of projects between those requiring full Environmental Assessments and those requiring less. At present, this is done infrequently. Given the importance of proper assessment, we believe this

\(^{1}\) The MOS is available and renewed on the 16th of each month on the website beginning June 2000.
should be a regular practice.

- USAID and its sister agencies would be more effective if they were more thoroughly engaged in the review process at an earlier stage. This is easier said than done, but USAID and its partners should press the MDBs for earlier loan information disclosure and evaluation. These partners should seek to obtain the necessary human resources for more active engagement.

This report recommends that USAID and its partners encourage the MDBs to:

- Publish drafts of each assessment so that persons and agencies can provide in their comments evidence of better choices, and in final assessments accept or reject each major recommendation, giving an explanation as is done in U.S. assessments.  

- Evaluate proposed loans, and those carried out, according to the indicators and accounting measures used in the Bank’s *World Development Indicators* and make adjustments in loan criteria accordingly.  

- Develop a strategy, including environmental and social screens, to guide the entire Bank family in its private sector investment in the developing world.

- On a strict schedule, shift lending to environmentally sustainable development and away from non-renewable energy and basic extraction, except for technical assistance to ensure that developing countries, on similar sustainability schedules and in the context of good governance, implement environmentally sound energy and extractive resource policies and benefit-sharing that would otherwise not occur.

- Expand current “negative investment” lists (areas in which investment should not occur) to include projects that cause potentially irreversible harm to the environment as defined by internationally recognized standards.

- Institute a dynamic, participatory process to assess environmental and social impacts of structural adjustment loans, given the lack of assessments for structural adjustment, capacity building and other programmatic loans noted above.

- Create an incentives framework to ensure that safeguard policies are implemented in a consistent manner throughout the Banks, given the need to better incorporate environmental values into project and program selection and operation described within this report, and other reviews of

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2 The World Bank’s EA policy requires publication of drafts for Category A loans (OP4.01, Para.15&17), but unlike the Council on Environmental Quality regulations (Part 1503.4), does not require each final EA to address major issues raised in comments nor provide a specific review or appeals procedure.

3 USAID’s environmental indicators for countries are set are set forth in the appendix. To these, USAID adds project specific criteria in order to select projects and evaluate performance. In 1998, a small foundation-funded project, Accounting for the Environment, developed a set of indicators that included both environmental and governance measures and ranked several countries against each other so as to compare the natural and human stewardship of countries at similar levels of economic development. Yale University has now also developed a sustainability index including non-environmental criteria and the Bank has completed its Genuine Domestic Savings ratings, first published on a limited basis in 1998’s *World Development Indicators*. Various models in addition to the more traditional economic models can be used to consider natural resource and human capital more fully. For example, Millennium 2000, a not-for-profit organization, has a “T21” model of development that inexpensively illustrates development options.

MDB operations.  

- Strengthen of the role of internal Bank “networks” (e.g., on environmental quality control) to better control operations.

- Expand the current information disclosure to include annual public financial disclosure beyond the Bank Vice Presidential level, to avoid the appearance of conflicts of interest, as required for most high-level officials under the Ethics in Government Act. This disclosure might be reviewed for use by the MDBs and their borrowers with regard to those making decisions concerning the spending of funds from the MDBs. For transparency at an institutional level, similar disclosure could be applied to the process of bidding for, and acquiring the legal title to, properties that are the subject of MDB loans, as in mineral extraction and privatization.

- Create new compliance units to ensure that no project is moved to the Board without prior certification as to compliance with all applicable policies.

In essence, the Banks should ensure and demonstrate with substantial evidence that loans will not be likely to undermine the sustaining of earth’s living natural resources or ecosystem functions and that loans selected for each country will provide the greatest benefit for the resources available according to widely accepted criteria. In mid-course reviews, corrections should be made if this performance is not evident. Models are available to predict likely effects and remedies can be provided for reasonable risks. Effective remedies financed by performance bonds or insurance should be part of each loan and presented in the environmental and social assessments conducted by the Banks. These remedies should be made available for those harmed, if not through existing judicial systems, then through interim systems established for Bank projects. The World Bank’s Investigations Panel and the International Finance Corporation’s Ombudsman are major steps in the right direction and USAID congratulates the Bank and the IFC on their excellent work in establishing and empowering these offices.

The report reviews in detail the reforms listed above and related recommendations of the Congress, the General Accounting Office, the U.S. Executive Director of the World Bank, Non-Government Organizations, Departments of the MDBs themselves, and how these suggestions might apply to specific loans.

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5 This item and the preceding four are virtually identical to those requested in the House report noted above. The USAID review supports these recommendations as fully warranted.

6 For example, as implemented in 5 C.F.R. Part 2364.

7 An additional and related tool is to clearly define conflicts of interest, which the Bank is doing in its internal seminars, and to require affirmative statements of no conflict of interest, as well as the more passive financial disclosure. Procurement reforms are well underway, but could be expanded.

8 This recommendation and those concerning empowering the environmental and other “networks” and incentives for World Bank personnel were made by the US Executive Director of the World Bank in July of 2000. They are needed.

9 A typical loan-supported project might have a six year life-span but critics often assert that mid course and post loan corrections are too rare (see discussion of GAO, QAG, and other evaluations below).
Introduction

In this report we attempt to provide not only a list of loans and projects that pose risks to the environment, natural resources, indigenous peoples, and other values underscored by Congress, but a sense of the context in which these loans are developed, reviewed and concluded. The first section of the report provides that context by noting recent developments concerning the Multilateral Development Banks (MDBs), reviewing the interagency process for evaluating MBD loans, and noting trends that hold promise for programmatic improvements. The second section consists of a selection of projects listed by region and country which exemplify the kind of risks that arise in a given sector or type of project. The reviews are shorter on average, the number of projects reviewed is smaller, and there is greater emphasis on World Bank over regional bank projects due in part to the fact that there was a gap of several months during which the position of the author was unfilled. Neither section is intended to be an exhaustive treatment. Both are intended to present the Congress and the public with information that may help achieve the goals established in the laws that authorize this report, the interagency-MDB process, and the MDBs themselves.

The author would like to acknowledge, with great respect and appreciation, the help of the able staffs of the Treasury Department’s Office of Multilateral Banks, the EPA’s Office of International Affairs, the Department of State’s several Bureaus involved with MDBs, the National Oceanographic and Atmospheric Administration\(^\text{10}\), the US Department of Agriculture’s Foreign Agriculture Service’s Development Resources Division, my colleagues throughout USAID, the dedicated investigators at GAO and the staffs of the Non-Government Organizations who monitor both the Banks and the agencies. Without the help of all of these people, neither these reports nor any on-going independent review would be possible.

We are among the first to acknowledge, gratefully, that the Bank family itself has some of the very best experts in sustainable development who continue to produce some of the best analysis in the world.\(^\text{11}\) The challenge therefore, as the U.S. Executive Director recommended\(^\text{12}\) this year, is to support them and to integrate that expertise strategically -- earlier and more deeply -- in the process of developing bank loans.

The year 2000 may be pivotal for the MDBs and other International Financial Institutions (IFIs). Several forces are converging while the Congress and the Administration and the IFIs consider several major reports and related developments:

- the final year in a 3-year Compact of 1997 between the Board of the World Bank and its President Mr. Wolfensohn\(^\text{13}\)
- the Report of the Congress’s commission on the IFIs known as the Meltzer Commission,
- the GAO reports on EA outreach, Management Measures to Prevent Corruption, and Debt Relief\(^\text{14}\)

\(^{10}\) Including its representatives serving the NMFS, and the Interagency Invasive Species Council.

\(^{11}\) E.g., Making Development Sustainable – The World Bank Group and the Environment, by the Environment Department of the World Bank, 1994; Environmental Impact Assessment for Developing Countries in Asia, Asian Development Bank, 1997; Economic Causes of Civil Conflict and Their Implications for Policy, Paul Collier, Director, Development Research Group, World Bank, June 15, 2000. The bank has had other experts, now independent or retired, who are valuable resources, such as Dr. Salah El-Serafy who helped lead efforts of the Bank and the UN in environmental accounting and contributes continually to the field, e.g. “Green accounting and economic policy”, Ecological Economics, 21 (1997) 217-229.

\(^{12}\) In her statement to the Board after reviewing the Western China Poverty Reduction project again (see below).

\(^{13}\) Mr. Wolfensohn was “reappointed by the Clinton Administration” after his previous term expired according to the June 27 New York Times (A7).

\(^{14}\) In general, any review of the MDBs and the Pelosi Amendment in particular should include the Reports of Sanford and Fletcher, of the Congressional Research Service, such as MDBs’ EA and Information Policies: Impact of the Pelosi Amendment, 98-180 and MDBs: Issues for the 106th Congress IB96008.
- the World Bank's own 1999 Annual Review of Development Effectiveness
- The Overseas Development Council Recommendations on the World Bank and the IMF (January 1999 and April 2000, respectively)
- The Bank's World Development Report 2000

For example, the World Bank's World Development Report this year as been the subject of considerable controversy as it addresses "globalization" and the impact on the poor. One organization critical of the bank describes the importance of the report as follows:

The Bank produces World Development Reports every year. The ones at the start of each decade, however, are the most influential as they take an overall look at the 1990 report was very influential in the Bank and for many aid agencies and researchers across the world. WDR's are officially not documents of the Executive Board of the World Bank, and is thus not an official policy document, it is a document prepared by the Chief Economist's staff, and therefore ultimately represents the views of staff and management. 16

Bank President James Wolfensohn, stated in a letter to the Bretton Woods Project of 26 August, 1998 that "I view WDRs as being one of the Bank's critical instruments for dialogue with the development community at large. I have also emphasized that we should not just be reciting generic answers but raising fundamental questions to which there are no easy answers". 17

This year's WDR was controversial for the resignation near the end of the process of its main author who disagreed with final edits concerning globalization and its impact on the poor.

One judgement reflected in the report is that rapid privatization a la the "Washington Consensus" works best when supported by both popular ownership of the process and legal and institutional capacity to accommodate it and prevent corruption from eroding its promise. Rushed liberalization and privatization without compassion and careful assessment of the readiness of the country can result in failure and heavy burdens upon the poor. 19 The report presents a summary of the correlation between good governance and economic development. 10 The nearly direct correlation is interpreted as largely a cause and effect; that is, that the degree of economic development depends directly upon the degree of good governance. A similar conclusion was reached by the UNDP in its report this year. 21

Congress has noted the direct and mutual linkage between open government, the rule of law, interagency and international cooperation and environmentally sound performance. Congress has for many years, directed various U.S. agencies and used, to take certain steps in order for the MDBs to have a more positive impact on the environment, economy, and good governance of borrowing countries, their neighbors and ultimately the world.

In recent years, privatization has been treated almost as an end in itself, instead of as means to achieve the advantages of a free market subject to laws that protect the environment and other public values. The question then for every privatization project and for other projects involving private use of public or recently

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15 (for one critical perspective see also www.oneworld.net/anydoc2.cgi, or www.brettonwoodsproject.org/issues/kanbur.html)
17 This brief description of the WDR and quote come from the Bretton Woods electronic newsletter May-June 2000.
18 WDR 4.1
19 WDR 4.11 - 4.13
20 Ibid., Figure 6.4
21 Human Development Report, e.g. p. 73.
public institutions or goods -- oil, gold, timber or water -- is whether the those goods and institutions (as in utilities or mining companies) have been acquired in a manner that is transparent, open to realistic competition, and subject to sufficient controls to ensure that the people of the country will not lose essential services, will not be subject to high risks, and will receive a reasonable benefit. If the answer is no, or the information is not available, then the project or loan should not go forward. That is not to say that public endeavors are guaranteed to be better. It is simply a matter of ensuring that conditions are correct before moving public resources of donors and borrowers further away from public control, and that the foundation for additional investment and ensuing public benefits will be secure. This will also help avoid the accumulation of unpayable debt.

The year 2000 also marks the year that many NGOs, churches and the G7 heads of state have said should be “a year of Jubilee” – of forgiveness of debts. The Banks' and bilateral institutions have responded in varying degrees, and several fundamental questions arise in this context as well. These pertain to how the Banks approach new loans as well as whether and how to forgive old ones. One cycle, frustrating for many reviewers, has been the repeated reinvention of policies while much of the business of lending appears to go on as usual. Some therefore have called on the Banks and policy makers to dramatically reduce new lending in sectors with considerable environmental impact until the improved policies are completed, reviewed, revised and tested. This may also help to reduce the phenomenon of financing current expenses with more loans that are due later and may never be repaid.

The internal and external MDB cycle suffers from already documented problems at each stage, from needs assessment through project selection to effectiveness review. The US is the largest actor in that system, exposing US to much blame yet little credit. The Banks need to reorder their decision-making process so as to make certain programmatic changes before making more loans when similar changes are recommended by several external expert reviews, instead of continuing to loan first and ask questions later. This report addresses a number of those suggested changes and projects that exemplify key problems.

The staff resources and funds available to the USAID to write this report and to carry out the other duties under Title 13 of the Foreign Assistance Act are too limited to provide more than a sampling of projects. Since our resources do not allow a comprehensive summary, the selection of specific projects is made so as to demonstrate or illustrate problems that appear to be general or endemic to the process. We therefore also recommend remedies that may not require major increases in resources for oversight by USAID to be effective. In both project and policy review we hope to address the regional banks more in future reports.

We make the observations and recommendations below well advised of the long history of external

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22 For further discussion of these issues, see the GAO’s April 6, 2000 study, World Bank -- Management Controls Stronger, but Challenges in Fighting Corruption Remain. GAO/NSIAD-00-73
23 In an article primarily focusing on consumers in the United States facing deregulation of electric utilities, Willis Emmons, a professor in the strategy, public policy and ethics department of Georgetown University's business school told the New York Times, “Deregulation and privatization were sold implicitly on the assumption that everybody can win from this, but I’m hard pressed to find an example in the real world where that has happened. Maybe somebody is winning but it isn’t the consumer.” August 26, 2000, p. 26. The result is likely to be even less beneficial for the poor and the environment in countries lacking the education levels and regulatory capacity of the U.S.
24 See the section on lending for energy production, below.
25 Friends of the Earth, for example, have initiated a petition signed by many groups calling for an end to carbon-based energy development by the Banks.
26 The content and timing of discouraging Bank reports on Cameroon’s lack of progress in corruption control and the Board’s approval of the pipeline project (see below) in spite of the lack of progress is especially troubling in light of the June 2000 World Bank study by Paul Collier showing that civil wars and conflicts, which often devastate development and the environment, arise most often over natural resources for export. (See discussion on armed conflict over natural resources below.) The study recommends limiting Imports and Exports to confirmed legal and sustainable sources. These show that Rep. Pelosi and her colleagues were prescient in leading Congress and the Bank to adopt the series of reforms beginning with the environmental assessment process.
and internal efforts to reform MDBs. For example, in 1992 both the "Wapenhans Report" revealing management weaknesses, a culture of approval of loans despite weaknesses, and a declining project success rate, and the Morse Commission Report on significant harm caused by a large dam project in India, led the Congress to withhold the third installment of the IDA replenishment until the World Bank demonstrated real progress in responding to concerns raised concerning indigenous peoples, information disclosure, resettlement, and other concerns. Such pressure resulted in the creation of the Inspections Panel for independent review of alleged policy violations and the Public Information Center. The regional banks, however, were and are still, in general, lagging behind the World Bank in these areas. The IFC, however, is developing an ombudsman function that has so far drawn praise from NGOs and may offer a possible model for others.

More current reviews have called for extending these reforms or moving toward more comprehensive changes.

The latest Operations Evaluation Department's "Annual Review of Development Effectiveness, 1999," a summary of which is posted on the Bank's web site, reported a high ratio of ineffective projects. This observation would seem to apply to projects designed to help the environment, and implies a high ratio of ineffective environmental controls in other projects that are ineffective at achieving their core goals. The OED's findings include:

1. "The share of exiting projects likely to sustain their benefits remains below half."
2. "Only 40 percent of the existing projects in FY98-99 show substantial institutional development impact"

3. "The performance of the Bank and most developing countries in monitoring and evaluation has been weak. Yet the international development goals, the recent attention to governance, and the move to programmatic lending reinforce the need for results-based management and stronger evaluation capacities and local accountability systems."

4. "Development assistance efforts and approaches are focused at the project and country levels. With globalization, development problems require multilateral solutions and stronger links between national strategies and international policies."

5. The facts of growth and poverty in the 28 countries evaluated between 1981 and 1997 are sobering: "in 54 percent, the people experienced stagnating per capita income, rising poverty, declining life expectancy, or a combination of these."

In regard to achieving sustained results in Bank projects the OED found that the trend is low and declining:

- In the Environment Sector Sustainability declined from 55% likely in FY94-97 to 50% likely in Fy98-99. Institutional Development Impact declined

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29 House Report No. 524, 103d Cong., 2d Session. 17 (1994), at 35. Similar assessments were reported in the 1998 GAO report on Public Consultation in Environmental Assessments by the MDBs (infra, note 44, GAO/NSIAD-98-192) and the 1999 version of this USAID report, with regard to EA procedures and information disclosure practices of the regional banks.
30 E.g., the Bank's 1999 Operations Evaluation report found a seriously low rate of project success and other systemic problems.
31 Operations Evaluation Department, 11/19/99
32 The first four noted below are in the summary posted on the Website:
33 1998: of 259 projects, 48% were likely to have sustained impact and the amount disbursed overall on these was $24,011,000. 66 27 6
34 1999: of 112, 51% were sustained impact, and $8,474,000 was disbursed. 67 29 5—see: .
34 Annex 3, p. 17.
from 22% likely in FY94-97 to 20% likely in FY98-99.

- In the Social Sector, Sustainability declined from 25% likely in FY94-97 to 20% likely in FY98-99. Institutional Development Impact declined from 56% likely in FY94--97 to 45% likely in FY 98-99.

- For Population Health and Nutrition lending, Sustainability declined from 55% likely in FY94-97 to 50% likely in FY98-99. Institutional Development Impact declined from 26% likely in FY94--97 to 25% likely in FY 98-99.35

- Finally, the greater the need of the country, the poorer the Bank's performance. In FY 98--99 only 34% of exiting evaluated projects for the Africa region were of likely sustainability, and only 26% of likely Institutional Development impact. 36

Among the key recommendations of the 1999 OED are:

- Development effectiveness should be evaluated in terms of shared objectives, joint responsibility for outcomes, reciprocal obligations to achieve results, and distinct accountability for performance. In particular, donors and governments should team up to involve civil society and the private sector in monitoring and evaluation, and to help all stakeholders acquire the needed skills and attitudes. Participatory monitoring and evaluation hold significant promise for social learning and managing for results.

- Evaluation should be informed by the global perspective of the International Development Goals endorsed by the development community.

We attempt to recommend changes that complement these and other recommendations heard from more than one source or quarter.

Many recommendations or options noted herein are specific to the environmental assessment process. The overall process of selecting loans could be improved by incorporating procedures required by more recent laws such as the Government Performance and Results Act. 37 Like the EA process, it is seen by some as an after-the-fact paper process. When applied in the most thorough way, however, like the EA process, it can make more rational, objective and transparent an institution’s choices of programs, projects and budget allocations. In the case of the MDBs, Country Assistance Strategies, project information documents and environmental assessments 38 could reflect the proposed and expected impact of each loan on all of the commonly used indicators of sustainable development – from access to clean water to levels of education and poverty. The documents could explain how the Bank management has chosen that proposed action or program from the available alternatives based upon the presumably optimal long-term development impact per dollar invested. Draft assessments could be made available so that proponents of other approaches could note for the record their evidence of better available choices. Final assessments could accept or reject such recommendations with explanations concerning each major point or category of concerns raised as is standard in the U.S. NEPA and informal rulemaking (APA) processes.

Glorious discrepancies between development objectives and project choice, or apparent violations of

36 OED 1999 Rept. p.43.
37 (GPRA) USAID won the highest rating of all agencies reviewed in 2000 for its 1999 Annual Performance Report under GPRA in an assessment by George Mason University in Virginia.
38 Where appropriate, a reference to EA’s is meant to include an assessment of social impacts as well, particularly on populations and peoples at risk.
policy in loan proposals could be appealed to a body established to provide independent clearance before projects are brought to the Board. This sort of pre-board clearance body was proposed by the US Executive Director in her statement in July of 2000 in response to the Western China Poverty Reduction Project, the Inspection Panel report and the overall Bank failings it demonstrated. Such a process could in one stroke bring lending in line with fundamental development objectives and safeguard policies thus “mainstreaming” these concerns that have heretofore been more flag than rudder on the MDBs.

In accordance with section 537(h) of Public Law 100-202, (22 U.S.C. Sec. 262m-2) this report lists some of the proposed multilateral development bank (MDB) projects likely to have adverse impacts on the environment, natural resources, public health or indigenous peoples. This report does not prejudge the United States Government’s position on the final versions of projects when they are considered by the MDB executive boards, rather it serves as a record of USAID environmental monitoring of MDB projects. Since USAID does not have the resources to methodically analyze every MDB project, this analysis is a representative rather than comprehensive listing. Even though it is representative, given the serious consultative process to develop this list USAID has confidence in its value as a snapshot of the current state of MDB projects with environmental problems.

Last year’s report highlighted environmental concerns with 29 MDB projects totaling approximately $2.3 billion in proposed MDB loans. Total project numbers sorted by lending sectors include 8 public/urban infrastructure, 6 road, 5 power/hydropower, 5 agriculture, 2 health, 2 natural resources, and 1 mining. This year’s report reviews fewer projects due in part to a gap of several months in filling the position of the reports principle author. As seen in previous years, however, public/urban infrastructure, power, natural resource extraction, and road projects continue to be the most environmentally problematic sectors.

The significant number of MDB projects reported over the period indicates that while all MDBs have environmental impact assessment procedures, those procedures could be significantly improved, for example, concerning public consultation through formal comments on drafts and responses, and by integrating the EA’s better into the overall project selection process but accounting for net impacts on natural and human capital that could be projected in EA’s and confirmed in project success reviews. We continue to see a steady number of proposed projects with significant potential environmental impact. USAID’s interventions through this process have achieved important progress in many individually listed projects, and to some extent, in the review process itself, but the relatively steady number of new problem projects over the years underscores the continuing need for independent environmental monitoring of proposed MDBs projects and for a thorough reassessment and revision of the project selection process.

Progress on environmental and related reform in the MDBs has been mixed. In the past, the Congress has often limited itself to instructions to the USED to use her “voice and vote” in support of policies or reforms at the MDBs. Congress has begun to use again more direct unilateral leverage, such as temporarily blocking or reducing US replenishments. Some NGOs are urging investors to avoid or divest themselves of World Bank Bonds.

There is room for increasing cooperative leverage with G-8 countries and other leaders in development and environmental policy such as the Nordics and the Netherlands. Previous G8 commitments to leverage better performance from MDBs have not resulted in change as substantial as one might have

39 For access to most policies and projects of the World Bank see
Policies available there are:
Information Disclosure Policy
Env. Assessment Policy
Pollution Prevention Handbook
Forest Policy Review
Involuntary Resettlement Policy Consultation
Indigenous People’s Consultation
IFC’s Environ. & Social Policies
expected. This is in part due to lack of follow through and lack of rewards for accomplishment in implementing those.

Options for improving environmental performance and its supporting partner, the rule of law will be discussed at more length below but they include:

A) Enhancing the capacity of the Inspection Panel and other internal compliance mechanisms;

B) Improving the EA process; and

C) Improving measurement and rewards, as Congress has done with US agencies through the
Government Performance and Results Act.

Background

USAID began general monitoring of proposed MDB projects in 1983. Over the course of the next several years it increased its review of environmental aspects of loans, which were often the most problematic. Congress expanded USAID's work in these activities through language in appropriations legislation and amendments to the International Financial Institutions Act. USAID's Bureau for Policy and Program Coordination investigates and reports on environmental concerns identified by USAID missions and interested non-governmental organizations (NGOs). USAID co-chairs the "Tuesday Group," a monthly meeting of concerned international NGOs and U.S. government (USG) agencies, to discuss environmental and social issues at the MDBs.

USAID also participates in interagency review meetings in which the staff of agencies such as USEPA, State, and Treasury contribute observations and questions concerning proposed projects.

This report covers selected proposed and recently approved Multilateral Development Bank (MDB) projects. Projects are considered for inclusion in the report if a USAID Mission, Bureau or office identifies environmental, natural resource, public health, or indigenous peoples concerns. Project entries in the report may also incorporate comments from other USG agencies and NGOs, mostly through the monthly Tuesday Group meetings of agency and NGO representatives. MDB staff have also been very helpful in providing additional information and addressing issues raised on projects.

The report concentrates on the major MDBs, primarily the World Bank, which is the largest. It also includes references to the Asian Development Bank (ADB), the African Development Bank (AfDB), the Inter-American Development Bank (IDB), and the European Bank for Reconstruction and Development (EBRD). This report usually includes relatively few projects in countries where USAID does not have a program (such as China). The report is more also thorough with respect to projects from the World Bank and IDB, for which early information is more readily accessible. It is less complete for the AfDB, ADB, and EBRD.

One mechanism for compiling this report is USAID's Early Project Notification (EPN) System. In this system, USAID's Bureau for Policy and Program Coordination notifies USAID field offices, regional bureau desk officers, and selected embassies of upcoming projects as each MDB makes the information publicly available. USAID field missions respond if there is reason to anticipate environmental and other concerns, and the EPN System compiles the information. Projects are then investigated further, and placed on the list based on available information and the judgment of USAID. Last year's report specifically notes USAID field staff comments by referring to them with USAID/country name.

Inclusion on the list indicates that the project could have significant environmental impacts. Proper project planning and design should anticipate these impacts. Environmental assessment of the project may lead to its redesign, selection of alternative measures, or the introduction of specific mitigative measures. Many

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40 http://www.state.gov/www/issues/economic/summit/g8_2000_index.html
41 E.g., former Sierra Club International Programs Director Larry Williams, personal communication, July 2000.
concerns identified in the list are being addressed through the environmental assessment and project design process, and are noted.

This report and recent editions of it are available on USAID's homepage on the Internet (http://www.usaid.gov/environment/pubs/mb99/).

USAID works with the Departments of Treasury and State, the Environmental Protection Agency and the U.S. Executive Directors' offices at the MDBs to help resolve or clarify environmental issues on selected projects. USAID also works with MDB staff and management while loans are in the design stage to resolve issues.

MDBs have made significant progress toward integrating environmental concerns into their loan criteria and sector policies in recent years. The World Bank, followed by IDB and ADB, have been leaders in improving the MDB environmental policies. Strengthened staff capacity for most MDBs, MDB policies in forestry, and World Bank policies in energy and information access have been especially important changes, although they are being revised and may be improved or reduced in their effectiveness depending on the revisions and their implementation.

Beginning in 1989, the World Bank and regional MDBs began to put in place standards for comprehensive environmental assessment procedures. The procedures help ensure that proposed projects are screened for possible environmental impacts, and that full environmental assessments (EAs) are conducted when impacts are likely to be significant. The EA classification systems differ by bank. A summary of the classification system is generally available on each Bank’s web site. In addition, all the MDBs have adopted procedures by which non-confidential project-related information is available electronically and through headquarters’ and field offices (however, this information is not always provided in a timely manner). The U.S. Government was the leading advocate for this move, as it improves the process of exchange, consultation, and project performance. However, nearly half the time within the last two years, information that should have been on the web was not, and thus the public which may have relied upon the promises to post it was, in effect, denied that information.\footnote{42}

The conclusions we reach in this report are consistent with conclusions reached in recent years by the Congressional Research Service, the General Accounting Office, various nongovernmental organizations and to some extent, by the World Bank itself. That is to say that the Pelosi amendment and related provisions of US law and oversight have led to considerable headway which was necessary but is by no means so far sufficient in improving the decision-making process at all levels and in making MDB loans environmentally sustainable. There is considerable room for improvement in the application of the law as it stands.

One reason for this is that a small staff of three or four persons in Treasury's office covering MDBs work on environmental matters. They are usually joined in reviewing environmental aspects of MDB projects and policies and other loans by one or two at USAID, one or two at USEPA, about two at State, and one at NOAA. This core group has occasional help reviewing specific projects from others in their agencies. On some proposals and on-going projects there is considerable input from NGOs but their staffs are also very limited. These few are attempting to review the work of 17,000 employees at the MDBs. This does not include the thousands of consultants hired by the MDBs and their borrowers.\footnote{43}

\footnote{43} The Banks produce about 600 projects a year which could be reviewed in some way by the agencies. A discussion of the process in more detail can be found in The Multilateral Development Banks - Improving U.S. Leadership, Barbara Upton, Center for Strategic and International Studies, Washington, DC 20006, Praeger, 2000. Upton recommends that top level US Decision-makers devote much more time on a regular basis to Bank policies and loans as the Banks are a primary interface between the US and the developing world. She recommends opening the US policy formulation process in regard to the Banks further to NGOs, and, as we do in citing 22 USC 262m-3, instituting a system of sharing information with other governments outside of the informal ED to ED communications.
USAID’s Review of Proposed MDB Loans — The Process Under Law:

Review and Investigation

Congress has given USAID an important role in the review of Multilateral Development Bank loans. Title 22 of the US Code, Section 262m, which at paragraph 7 includes the Pelosi amendment, sets out several elements of that role:

USAID has a duty to “ensure that other agencies and ... overseas missions ... analyze... the environmental impacts of multilateral development loans well in advance of such loans' approval. ...Such reviews shall address the economic viability of the project, adverse impacts on the environment, natural resources, public health, and indigenous peoples, and recommendations as to measures, including alternatives, that could eliminate or mitigate adverse impacts.

If ... any such loans is particularly likely to have substantial adverse impacts, the Administrator of the Agency for International Development, in consultation with the Secretary of the Treasury and the Secretary of State, shall ensure that an affirmative investigation of such impacts is undertaken in consultation with relevant Federal agencies. If not classified under the national security system of classification, the information collected pursuant to this paragraph shall be made available to the public.

**..the Administrator of the Agency for International Development, ... shall identify those assistance proposals likely to have adverse impacts on the environment, natural resources, public health, or indigenous peoples. The proposals so identified shall be transmitted to the Committees [of jurisdiction in the U.S. Congress].

Information Disclosure

In the spring of 2000, USAID formally invoked the above provision for public release of information in response to requests for Bank documents and information on the Chad Cameroon Pipeline project. The USAID Policy and Program Coordination office and General Counsel determined that the Bank’s non-public documents were not to be released through that process given the direction from Congress that Treasury should develop procedures in cooperation with the Bank for their release, but that other information except final agency decision memoranda should be released promptly.

The World Bank is currently reviewing and revising its own Information Disclosure Policy as well as its Environmental Strategy and other related policies. Although the Banks have been moving toward greater transparency, there is still a long way to go and pressure from some quarters to retrench.

One important aspect of information disclosure in increasing public confidence and resistance to corruption in the United States has been the annual public financial disclosure and the specific steps to avoid the appearance of conflicts of interest required for more than twenty years of most high-level officials under the Ethics in Government Act.\(^{44}\) This disclosure should be expanded, beyond the limited current use at the Vice Presidential level, by the MDBs and their borrowers with regard to those making decisions concerning the spending of funds from the MDBs.\(^{45}\) This would help to avoid the appearance of

\(^{44}\) For example, as implemented in 5 C.F.R. Part 2364.

\(^{45}\) An additional and related tool is to clearly define conflicts of interest, which the Bank is doing in its internal seminars, and to require affirmative statements of no conflict of interest, as well as the more passive financial disclosure. A related issue is transparency and disclosure of bidding, sales and procurement processes in Bank-supported programs. See discussion under Privatization, Governance and Corruption.

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conflicts of interest, as required for most high-level officials under the Ethics in Government Act. Such disclosure should be applied by the MDBs and their borrowers at an institutional level as well, with regard, for example, to the title to, and bidding for, properties that are the subject of MDB loans, as in mineral extraction and privatization.

The Pelosi Amendment, Environmental Assessment, And Recommendations for Improving the Review Process

The role of AID as set out in paragraph 2 complements and helps ensure the proper operation of the Pelosi amendment, which is paragraph 7 of the same title (XIII). That part of the title requires the US not to vote in favor of any MDB action (not just any project) which would have a significant effect on the human environment unless for at least 120 days before the date of the vote an assessment analyzing the environmental impacts has been completed by the borrower or the institution and made available to the public in the borrowing country and to the Board.

The amendment also directed Treasury to assist the Banks in developing the Banks' EA procedures.

We recommend that these procedures be improved by incorporating some of the basic elements of United States law as applied to decisions affecting the domestic environment. Foremost among these improvements would be requiring the publication of a draft impact statement and responses to substantive comments on that draft, and an appeal process. That appeal process could correct potential procedural and substantive weaknesses or violations before the project is approved by the board. This could help to implement or support the pre-clearance mechanism recommended by the USED in her statement at the time of the Board's consideration of the Western China project. These changes would also encourage broader participation and ownership at the borrowing country and donor level, which become more important as the scale or scope of the undertakings increase.

Since the 1999 report, we have reviewed the USAID, interagency and MDB project review processes and are prepared to recommend changes, largely to more fully comply with the existing legislation, in our next report to Congress we hope to circulate it for review this month. It will be somewhat different and somewhat shorter than previous reports, in part because the position was open for several months and we have been catching up. We have, as noted, also been taking a broader look at the process set out in the statute (22 U.S.C. Sec. 262m-(2)-(7)).

Major points in respect to the broader process include:

- USAID could be more specific in its policy guidance, planning and regular reporting. It could require each mission and regional bureau to review not only the occasional notices from the early notification system, but the Monthly Operational Summary updates of the World Bank, and similar brief summaries of the regional MDBs. Missions could be required to investigate further, in consultation with Bank country or donor officials.
regional officers, any projects which appear to be likely to have substantial environmental impact or harmful social impacts. They could report their findings monthly to the Policy Coordination and Development Partners offices of USAID. This could also lead to greater synergy between the institutions and less work at cross purposes. The current Policy and Program Coordination staff are too few to cover the existing and expected volume of MDB loans and actions. 52

- The implementing regulations promulgated by Treasury in 1992 call for an interagency review of proposed projects at three stages. The first, where leverage may be greatest, is supposed to review the classification of projects between those requiring full Environmental Assessments and those requiring less. This step is often skipped unfortunately, and the reviews tend to happen too late in the process to exert much influence over their design.

- Neither the Bank nor Treasury requires environmental impact assessments for all Bank actions likely to significantly affect the environment. There would seem to be no room in the law for categorically excluding, by policy or practice, sectoral loans, structural adjustment loans, capacity building loans or MIGA (insurance as opposed to direct loans) support for actions that have a direct and substantial impact on natural resources. Instead, these should probably be categorized and analyzed according to their impact just as construction project loans are. The World Bank does some sectoral loan impact assessments but it seems not in all cases where they would be useful. Many are calling for a broader use of social impact assessment as well, which the Bank has done on occasion.

- Although final appraisal documents assess the financial prospects of loans, the appraisal and assessment documents the agencies and the public review do not indicate how well the loan and the undertaking is expected to perform in regard to the “second bottom line” of social, environmental, and poverty reduction. Even if internal decisions reflect such judgements, publicly available draft financial and environmental/social assessments should demonstrate that the proposed action is the best available alternative for addressing predetermined needs of the country and affecting important widely accepted indicators of environmental, social and economic development. Closely related is a recommendation made by the Bank on June 5, 1997 that countries and MDBs use full cost GDP or “greener” accounting to better measure stewardship of natural resources and the impact of proposed actions, and to “rapidly phase out subsidies of natural resource consumption” 53.

- We congratulate the Treasury Department and the US Executive Director on her recent call, in response to the Western China Poverty Reduction Project, for systemic reform within the World Bank. A parallel process would be well advised for the others. Her call for reform includes changes to:
  a) Strengthen of the role of internal Bank networks [e.g., on environment quality control] to better control operations, including a mechanism with approval authority to ensure policies are fully understood and respected in Washington and in the field,
  b) Create a new compliance unit to ensure that no project is moved to the board without prior certification as to compliance with all applicable policies, and
  c) Require personnel incentives and disciplines to support these policies.

The conclusions we reach in this report are consistent with conclusions reached in recent years by the Congressional Research Service, the General Accounting Office, various nongovernmental organizations and to some extent, by the World Bank itself. That is that the Pelosi amendment and related provisions of US law and oversight have led to considerable headway which was necessary but by no means sufficient in improving the

52 This suggestion grew out of a review by Jeff Brokaw and John McMahon of the Latin American and Caribbean regional environmental trends in consultation with the author of this report in July 2000 undertaken in part in order to prepare for hearings conducted by Senator Lincoln Chafee, Chairman of the Latin America subcommittee of the Senate Committee on Foreign Relations. That review found that such essential environmental goods as clean water per capita were being lost in Latin America at gravely unsustainable rates, and that MDB spending on the environment was dwarfed by spending on energy and other sectors by an order of magnitude. This raised questions of how USAID could best use its authority and expertise to influence the direction of that spending in a complementary way.

53 News Release No. 971377 S. Since then, the National Academy of Science has endorsed this approach in Nature’s Numbers: Expanding the National Economic Accounts to Include the Environment, Nordhaus et al., 1999. (www.nap.edu).
decision-making process at all levels and in making MDB loans environmentally sustainable. There is considerable room for improvement in the application of the law as it stands.

Some of the shortcomings and possible remedies include:

1) The Pelosi Amendment, after reciting in the findings that projects, policies and loans have failed to provide adequate safeguards for the environment, public health, natural resources and indigenous peoples, requires that the USED not vote in favor of “any action” proposed to be taken by any MDB unless formal EA’s to be done and circulated 120 days before the vote.

2) The interpretation by Treasury that the amendment does not apply to structural adjustment loans and certain other bank actions has in effect encouraged these portions of the Bank to deny to the same Executive Directors the analysis that the Bank is required to provide by Bank policies inspired when the Treasury applied the Pelosi amendment to Bank projects.

3) The interpretation does not yet formally reach policies of the Banks as proposed for amendment or adoption, despite the fact that the adoption of these policies are clearly intended to have a significant effect upon the human environment, and far more than any one project.

4) The interpretation does not include a precise method of calculating actual availability, including availability in the official language of the countries concerned or any measure of practical availability to indigenous peoples, nor an appropriate revision to recognize web-based distribution capacities.

Needed: The Required International Review System

One other provision of Title XIII would also be very useful if it were implemented.

It is:

The Secretary of the Treasury, in consultation with the Secretary of State and the Administrator of the Agency for International Development, shall create a system for cooperative exchange of information with other interested member countries on assistance proposals of the multilateral development banks.\(^{54}\)

This system does not exist in fact, and would be most useful. In the case of the Chad Cameroon Pipeline, for example, USAID received copies of an analysis by an official Dutch Commission of the project’s General Oil Spill Response Plan not from Treasury but from NGO’s. This then led USAID to ask US agencies to review the GOSRP. The first two agreed with the Dutch about the inadequacy of the plan and concerns about the plan and means to improve it became part of the official US position.\(^{55}\)

With adoption of the recommended reforms in the EA process, and in expanding the timetable and automatic referral process directly to the expert aid and environmental agencies of major donors as well as the OECD, UNEP, UNDP and other international bodies, such a process could be created without great difficulty.

The regulation implementing the Pelosi Amendment is not yet applied fully:

Information Dissemination: The regulations (31 C.F.R. Part 26) require that Treasury will ensure that USAID and other named agencies and organizations receive “copies of project listings describing future MDB


\(^{55}\) Other agencies reviewing did not disagree. They noted that in the US detailed plans are not required until several months before oil flows, which was not the question posed to the first two. With mature laws and institutions for enforcement and liability, early detailed plans are not necessarily as important as they are when assessing whether to proceed with a project of unprecedented risk in countries with little enforcement capacity.
projects and assigning environmental categories based on the environmental impact of each project.” Agencies do not receive listings in that form. Notices concerning individual projects by name and country only are circulated to USAID via the early notification system, at different points, and usually late in the process of their development. Later, in preparation for review meetings late in the process, agencies receive listings of projects selected by Treasury. A more comprehensive listing of projects reaching the point at which they receive initial categorization to guide the EA process could be assembled and used to guide the earlier reviews called for in the regulations. 56

Meetings of the WGMA: The regulations also provide (at 26.4(c)) that the Working Group for Multilateral Assistance (WGMA) will consider all comments made by the public and U.S. agencies and that it “may” review a project up to three times. The regulations then provide that in the first review, the WGMA “will” consider whether the project has been assigned the appropriate environmental category by the MDB, which then determines whether any Environmental analysis will be done and if so, at what level. This meeting is to take place as far in advance as possible of Board consideration. Given that the final EA must be available for projects with substantial impacts by 120 days before the Board date, and given that public comment should take considerable time, this first review should take place on the order of a year before the Board date. The actual practice is usually to skip the first meeting. An environmental interagency team reviews on an ad hoc basis selected EA Summaries after they are completed and after they are sent to Treasury, which is often well past the 120 day mark. This review usually happens several weeks before Board consideration but well after the project is likely to be changed.

The WGMA then meets the week before Board meetings to review Project Appraisal Documents which are made available typically two to four weeks before Board consideration. The policy of Treasury has been that if the material is said by the Bank to have been sent to its public “Info’ Shop” in Washington, then the 120 requirement will not be invoked and the USED will not be instructed to vote against the loan. Although it would be fairly simple to institute, (though labor intensive at first), there is no more reliable tracking system outside the Bank to mark the availability of EA’s in the borrowing country and in the U.S. This results in a lack of actual notice and availability and frustrates the intent of Congress. The USAID is working with the Office of Multilateral Banks in the Department of Treasury to remedy this situation. We have recommended a web-based component be added. We have also recommended that the US Embassy, USAID mission or other objective office in the borrowing country receive each EA and make sure that it is publicly available in the local language before the 120 day “Pelosi” clock can begin to run. 57

56 About the time of the Board consideration of the Chad Cameroon pipeline, Treasury’s Office of Multilateral Banks created charts for the tracking of both loans in the pipeline that they believe need EA review and commitments made to the Board concerning Board-imposed or other conditions for controversial projects. They applied the commitment.Charting technique to Chad Cameroon Pipeline. See the discussion of the Pipeline project for further details and USAID staff comments. This is one of the few convenient ways to track such performance. It is virtually essential for other agencies and interested parties with even fewer personnel assigned to the job of reviewing MDB performance. Such charts could be the basis for a web-based public and interagency tracking of projects.

57 Notes on this section:

Sanford and Fletcher, Congressional Research Service such as MDBs’ EA and Information Policies: Impact of the Pelosi Amendment, 98-180 and MDBs: Issues for the 106th Congress IB96008. (Prepared for Congress 1997, released 1998)

Sept., 1998. Directly related to the economic viability and ability to control collateral damage is the ability to control corruption’s influence on Bank Projects and the ability to build anti-corruption capacity in countries assisted by the Banks. In this regard, see GAO’s April 6, 2000 study, World Bank -- Management Controls Stronger, but Challenges in Fighting Corruption Remain. GAO/NSIAD-00-73. See also, “The Impact of Environmental Assessment -- A review of World Bank Experience”, World Bank Technical Paper no. 363, Sept. 1997. The Environment Department found in its review (prompted in part perhaps by the CRS study completed in July of that year) that numerous improvements were in order including ensuring a strong review capacity independent of direct operational functions. They also found in several areas that legally enforceable provisions were either too vague or absent from Staff Appraisal Reports, construction contracts, bidding documents, thus making it unlikely that recommendations would be implemented. They also found that the Bank’s supervision even of Category A projects was “generally insufficient to determine environmental performance.” (Executive Summary at xvii.) These are compelling indictments. The bank is continually revising its procedures and guidelines. However, after a point it becomes important to address things differently so that problems are solved before further harmful
**Capacity Building Projects:** The Banks tend to categorize training and education and the development of regulations as actions with little or no impact on the environment and thus exempt from all EA requirements. This may make sense when dealing with training physicians, for example, but it means that programs designed and intended to have a major impact on the environment, for example, loans to revamp entire natural resource sectors, such as forestry or electric energy generation, have no EAs. This is a mistake. The Bank should treat adjustment, capacity building and training loans concerning the environment, energy, and natural resources as category A loans and complete full Environmental Assessments on them and the implications of alternative policies and systems they could advocate. (See discussion of Russian Sustainable Forestry Program Loan below.)

As one would expect of an institution as large as the Bank it has several layers of policies and directives. Recent experience has demonstrated that the Banks employees and officers remain unsure about the extent to which their actions are controlled by these policies. This may be in part because bank practices and officials have been, like diplomats, largely beyond the jurisdiction of the normal legal systems of the nations where they work in matters ranging from taxes to family law to traffic violations to more fundamental matters. Yet there has been no independent enforcement or judicial authority to take the place of local and nation authorities. 58

In the years 1999 and 2000, several reports have presented in stark fashion the results of this “culture of approval” and the need to correct it.

For example, this USAID report was delayed, in part, in order to review the Investigation Report of the Inspection Panel on the Qinghai portion of the Western China Poverty Reduction Project, 59 and Management’s answer 60 which were not generally available until after the Board acted upon them. The response of Management in its recommendations and memoranda accompanying them, made it clear that even at the highest levels, and even with regard to loans receiving the greatest of public scrutiny, the Bank was not treating the most central of its policies, the “Safeguard Policies” as conditions that must be fulfilled before bringing a project to the board and before disbursing funds limited by those conditions.

The report of the panel, in paragraph after paragraph describes a problem that is more than a lack of clarity about the policies. That may be because a decision had been made to move forward early on and the documentation followed in such as way as to attempt to fit an awkward appendage of the project into the glass slipper of transparent, “do no harm” standards. It should have been clear from the start that it was not going to work.

actions are taken and further damage is done.

Ibid, at 7, Sanford and Fletcher report that “Key committee on Congress have indicated on several occasions their disagreement with Treasury’s interpretation of the Pelosi Amendment in this area” of IFC and other MDB private sector loan operations. 1992 Temporary Rule” U.S. Dept. of Treasury, 31 C.F.R. Part 26. The Department is said since March 2000 to have been in the process of approving a change in interpretation that would apply the requirement to policies, but that has not been confirmed nor made available.

The Banks have very impressive web-based information distribution systems but they could still be made more accessible for purposes of involving the various publics who are most concerned with helping shape the practices of the Banks. Sanford and Fletcher also noted this problem and note that the Banks rarely upgrade their environmental rating or classification of a project, even at the request of Treasury. Furthermore, they note that it is difficult to know how many mislabeled projects escape proper review.

58 The same problem, as it effects employee grievances at the IFIs, was highlighted by the Senate Appropriations Subcommittee on Foreign Operations in its FY2001 Report (106-291, p. 47) in which it suggested an external adjudication process be established for such grievances. USAID made similar suggestions in interagency meetings concerning how to shape conditions in loans to redress grievances that might be raised by those affected by bank projects, particularly those harmed by violations of law or policy within inherently risky or volatile projects, such as those involving oil development and resettlement.


60 Undated, June, 2000.
But rather than being the exception, this practice is too much the rule. Environmental Assessment summaries reviewed by interagency working groups and the public are full of “shoulds” and “coulds” where there should be “wills”. The reviewer must await the final Project Appraisal Document that arrives as little as two weeks before Board consideration, in hopes of finding out whether the advice or suggestion of the EA has been taken by management. The answer is often not there or unclear. And this is for issues that are addressed in the EA. For issues not raised or reasonable suggestions or analyses not made, it is largely too late to do the studies and far too late to correct the project design as presented for funding. Therefore, public and government agency participation in the EA review process declines as logical people decline to waste their time or subject themselves to various forms of adverse pressure for opposing powers that be.

Nevertheless, the EA process can be corrected. It can then be the backbone that carries most other parts of a program or project as it develops from conception to interagency and public review, to Board confirmation and funding.

Congress Speaks Again

While this report was being written, the House Appropriations Committee reached several similar conclusions and called upon the Treasury Department to work with the USED and the Bank to:

- Develop a strategy, including environmental and social screens, to ensure that the work of the entire Bank family complements rather than competes with private sector investment in the developing world;
- Shift lending focus to environmentally sustainable development and away from non-renewable energy and extractive work except financial assistance to ensure that developing countries will implement energy and extractive resource policies and benefit-sharing that would otherwise not occur;
- Expand its current negative investment list (areas in which investment should not occur) to include projects that cause potentially irreversible harm to the environment as defined by internationally recognized standards;\(^61\)
- Institute a dynamic, participatory process to assess environmental and social impacts of structural adjustment loans (which presumably would be at least as comprehensive and binding as the current Pelosi-driven EA process) and report by June 15, 2001 on the progress;\(^62\)
- Create an incentives framework to ensure that safeguard policies are implemented in a consistent manner throughout the Bank and report on it by March 1, 2001;
- Create an independent evaluation panel to ensure ongoing unimpeded public consultation on the costs and benefits of the Chad Cameroon pipeline projects.

USAID looks forward to cooperating with Treasury and other relevant agencies and with NGOs in the development of these reforms.

Such as those using Persistent Organic Pollutants, House Report 106-720, p. 84
\(^62\) Some NGOs have been calling for a Dynamic Assessment process that would revise projects and adjustment loan elements mid-stream if they were not meeting the development related and internal project benchmarks of success. For example, see News and Notices For IMF and World Bank Watchers, Spring 2000, Vol. 2, Number 2, Globalization Challenge Initiative (GCI) & Center of Concern Elsewhere in the same report the Center and GCI advocates an earlier EA process, and making public all key draft and final bank documents. These presumably would be included in the Dynamic Assessment process.
Safeguard Policies – Substantive Limits Complementing the Assessment Process

The Environmental Assessment policy was the first of what are now ten “safeguard policies” introduced since 1989. As the name indicates, they are intended to safeguard people and resources that may be easily harmed by projects that are not carefully assessed and planned before they are implemented. As listed on the Bank’s website they are:

Safeguard Policies
4.01 - Environmental Assessment
4.04 - Natural Habitats
4.09 - Pest Management
4.11 - Cultural Property
4.20 - Indigenous Peoples
4.30 – Involuntary Resettlement
4.36 - Forestry
4.37 - Safety of Dams
7.50 - Projects on International Waterways
7.60 - Projects in Disputed Areas

These short titles do not fully capture the depth of the policies, nor indicated that many other polices are also in place to control Bank operations. For example, the Forestry Policy, in point two, says that the Bank will not fund actions that violate international law.

Several of these policies, such as the information disclosure policy, are being revised, and so are closely-related “strategies” such as the forest and environmental strategies. The cultural property safeguard is being updated, and a policy gender may also be added. The indigenous peoples policy is undergoing review and revision with a draft slated to go to the Board in November, 2000. It is a particularly acute concern given the often close relationship of indigenous peoples to the land in its natural state, their often oppressed state, and the inherent difficulty of many such peoples in protecting such rights as they may have. As the powers of the

64 see Appendix for copy of the full Forestry Policy. See also the discussion of forestry-related issues under Asia: Cambodia in the second section of this report.

65 For example, excerpts from a news release by the NGO survival-international in August, 2000, reprinted not as confirmation of the assertions of fact, but as it raises serious questions:

“Brazil has violated its own constitution and the World Bank has flouted its Operational Directive by failing to demarcate Awá Indian territory - although funds were made available 18 years ago to do so. This has lead to the deaths of unknown numbers of uncontacted Awá and the destruction of their land. The demarcation has been blocked largely by businessmen and politicians who have large landholdings on Awá land. Survival has just learned that the money for the Awá demarcation expired on the 30th June 2000, eighteen years after it was given to Brazil as part of a World Bank loan for the development of the Carajás mining project. A condition of this loan was that all Indian territories should be demarcated by the Brazilian authorities. However, the Awá area still has not been demarcated and this hunter gatherer tribe are facing increasing invasion of their land by settlers, ranchers and loggers, making them acutely vulnerable to disease and violence. Despite having failed to ensure that the Brazilian authorities and mining company CVRD adhered to the conditions of the Carajás Project loan and agreement, the World Bank is preparing to make further loans to the area. The Awá people are one of the few nomadic hunter gatherer peoples in Brazil. In 1950 their population was estimated at 800. Today they number less than 400, of whom about 150 are uncontacted. Living in mobile groups within the Amazon forest, they hunt game such as tapir and monkeys and gather fruit and nuts. Most of the Awá who have been contacted and live in villages are the survivors of brutal massacres. Attacks on groups of nomadic Awá are common and these survivors relate how Awá have been killed at gunpoint or deliberately poisoned by ranchers and loggers. The World Bank’s Operational Directive on indigenous peoples (para. 15c) clearly states that recognition of indigenous peoples’ land tenure or ownership rights is a fundamental prerequisite in any project implementation where indigenous peoples
Inspection Panel (which can investigate alleged violations of policies) were limited in a recent clarification of preliminary inspection powers, some fear that the safeguard policies may be weakened, despite the fact that the enforcement of them in their current form has been uneven.

To understand the safeguard policies better we can review the work of another body of semi-independent reviewers, a Quality Assurance Group (QAG). The Bank’s Quality Assurance Group reviewed safeguard policies as applied in six major projects in China. The QAG wrote that the “Bank insists on full compliance with its safeguard policies to ensure that its projects ‘do no harm’ to the natural and social environment. However, there is no consensus on what constitutes reasonable compliance.” They noted that “any project with a potential impact in these ten areas must have a full analysis of the consequences of the investment and an appropriate mitigation plan.” They caution that too much discretion concerning the safeguards has been left with task managers and too little oversight and accountability remains in top level Bank management.

Among the several recommendations of the QAG that are valuable generally was engaging the EA process earlier in decision-making so that:

- alternatives identified would be real alternatives and
- macro level decisions would predominate and
- recommendations identified in the EA process would be more frequently adopted in the final management plans.

The QAG also recommended making clearer and more uniform across the Bank family the policies themselves and the expectations of reasonable compliance with those policies. As of early October 2000 progress on recommendations of the QAG and other issues noted by the QAG included:

1. Environmental standards among/between the MDB & harmonizing environmental review policy among multilaterals: There has been some informal contact but to our knowledge, there has not been any specific effort to identify differences and assess their significance. QAG made a point of this because the panel was told several times that Asian Development Bank was “more flexible” in its approach and therefore easier to work with on projects with potential environmental issues. This led to some internal Bank work on reviewing “costs of doing business,” which may soon soon produce a report.

2. The Bank’s environmental assessment policy (Operational Policy 4.01) was revised in Jan. 1999. The new policy makes somewhat clearer the procedures for categorizing projects for EA and adds a new category “FI” for financial intermediary projects. It also integrates the operational note on information disclosure, clarifies the scope of study (cumulative effects, sectoral EA), and requires that Bank EA policy be applied to an entire project including any components not financed by the Bank. This last aspect is little-known.

3. Adjustment loans are being studied internally, and it is likely that some formal guidance on EA for these operations will be forthcoming.

are involved. The World Bank is currently revising its Indigenous Peoples Policy. Worryingly, a leaked copy suggests that the new policy will be substantially weaker. For more information contact Iona Singleton on +44 (0)20 7242 1441 or by email at is@survival-international.org.”

Both the Inspection Panel and the Quality Assurance Groups have been remarkably frank and thorough as have numerous internal bank reviews though all are funded by the Bank. That is both testimony to the character of the people involved and to the extremely unyielding nature of the problem of leaving most effective authority in the hands of country directors and an understaffed set of EDs. We address this in a number of ways, primarily by recommending a shifting of the burden of proof and a moving back in the process to an earlier point for truly independent review of draft and final EA’s and related documents well before Board approval.

Quality Assurance Group, Review of Safeguard Policies in China, December 1999 (penultimate draft), at 4

Id. at 8.
The perceived proliferation of policies has stimulated a vigorous debate about whether this is the best way of approaching the problem. In problematic cases, resettlement action plans and similar safeguard work can escalate well beyond the original budget. There are also worries about staffing and supervising these efforts under the Bank's present drive to restructure, down-size, and decentralize. It isn't yet clear how these issues will be resolved. The central clearance authority is another issue, as the Bank is trying to push more and more of the project responsibility to field offices, which normally don't have environmental staff.

The QAG's review of projects in China also underscored other general problems that can be noted here:

- Environmental management plans (EMP) are required in the preparation of A-rated projects (and many B's as well). The project appraisal document usually includes an outline EMP in an annex attached to the EA. But in many cases the project, once under implementation, may never revisit the EMP, and Bank staff often neglect to supervise this aspect. In large A cases this has improved in recent years, but internal reports are said to point to problems with many B projects, whose environmental impacts may be less severe but exist nonetheless.

- There are also numerous inconsistencies in classification for Environmental Assessment; the report notes the error in classifying the China Western Poverty project as a B rather than an A, which it clearly should have been. In other cases projects rated "C" should have been "B." In some regions this type of error is estimated in the range of 10-20% of all Bank projects, going as high as 30%.

Another internal issue for the Bank is the role of the host government (the Borrower, in Bank parlance). Legally the Borrower is responsible for carrying out the safeguards, as well as other provisions. The Loan Agreement (or Development Credit Agreement for IDA projects) spells out the covenants which bind the borrowing government to perform specific agreed responsibilities. Many of these relate to maintaining separate accounts, reporting, etc. The list of covenants is often lengthy and quite detailed. The Bank's fiduciary responsibility is to supervise this compliance. This is important because the Bank itself never implements the project: it is always the responsibility of the Borrower. If the Borrower fails to honor the loan covenants, the Bank's recourse is to cancel the project, but the Bank itself cannot directly carry out the work which is needed.

Bank environmental staff note that the best way to improve project environmental performance is to (a) properly appraise and classify the project, (b) ensure that appropriate covenants are included in the Loan Agreement which clearly define the EMP/mitigation measures, and (c) ensure that the Bank supervises this compliance. Since many Borrower countries are not fully committed to some of these policies (seeing them as an infringement of sovereignty), or lack the technical and management capacity to do what is required, these things often fall between the cracks. Building host country capacity in these areas is an important element of the effort for the longer-term.

The internal incentive structure of the Bank pushes task teams to find ways around problems such that disbursements are not delayed. Teams sometimes make ad hoc decisions as to which items to press hardest for, and often environment and other safeguards are low on the list of priorities.

Finally, on the question of impatience among some borrowers with the rising costs of compliance with safeguard policies, rather than abandon the "do no harm" rule, the QAG concluded it was essential to the success and credibility of the institution and the policies should clarified rather than weakened or limited. 69

69 For further discussion of the QAG report see the section on projects in China below.
Forest Policy

As noted above, the World Bank is currently revising some of its key safeguard policies. One of these is the “Forestry Policy”. US agencies and NGOs are engaging in this and other revision efforts to varying degrees, tempered by some concern about the extent to which their comments will be carefully considered and addressed in the process and the extent to which any final product will be enforced. Without getting into a detailed discussion of that or any of the safeguard policies, it is important to make several observations. The first is that many of the current policies have been inconsistently applied. A major reason for that is the lack of an independent means of applying general policies to specific cases in a way that is responsive enough to correct “violations” while allowing the appropriate work to be done, and thorough enough to honor precedents so as to build a consistent body of knowledge. In other words, what may be needed is a quasi-judicial system in which complainants or plaintiffs have standing and the means to make the system follow its own rules and provide remedies when it does not. Any substantive policy concerning the environment and related issues should also be linked directly to the EA process. For example, the U.S. Forest Service generally is expected to show in its draft Environmental Impact Statements that it will uphold the substantive standards controlling forest management as well as comply with the process of completing the EA. Thus, if a draft EIS on a proposed harvest would clearly not ensure the viability of an officially-designated a sensitive species in a given planning area, or national forest, as required by the regulations under the National Forest Management Act of 1976, then the concerned and affected citizens can ask the agency, and the courts if necessary, to redo the proposed action and the EIS until the agency demonstrates in the next draft EIS how it will comply with the substantive forest law. Existing entities of the Bank such as the Inspections Panel may be steps toward such a system.

A long list of issues concerning the current “Forestry Policy” was identified by the Bank’s Operations Evaluations Department (OED), NGOs, and other participants in regional consultations by June of 2000. Among those concerns, one that had ramifications beyond the Forest Policy revision was the failure of the Bank to apply safeguard policies and the EA process to structural adjustment loans:

Treatment by OED: The OED report argued that, absent mitigatory measures, structural adjustment loans tend to encourage forest conversion in the short to medium term. The report concluded that the Bank has made little progress in addressing the impacts on adjustment lending on the forest sector; that tracking the impact of the ground is even rarer; and that the environmental assessment guidelines are still not systematically applied to the structural adjustment loans. The report concluded that the current short-term approach to conditionality does not appear adequate to induce real commitment and therefore lacks credibility. It recommended that the Bank should consider using adjustment dialogue as part of its commitment to remain engaged in the forest sector over the long haul and to develop appropriate conditionalities based on strong and current policy analysis to help establish internal capacity within countries to implement reforms.

Messages from the Regional Consultations: The issue of structural adjustment lending and its relationship to the Bank forest policy and strategy was explicitly taken up at several of the regional consultations. There was recognition that adjustment lending can have significant impacts on forests. In order to ensure that these impacts are positive, or at least that the negative impacts are mitigated, several meetings recommended that the safeguard policies, including one on forests, be explicitly applied to structural adjustments loans. In additional, several meetings put forward the view that the Bank needs to do more to build local constituencies for reform in order to ensure that adjustment lending will have borrower ownership and lasting, positive results.

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70 The process and timetable for consultation on the policy, a strategy and an implementation strategy have shifted over time and as of late October, called for Board consideration in early 2001.
72 World Bank Forest Policy Implementation Review and Strategy
1st Technical Advisory Group Meeting
26-28 June 2000, Synthesis of Issues Raised in the Regional Consultations,
Information Disclosure:

The Bank is revising its Information Disclosure policy in a process that includes a series of discussions with invited NGOs. Others may comment on versions posted on the web. Although the Bank family have moved toward greater disclosure, and have done a remarkable, though incomplete job of using the world wide web, there is still a contrast with the basic laws of transparency in the U.S. such as the Freedom of Information Act, the Administrative Procedures Act, the Government in Sunshine Act, the Ethics in Government Act, and the National Environmental Policy Act. All of these are premised on the Congressional findings that open government is better government and the assumption that information, funding, income and procedures used by the government and its officials should be public unless there is a specific and compelling reason for them not to be. For example, as discussed above, USAID in the spring of 2000 officially implemented another avenue for informing the public of environmental risks that may be posed by proposed Bank loans.

Invasive Species Safeguard Policy Needed

More than 5,000 invasive alien species are literally "eating away at the American landscape destroying native species". In Oregon, for example, invasive species are imperiling salmon, Dungeness crabs, eastern white pines, threatened frogs, and vital wetlands habitat. According to some ecologists "invasives are in the process of causing wholesale extinctions" with many competing native species now called the "living dead." Worldwide, invasive species are second only to habitat loss as the greatest threat to biodiversity. 

On June 12, 2000, the US Department of State hosted a roundtable and workshops on invasive species. The Chief Scientist of the IUCN, Dr. Jeff McNeely, presented a paper there that noted that such species were a threat to 49% of threatened and endangered species in the U.S. He noted that imports of agricultural products and industrial raw materials have the greatest potential to contribute to species invasions here. Dr. Jeffrey Wage of the British group CABI Science, illustrated the problem in development. He noted that many if not most exotics in developing countries that do become invasive pests were introduced in development projects. He said that $45 million dollars was spent in World Bank projects in 1997 on invasive water weed management alone. According to the Invasive Species Council staff, the US alone spends $100 million per year on that problem.

Dr. Wage also noted that $10.5 billion worth of World Bank projects have been threatened by the introduction of various aquatic weeds.

The workshop noted that the Convention on Biological Diversity, which in Article 8(h) requires parties to "prevent the introduction of, control or eradicate those alien species which threaten ecosystems, habitats or species." It noted that the Conference of the Parties to the CBD, The International Maritime Organization, and other bodies are refining guidance on invasive species controls. An international and academic consortium called the Global Invasive Species Program (GISP) is providing assistance to the CBD's subsidiary bodies and others.

As evidenced in the Chad Cameroon pipeline project, the Bank does not appear to apply an invasive species policy yet. The MDBs should develop safeguard policies on invasive species at once and prepare to update them in accordance with international standards as they are adopted.

\[^73\] Associated Press 7/11/00 as summarized in Greenwire, an electronic news service of Defenders of Wildlife.
\[^74\] Papers from the State Department workshop and US cost estimate for water weed control provided by Dean Wilkinson, Commerce Department staff, Interagency Invasive Species Council.
\[^75\] Dr. Harold Mooney, Stanford University, is Chair of the GISP.
\[^76\] The IUCN Environmental Law Centre in September published:
"A Guide to Designing Legal and Institutional Frameworks on Alien Invasive Species" (Shine, Clare; Williams, Nattley, & Gündling, Lothar
Environmental Assessment as a Fiduciary Duty

There is a rapidly developing rule of law that holds banks liable for certain environmental harms resulting from endeavors that they have funded. In the US context it has arisen for example, when a bank holds virtual management authority over a firm engaged in inherently dangerous activities, such as handling hazardous materials, would be closed but for the bank's credit. This may present an issue for the consideration of MDBs, which share aspects of both governments as policy makers and banks as corporations. In any case, EAs help avoid risks and mistakes and the liability that may follow.

The MDBs have funded and are funding a series of gold mines and have chosen to use the highly poisonous cyanide to remove more gold than can be easily removed with physical methods alone. Mercury is also a by-product of many gold mining operations. These methods can cause major problems.

The IFC's Compliance Advisor/Ombudsman completed in September 2000 a review of mercury spilling and related problems at the IFC-supported Yanacocha gold mine in Peru. Reports from NGOs indicate that in addition to the mercury spilled from a truck, numerous other contaminants regularly foul the water downstream from the mine and that the benefits to local residents have been meager though the income to Peru is substantial. Critics assert that failure to apply indigenous peoples policies made matters worse as locals were and are being encouraged to sign away rights and now claims for compensation for injuries suffered without being fully informed of the consequences.

(September, 2000). The IUCN notice said:

The goal of this Guide is to provide national law and policy makers with practical information and guidance for developing and/or strengthening legal and institutional frameworks on alien invasive species, consistent with Article 8(h) of the Convention on Biological Diversity, as well as pertinent obligations under other international instruments. It provides a structured framework for dealing with alien invasive species issues and contains illustrations and practical examples to assist in understanding the impact of alien species introductions. It complements the work of scientists, ecologists, and economists by demonstrating how laws and institutions can mutually support efforts to control and mitigate the impact of alien invasive species. Each chapter makes a link between the scientific approaches and legal tools for delivering implementation.

The Guide is a culmination of two years' work by the IUCN Environmental Law Programme, through its Environmental Law Centre and the Commission on Environmental Law. It represents a collaboration with the Global Invasive Species Programme and IUCN ISSG and is the fourth in a series of IUCN publications aimed at supplementing IUCN's "Guide to the Convention on Biological Diversity". Full text electronic versions will be available in early October on the ELP Website at: [http://www.iucn.org/themes/law]

For more information please contact IUCN Publication Services Unit, 219c Huntington Road, Cambridge, CB3 0DL, UK.
Tel: ++44 (1) 223 277 894; fax: ++44 (1) 223 277 175; email: info@books.iucn.org;
URL: [http://www.iucn.org]

77 Several past and proposed projects would make for a very interesting chapter by themselves on gold mines alone, which is beyond the scope of this year's report. For example, Kuntor Gold Mine, Lihir Gold, Omai Gold Mine, Mongolia: Boroo Gold Mine (IFC), Julietta Gold Mine, Pokrovskiy Mine, etc.

In another example, on January 30\(^{th}\), 2000, a dam at the one-year-old Aurul SA gold mine in Baia Mare, Romania, holding back cyanide laced waters or “tailings” broke. It spilled 100,000 cubic meters of cyanide-laced water into the Tisza River, ultimately wiping out nearly all wildlife downstream in two rivers in Romania.

The United Nations Environment Program issued a report in March citing basic design flaws in the construction of the Aurul tailings dam. The UNEP report said “important conclusions regarding design, approval, operation, and surveillance aspects can be drawn from this analysis, with implications for all of the parties in a mining project.”\(^{79}\)

NGOs and the Romanian government are seeking payment in restitution from Hungary and the Dresdener Bank of Germany, which had invested one third of the funds necessary to build the still operating dam. The owners and bankers statements in the press denied liability on the grounds that they were not negligent and obeyed the existing laws. This can be contrasted to the strict liability standard that exists in many common law countries in which those in charge of inherently dangerous substances such as cyanide must pay for any harm that is reasonably foreseeable even if that harm is not caused by negligence. Thus most operations subject to that more rigorous legal standard insure themselves against such high liability and take every possible measure to avoid any accident.\(^{80}\)

Meanwhile, the Board of the EBRD approved in July, 2000 an investment of $25 million in an investment fund led by a subsidiary of Prudential Insurance but based in Jersey, a jurisdiction often used by banks and insurance companies to reduce taxes and other liabilities. The fund will invest in projects in Hungary and other eastern European nations. The rationale is that the EBRD’s involvement will improve the environmental performance of new firms there but the standards beyond compliance with local law to be required in exchange for EBRD involvement were apparently not clear even to the EBRD.\(^{81}\)

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\(^{79}\) See, Environment--“Setting a precedent for financial liability”
By William Wilson
Terraviva, The European Edition of the IPS daily journal
May 26, 2000

\(^{80}\) For further information on NGO actions in regard to the spill, contact Jozsef Feiler, CEE Bankwatch Network at .org

\(^{81}\) The following are excerpts from the SUMMARY FACT SHEET on the EBRD project:

**REGIONAL - ARGUS CAPITAL PARTNERS**

**DTM ID:** 8194

**The Fund:** ARGUS Capital Partners I L.P. (the “Fund”), is an investment fund established as a Limited Partnership in Jersey. The Fund is sponsored by Prudential Insurance Company of America (“Prudential”).

The Managing General Partner (“MGP”) will be ARGUS Capital Limited, a limited company organised under the laws of Jersey. The shareholders in the Managing General Partner will be ARGUS Capital Group (an indirect wholly owned subsidiary of Prudential), Patria Finance, a.s. ARGUS Capital Group will act as the Adviser to the Fund.

The Fund will make equity and equity related investments primarily in private enterprises located or operating in the EBRD’s countries of operation (the “Region”) but with emphasis in Poland, the Czech Republic and Hungary (the “Core Countries”) and Slovakia with the objective of achieving long-term capital growth within the term of the Fund.

**EBRD**

**Transaction:**
USD 25,5 million (EUR 26,8 m), minimum size of the Fund is USD 157 million (EUR 165.2m).
EBRD’s maximum share of the Commitments is 16.5%.

**Investment Strategy of the Fund:**
Majority positions, pro-active, very hands-on approach, introducing in the companies skills and resources that will strongly increase the competitive position of the investees.
Public Participation and Access to Justice as a Duty Under International Law

The Banks assume generally that actions funded by their loans will comply with the laws of the country. In some cases it is clear that the country will fix that by changing its laws, as in many structural adjustment loans, or by altering the project within the limits of its design. The Bank does not generally assume however, that its loans will result in changes in international law however.

The Convention on Biological Diversity to which over 150 nations are parties requires numerous steps to conserve biodiversity and share the benefits of its sustainable use. Among these are the duties not to harm the environment of neighboring countries and the duty to assess impacts of proposed actions on the environment with a view toward avoiding or minimizing those effects, and to include public participation as appropriate.82

Numerous treaties, from migratory bird measures to regional enforcement agreements, address the specific pieces that the general mortar of the CBD can help hold together in a body of international environmental law with relatively few large gaps. It would be helpful if EAs and their summaries were to more

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The Bank's investment in the Fund ensures incorporation of environmental measures in the investment policy and will translate into agreements with investee companies involving strict covenants regarding environmental procedures, that go beyond what would be expected from commercial sources of funding. 3.3 ENVIRONMENT

Adoption and implementation of the Bank's “Environmental Procedures for Private Equity Funds” will allow the Fund’s manager to identify, mitigate and monitor environmental issues associated with investee companies. The Fund Manager will ensure that the Fund makes no investment in companies engaged in activities listed on EBRD’s Environmental Exclusion List, and will report to the Bank annually on the environmental performance of its investee companies. The Fund Manager will require that investee companies of the Fund comply, at a minimum, with the health, safety and environmental regulations and standards of the country of investment. Given the regional nature of the Fund's investment activities, it is difficult to provide specific comments on the environmental regulatory status of each potential country of investment or upon the environmental impact of the operation. By including environmental considerations in its investment criteria and ongoing investment monitoring, the Fund will raise awareness of environmental issues within investee companies and support the enforcement activities of the environmental authorities in the countries of investment. Furthermore, the equity capital provided by the Fund can help investee companies to take pro-active environmental improvement measures. The overall environmental impact of the operation will therefore be positive.

Classifications: Environment: FI
Procurement: Private
Project Risk Rating: 5
Transition Potential: Satisfactory
Transition Risk: High
Portfolio: Private
Approval Timetable: Concept cleared: 24 September 1999
Initial/Final Review: 30 June 2000
Board Approval: 27 July 2000
Signing: August 2000

It remains to be seen exactly how much additional protection the eastern European environment receives through this arrangement as the description did not imply a rigorous set of standards. It is also interesting to note that other EBRD projects such as the Frontera Resources pipeline are done through consortia based in tax havens like Jersey and the Cayman Islands rather than in either major donor nations or host country borrowing nations.

82 Articles 3 and 14.
clearly demonstrate how each proposed action of the Bank complies with each applicable national law and treaty rather than just list applicable treaties and assert that the laws are obeyed. This would help build respect for law and a confidence that Banks were meeting applicable standards.


The Banks should make it clear that it is their binding policy to ensure that each loan complies with the applicable legal requirements of each country and with the best practices as reflected in international legal agreements and professional codes of conduct. In other words, the Bank should affirmatively demonstrate that its actions meet the highest existing international legal and professional standards, unless the Board decides that because a given standard does not apply to a given action or country, and because the standard is so experimental or so distinctly a minority position that the costs of meeting it would outweigh the developmental benefits.

The dynamic nature of assessment procedures for structural adjustment recommended by the House Committee may include revisiting on-going projects not only to bring them back into compliance with pre-existing standards, but to see whether the benefit of upgrading them to best available practices outweighs the cost and whether it is possible within available resources. Both correction and upgrading costs could be anticipated in project and adjustment loan budgets in such a dynamic process.

Energy Development & Resource Extraction

Minding the Store or Mining It?

Natural resource extraction is an area in which the conflict between the banker and the development professional is most apparent. The banker is interested in a return on investment and the return of the investment itself. In the MDBs, the risk of non-repayment has been less influential than the need to make the loans. The temptation to lend money for projects that will generate hard capital for repayment and for development despite the risk of collateral damage to nations not yet ready for massive extraction is very high.

The loss of forests combined with climate change, pollution and other impacts of energy production were driving concerns behind the legislation which led to USAID's early notification system, its oversight of MDB projects and the Pelosi Amendment.

Despite a variety of projects demonstrating that low impact renewable energy and efficiency improvement projects are viable, the bulk of Bank money in the energy portfolio still goes for non-renewable or major dam projects. Examples of positive measures include the Asian Development Bank's Philippines renewables partnership with USAID, and several Chinese Wind Energy projects.

83 The Bank could assist even the least developed countries to link their national law libraries and major agencies to the web and in turn to bank-funded project documents.
84 Available from WRI online at H. Rpt. 106-720, at 85.
88 China is pursuing wind energy development as well as massive hydroelectric, coal and other energy development, with the help of the Asian Development Bank and the World Bank. An example from the World Bank's Monthly Operations Summary follows:

China
Energizing the Bank’s Energy Policy

After considerable pressure from the Congress, NGOs, and agencies such as USAID, the Bank in 1993 adopted a policy supporting a shift toward efficiency and renewables and away from the massive expansion of fossil fuel use in the face of increasing evidence of the resulting harm. The harm to be avoided goes far beyond global warming. It includes a variety of pollutants from particulates to sulfur and nitrous oxides to mercury. Some of these acidify streams killing fish and aquatic life. Others kill more seniors and children than traffic accidents, as the pollution intensifies asthma and other lung diseases. The mercury from coal-fired power plants accumulates in the bodies of large oceanic fish to the extent that it threatens the health of unborn children whose mothers eat swordfish, tuna and certain freshwater fish. Fossil fuels are major greenhouse gas contributors leading to global warming. That global warming is a trend with very mixed local results and its own set of costs, which may include the decade’s unusual weather patterns -- increases in storms, drought, floods and wind-whipped forest fires.

One study of Bank energy loans from July 1992 to mid-1997 found that the Bank Group had in that period funded “$9.5 billion in oil, gas, and coal projects ... which will eventually add carbon emissions to the Earth’s atmosphere equivalent to one and a half times ALL current annual GLOBAL fossil fuel emissions.” The 1997 report listed an additional $4.1 billion dollars of projects pending that would emit 1.3 billion tons of carbon more if approved.

The 1998 report asserted that Bank President Wolfensohn had promised at the Earth Summit II review...
in New York to “routinely calculate the potential impact of all its energy projects on climate change and, where there is cause for concern, assist developing country clients to finance more climate-friendly options...” but failed to implement that pledge. 94

The IPS 1998 report quoted a GEF commissioned study as saying “The Bank has not “taken meaningful action to reduce its traditional role as financier of fossil fuel power development”... nor “yet undertaken any programming based on global environmental objectives”. 95

The G-8 in May 1998 endorsed a communiqué by their environmental ministers that said, “we must ensure that the policies and operations of the World Bank and other [IFIs] take full account of climate change...” 96

On July 20, 1999 a joint meeting of the Bank and IFC Boards considered the Sector Strategy Paper (SSP) “Fuel for Thought: An Environmental Strategy for the Energy Sector.” On July 21, 2000, the Bank issued an interim report on progress in implementing its environmental strategy for the energy sector. 97 Although the strategy includes several good elements and demonstrates progress it has some soft and in some cases curious standards and long timetables for small results. For example, the major outcomes sought by 2008 include increasing wood fuel production and use of charcoal, which are only good if their overall effects back out dirtier, less efficient forms of energy without harming the woodlands that are harvested. This is not easy when the manufacture of charcoal often uses lots of wood and energy in itself.

The Bank sees progress when gas replaces coal at a facility or when it helps make project somewhat better than it might have been without Bank involvement. Others see a net loss, given the great opportunity cost. Others see that the same money invested in wind, solar, geothermal, hydrogen fuel cells, or efficiency improvements could have delivered useful energy at or near the same price per kilowatt-hour and virtually no pollution. 98

94 Id. at 11.
95 Id.
96 Id. at 20, which also notes that in June of 1998 Senator Joe Lieberman, accommodating the call of Congressional colleagues concerned that developing nations were not called on to do their share, urged the Secretaries of State and Treasury to ensure that publicly supported lending institutions evaluate all project lending in terms of greenhouse gases and alternative that would decrease them.
97 SecM2000-443.
98 In 1996, the California Energy Commission in its Energy Technology Status Report, (published in 1997) found the cost of new capacity in wind energy, for example, to be competitive with all other electric energy sources at about 4.6 cents per kilowatt hour depending on the site and machine used. Natural gas has increased in price dramatically since then. This is the cost of the power over the lifetime of the plant. It does not include externalized costs such as the health costs of air pollution, oil spill prevention and clean up, mine reclamation, the loss of fish through stream acidification, or in developing countries, the costs of guarding pipelines from thieves or rebels in insecure territory.
99 USAID’s position on renewables and its relationship with the Banks on this issues is demonstrated by the following selections from:

Remarks by Ambassador Harriet C. Babbitt, Deputy Administrator
U.S. Agency for International Development at the
International Conference on Accelerating Grid-Based Renewable Energy Power Generation for a Clean Environment
Lewis Preston Auditorium, The World Bank March 7, 2000

...We all share the same goals: to provide for sustained increases in energy supplies in ways that protect the world’s environment and biodiversity.

...Without cooperation and the sharing of resources and capabilities - which this conference can encourage and accelerate - these goals will be impossible to achieve. USAID has long recognized the important role of energy production in its development mission. Additional energy is a vital element in our efforts to help developing countries improve the health, education, agriculture, transportation and economic opportunities of their citizens.
The Interim Fuel for Thought report declares the Chad Cameroon project to be a model example of a project under its third objective “To promote environmentally sustainable development of energy resources.” Similar oil pumping stations in Nigeria’s delta, according to the Washington Post of August 17, 2000, are being attacked by guerilla groups from impoverished delta tribes leading many to see civil upheaval among the oilfields as Nigeria’s greatest security risk. As discussed elsewhere in this report, the Chad-Cameroon pipeline was improved by the time it was approved, but it still has many shortcomings. It too is in an area rife with strife both civil and less so. The legal and technical requirements for spill response, offset park management, and other issues were unclear and scheduled to be clarified only years after the loans were approved. It still relies on single-hulled holding ship, feeding oil to single-hulled tankers, the likes of which were to be banned in the US by 2004 under legislation enacted in response to the single-hulled Exxon Valdez oil spill in 1989.

A major loan to Coal India was intended to demonstrate how India’s coal resources could be put to use in a way that “does no harm”. But in the summer of 2000, after whole villages were bulldozed, followed by unsuccessful resettlement and retraining, among other problems, the Bank agreed to India’s request to cancel the remaining half of the loan.

The Wall Street Journal made the Coal India loan the centerpiece of a story on August 14th on the failure of a number of large World Bank loans:

World Bank officials concede that, once again, one of their massive Third World investments has exacted a severe toll on citizens whose lives eventually were supposed to have been made better by economic development. "We thought we could make a real difference in this project," says Edwin Lim, the bank's director for India. "We've been disappointed with the project on a number of fronts." But the biggest disappointments, bank officials admit, is

But the wrong choices in how that energy is produced and used can ADD to the difficulty of meeting those goals. Our priorities are to help developing countries get the energy they need without damaging the environment on which their futures depend.

Developing countries' energy use will overtake that of industrial countries in the next 20 years, and is expected to account for three-fourths of the increase in global energy use between now and 2050. Renewable energy can help make developing countries more self-sufficient -- making additional debt less necessary -- create direct opportunities for local employment, and help limit net greenhouse gas emissions.

... The good news from these numerous examples [ see appendix for a more complete quotation and list of examples] is that they demonstrate effective cooperation among bilateral donors, NGOs, and multilateral institutions. The bad news is that we are talking about select projects, not the systemic changes that are required to accelerate renewable energy. It is the systemic change -- which Jim Wolfensohn emphasized earlier -- that we hope this conference will address.

USAID is determined to help developing countries leapfrog polluting technologies and make efficient use of renewable energy resources.

100 A21. For another story of an oil-rich, diamond-encrusted country of starving millions torn by civil war, see “Letter from Angola -- Oil and Blood” by Jon Lee Anderson, The New Yorker, August 14, 2000, p. 46-59. It is these sorts of sad developments that the controls provided in and others recommended for the Chad-Cameroon Project were designed to prevent.
101 e.g. The project had no controls for highly likely exotic invasive species infestation through ballast water. USAID and the Interagency Council on Invasive Species pointed out in a memo from the Council's staff that “For several years, it has been U.S. Government policy to reduce the risks associated with introductions of organisms via ballast water. Failure to take cognizance of this issue in the pending project would be inconsistent with this policy.” As of mid-September, Treasury officials has not provided USAID with copies of the final agreement for the project cluster as approved by the Board and were not sure that the high seas exchange of ballast water would be required.
they failed to honor their do-no-harm pledge.

What went wrong? From the start, bank officials acknowledge, they knew they were rolling the dice by lending India $530 million to start, expand or modernize two-dozen open-pit coal mines. The project would require large peasant resettlements of the sort caused by many past bank-financed infrastructure projects in developing countries. The record of such traumatic dislocations is riddled with failures.

Bank officials envisioned that many of the displaced subsistence farmers would be transformed into small-business owners. But the bank made a skeptical Coal India responsible for this ambitious retraining, despite the company's lack of experience with such a task. With the company failing to satisfy bank expectations, both sides agreed last month to cancel the loan, with only half the money disbursed.

A smaller $60 million loan aimed at improving Coal India's environmental practices and aiding displaced peasants remains in place, although the bank's leverage in enforcing its social goals obviously has been reduced.

Indeed, bank officials confirm that their experience with Coal India doesn't affect 79 other loans to the country, which have a total value of about $11.5 billion.

The reader is left to wonder why the $60 million project for environmental and resettlement improvement was not carried out and assessed first before funding more mining to compound the existing problems. The reader is also left wondering whether the Bank has used its existing and planned large portfolios as leverage to encourage such borrowers to improve performance in existing loans and improve the types of projects they propose.

Meanwhile, the major pattern of massive investments in oil, coal, gas extraction and fossil fuel-fired power plants with a supporting cast of loans for railroads to haul coal from mines to plants, etc., seems likely to continue at fairly high levels. There has been some decline in the size of the energy sector over the last two years overall but no clearly enunciated target or deadline for eliminating Bank support for fossil fuel-based projects. The Bank may shift from direct project lending to less direct support such as insurance, loan guarantees, partial equity investments, and joint or leveraged loans, but there is no end in sight. While elements of the private market may want continued investment there, the Banks need not subsidize it internationally in the face of G-7 and legislative statements to the contrary.

According to the Interim Fuel for Thought report and many others, the Bank often focuses on leveraging openings for private investment in "carbon" and other sectors, often through requirements that borrowers sell off their utilities and other assets and leave the remaining markets open for private control. 103

102 For further discussion of this loan and more recent coal-related loans and proposed loans to India see, India in the project review section of this report.

103 The MDB pressure for privatization may be combined with policies that seem to favor fossil-based electric generation, or they may be "blind" to environmental costs and simply follow a doctrine that spot market purchases are better than long term purchase agreements because they are more "flexible". This may sometimes result in dirtier supplies and sometimes in cleaner ones, but the issue should be more carefully addressed. For example, according to "Wind Energy Weekly" a publication of the American Wind Energy Association, in Washington, D.C., IADB privatization policies often include pressure to alter purchase contracting in a way that abruptly reverses expectations of increased electric energy supplies from renewables to the detriment of U.S. corporations producing windmills and other renewable equipment:

"A 22-MW wind project in Nicaragua has been halted, a 60-MW wind project in Honduras is in the balance, and the promise of wind energy, a highly cost-competitive renewable energy, risks being snuffed out as privatization laws are adopted in Central American countries without incorporating renewable energy and long-term financing provisions, according to reports presented at a recent Washington, D.C., workshop on renewable energy in Central America. The workshop, organized by the Geothermal Energy Association, featured presentations by officials of renewable energy associations and other organizations active in the region, such as Winrock International. 
This is pursued despite a lack of regulatory authority or ability to ensure that the poor can afford electricity, water, or other services or that environmental, anti-trust and other laws will be obeyed.\textsuperscript{104} The same problems occur when decentralizing controls to local authorities with less expertise and power than the central governments had to withstand.\textsuperscript{105}

Instead of "encouraging, promoting, informing and sharing" renewable energy and efficiency technologies with soft targets, no internal rewards, and relatively small amounts of money, the Bank could stop funding fossil fuel or carbon-based projects now and require that all of its borrowers from any window for projects in any sector reduce gross pollution from energy sources by 5\% per year. The Bank could make loans available to achieve that progress from the same pool that is now used to build carbon-based facilities.\textsuperscript{106} This would allow the use, depreciation and amortization of most existing facilities and put US technical capacity and that of other donors to better use as well. Donors could also consider establishing hard targets for Bank performance in this and other areas of concern that could be linked to declines or increases in budget requests or actual appropriations.

Workshop presentations highlighted the outstanding performance of most of the projects now in operation, and concluded that better policies and financing availability are needed for renewable energy to fill its promise in the region. …Nicaragua's power utility, ENEL, just retracted its power purchase agreement for a 22-MW wind energy project, under pressure from the Inter-American Development Bank's energy restructuring policy requirements to privatize the market and introduce spot market bidding. A 60-MW project in Honduras proposed by Enron Wind Corp. could face a similar fate if the country's existing renewable energy law is overturned by energy restructuring legislation currently under preparation. Such examples show how privatization policies that fail to incorporate renewable energy and long-term financing provisions may paradoxically prevent some of the most competitive sources of energy in the region from reaching the market." Wind Energy Weekly, Sept. 13, 2000. But see also footnote 89.

\textsuperscript{104} This led to riots in the spring of 2000 in Bolivia over water prices just doubled by a Bechtel subsidiary which was reportedly forced to withdraw from its newly acquired utility headquarters according to some reports. The “Bull and Bear” news service of the National Wildlife Federation carried this summary of a Financial Times (FT) story illustrating some of the problems arising from the privatization of utilities:

US power developer AES bought a majority stake in Tisza Power in 1996, and has already spent $10m in planning another $250m coal-fired power plant in Borsod. According to the FT, AES took legal action against the Hungarian state privatization company and the state-owned electricity wholesaler "for breach of contract and loss of earnings." According to AES, the Hungarian government's plans to not sign any more long term power purchase agreements (PPAs) ruined their investment plans. But the Hungarian government contends that because they are deregulating the power sector, long term PPAs could restrict competition and lock the government into paying more for power. Hungary has already identified cost savings from building a new gas-fired plant instead of AES's planned coal plant. (FT 3 Aug 00) [In this case, the gas-fired plant will probably pollute less, as well, but may save less as the cost of gas increases.]

\textsuperscript{105} Ibid., note 77 at 8

\textsuperscript{106} Some of the G-7 countries are moving in this direction. For example, Japan's Ministry of International Trade and Industry (MITI) has abandoned 33-year old targets to develop its own overseas crude oil fields in favor of supporting energy efficiency and natural gas development. (NWF, “Bull and Bear” Summary of article in Financial Times, 15 Aug 2000).
Defending Economic and Environmental Integrity by Controlling Corruption

The statutory mandate of USAID review of MDB loans includes economic viability as well as environmental and related concerns. One of the problems that undercuts economic viability, environmental sustainability and many other values in any financial transaction most severely is corruption. It therefore becomes necessary to take it into account when assessing proposed loans and projects.

For example, in an article in July/August 2000 issue of The Ecologist entitled, "Lie of the Tiger", asserts that key travel corridors and breeding grounds of Bengal tigers are being ruined by coal mining carried out by Coal India and supported by a World Bank loan in the state of Bihar. The author asserts that since it conveys a signal of respectability and control where little existed, the Bank's "lending in Bihar has been seen by some to be directly responsible for the rapid growth of the mafia whose involvement "has seen to it that large amounts of the coal are in fact being smuggled out of the area". This in turn, if true, means more coal than expected must be mined to meet the demands of those who have actually paid for it through legal channels, with a greater impact on endangered wildlife and displaced village residents. The author asserts that these mafia have been linked to assassinations of political figures and Forest Department officials opposed to their interests, while the Bank refused to release studies by its own consultant of the extent of harm being done to local wildlife. He calls for United Nations oversight of the World Bank.

These concerns arise again in the context of IFC loans for coal-fired power plants in India. The Environmental Assessment of the Balagarh Thermal Power Project expected to come before the Board in August 2000, did not appear to review many alternative actions though that is one of the most basic requirements of good environmental or other policy assessment. Too narrow an EA focus by the IFC or any institution makes individual projects suffer. Renewable energy or efficient technology closer to residential users, for example, or loans to replace antiquated mining equipment that digs up and retains large amounts of extraneous matter producing high-ash coal were not considered. The Balagarh loan might have included a pass through loan that would allow both borrowers to retain some of the savings made through more efficient extraction. New mining and ore-cleaning machinery could reduce the fly-ash particulate and on site ash storage problems at new and old plants alike. Coal and electricity pricing to encourage conservation was not considered, though inclining block rates can be used to provide low prices for very low volume residential or small business users and increased rates for high-volume users, even though the Interagency environmental review team was told that the Bank promised to do such reviews when the Coal India loans were made over the last few years. This is on top of a long history of concerns about power sector management in south Asia.

Therefore, in an interagency meeting on July 27th, 2000, USAID suggested withholding any further USED votes for coal-related projects in India pending a full review of the promised price restructuring and electric conservation rate reform, alternative investments such as smaller scale improvements for energy efficiency, wildlife and resettlement impacts of the Bank-supported coal sector and corruption prevention measures as recommended by GAO. Even if votes to projects in some countries are withheld for other policy reasons, such as non-support for countries involved in nuclear arms development, the US can urge the Bank staff not to bring such projects to the Board especially if prior related commitments have not been fulfilled.

It has become possible to measure at least perceived or reported corruption via surveys and Transparency International, a non-profit group based in Germany has published ratings of countries in recent

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107 A recent employment opportunity notice describing an expansion in AID's work in preventing corruption during privatization is illustrative of the challenge that rapid privatization, led largely by MDB/IMF loans and conditions, presents for orderly and corruption-free development. See appendix. See also the section on Privatization and accompanying notes.

108 IFC/SecM2000-28

109 This sort of contract is often called the "share-in-savings" contract. They are encouraged in government contracting for energy efficiency, under the Energy Policy Act of 1992, and for information technology, under the Clinger-Cohen act of 1996. Under these types of contracts, the agency promises contractors a share of the financial savings realized in return for providing up-front funding and operating capital. Senator Lieberman has continued to follow up with agencies in regard to the use of these, and the MDB's may want to consider them as well.
years. The actual levels may be different, but precautions are nonetheless warranted in areas where the problem seems pervasive. 110

In April, 2000 the General Accounting Office released a report requested by the Chairman of the Foreign Operations Subcommittee of the Senate Appropriations Committee on World Bank management controls for controlling corruption. 111 The study analyzed Bank systems generally and operations in four major Bank borrowers including Indonesia, Russia and Brazil. The GAO recommended numerous measures and found that many of the corruption control commitments made earlier by the Bank had not been met. The Bank prepared an internal response to the GAO report for Board and Management that it noted would be edited and made public later. 112

A GAO Report on corruption in Bosnia, released July 7, recommends, in essence, suspending bilateral and multilateral assistance until local governments there demonstrate the willingness and ability to control corruption. The New York Times reported on July 7 that the GAO report noted that the World Bank had lost $500,000 in 1997 in a sophisticated fraud scheme involving false government procurement documents. It also noted that no arrests had been made as of three years later. 113

110 E.g. a World Bank paper:

Combating Corruption: A Comparative Review of Selected Legal Aspects of State Practices and Major International Initiatives

W. Paatii Ofosu-Amaah, Raj Soopramanien, and Kishor Uprety, 6/30/99

Corruption is a worldwide phenomenon. No country, no matter how rich or powerful, is immune to the detrimental effects of corruption. In this timely and careful survey of national and international efforts, Combating Corruption provides a comparative view of selected legal practices and international initiatives undertaken to fight corruption.

At the outset, the paper makes the distinction between preventative and curative instruments which countries have used to fight corruption. The authors of this study examine codes of conduct, affirmations of national commitment, leadership codes, and provisions relating to declaration of assets and freedom of information.

Although the paper highlights some bold measures that have been undertaken by countries to combat corruption, it goes on to report that the anti-corruption efforts are far from finished on the national level. The paper concludes that legal initiatives alone cannot make a difference in the fight against corruption. The most successful programs are those that combine legal initiatives with the necessary resources needed to engage in and sustain the fight against corruption. There needs to be strong political will and a determination to stop the spread of corruption in order to effect change.

Also available:

111 World Bank Management Controls Stronger, but Challenges Remain in Fighting Corruption, GAO/NSIAD-00-73.

112 Helping Countries Combat Corruption: Progress at the World Bank Since 1997, April 12, 2000 SecM2000-191

113 One corruption trial that is underway as of this writing, and directly related to alleged illegal undermining of natural resource management is that of Mohammed Hasan whom the International Herald Tribune reported on Sept. 21 was charged with failure to complete forest mapping for Indonesia between 1989 and 1998 causing a loss of as much as $75.6 million dollars of state money and $168 million of timber association funds. It has also been observed that $75 million is a very expensive forest survey to begin with and that the restoration of those funds with interest could pay for a lot of conservation.
Privatization, Governance & Corruption: First Things First

An analysis of corruption plaguing rapid privatization\(^{114}\) induced by MDB/IMF structural adjustment by the British civic organization CornerHouse is illustrative of the problem faced by the MDBs as they seek to ensure economic viability, environmental regulatory compliance, the application of rule of law and truly competitive markets generally.

Spurred by structural adjustment programmes, privatisation of state enterprises increased dramatically in the late 1980s and early 1990s—four-fold in Latin America and three-fold in Asia.\(^{55}\) More than 10,000 state-owned companies were privatised between 1988 and 1998.\(^{56}\)

Between 1988 and 1994, governments raked in $110 billion from the sale of 3,000 state-owned enterprises.\(^{57}\) Privatisation is a component of 70 per cent of structural adjustment loans and 40 per cent of sectoral adjustment loans made by the World Bank.\(^{58}\)

In many instances, privatisation has been accompanied by widespread corruption. Joseph Stiglitz, ex-Chief Economist at the World Bank, admits that “it has proved difficult to prevent corruption and other problems in privatizing monopolies”:

> Advocates of privatization may have overestimated the benefits of privatization and underestimated the costs, particularly the political costs of the process itself and the impediments it has posed to further reform.”\(^{59}\)

The head of the World Bank’s Asia-Pacific branch, Jean-Michel Severino, confessed that infrastructure privatisations in the region became a “horror story” in which “there was a high level of corruption”.\(^{60}\)

The “horrors” come about partly because of the inflexible and hasty deadlines set by the IMF and World Bank. Public services are privatised without enough time being allowed to set up workable frameworks for regulation. As the recent External Evaluation of the Enhanced Structural Adjustment Facility (ESAF)\(^{61}\) noted with some puzzlement:

> “In most . . . ESAF countries undertaking programs of public sector reform, the privatization process has always begun before an appropriate legal framework in the form of a divestiture implementation or state enterprise law is passed.”\(^{62}\)

The results are many-fold:

- Governments are often unable to arrange transparent and open bidding processes or promulgate needed regulatory laws;
- Managers and employees, fearful for their future and confident of their ability to escape punishment, commonly strip the assets of the entities undergoing privatisation;
- Many interested parties are able to engage in insider dealing and political manipulation of the process for their own profit;
- Many state enterprises do not have the time to become economically viable before being sold off, leading to frequent sales of industries at below market value despite heavy government spending on recapitalisation.\(^{63}\)

Insufficient time is not the only problem. Some governments would be unable to control the process even if they were given more liberal deadlines. As Kamal Malhotra, formerly of the NGO, Focus on the Global South,

\(^{114}\) For other problems resulting from rapid privatization and associated policies recommended by the Banks in the area of public utilities see notes 88 and 89.
points out, under governments which are secretive, lacking strong regulatory institutions, and already corrupt, "privatisation cannot possibly be the dream cure":

"Indeed the scope for corruption could greatly increase as a result of privatisation in this context leading to costly and bad privatisations."64

In Nicaragua, 341 out of 351 state enterprises were sold off between 1990 and 1994, despite the fact that no law regulating privatisation was in place. Most of the deals lacked proper bidding procedures, and companies wound up being sold at up to 75 per cent below market price.65 (emphasis added) Some government officials were allegedly bribed to sell the national sugar mills for sub-market prices.66

It has become possible to measure at least perceived or reported corruption via surveys and Transparency International, a non-profit group based in Germany has published ratings of countries in recent years. The actual levels may be different, but precautions are nonetheless warranted in areas where the problem

115 CornerHouse Briefing 19, "Exporting Corruption: Privatisation, Multinationals and Bribery" was written by Sue Hawley and edited by Sarah Sexton, Larry Lohmann and Nicholas Hildyard of The CornerHouse. The section “Corruption and Privatisation in Europe” is taken from David Hall, “Privatisation, multinationals, and corruption”, Development in Practice, Vol. 9, No. 5. November 1999, pp.539-556. See also the website of Public Services International Research Unit (http://www.psiru.org) which contains regular updates on all aspects of privatisation in public services, including corruption. A report by Sue Hawley on corruption in the World Bank and IMF and corruption caused by their policies will be published in autumn 2000 by the New Economics Foundation, London.

The CornerHouse is a research and solidarity group which aims to support the growth of a democratic, equitable and non-discriminatory civil society in which communities have control over the resources and decisions which affect their lives and means of livelihood, as well as the power to define themselves rather than be defined only by others.

For a list of other briefing papers and details of how to obtain electronic or printed versions, please contact: The Corner House, PO Box 3137, Station Road, Sturminster Newton, Dorset DT10 1DB, UK. Tel: +44 (0)1258 473795; Fax: +44 (0)1258 473748; Email:. Website:

Notes for this section of Briefing 19 are:


60. quoted in Montagnon, P., op. cit. 35.

61. The ESAF is the successor to the Structural Adjustment Facility, the IMF’s concessional lending programme to low-income countries. Loans are made in return for a three-year commitment by the government to “comprehensive macro-economic and structural adjustment programmes”; these generally include cutting public spending, privatising state enterprises, removing price controls, raising interest rates, devaluing the currency and promoting exports. As of February 1999, the IMF had lent $9 billion to 51 countries under 79 ESAF agreements. A 1997 internal review by the IMF found that countries under structural adjustment programmes had lower economic growth than countries that were not under SAPs. In late 1999, the IMF renamed ESAF the Poverty Reduction and Growth Facility. See World Development Movement Briefing, “Can the IMF deliver on recent poverty reduction promises?”, May 2000.


seems pervasive. 116

In April 2000 the General Accounting Office released a report requested by the Chairman of the Foreign Operations Subcommittee of the Senate Appropriations Committee on the subject of World Bank Management Controls for controlling corruption. 117 The study analyzed Bank systems generally and operations in such major Bank borrowers as Indonesia, Russia and Brazil. The GAO recommended numerous measures and found that many of the corruption control commitments made earlier by the Bank had not been met. The Bank prepared an internal response to the GAO report for Board and Management that it noted would be edited and made public later.118

In the meantime, NGOs are calling on the Bank and the IMF to take certain measures concerning corruption that are at least worthy of careful consideration. For example, the following are recommended by the British NGO CornerHouse.

**World Bank and IMF: Putting Their Houses in Order**

**World Bank**

To stem corruption in World Bank projects, NGOs in the South and North are calling for the World Bank to:

- Make it a priority to reduce corruption in its own projects. If it fails to do so, the ironic outcome could be that loans for improving governance and for anti-corruption initiatives might get lost to corruption;
- Commit itself to improving supervision of projects and to making its audits compulsory and more rigorous;
- Ensure that there are proper guidelines for its staff to deal with corporate lobbyists, and to conduct a serious review of the “revolving door” system by which former World Bank staff become advisers to private sector clients;

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116 E.g. a World Bank paper:

*Combating Corruption: A Comparative Review of Selected Legal Aspects of State Practices and Major International Initiatives*

W. Paatii Ofosu-Amaah, Raj Soopramanien, and Kishor Uprety, 6/30/99

Corruption is a world-wide phenomenon. No country, no matter how rich or powerful, is immune to the detrimental effects of corruption. In this timely and careful survey of national and international efforts, Combating Corruption provides a comparative view of selected legal practices and international initiatives undertaken to fight corruption.

At the outset, the paper makes the distinction between preventative and curative instruments which countries have used to fight corruption. The authors of this study examine codes of conduct, affirmations of national commitment, leadership codes, and provisions relating to declaration of assets and freedom of information.

Although the paper highlights some bold measures that have been undertaken by countries to combat corruption, it goes on to report that the anti-corruption efforts are far from finished on the national level. The paper concludes that legal initiatives alone cannot make a difference in the fight against corruption. The most successful programs are those that combine legal initiatives with the necessary resources needed to engage in and sustain the fight against corruption. There needs to be strong political will and a determination to stop the spread of corruption in order to effect change.

Also available:


• Make public its internal investigations into corruption cases involving its own projects. National authorities could then prosecute the parties involved.

Structural Adjustment Policies
NGOs are calling on the World Bank and IMF to:
• Undertake a full independent review of the link between structural adjustment programmes and corruption, as well as the impact of structural adjustment on governance.

Privatisation
NGOs are urging the World Bank and IMF to:
• Ensure that the privatisation programmes they impose include provisions for appropriate and robust regulatory frameworks to be put in place before privatisation is begun;
• Examine public sector reforms which do not involve privatisation, particularly in sectors such as water and health, in which services to vulnerable groups cannot be provided at a profit;
• Review whether loans made towards privatisation would be more effectively spent on administrative reform of the entities to be privatised;
• Draw up a plan of action to encourage accountability and transparency in privatisation programmes.

Civil Service Reform
Many NGOs recommend that the World Bank and IMF:
• Take their own expert advice on civil service reform seriously;
• Shift their emphasis away from downsizing towards more long-term solutions;
• Help governments make a concerted effort to ensure that civil service salaries are raised;
• Help governments increase accountability of the civil service through more training, freedom of information legislation, whistle-blower laws, and punishment for wrongdoers.119

Seeking Restitution of Diverted Funds
The question then becomes "What efforts have the Bank or its partners in Bosnia have made to recover the funds through civil litigation, negotiations or other means?" This question has a bearing on all instances of identified losses due to corruption or theft by former officials. It also goes to the question of debt forgiveness. If governments have not made every possible attempt to recover pilfered funds or to recover damages or fines from those responsible for loss of funds or failure of projects due negligence or malfeasance, the MDBs and bilateral donors could consider withholding or conditioning any debt relief on good faith efforts and cooperation with the donors to recover such funds.

This follows similar publicity in the weeks just before that about Croatia and its new government's attempt to combat corruption. Croatia and Bosnia are both parties to the Dayton Peace Agreement that calls for reducing corruption. Croatia also happens to have a number of World Bank projects in the areas of forestry and environmental controls. To the extent that they may have been compromised, their environmental benefits are also at risk and may become liabilities as controls are undermined.

It remains to be seen how the MDBs will respond to this information and challenge in their project selection and operation particularly in regard to such countries where corruption has been shown to be significant. One avenue for continued engagement might be to shift away from natural resource extraction and capital construction projects to the extent that the objects of the projects lend themselves to various forms of diversion until judicial reform projects have taken hold. USAID and various multilateral banks have funded such projects, which could go to the heart of the problem of corruption. Such a World Bank project was the

119 Box 8, CornerHouse Briefing 19, "Exporting Corruption: Privatisation, Multinationals and Bribery", Id. note 31.
subject of a study by the Lawyers Committee for Human Rights entitled *Judicial Reform and the Environment: Environmental Enforcement in Bolivia.*

It indicated that focusing on a problem effecting a large segment of society such as environmental degradation by extractive industries was one of the best ways to make judicial reform efforts concrete and effective.

A means of ensuring better control would be to require that any procurement or sale related to any world bank loan that includes the exploitation of natural resources be accompanied by a public record of the process by which these items or leases were obtained or will be put out for bids. In addition to the public disclosure for individuals recommended elsewhere in this report, a minimum degree of transparency, public notice, competitive bidding and related procedures should be required for large transactions or contracts. Loans related to contracts or properties with ownership histories that are less transparent could be excluded from consideration by the Board.

Armed Conflict over Natural Resources for Export

In June of 2000, the World Bank released a study of armed conflicts since the 1960’s. Its finding, in essence, was that the single greatest cause of armed conflict – primarily civil wars in this period – was the struggle to control natural resources in poor countries. The risk grew in direct proportion to the share of GDP coming from the export of primary commodities that are easily “predated” or stolen and sold to support continuing predation. Particularly volatile were those most valuable for export in exchange for hard currencies, such as drugs, diamonds and oil. It suggests that importing countries refuse goods not affirmatively shown to be obtained from legal sources through legal means, rather than the good of raids by rebels spurred on by the prospect of plunder. It acknowledges that many politically inspired rebellions also support themselves by means of the sale of captured goods, but nonetheless calls for stricter controls on what we might call the trade in “volatile goods”. Collier recommends that to prevent conflict, diversifying economies is key, increasing per capita income is second, and internationally insuring minority rights might be third.

Conflicts of Interest: The Carat and Stick Approach or Diamonds Are a Guerrilla’s Best Friend

On July 5th, 2000, the UN Security Council voted “to impose a worldwide ban on the purchase of rough diamonds from Sierra Leone until its government can establish a system to certify the origin of stones and control the diamond fields.”

The direct impact of armed conflict on the environment, indigenous peoples, and the poor is often severe. The indirect effects, through disabling most governmental and private normal controls on pollution and every other form of assault on the environment, not to mention the less powerful components of society, are also profound. Therefore, if the presence of volatile resources in developing countries can lead to conflict, as the World Bank study has shown, then it follows that MDBs should proceed with great caution when facilitating the production for export of the very attractive “volatile” natural resources. This may be true, even though such resources have been for many years very prime targets of IMF and MDB lending, often in order to help poor

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120 July 1999 Draft The study also notes complementary efforts by USAID and the German aid agency in the reform of the criminal law system. The Committee also studied an earlier Bank loan to Venezuela made in 1992.

121 As noted elsewhere in this report, the World Bank and the GAO have instituted and recommended many measures to reduce corruption, but bidding and contracting transparency, applied like EA requirements and other safeguard policies, could help cut off favoritism at the key point of Board consideration and thus protect economic viability as well as environmental and social performance.

122 That is, raw materials sent for others to process and resell for greater profit.

123 Other risk factors included low GDP and per capita income and ethnic dominance by one group over another somewhat smaller but significant minority, *Economic Causes of Civil Conflict and Their Implications for Policy*, Paul Collier, Director, Development Research Group, World Bank, June 15, 2000.

124 *New York Times*, July 6, 2000 p. A5. Diamonds are also smuggled through Liberia and often mislabeled as high quality Sierra Leone diamonds.
countries pay off previous loans more expeditiously. The precautions that are becoming increasingly necessary are to find a certain level of effective governance and a relative absence of current or potential conflict, particularly between neighboring ethnic groups inclined to fight over such resources.

Individual importers may find it advantageous to effectively pit combatants against each other while buying from both sides when neither has the luxury of more permanent and legal control that allows the imposition of additional costs. These additional “costs” are actually investments to share benefits, reduce risks and negative impacts of production. They include taxes, pollution controls, worker’s rights and protections, and a thoughtful scheduling of production to meet long term national investment needs, etc. Nations, on the other hand, recognize the need for such investments and limitations on production, hence the ratification of international laws in these areas.

Is Good Governance Worth Its Wait In Gold?

The MDBs have made loans for the building of capacity in the areas of judicial reform and law enforcement as well as for developing the capacity to regulate given sectors. In making other loans, particularly loans for resource exploitation, the success of the legal capacity-building loans, and the success of other efforts to build legal capacity and fight corruption must be better measured and ensured before loans for extraction are made. This would reward success, target any resource extraction assistance to areas best able to prevent corruption and conflict, and result in more sound investments and less conflict. That, in essence, would result in more sustainable development.

125 For “volatile” or at risk commodities, such as diamonds and gold on the one hand or timber and wildlife subject to poachers on the other, specific controls could include certificates of origin registered on the world wide web &/or on Appendix III of CITES to allow the tracking of the authorized amounts collected and exported by the permittees and imported by the legal purchaser. (see note 89.)

126 At an industry conference on Diamonds NGO’s called for governments to develop an international certification process to complement and enforce the general call for the avoidance of conflict diamonds. It was followed quickly by international action. Their joint statement is reproduced here:

[Global Witness]
Wednesday 19 July 2000
Joint Press Statement by Civil Society Organizations
Following the World Diamond Congress, 17-19 July 2000

1) The civil society organizations present at the Antwerp 2000 World Diamond Congress are very pleased with the outcome of the conference and the proposals for reform made by IDMA and WFDB. These proposals will go a long way to meeting many of the concerns about conflict diamonds that have been expressed by NGOs in Europe, North America and Africa.

2) Still, there remains much to be done:
   - The implementation of the reforms and monitoring of the process by the signatories (IDMA and WFDB). It will be important that there be definitive progress on the establishment of working mechanisms by mid September.
   - Beyond the industry, the governmental process to establish an international certification progress and a system for independent monitoring of the international flow of diamonds has yet to be agreed. This too will have to be implemented and monitored.
   - Experienced civil society organisations with the necessary expertise need to be involved at a working level in both processes in order to ensure the transparency and credibility thereof.

3) We are deeply concerned about the continuation of the war in Sierra Leone, the well known Liberian connection and the transfer
A Strategy and Screen for Environmental and Social Performance in MDB Private Sector Loans.

As noted above, USAID is aware of the fact that the Bank family’s direct lending support for private sector through the IFC and the MIGA have not always been, and are still not entirely, subject to the same set of assessment and safeguard policies as the family applies to loans for projects to governments, although MIGA now has its own EA and social review procedures. The Banks’ EA policies first arose in response to U.S. legislative reports, laws and other actions, such as those embodied in Title XIII. Title XIII’s statutory definitions of MDB and Regional Development Banks as set out in the late 1980’s and the listing in the Treasury Department regulations of 1992 do not specifically list the MIGA which has developed its own EA and related policies paralleling those of the Bank. Given the broad language of NEPA, combined with the expressed findings and purposes of Title XIII, and the continuing concern of Congress for these issues, the Treasury Department could formally cover such offspring of the Bank as the MIGA and other similar IFIs as they take new forms over the years in its regulations governing the EA and review process as it affects the USEDs. Furthermore, there is probably no reason why the Administration could not include in its regulatory definition of a “satisfactory” EA, a requirement of affirmative findings by an review group separate from the group that would manage the loan or other action that the proposed action would not violate a safeguard policy, in a manner similar to that suggested for the Bank as a whole by the USED in her statement on the Western China Poverty Reduction Project.

As noted above, the Pelosi amendment requires the USED to withhold votes for any MDB “action” with a significant environmental impact if that action is not covered by an EA. This would seem to include all loans with a significant risk of significant harm, as well as the adoption and amendment of policies, debt

of diamonds and weapons between the RUF and Liberia. We urge the diamond industry to take immediate and emergency action to restrict any diamonds flowing from RUF controlled areas through Liberia and elsewhere.

4) The industry should also make representation at the highest levels of the UN and national governments in order to halt the traffic in weapons used to violate human rights, and the resources used to purchase them. ...

- Action for Southern Africa (ACTSA)
- Amnesty International
- Fatal Transactions
- Global Witness
- Netherlands Institute for Southern Africa (NIZA)
- Partnership Africa Canada (PAC)
- Physicians for Humans Rights (PHR)
- World Vision (PHR and World Vision represent a coalition of more than 60 US NGOs)

127 See, “The Environmental Impacts of International Finance Corporation Lending and Proposals for Reform: A Case Study of Conservation and Oil Development in the Guatemalan Peten”, Vol. 29 Environmental Law, No. 1, 103-132, 1999, Northwestern School of Law of Lewis and Clark College, by Ian Bowles, et al. (Bowles was then Vice President for Conservation Policy at Conservation International, and as of September, 2000, on the staff of the Council on Environmental Quality and National Security Council). The article recommends that IFC strictly enforce World Bank policies on forestry and natural habitats; extend its minimum EA review period from 60 to 120 days; extend its EA scope of review, consultation, information release and dissemination; increase internal IFC environmental expertise, and include in the loan agreements: insurance, performance bonding, and a binding commitment with penalties for failure to continue compliance with IFC required performance above and beyond domestic law.


129 22 USC 262m-2(b)

130 31 CFR Part 26

forgiveness, grants and any actions imposing conditions that would effect the environment. In 1997 Public Law 105-118 changed "borrowing country" to "borrower" in the Pelosi amendment (22 USC 262m-7) thus reaching non-sovereign132 and private borrowers and added the International Finance Corporation to the list of institutions covered.133

With regard to the development of environmental and social screens, the Treasury Department and the Bank family may want to look to the rapidly developing field of "Socially Responsible Investors" and related portfolios of larger investment brokers, pension funds, and others that are screened, targeted, voted and/or leveraged for environmental and social development as it reviews its own lending and investing practices.134

As the Congress urges the Bank family to complement rather than compete with the private sector,135 it brings into sharp focus the question of "additionality" or what it is that the Bank's participation in a given endeavor adds to the public good of the project; what elements of the developmental agenda are advanced beyond the point where they would be without the involvement of the Bank.

It can be argued that if anything, the Bank's support for private endeavors should be more demanding in terms of environmental and related standards than its loans to governments. One reason is that private investors and lenders may not have the volume of resources to compete with the Banks and therefore without additional requirements as conditions for IFC loans, project proponents will gravitate toward the IFC and its potentially lower rates and greater stability and away from the private lenders. Another reason is that governments are directly accountable to the people through peaceful and democratic means or otherwise. Private endeavors, while directly accountable to owners and customers, are only indirectly accountable to the public they effect through local or national governments. Those governments may not be responsive or even handed in their enforcement of public laws to protect public's interests in natural resources and public health. If the Bank family enters a sector, be it energy or housing and offers not much additional developmental criteria, then two bad things can happen. The first is that local and other private investment capital will be edged out and the second is that other opportunities for development work with that international development money will be lost or delayed.136

UN-Recommended Millennium Measures: Potential MDB Environmental Baselines

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Map of Environmental Resources & Problems

The Secretary General of the United Nations recommended the implementation of four major initiatives for the environment to mark the millennium General Assembly in September 2000.137 One is to map the world's environmental resources and problems. This could build upon the many efforts already undertaken, such as country environmental assessments by the Banks and biodiversity assessments under the guidance of UNEP and the Convention on Biological Diversity (Article 7).138 This map could form a sort of common baseline of current, as opposed to either optimal or historic, biological and other conditions against which to measure the impact of proposed actions with restoration and recovery in mind as well as the Hippocratic mandate to "first do no harm".

The map could be linked to the international conventions, secretariats, and other organizations with jurisdiction or expertise concerning the resources in question. Many developing countries have neither the technical capacity nor legally authorized or competent bodies to administer the treaties to which they are party. Therefore, these Secretariats, with the help of UN offices, including UNEP, UNDP, FAO and other UN

132 Presumably cities, provinces, etc.
133 listed in 262m-2(b) and 262m-7(g) added by P.L. 105-118 of 1997.
134 E.g.,
135 H. Rept. 106-720 at 83.
136 For additional comments along these lines, see presentation by David Painter of USAID
137 Article 7 of the Convention on Biological Diversity requires its parties to identify components of biodiversity important for conservation and sustainable use and maintain that data. The proposed map could link and illustrate these databases and serve as a reference for MDB EA, Country Strategies and related work.
agencies, in cooperation with the existing dispute resolution bodies\textsuperscript{139}, could develop an advisory service so that MDBs or other interested parties could secure advisory opinions on proposed programs or projects to ensure that they would be restoring or sustaining the resources concerned and not be likely to violate any provision of international law. Such a system could also have appropriate roles for the borrowers and bilateral aid donors in each case. A portion of the funds appropriated by the donor or “tier one” countries for MDB work could be allocated to the UN or its subsidiary bodies for such advisory services. This would transform the “map” into a dynamic resource for conservation management and not just an illustration in the great chronicle of extinction.

There is a statutory provision, unused so far, that requires Treasury, in consultation with AID; to establish a system for sharing information on the environmental impact of proposed MDB loans with the expert agencies of other countries before the Boards vote on the loans.\textsuperscript{140} The UN map and review could become a core tool to assist those engaged in that system.

-- Green Accounting

The Secretary General also recommends the use of the relatively modest guidelines of the UN Statistical Division for a system of national accounts to supplement the current Gross Domestic Product with satellite accounts that show more accurately the dollar value of natural resource stewardship. The World Bank in 1997 and the US National Academy of Science in 1999 recommended similar steps. The World Bank has not yet applied Green Accounting in its lending decisions however. The Academy acknowledged that unsustainable and sub-optimal use of each natural sector of the economy was not going to be revealed based on the aggregate economic statistics of the predominant model. Real sustainability requires that each natural resource base is assessed and that decisions about whether to deplete it or not be made knowingly.\textsuperscript{141} With the necessary additional limitations of law and science, the economic mirror provided by such resource accounting can give us an image closer to the truth than the one that ignores the evidence of depletion and degradation. Country Assistance Strategies, Structural Adjustment Loans and other major MDB actions should include a reference to natural and human resource accounts to reflect the estimated impact and net (real) national value of the action. Since development is not a zero sum game, such statistics could reflect the net benefits to both lenders and borrowers or grantors and grantees of a well-conceived loan, grant, or guarantee.

The Secretary General has also recommended a commendable initiative to ensure that more of the world’s population have access to clean water. The meeting of the World Water Congress and various popular articles have reminded us that water is a most fundamental resource that is declining faster in real availability than some other natural resources, such as fossil fuels, that the MDBs have also been promoting.\textsuperscript{142}

Projects Designed To Help the Environment – Tilting the Scale at 3% of Lending?

In our April 1999 Report we noted that:

“The World Bank IBRD/IDA commitment to projects specifically designed to be environmentally beneficial has declined from a high of $747 million in 1994 (or 3.6% of its portfolio) to $247 million in 1997 (or 1.3%). This level rose to 902 million in 1998, but this is still only 3.1% of its annual commitment — a small number compared to the amount committed to projects with significant negative environmental impacts. For example in 1997, 32% or about $6 billion of just the World Bank IBRD/IDA lending went to environmentally destructive sectors (including transport; electric power and energy; mining; oil, gas, and coal; and industry sectors). This reported highlighted $3.8 billion of proposed MDB projects with environmental concerns during the same year.”

\textsuperscript{139} Dispute resolution bodies could include the International Court of Justice as well as subject-specific bodies.

\textsuperscript{140} 22 USC 262m-3.

\textsuperscript{141} Nature’s Numbers – Expanding the National Economic Accounts to Include the Environment, William Nordhaus and Edward Kokkelenberg, Editors, National Academy Press, Washington, D.C., copies available online at, at 186.

The Bank may have responded to such observations by changing the way it calculates “environmental” spending. According to sources in the NGO community, instead of counting only those projects whose primary focus is environmental restoration or conservation as environmental spending, the World Bank will soon count the environmental control or mitigation parts of its other loans, for highways, dams, or other projects for example, toward the environmental spending total.

Closely related to its environmental strategy is the Bank’s energy portfolio and policy, since energy projects often have major environmental effects.

**Accounting for Bank Projects & Making Mid-Stream Corrections**

The Banks could complete an Annual Accounting of Bank Loans *vis a vis* compliance with safeguard policies, loan effectiveness, and environmental, social and economic sustainability and make corrections mid-stream in actions that are not meeting expectations.

For several years, the World Bank has been actively engaged in developing measures of environmental and social performance to supplement individual indicators such as those it reports annually in *World Development Indicators*. It now publishes in that volume a section on Genuine Domestic Savings, presenting one measure of resource stewardship.

The following introduction to a Bank publication describes recent work on the subject:

A 1995 publication from the World Bank, *Monitoring Environmental Progress: A Report on Work in Progress*, generated great interest in the use of indicators to measure the pace and direction of change in environmentally sustainable development. In particular, the attempts to define what it means to be "wealthy" or "poor" by recognizing that a country’s wealth is the combination of various forms of capital--produced, natural, and human resources--led to new thinking on what constitutes wealth and how it might be measured.

The current document, “Expanding the Measure of Wealth: Indicators of Environmentally Sustainable Development”, extends the earlier analysis by highlighting "portfolio" indicators for tracking a country’s progress toward sustainable development. These include new estimates of national wealth and genuine savings, a detailed analysis of changes in subsidies that have environmental consequences, and progress on the conceptual foundations of social capital. The new estimates reinforce the importance of the natural resource base of all economies as well as the fundamental role of human resources, including both human capital and the more difficult to define concept of social capital.

In 1997, the World Bank listed the top ten things that countries can do for their environments. That list included environmental accounting to inform national decision-making with a set of figures that demonstrates better the real economic value of the good natural and human resource stewardship that donor nations and development agencies have agreed are good practices and development indicators -- from educational investments to maintaining natural forest cover. The Bank has been developing a form of this measure which it

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Title: Expanding the Measure of Wealth: Indicators of Environmentally Sustainable Development. Environmentally Sustainable Development Studies and Monograph Series No. 17.
Author(s): The World Bank
Date: 6/1/97
Series: Environmentally Sustainable Development Studies, Proceedings, and Monographs
Subject Categories: Environmental / Natural resources

44
calls “Genuine Domestic Savings.” However, the Bank has not yet used this tool or measure, to our knowledge, in a disciplined or measurable way in choosing its project or other loans.

In 1999, the National Academy of Sciences concluded a Congressionally mandated review of environmental accounting with its publication of Nature’s Numbers – Expanding the National Economic Accounts to Include the Environment. In this book length report, the Academy panel called this an “essential investment for the nation” and recommends extending this method not only to natural resources but to other valuable goods and services that have not been adequately reflected in traditional Gross Domestic Product or other measures of wealth. It notes that the U.S. Department of Commerce Bureau of Economic Affairs’ activities were, until halted by Congress in 1993, were consistent with an extensive domestic and international effort to improve and extend the national income and product accounts. They concluded that such an expansion would help governments, businesses and individuals better plan their economic activities and investments.

The overall impact of the actions of the MDBs on the human environment will remain difficult to assess, however, until the bank applies its own recommendations on environmental accounting to its own portfolio in creating a baseline, then both choosing projects and then assessing their impact on that baseline in the countries and resources affected.

The Bank is Revising Its Environmental Strategy

The Bank is in the process of revising its own Environmental Strategy, which may be seen as a more active counterpart to the relatively passive limits of safeguard policies. We would hope that it could incorporate recommendations of this report. While the safeguard policies could be expanded one at a time to include such pressing issues as invasive species control, the strategy revision is a good opportunity to address the entire dynamic of the Bank’s operations. For example, it could realize, as the recent world water congress and the UN Millennium Summit acknowledge, that fresh water supplies are less and less available and secure. It could direct the Bank to address all segments of its portfolio so as to provide not only forest conservation, renewable energy and cleaner air, but also adequate clean drinking water supplies and sufficient fresh water for environmentally sound agriculture. Any strategy that does not firmly control all aspects of bank lending, and purchasing, that directly effect the environment will risk being another advisory opinion without much consequence.

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144 World Development Indicators 1998, pp.110-112.
145 Nature’s Numbers – Expanding the National Economic Accounts to Include the Environment. William Nordhaus and Edward Kokkelenberg, Editors, National Academy Press, Washington, D.C., copies available on line at . There are a variety of methods that may be appropriate depending upon the information needed and this volume was not asked to present them all. That is why a series of satellite accounts might be most advisable at this stage so as not to exclude any major approach that can shed light on the values and decisions at hand. See also, Salah El-Serafy, “Green accounting and economic policy”, Ecological Economics, 21 (1997) 217-229.
146 Id., Recommendation 5.1, at p. 2.
147 This conclusion is also supported by recommendations of the 1999 Report on operations evaluation as noted in the introduction to this report. There will continue to be differences of opinion as to exactly which methods of accounting to use but it is time to integrate them into the decision-making process nonetheless.
149 One of many articles on the world wide water shortage is Jaques Leslie’s “Running Dry” in the July 2000 issue of Harper’s which cites World Bank supported research.
150 The Bank has initiated a discussion of green purchasing to consider adopting policies along the lines of the U.S. Executive Orders on green procurement. The issue of the investment of bank assets also deserves consideration. Screening and possibly targeting of investments could be reviewed along the lines of recent reviews initiated by the California state public pension system.
USAID Report to Congress – Section Two:

MDB Assistance Proposals Likely to Have Adverse Impacts on the Environment, Natural Resources, Public Health, or Indigenous Peoples

As described above, USAID is required by statute to review proposed MDB loans for economic viability and impact on the environment and related areas. The following section describes a selection of loans at various stages, with an emphasis on the World Bank’s review process and its project loans, although structural adjustment and other loans are also represented. The reader is encouraged to review USAID reports from recent years as well. We hope to focus more on the regional development banks in our future reports. Since we do not have the resources to report on every loan that may raise serious questions, the fact that a given loan is not listed below is not an endorsement of that loan, nor is the inclusion of any loan here a conclusion that questions about it will not be answered satisfactorily. The report is intended to help Congressional and other readers to focus on problem areas and shift the burden to the Banks to demonstrate that problems in these areas have been corrected so that the tremendous development potential of these institutions and their partners can be achieved.

Tracking Bank Loans – Monthly Operating Summary

One of the best means of tracking World Bank loans is the Monthly Operating Summary which had been available only for a subscription rate of several hundred dollars but on June 16th, 2000, at least for a trial period, became available on the Bank’s website at:


It will be updated on the 16th of each month. The following description is taken from that site. It provides a useful description of the Bank’s project cycle as well. The reader is warned, however, that not all projects one would expect to find are easily located in the MOS. Therefore, it should not be the reader’s only source.

The Monthly Operational Summary (MOS) reports on the status of projects in the World Bank’s pipeline—from the point of identification of investment opportunities to the signing of the loan or credit. After loans or credits are signed, entries are dropped from the MOS.

By becoming familiar with the Bank’s "project cycle," summarized in the following paragraphs, consultants or suppliers of goods and works can gauge when the timing is right for them to pursue business opportunities with Bank borrowers. Each entry in the MOS tells at what point in the project cycle a particular project resides.

During IDENTIFICATION, both governments and the Bank are involved in analyzing development strategies for the borrower’s economy as a whole and in identifying projects that support those strategies. When the project identification is completed, the Project Information Document will be available through the Public Information Center — see below for more information.

PREPARATION, the second stage of the cycle, is the responsibility of the borrower. During preparation, the technical and institutional alternatives for achieving a project’s objectives are identified and discussed. Preparation usually requires feasibility studies followed by more detailed studies of the alternatives that promise to yield the most satisfactory results. The environmental assessment is usually carried out during this phase—see below for more information on environmental assessment. In this stage of the project cycle, borrowers often supplement their own efforts by hiring consultants to carry out a major part of the work.

These are available on the web at XXX
Project APPRAISAL, the responsibility of the Bank, provides a comprehensive review of all aspects of the project (technical, institutional, economic, and financial) and lays the foundation for implementing the project and evaluating it when completed. Conducted by Bank staff, project appraisal may be supplemented by individual experts. A Project Appraisal Document is published following this stage.

During NEGOTIATIONS, discussions are held between the Bank and the borrower and agreements reached are contained in the draft loan documents. Upon completion of negotiations, the project is then presented to the Executive Directors of the Bank for their consideration. After approval, the loan agreement is signed.

IMPLEMENTATION of a project usually starts after the loan is declared effective, which can normally be expected to take a few months after loan signing. Contractors and suppliers, therefore, should contact borrowers expressing their interest in specific projects. They should obtain information on what goods and services will be needed, and when and how to submit bids and proposals. During implementation, consultants are often used to provide technical assistance and other project implementation support. As contracts for consulting services are not usually advertised, consultants, in particular, should contact the responsible implementing agency early in the project preparation period to express their interest.

Within each region, projects are classified by the following sector designations:

- Agriculture
- Environment
- Industry
- Population, Health, and Nutrition
- Private Sector Development
- Reconstruction/Rehabilitation
- Social sector
- Transport
- Telecommunications
- Education/Training
- Finance
- Infrastructure
- Power
- Public Sector Management
- Rural Development
- Structural Adjustment
- Urban Development
- Water Supply/Sanitation

A typical entry in the MOS looks like this:

Kenya

Water Supply/Sanitation

(R) Mombasa Water and Sanitation: The project seeks to (a) develop ground water sources; (b) improve the transmission line between Baricho Well Field and Mombasa; and (c) provide emergency measures to improve distribution systems and reduce unaccounted for water. Project preparation is under way. Environmental Assessment Category to be determined.

US$ 30.0 (IDA). Consultant services to be determined.

National Water Conservation and Pipeline Corporation, Workshop Road and Commercial Street, PO Box 30173, Nairobi, Kenya, Tel: (254-2) 556-600, Fax: (254-2) 545-882
World Bank Environmental Assessment Process and Categories

In October 1989 the Bank established a specific policy and procedures for environmental assessment and related environmental analyses of IBRD and IDA lending operations. Under this environmental assessment process, the type, timing and main issues of environmental analysis to be performed by the borrower are to be confirmed at the time that a given lending operation is initiated into the Bank’s prospective lending program and thereafter reported and updated on a quarterly basis in the Monthly Operational Summary.

In October 1991 the Bank revised its policies and procedures so that projects are now assigned one of the following categories based upon the nature, magnitude, and sensitivity of environmental issues:

- **Category A**: Environmental Assessment is normally required as the project may have adverse and significant environmental impacts.
- **Category B**: More limited environmental analysis is appropriate, as the project may have specific environmental impacts.
- **Category C**: Environmental analysis is normally unnecessary.
- **Category FI**: A proposed project is classified as Category FI if it involves investment of Bank funds through a financial intermediary, in subprojects that may result in adverse environmental impacts.

"U" (unclassified) is being introduced to indicate structural and sectoral adjustment loans, which do not fall within one of the above categories for purposes of the directive governing environmental assessment.

The 1991 revision also introduced the use of a standard environmental data sheet for all projects to identify the main issues and schedule for any required environmental analysis.

Project descriptions in every issue of the Monthly Operational Summary include the environmental category A, B, C, or FI except in the case of structural and sectoral adjustment loans which are designated "U".
The regional development banks and financial institutions have similar systems, although there are differences in the names of the designations and how the process is applied. Further information is available from each institution. The Asian Development Bank, for example, gives helpful illustrative examples of environmental categories for projects. These are generally representative of all three basic categories used by the MDBs:

**Category A (World Bank A, AfDB I, and IDB 4):**
- Forest industries (large scale)
- Irrigation (large scale with new source development)
- River basin development
- Large scale power plants
- Large scale industries
- Surface and underground mining
- Large water impoundments
- New railways/mass transit/roads (near or through sensitive areas)
- Ports and harbors
- Water supply (with impoundments and/or river intakes)

**Category B (World Bank B, AfDB II, and IDB 3):**
- Agro-industries (small scale or no wet processing)
- Renewable energy
- Aquaculture and mariculture
- Rehabilitation, maintenance and upgrading projects (small-scale)
- Industries (small-scale and without toxic/harmful pollution discharges)
- Water supply without impoundments or new river intakes

**Category C (World Bank C, AfDB III, and IDB 1 & 2):**
- Forestry research and extension
- Protected area establishment and management
- Marine sciences education
- Geological or mineral surveys
- Education
- Family planning
- Capital market development study
- Securities Ltd.

**Stage of World Bank Processing for a Typical Project:**

1. Identification
2. Preparation, including feasibility studies, alternative studies, environmental assessment
3. Preparation mission
4. Pre-appraisal mission
5. Pre-appraisal
6. Appraisal mission, including comprehensive review of all aspects of the project
7. Appraisal report preparation concludes this stage
8. Negotiations
9. Board date and approval
10. Signing of loan agreement
11. Implementation

Elements often missing from most MDB procedures include public review of drafts with time for comment and challenges to inadequate final assessments, a baseline of biological data and other indicators at the ecosystem or national level, an estimate of the net long-term impact of the proposal, and alternatives, upon that baseline, and affirmative evidence that the applicable bank policies and legal standards have been met.
LIST OF UPCOMING MULTILATERAL DEVELOPMENT BANK (MDB) PROJECTS
WITH POSSIBLE ENVIRONMENTAL CONCERNS

PROJECTS LOCATED IN AFRICA

1. Western Africa: IDA/AfDB - Regional Hydropower Development (Mali, Mauritania, and Senegal)

| Projected AfDB: | $20 million |
| IDA Funding: | $38 million |
|Projected Total Cost: | $444 million |
|Tentative AfDB Board Date: | Indefinite |
|WB Board Date: | June 1997 |
|Stage: | AfDB, negotiations completed in November 1997, but board consideration is pending a policy determination on multinational projects. World Bank approved its loan in June 1997. |
|AfDB Environmental Category: | I |
|World Bank EA Category: | A |
|WB Project ID: | SNPA46648 |
|Project first entered: | March 1997 |
|Entry last updated: | April 1999 |

Description: The main objectives of this proposed project are to: (a) install power generation capacity to generate economic and financial benefits from the Manantali dam which has already been built, and encourage cooperation and energy exchanges between the three member countries; (b) help minimize the long-term cost of electricity supply to the three countries; (c) provide hydropower to help meet increased demand for electricity and reduce fuel costs (in Dakar, Bamako, and Nouakchott); (d) strengthen the Organization of the Development of the Senegal River (OMVS) and the power sector entities in the three countries and establish an effective organization to manage and operate the Manantali dam and project facilities with satisfactory procedures, in particular regarding safety, health and environment protection; and (e) contribute to develop traditional agriculture downstream through the rational management of the Manantali reservoir.

The proposed project would include the following components:

(a) construction of 200 MW hydroelectric plant (5 units of 40 MW each and civil works); construction of 225 KV high voltage transmission lines to Bamako (306 km) and to Decker (821 km) along the Senegal River, and a 132 KV transmission line to Knocked (219 km); construction of 11 substations and a dispatching center; supervision of project construction;
(b) technical assistance and training (support to OMVS and The Society de Gestio de l'Energie de Manantali (SOGEM), including regulatory, reservoir management, health and environment aspects and for the recruitment of a private operator for the project).

Issues: The Bank has done a commendable job in recognizing downstream and water management issues for the lower Senegal River in conjunction with this project. It has the potential to promote a win-win development program -- by achieving sound development goals with economic, environmental and social sustainability. However, it is not clear from the EA and other project documents that the project design takes full advantage of this opportunity.

Background: Since its completion in the late 1980's, the Manantali Dam on the Bafing River in Mali, which controls about 45% of the total Senegal River flow, has aggravated environmental and socioeconomic conditions downstream, adversely affecting the well-being of hundreds of thousands of riparian households. The pre-dam flood regime supported a dense human and livestock population in a low rainfall area. The flood made possible a sustainable seasonal succession of fishing, herding, flood-recession farming, reforestation, and aquifer recharge.
The cessation of the natural flood, and the inconsistent and flawed attempts to provide simulated floods, have resulted in incidents of social conflict in the valley; herders and fishers now must compete for land and water resources they previously were able to use mutually. Poverty and out migration have increased, as productive yields have declined. Labor burdens for women, children and the elderly have increased without corresponding increases in income.

USAID realizes that this project is trying to rectify some of the downstream impacts that the dam has had, while trying to realize its economic potential through hydropower development. However, the EA Summary (January 1997) does not analyze the downstream environmental and social impacts that the Manantali has had, or refer to a host of studies on the subject. Though the EA proposes a Water Management Optimization Program to address downstream issues, it is vague on what OMVS will be held accountable to. USAID supported the Institute for Development Anthropology's studies of resettlement upstream from the dam and environmental and socioeconomic impacts of the changed river regime downstream. These studies conclude that a properly managed release of reservoir waters replicating the natural flood would substantially restore the pre-dam production system without adversely affecting hydropower potential.

The issue of dam management has been much debated and politicized. Based on the above research, the government of Senegal is willing to follow recommendations regarding a controlled release program. Mali has been indifferent on the subject, as long as power is generated, since most of the floodplain is downstream from the country. Mauritania is apparently resistant to the idea since it is seeking a shift from traditional production to large-scale irrigation.

USAID understands that ORSTOM, a French agency, has been selected to carry out an optimization study. ORSTOM historically has shown little enthusiasm for maintaining the traditional production system, and its river-flow model for dam releases should be replaced by one based on rainfall and runoff data from the Fouta Djallon, where at least five collection stations are tied into the meteorological satellite network. The latter model would substantially enhance real time forecasting, and should be carefully considered. A comparative analysis of the two models would be in order. The World Bank reported that ORSTOM is using real time (tele-detection) modeling based on rainfall and run-off data upstream, and also on measured flows of downstream river tributaries (for better timing of the artificial flood).

Given the current situation, USAID suggests the following:

(1) The Bank should try to leverage as much as possible a policy change at OMVS, to include as one of its fundamental objectives the management of the Senegal River basin for recessional agriculture and other flood-based activities in an integrated way with electricity production.

(2) Loan disbursements should be conditioned on the successful implementation of this integrated approach. Especially, the private operator of the project should have incentives and disincentives in its contract that would ensure an optimal artificial flood while producing a maximum of electricity. The operator should not receive bonuses based on electricity production alone.

(3) Downstream villages should be given representation on the board of OMVS, or in some other significant way have an ongoing voice in reservoir management.

(4) The project's environmental assessment should be expanded to include (or refer to) an analysis of downstream environmental and social impacts.

Status: The World Bank's financing of the project was approved and signed in June 1997. The African Development Bank's financing decision was delayed until early in 2000 pending passage of its policy on multinational projects.

USAID and Bank staff met regarding the above issues. Bank followed up with the following comments: Although the EA summary of January 1997 is not clear enough on how the project would contribute to achieving the sound, use-balanced management of water resources from the Manantali reservoir, this issue is
much better addressed in the Environment Impact Mitigation and Monitoring Plan (PASIE) which has just been finalized by OMVS and its consultant, as well as in the corresponding sections of the SAR on environment, social and health aspects, which should be sent to the Board during the first week of June 1997. These aspects will be discussed during credit negotiations; specifically, agreements must be reached on: (i) detailed actions and budget to carry out the environment impact mitigation and monitoring program (PASIE), in particular for involuntary resettlement and land acquisition; (ii) final terms of reference for preparing the Manantali reservoir management agreement.

On background, the three countries will, through OMVS, undertake an agreement (Charter) for the sound management of the Manantali reservoir. OMVS will be held accountable for monitoring the proper application of the agreement, while the private operator of the hydropower plant will be charged of the actual implementation of the reservoir management program. Adequate dispositions will be defined in detail during the studies financed by IDA, CIDA and France under the project. The study, contracted by the Bank to a hydrology specialist during project preparation, confirms the results of other detailed studies regarding the need/feasibility of maintaining artificial flooding without adversely affecting hydropower potential.

Also as background: after verification with Bank staff working in the agriculture sector in this country, Mauritania is not "resistant to the idea (of a controlled release program) since it is seeking a shift from traditional production to large-scale irrigation". Indeed, in its REPORT, Mauritania clearly defines the important role that artificial flooding will continue to play in the valley, in complement to the irrigation program.

On USAID suggestions: what is suggested in this section is precisely what will be done through the project, OMVS subscribing to a Charter for sound management of the Manantali reservoir; dated covenant in Credit Agreements regarding this Charter; adequate incentives/disincentives in the contract of the private operator to ensure application of the Charter's dispositions for artificial flooding. It is not planned, however, to expand the EA on downstream environmental and social impacts, because both the EA and the PASIE refer to detailed studies carried out on these aspects and endorse in large part their conclusions.

USAID remains concerned about how sound management of the Manantali reservoir will be achieved as the operating principles or objectives of the agreement (Charter) have yet to be defined. USAID review of the study concluded that it indicates hydropower would compete with flooding. The EA does not refer to nor endorse numerous studies on downstream and public health impacts of the dam. USAID has recently (May 1998) begun work on disseminating information on the project to downstream water users and other stakeholders. USAID will continue to dialogue with the Bank on these issues.

Mid-2000 Update:

Despite continuing serious questions raised by USEPA, USAID and others, particularly about moving forward when various aspects of assessment appeared incomplete, about resources that appear to have been wasted since the dam was built in 1988, the risk of corruption, and the extent to which traditional seasonal flooding downstream from the dam would be replicated so as to sustain traditional fishing and agriculture and the ecosystem services overall. The Board approved the loan in March of 2000.

A USAID-funded study shed more light on the project:

In Sandra Postel's PILLAR OF SAND. CAN THE IRRIGATION MIRACLE LAST? (1999), she refers to a Senegal River Basin Management assessment as "a creative example of ecologically oriented engineering design [that] demonstrated that the primary goals of the dam could be met without destroying the flood-dependent downstream production systems. First, they showed that the dam would store enough water for hydropower generation as well as for the release of a controlled flood to sustain the traditional riverine systems. Second, they showed that when all the benefits were taken into account, the traditional flood-based system was actually more productive than the conventional irrigation option. The researchers found that each hectare of floodplain could support 5-10 times more livestock than a hectare of nearby rangeland, and that the Senegal valley typically yields some 30,000 tons a fish a year. According to IDA Director MMH, 'the net returns per unit land from the total array of traditional production--flood-recession, farming, herding, and
fishing--actually exceed those from irrigation, without taking into account the latter's huge start-up and recurrent operating and maintenance costs.'

"Convinced by the team's findings, the Senegalese government endorsed the strategy of a controlled "artificial" flood. But the Senegal Valley Development Authority, which includes all three countries in the basin and is responsible for operating Manantali Dam, has continued to insist that the dam be operated to completely eliminate the flood. Both Mauritania's policies and upstream Mali's primary interest in hydroelectric revenues are major barriers to the acceptance of the controlled-flood option. Meanwhile, a union of Senegal valley farmers has begun to speak out, calling for the reestablishment of the flood to safeguard their crop production, livestock herding, and fishing.

"Whatever the outcome, the Manantali case establishes new possibilities for river-based agriculture, renews and modernizes the concept of ecologically based irrigation initially practice by the ancient Egyptians, and offers a model of water development that benefits the poorest farmers..."

In her March 2000 report for IIED, "The River Senegal: Flood Management and the Future of the Valley", Adrian Adams refers to the SRBMA team as "scientifically very competent," saying they "successfully defended the idea that on-going flooding controlled from Manantali, raising the level of the river to that attained in times of natural flooding, was justified in that it would increase production, incomes and employment, while protecting the environment. They also claimed, contrary to the OMVS consultants, that there was no incompatibility between controlled flooding and the production of electricity. Their work provides a basic point of reference for any discussion regarding the agricultural future of the Valley."

(AID/Dakar funded the initial research on the alternative management options.)

The following excerpts (emphasis added) from the ADB press release are informative:

Abidjan, Côte d'Ivoire, 22 March 2000

AFRICAN DEVELOPMENT FUND: US$ 33.48 MILLION LOAN AND US$ 2 MILLION GRANT FOR MANANTALI ENERGY PROJECT (MALI – MAURITANIA – SENEGAL)

ABIDJAN, 22 MARCH 2000 — The Board of Directors of the African Development Fund (ADF) approved today a loan of 25 million Units of Account (UA)* and a grant of UA 1.5 million - totaling UA 26.5 million (approximately US$ 35.48 million) - to finance the Manantali energy project. This project is a multinational operation within the framework of the Senegal River Development Authority (OMVS) which members include Mali, Mauritania and Senegal.

The objective of the project is to contribute to self-sufficiency in electricity supply at least cost for the three OMVS member countries by increasing the hydro-electricity production capacity of the Manantali dam, constructed in 1988.

The project will involve the construction of a hydroelectric station, a transmission network of nearly 2500 km of lines, 11 stations, a dispatching center and an environmental impact assessment program.

The ADF, the three OMVS member states and 11 other financial sources will jointly finance the project. The ADF contribution will cover 10.7% of the total project cost, which is estimated at UA 247.7 million (approximately US$ 331.71 million). It will finance part of the foreign exchange and local currency expenses of the project. The loan is repayable over 50 years including a 10-year grace period. A service charge of 0.75% per annum is paid on total amount disbursed and outstanding. The grant will be used only to finance the environmental assessment program.

Bank Group operations in Mali, Senegal and Mauritania started respectively in 1970, 1972 and

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1974. To date, the Group has committed in Mali a total of US$ 453.47 million on 49 operations out of which about US$ 391.92 million have been disbursed. In Senegal, the Bank Group has committed US$ 538.48 million on 48 operations out of which US$ 471.66 million have disbursed. In Mauritania, total commitment amounts to US$ 342.92 million on 36 operations, of this amount about US$ 269.09 million have been disbursed.

* 1UA = US$ 1.33928 as at March 1st, 2000

Description: Hydroelectric station, transmission network, dispatching center and environmental impact assessment program

Beneficiary: Governments of Mali, Mauritania and Senegal

Executing agencies: OMVS High Commission and Manantali Dam Management Corporation (Société de gestion du barrage de Manantali – SOGEM)

Estimated starting date: Under implementation

Duration: June 2002

2. Benin

World Bank: Power

Seventh Power: The project will support (a) institutional reform measures, including privatization of the distribution utilities and reinforcement and expansion of the transmission and distribution systems; and (b) the creation of a business environment for private sector power generation. Appraisal mission is scheduled for January 2001. Environmental Assessment Category A. US$ 35.0 (IDA). Consulting services will be required for (a) institutional reform and restructuring measures; and (b) engineering and preparation of the bidding documents. Société béninoise d'électricité et d'eau (SBEE), Direction générale, Carré No. 9, BP 123, Cotonou, Benin, Tel: (229) 31-21-62, Fax: (229) 31-50-28, Contact: M.C. Kohoue, Directeur général

Issues: The issues here include whether the government and market are ready to reap the maximum benefit from selling off utility resources while controlling negative impacts ranging from increased rates unaffordable by the poor to rapid expansion of the system without adequate assessment of the alternative generation and conservation options.
3. Cameroon: IDA – Railway Concession

Cameroon

Transport

Railway Concession: The project will assist the government in concessioning the railway company to the private sector. Board presentation is scheduled for August 2000. Environmental Assessment Category B. PID: CMPE54786. US$ 22.0 (IDA). Consulting services to be determined. Infrastructure and Equipment Rehabilitation and Informatics Components: CAMRAIL, 51, Rue Louis Blanc, 92400 Courbevoie, France, Tel: (33-1) 41-41-54-92, Fax: (33-1) 41-41-50-38, Contact: Mr. Monpert; Management Capacity Development Component: Ministry of Transport, Ministry of Economy and Finance, Ministry of Public Investment, Yaoundé, Cameroon, Tel: (237) 23-97-50, Fax: (237) 25-51-08, Contact: Bassoro Aminou, President of the Privatization Committee

Issues: The issues here include whether the government and market are ready to reap the maximum benefit from selling off railway resources while controlling negative impacts ranging from increased rates unaffordable by the poor to conflicts of interest, such as ownership of trucking or bus companies competing with railroads in the same hands.

4. Chad-Cameroon: IBRD/IFC - Petroleum Development and Pipeline

This project is actually now a cluster of projects summarized in the following short entries. The longer description based in part on the entry in the 1999 USAID report and in part on year 2000 action is merely a summary of a very complex series of reviews, meetings, and memoranda that continues as the agencies and the Bank follow through on commitments made in the approval process. Further information is available from USAID, the Treasury Department, and a number of NGOs including Environmental Defense and Center for International Environmental Law.

The core project is to build a $3.7 billion to pipeline from Chad to Cameroon’s Atlantic coast and a port facility to load oil onto tankers. In January, 2000, in response to the acknowledged need to build the capacity of the governments to regulate such operations and to manage the revenue from them, the Bank added capacity-building projects which were not subject to full EAs. The EA that was circulated for the pipeline was that of the oil consortium, rather than one produced or formally refined and adopted by the Governments, as required under normal Bank operations, which could have addressed clearly and officially the questions of financing and legal and institutional responsibility for oil spills, establishment and management of parks set aside to conserve biodiversity reduced by the direct and indirect impact of the project, and other questions. There were also questions about the funding adequacy of the Indigenous Peoples Plan, the governance capacity of both governments, the cumulative impact of the project on the poor and displaced peoples, particularly pygmy minorities, and details on an International Advisory Group [IAG]. After requesting and receiving the loan agreements and agreements between the consortium and the governments, which were said by Treasury to be the type of documents never circulated between agencies before, it was clear that the provisions of these documents left serious legal questions unresolved, opening the potential for unmitigated harms. After our initial opposition in interagency meetings which was presaged by our 1999 report, we also sought expert agency opinion on whether the oil spill plan was detailed enough to critique and were told it was not. We then checked with the Interagency Invasive Species Council and Exxon and confirmed the lack of and need for plans to prevent invasive species from being brought to the area in oil tanker ballast water. We also noted that the Bank’s on appraisal rated the project overall risk as significant, which we understood to mean up to a 49% chance of failure. We noted that respected polling firms in surveys of international businesspersons had independently rated these countries as those perceived

152 The Congressional Research Service’s Jon Sanford told the author that loan agreements were regularly circulated in the 1970s for interagency review.
to have among the highest levels of corruption in the world. In light of such concerns, the USAID opposed the project as presented, recommending that the package be revised to address these concerns, reviewed as a coordinated whole through the EA process, and timed to develop confirmed management capacity first, followed by oil development. We also noted in meetings that there was no record of informed consent, as required in the international waters policy,\textsuperscript{154} from nearby Equatorial Guinea whose capital lies very near the shipping lanes and the single-hulled decommissioned tanker that will serve as a loading facility.

When the board approved the projects some of these measures, such as the need for invasive prevention measures, were addressed. As of October 2000, however, Treasury was still uncertain and USAID had still not received requested copies of the final overall binding decisions of the Board and particular aspects such as the invasive species prevention measures to be required. That particular matter may not be clarified until the areas specific oil spill plans are published, despite the fact that it is a separate concern. The Bank staff will brief the Board every six months for the first two years of the project. Cameroon, despite discouraging reports on continued governance problems had not yet agreed to take part in the Bank’s full anti-corruption/governance program.

The design of the International Advisory Group and other oversight bodies continues with a degree of concern that overlapping watchdogs may watch or even warn, but will not have the power to prevent or correct problems. Hence, the suggestion of performance bonds in independent hands, or other measures to help ensure compliance and any necessary restitution.\textsuperscript{155}

\textbf{Cameroon}

\textbf{Environment}

(R) Petroleum Environment Capacity Enhancement (formerly Environment Oil Technical Assistance); (Cr. 3372-CM): The project will provide support to the government in implementing the Environment Mitigation Plan for Chad/Cameroon Pipeline. Approved by the Executive Directors on 6 June 2000. Environmental Assessment Category C. PID: CMPE48204. US$ 5.77 (IDA). Consulting services to be determined. Implementing agency is to be determined.

Issues: The question of the extent to which agreements predating the capacity loans and their presumed improvements would limit the ability of the governments to further regulate oil production and revenue was never answered, except that most of the revenue and EMP/EA controls would apply to any new oil (from wells beyond the 300 cited) flowing through this pipeline. The wording of the above loan in particular was quite vague as to the timing and application of oil production regulations, that is the loan does not call for new regulations to control this project.

\textbf{Cameroon}

\textbf{Power}

(R) Petroleum Development and Pipeline (Ln. 7020-CM): The project will support (a) the transport of oil from Chad to the coast of Cameroon; (b) development of the Doba oil fields; and (c) construction of a pipeline to the coast of Cameroon. Approved by the Executive Directors on 6 June 2000. Environmental Assessment Category A. PID: CMPE51059. US$ 55.0 (IBRD). Consulting services to be determined. Implementing

\textsuperscript{154} As noted in earlier sections of this report, consent under the international waters policy is not mandatory only if the risk of harm is low, but in a major oil-loading port, the risk of some harm from “routine” spills is very high and the degree of harm that is possible is also very high.

\textsuperscript{155} After this report was circulated for review, it became known that the President of Chad had in June “diverted $4.5 million “ from the first funds of the oil project to purchase arms despite an agreement that 95% of the funds would be allocated according to a development formula (\textit{Washington Post} 12/8/00, 1/4/01).
agency is to be determined.
(R) Petroleum Development and Pipeline (Ln. 4558-CD): The project involves (a) the development of Chad's oil fields and (b) the construction of a petroleum export pipeline from the south of Chad to the Atlantic coast of Cameroon and related marine installations. Approved by the Executive Directors on 6 June 2000. Environmental Assessment Category A. The final environmental assessment is available from the World Bank's Infoshop. PID: TDPE44305. US$ 35.0 (IBRD). Consulting services to be determined. Project Services Manager, Esso Exploration and Production Chad, Inc., 800 Gessner, Suite 400, Houston, Texas, USA 77024, Fax: (1-713) 973-5230; Ministry of Mines, Energy and Petroleum, BP 816, N'Djamena, Chad, Tel: (235) 51-21-88, Fax: (235) 51-25-65, 51-30-43; Société nationale d'hydrocarbures, BP 955, Yaoundé, Cameroon, Tel: (237) 20-19-10, Fax: (237) 20-46-51

The pipeline contribution was changed by April of 2000 from the early 1999 figures which were:
Projected IBRD Funding: $ 90 million
Projected IFC Funding: $ 250 million
Projected Total Cost: $ 3.5 billion, by April they had become:
IBRD loans of $39.5 Million to Chad
$53.4 M. to Cameroon
and IFC loans of $100 million in A-loans
and up to $300 million in B-loans to Tchad and Cameroon Oil Transportation companies.

Private sector sponsors: Exxon-Mobil International, Petronas and Chevron
(Royal Dutch Shell and Elf Aquitaine withdrew) Exxon's local affiliate was be the operator of the project – as of April, 2000, the operators were the Tchad and Cameroon Oil Transportation Companies.

Approved, along with capacity building projects.

Description: The project involves the development of Chad's oil fields and the construction of a petroleum export pipeline from the south of Chad to the Atlantic coast of Cameroon and related marine installations. The objectives of the project are:
a) to promote the economic growth of Chad and Cameroon through the private sector led development of Chad's substantial petroleum reserves and their export through Cameroon; and

b) to strengthen Chad's management of petroleum revenues through a technical assistance component.

The project involves:

a) the development of 300 production wells in Chad's Doba oil fields;

b) the construction of a 30-inch, 1,050-km buried pipeline (170 km in Chad, 880 in Cameroon) from Chad's oil fields to Cameroon's Atlantic coast, and related pumping stations, ancillary facilities and infrastructure; and

c) the installation of marine export terminal facilities in Cameroon (a moored floating storage and offloading vessel), and associated marine pipelines and related facilities.

Issues: This is said to be the largest construction project in sub-Saharan Africa. The project is mentioned in the World Bank's country program strategies for Chad and Cameroon.

The African Forest Action Network (AFAN), representing some 70 African NGOs engaged in the forest sector in anglophone and francophone Africa, is a major USAID partner in Cameroon for carrying out the Central African Regional Program for the Environment (CARPE). USAID met with the Network (in 1997) to review its concerns regarding the project. AFAN was concerned with the three alternative pipeline routes and how they would affect sensitive ecosystems. AFAN was also concerned about public consultation in conjunction with the EIA; it sees public meetings as a useful forum for discussing the project.

The Cameroon Environment and Development NGO (CED) reported that the EA was not readily available within Cameroon, that it could only be read inside a certain office, photocopying was not possible, and (2) clearing for construction preparation had already begun in the area south of Kribi, and (3) the mitigation plan in Cameroon had not yet been made available for review.

CARPE has been supporting the assessment of biodiversity priorities in Cameroon; additional studies are planned for the identification of priority areas for biodiversity conservation in the Congo Basin as a whole. Initial results indicate that forest-savanna ecotomes (areas bridging forest and savanna ecosystems) are of particular interest because they contain a high degree of endemic species and important ongoing evolutionary processes. USAID, in April 1997 comments from its Africa Bureau forwarded to the Bank, and other communications suggested that these areas be taken into account during the EA process and that a substantial number of other issues be reviewed and assessed, including the net economic benefits, given potential costs, including but not limited to, environmental degradation.

Status: Approved with additional capacity building loans and conditions.

The US Executive Director's office hosted a January 1999 briefing by Bank staff for interested USG agencies. Bank staff announced that it would produce a "unified environmental and social assessment" that will include all assessment and related documents:

- EAs for Chad and Cameroon received November 1997
- EMP for Chad - November 1997
- EMP for Cameroon - February 1998
- Chad Compensation/Resettlement Plan - February 1998
- Cameroon Compensation Plan - September 1998
- Chad and Cameroon Environmental Management Plans (inc. tech. specs.)
- Chad Compensation/Resettlement Plan
- Cameroon Compensation Plan

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Bank staff was hoping for a July 1999 board date, however, this was ultimately delayed about a year due in part to the withdrawal of major project partner, Elf Aquitane, the largest French oil company, which was experiencing some controversies concerning its own practices in Europe\(^{156}\), and in part by the 120-day requirement for public review of the Environmental Assessment prior to the board vote. Until the unified EA document and supporting material are on file at the World Bank, the USG did not begin to count the 120-day period— which is required by the Pelosi Amendment as well as by WB policy (notwithstanding IFC’s separate policy which requires only 60 days). According to staff, preliminary disclosure and consultation with local peoples would happen before the official transfer of the final project documents. Revisions to many of the above documents were made after review by the World Bank, ED’s offices, Chad and Cameroon governments, in-country public review, and international NGOs.

Progress was made on the re-routing issue. A meeting was held with the government of Cameroon, the consortium and Bank staff where this was discussed extensively: The pipeline will avoid, in part, some sensitive areas that were of concern: The Mbere Rift Valley near Chad has been avoided (the pipeline will follow the ridge); most of the Deng Deng forest was to be avoided (the pipeline will now follow a railroad ROW through central Cameroon); environmental offsets were still pending as new areas for protection have yet to be chosen by the government of Cameroon. The proposed trust fund would underwrite costs for the management of the new protected areas. Regarding coastal forests, the pipeline has to go through some of these to get to the coast. Various alternatives were studied, but project staff concluded that the pipeline should go along the alignment that was originally chosen.

Some resettlement had by April, 1999 occurred already in Chad. There is not supposed to be any resettlement in Cameroon -- only compensation for lost land. There was in early 1999 still no indigenous peoples plan for the project, nor had the associated trust fund plan been established. The Bank is consulting with GEF on how to manage the trust fund.

A new revenue management plan was passed in Chad, though it is questionable how much effect this law will have on the project. The World Bank’s leverage to push for equitable revenue sharing on the Chad side is limited, but the Bank said that it would include language in the loan agreement stipulating that Chad’s failure to comply with requirements will negatively affect future Bank funding for the country. Major questions continue to surround the security situation and the role of the military in Chad. Several other issues were also discussed at the Bank staff briefing (additional oil production areas in Chad and their possible connection to the project, project design capacity, the regional development plan, and the policy letter passed by Chad’s parliament. [USAID: April 1999 – for more recent updates see the introduction to this project cluster above. ]

\(^{156}\) Royal Dutch Shell has come under considerable criticism for pollution and human rights problems in its operations in Nigeria. France’s state oil company, Elf Aquitane, was for months, before and during the vote at the Bank on the Chad-Cameroon Pipeline, embroiled in accusations that the way it obtained the right to drill for, transport and sell oil in Africa for a generation was not a model of transparency and open competition. This led Global Witness, a London-based NGO, to call in July for opening bank the company’s records in Lichtenstein to determine whether they were used or misused in that process. Practices that deprive the populations of Africa of oil revenues they might otherwise expect, noted Global Witness, could undermine IMF reform programs. The G7 and other groups of nations have also been pressuring Lichtenstein and other countries to reduce the high degrees of bank secrecy in order to cooperate in global attempts to improve law enforcement. Angola’s handling of oil revenue was to be reviewed by the IMF in the last half of 2000.
Several weeks after board approval USAID responded to a request from Treasury for comments on its chart of commitments made in the approval process. As it exemplifies interagency cooperation and follow through, as envisioned in Congressional reports and legislation, we include the messages (without personal email addresses) here:

"Fitzgerald, John" USAID wrote [In response to Treasury below]:

Thanks very much for putting together what we could call the C4 (Chad-Cam Commitments Chart) and for asking us for our review. As the USED said, this is an opportunity to "set a higher operational standard for the Bank Group, its borrowers, and the development community ...and the private sector." Treasury was open from the first meeting to exploring "effective remediation procedures" as Bill S. put it, as I recall. Therefore, we will respond in some detail. Due to email system changes and schedule limitations however, we have not been as thorough in our review as we would like to be, but Jim Graham and I have discussed the issues and consolidated our comments as follows:

1. Please tell us more about the $25 million: What is the schedule for transfers generally and how does this fit in? To what extent can/will transfers be tranched to ensure timely performance of commitments, including but not limited to those secured, in part, through US intervention?

2. Please tell us more about the Sedigi oil field and other fields beyond Doba. As your question indicates, and as our inquiries during interagency review reflected, we (the public as well as the agencies) need a chart of requirements, with room for the new regulations to be developed by nations, ASOSRPs, etc. which shows which laws/policies/commitments will apply to which exploration and revenue. It would help us to know how the award of the exploration rights to Doba, Sedigi, and other fields were made -- how responses to requests for competitive bids were assessed, what were to procedures for establishing royalty rates, etc. and how these will change if at all under the new anti-corruption program.

To what extent are the practices suggested by the GAO in its anti-corruption report (April 2000) being required for this project? Will country, Bank and other officials making judgements, and those overseeing them, including the ECMG, file public financial disclosure statements?

3. As we suggested in interagency meetings, since there is a commitment in each case, the question is how to develop leverage for each one that is more precise than withholding whole tranches or calling the loan, etc. Therefore, each requirement should be listed, bonded or insured to cover the cost of doing it and the costs of damage that may flow from failure to do it properly, much as major construction contracts are often subject to performance bonds between the developer and the contractor. The External Compliance Monitoring Group should be specifically tasked with and budgeted for (perhaps both the ECMG operating budget and performance bonds or insurance could be covered at first through interest on the undisbursed loans to Chad-Cam and arranged through the Bank) reporting on the fiscal, environmental and social requirements. Just as persons harmed or speaking on behalf of those who are at risk may request an Inspection Panel review, any such person who makes a well-supported claim that a requirement has not been met in the Chad-Cam situation should be able to trigger the liquidation of the bond, insurance or reserve to the extent necessary to correct the situation and to pay the costs of those who pointed out the problem. Whether the Inspection Panel should be used for this is another question. We might do well to set up project or country-specific devices or empower the ECMG itself to review claims and reserve the Inspection Panel for a sort of court of appeals. As we said in the review process, this is not to take over or displace the whole judiciary of Chad, but simply to ensure that the promises made to and through the Bank are kept. In countries where an independent and expeditious judiciary is clearly present, perhaps it could make the findings that trigger performance bond liquidation. As it is a
chance to "set a new standard", This remediation process should be part of an interagency review of the proposed Terms of Reference which might include folks from Justice and or USAID Democracy and Governance people. There is considerable NGO interest in the follow up to this vote but especially in the make up and TOR of the ECMG and IAG as evidenced in the July meeting of the Tuesday group.

4. Some of the key commitments do not yet appear on the chart (of course it is not easy to get them all and you got most by reference to other documents) and the bank itself should be asked to fill in the rest, but we should keep to the timetable laid out in the USED's statement which should be in the chart. One missing component is invasive species: a commitment was made to require open ocean ballast water exchange to prevent that problem so we should keep track of that and related improvements in the ECMP.

5. The issue of prior informed consent of Equatorial Guinea to the project, which clearly poses a threat to its environment, may not have been fully addressed by the response from the Bank that their government had been informed and that the international waterways policy was not applicable anyway. The best application of the policy is to apply it fully to "projects that involve the use or potential pollution of international waterways" and demonstrate affirmatively that "the other riparians (affected nations) have given a positive response to the beneficiary state or Bank... that the project will not harm their interests." A project of this scale should not avoid this requirement based on the judgement of Bank officials that the risk to the neighbor is minimal. One may recall that oil from the Exxon Valdez, a single hulled tanker not unlike those that will be used as a loading container and as transport in and out of this facility, spread down the coast of Alaska a distance as greater than the distance between New York and Washington. The EG capitol is a few kilometers from the site and the entire coastline of EG is well within the range of a one-tanker spill. The response of GOEG could be clarified and in any case GOEG should be involved in the ASOSRPs development, training and regular drills.

Thanks again for your good work.

John Fitzgerald
USAID

-----Original Message-----
From: [Treasury]

For your information, attached is our final Board statement for the Chad-Cameroon Pipeline Project. Note particularly the conclusion which states that the Bank's engagement in this project will be under intense scrutiny.

Building on what has been a very effective inter-agency review process, I would like to elicit your further support in reviewing project implementation, particularly during the first year as the project gets underway. Attached is a draft summary chart of follow-up items for World Bank implementation of the Pipeline Project. Could I ask each of you to look carefully at this chart and provide comments by COB Friday, August 4?

This list of items in the chart is in no way meant to be comprehensive, but rather designed to capture the major policy related issues that we will be following. I may have unintentionally missed some things. Please feel free to provide suggestions/edits.

The Bank has committed to report back to the Board twice a year over the first two years of the project. We would like to make sure that these
reports/Board discussions are as productive as possible. Ultimately, will share the attached table with Bank staff for the primary purpose of giving them some idea of what we would like to see in their reports; we will ask them to complete/fill-in, OR produce their own timeline that includes these elements.

FYI - I also attach the last set of answers by the Bank which we received just prior to the Board discussion.

Also, you might like to know that Exxon reported in our meeting that the World Bank added to the covenants that the area specific oil spill plans must be released to the public six months before oil flow and must be certified by an independent consultant.

Thank you very much for your engagement and help!

[Treasury]

Chad
Power

Electricity: The project would assist in the expansion of power generators to increase capacity. It will also support the rehabilitation and expansion of transmission and distribution facilities. Appraisal is scheduled for August 2000. Environmental Assessment Category A. US$ 20.0 (IDA). Consulting services to be determined. Implementing agency is to be determined.

Issues: One question is the extent to which increased supply can be derived from gas discharged from oil fields that would otherwise be flared off and the extent to which safer solar, wind or other renewables will be developed instead of using oil and gas that might be devoted to other uses. There is also the question of the use of newly patented ram-jet assisted flywheels\textsuperscript{157} that can use a variety of fuels instead of less efficient turbines for medium-scale generators. Oil might be traded for hardware and technical assistance to produce renewable or more efficient carbon-based electric energy.

\textsuperscript{157} Anthony Churchill, formerly of the World Bank's Urban Development office and Quality Assurance Group for China, has helped develop such ramjet flywheel generator now patented and being field tested.
5. Ethiopia: IDA – Power, Private Sector Development and Transport

Comments on all three projects follow the Ethiopian entries.

Ethiopia

Power

Power Distribution: The project will rehabilitate electricity and expand the distribution system in Addis Ababa and four major towns. Project preparation is under way. Environmental Assessment Category A. US$ 200.0 (IDA). Consulting services to be determined. Ministry of Mines and Energy, PO Box 486, Addis Ababa, Ethiopia, Tel: (251-1) 150-465, Fax: (251-1) 517-874

Ethiopia

Private Sector Development

(R) Privatization Technical Assistance: The primary objectives of the project are to (a) support the implementation of the government’s program of privatization of state-owned enterprises (SOEs) in the productive sectors and (b) promote acceleration of private-sector-led economic activities. Specific objectives are to (a) improve the efficiency of state-owned enterprises through privatization; (b) reduce the size and the fiscal burden of the SOE portfolio; (c) strengthen the capacity of the Ethiopian Privatization Agency to manage a more ambitious and accelerated privatization program; and (d) identify critical issues facing key utilities and infrastructure sectors and identify options for introducing private sector participation in these sectors. Preappraisal mission was scheduled for mid-July 2000. Environmental Assessment Category C. US$ 13.0 (IDA). Consulting services to be determined. Ethiopia Privatization Agency, Addis Ababa, Ethiopia

Ethiopia

Transport

Second Roads Sector Development: The credit will support the rehabilitation and upgrading of priority secondary and regional rural roads. Feasibility studies and detailed engineering designs of selected roads are in progress under ongoing projects. A Rural Travel and Transport Program to prepare village-level development activities is being prepared. Project preparation is scheduled to start in March 2001. Environmental Assessment Category B. US$ 250.0 (IDA). Consulting services for feasibility studies and engineering designs are being financed under existing projects; additional services to be determined. Ethiopia Roads Authority, PO Box 1770, Addis Ababa, Ethiopia, Tel: (251-1) 156-603, Fax: (251-1) 514-866

Issues: The conjunction of electric power enhancement and privatization raises the standard concerns inherent in both – that is that both may be well warranted but the conditions for each must be right, and when the timing is off, the two sets of problems can magnify each other. For example, there is the question of whether the government and the Bank will recoup investment in electric utilities if they are sold off in the same period when they have been substantially improved with public investment. There is also the question of whether extended lines will lead to extended demand and whether that will be met with environmentally sound generating capacity. Rate design is a key question in all utilities. That is, as a general rule, no utility should be aided until it has incorporated rates that serve the poor and induce conservation by charging less per unit for initial “survival” amounts and more per unit (e.g., per kilowatt hour) beyond those amounts. Given rapid advances in cost-effective renewable or very high-efficiency
technologies from various fuel cells to solar and wind, there should also be a general presumption against encouraging new fossil fuel-fed generating plants unless they back out (actually retire or displace) far more pollution than they cause and unless the borrower shows and the bank confirms that cleaner renewable alternatives are not feasible.

Previous USAID reports and experience have shown that new roads and even rehabilitation of old roads often lead to substantial environmental harm, some from induced growth or de facto new roads, even though they may reduce pollution per mile traveled and increase economic efficiency in other ways. Therefore, the balance is to be sought carefully. It might be advisable to treat such projects as Category A projects. That level of analysis need not be excessively expensive especially in light of savings it can provide in the long run.

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158 See, “The dawn of micropower”, The Economist, p. 75-77, August 5th-11th 2000. Beyond micopower and local grids, competitive now in small to medium sizes in rural areas, the article includes references to major corporations expecting to build fuel cell generators as large as 10Megwatts for nearly the same capital construction cost as a coal fired plant within five to ten years.
6. Madagascar: IDA – Agriculture, Public Sector Management, Social Sector and Transport

Madagascar
Agriculture

(R) Farmer Ownership Model: This learning and innovation credit will test an innovative approach of promoting profitable farmer-owned business in agriculture, agroprocessing and marketing through the establishment and operation of limited companies. Preappraisal mission was scheduled for late June 2000. Environmental Assessment Category to be determined. US$ 1.4 (IDA). Consulting services to be determined. Ministry of Agriculture, PO Box 301, Antananarivo, Madagascar, Contact: Mr. Maxime Andriamifidimanantsoa, National Coordinator of Second Irrigation Rehabilitation Project, Tel: (261-20) 222-4710, Tel/Fax: (261-20) 226-4631, E-mail: ppicn@dts.mg

Issues: see general discussion below

Madagascar
Agriculture

Agricultural Intensification and Food Security: The overall objective of the project is to set the basis for a long-term program that will foster sustainable agricultural growth in the rural sector and thereby improve food security and reduce rural poverty while the physical environment is protected. The specific objectives of the project are to (a) improve the institutional capacity for the development of the Rural Development Plan and the implementation of its agricultural sector components; and (b) promote accelerated growth and reduce poverty in the country's diversified agriculture sector. Project preparation is under way. Environmental Assessment Category B. PID: MGPE51922. US$ 50.0 (IDA). Consulting services to be determined. Permanent Steering Committee, Contact: Mr. Roland Ravatomanga, Chairman, Fax: (261) 20-22872, E-mail: marbour@dts.mg

Madagascar
Public Sector Management

(R) Public-Private Partnership and Information Management for Regional Development (Cr. 3331-MAG): This learning and innovation credit would assist the government in designing, testing and disseminating tools, approaches and methodologies for regional planning and municipal/urban management. It will include (a) regional planning and municipal urban management; (b) municipal capacity building in small- and medium-size cities; and (c) information systems and communication. The project was approved, following LIL procedures, on 31 March 2000. Credit was signed on 26 May 2000. Environmental Assessment Category C. PID: MGPE62628. US$ 4.6 (IDA). Consulting services to be determined. Ministry of Budget, BP 3378, 101 Antananarivo, Madagascar, Tel: (261-2) 35613, Fax: (261-2) 35617, Contact: Mr. Herivelona Ramanantsoa-Ramarcal

Madagascar
Social Sector

Community Development Fund: The project will build on the success of the ongoing community development project. Subprojects will include primary schools, health posts, feeder roads, community water-supply schemes, irrigation schemes and income-generating activities. Project preparation is under way. Environmental Assessment Category B. US$ 63.0 (IDA). Consulting services to be determined. Fonds d'intervention pour le développement, Lot II J 164, Villa ALMA, Ambodivoanjo, Antananarivo 101, Madagascar,
Madagascar
Transport

(R) Transport Sector Reform and Rehabilitation (formerly Transport Restructuring and Investment Program); (Cr. 3364-MAG): The project will support the restructuring of road and transport sector; finance limited improvements to road and transport infrastructure; and facilitate privatization of transport activities. Approved by the Executive Directors on 1 June 2000. Environmental Assessment Category A. PID: MDPE52208. US$ 65.0 (IDA). Consultants have been appointed for restructuring the national railway company, restructuring of ports management and inland waterways improvements. Ministry of Transport, BP 1254, Anosy, Antananarivo, Madagascar, Tix: 22301, Tel: (261-2) 24604

Issues: As a major island ecosystem, Madagascar is home to some of the most unique species on earth, from lemurs to rosy periwinkles. The latter contain the natural source for the best known cure for a common form of childhood leukemia. The forest ecosystem has been lost at astounding rates in recent years underscoring the dire need for land use planning and better use of existing agricultural lands instead of constant incursions into the remnant forest.

Madagascar’s plight in this regard is so acute that USAID’s website contains the following entry:

Madagascar’s natural resources are seriously threatened by deforestation, soil erosion and declines in soil fertility. USAID, with other donors, is supporting Madagascar’s Environmental Action Plan, one of the first in Africa. The goal is to save 3.6 million hectares of land, an area about the size of Maryland, by conserving biodiversity, improving management of forests and national parks, and increasing economic opportunities for those living around the parks. One-half of park entrance fees go to the community, as do revenues from souvenir and handicraft sales. By defining national park boundaries with the community and hiring local field staff, villagers are encouraged to modify destructive practices in and around the parks. Village-level committees also have increased local environmental awareness and reduced illegal wood cutting.

Thus the first projects noted above are sorely needed, but the risk, if they fail, is very high. Careful public assessment is in order. USAID’s 1999 report cited three projects in Madagascar including what appears to be an earlier form of the transport sector project above. These suggested that the country’s relatively new EA law and funding requirement be reviewed in its application to these projects. It cited a USAID 1995 report noting that citizens of Madagascar were subjected to DDT spraying inside their homes despite serious risk of liver and nerve damage, not to mention the impact on wildlife as the chemical washes out into the surrounding ecosystems. In response, to USAID’s questions about the possible use of DDT, the Bank did not rule out DDT use in homes. While there is support in the public health field for continued use of DDT as the lowest cost means of insect control, these concerns may warrant treating the social sector loan, as a category A., given that it includes helpful, but also potentially risky elements such as DDT-insect control and irrigation. The latter can present a risk of snail borne disease and invasive species, and long term soil degradation unless carefully designed and maintained.
Mali: IDA – Rural Development

Mali
Rural Development

(R) Rural Infrastructure: The objective of the project is to provide basic rural infrastructure on a sustainable basis to help increase agricultural production, reduce poverty and improve the livelihood of the beneficiaries. Specifically, the project will (a) strengthen local capacity in infrastructure planning, design, construction, operation and maintenance; (b) support the rehabilitation and construction of large irrigation perimeters; (c) support rehabilitation and construction of main rural roads; and (d) provide water to rural communities. Negotiations completed. Board presentation was tentatively scheduled for late June 2000. Environmental Assessment Category B. PID: MLPE41723. US$ 115.6 (IDA). Consulting services to be determined. Ministry of Rural Development, c/o Banque mondiale, BP 1864, Bamako, Mali, Tel: (223) 22-87-85, Fax: (223) 22-02-95, Contact: Mr. Paul Coulibaly, Conseiller technique

Issues: The major issue here is the classification for EA purposes. A project that includes new road construction and in some cases, major upgrading of existing roads, alone should probably have a full environmental assessment. This project also includes large irrigation and drinking water facilities and increasing agricultural production. All of these will have substantial impacts on the human environment. Depending on how each is done, irrigation can raise the threat of water borne diseases, and expanding agricultural production may depend on intensive use of pesticides, energy intensive fertilizers, and other in-puts as well as side effect of cash crops crowding out food crops.

Mauritius
Water Supply/Sanitation

Solid Waste Management: The project will address (a) the most appropriate institutional and legal framework, to be set up at the national level, to allow gradual introduction of the private sector through operations and capital investment; and (b) the financial sustainability of the sector as a whole. Appraisal is scheduled for November 2000. Environmental Assessment Category A. PID: MUPE57775. US$ 20.0 (IBRD). Consulting services to be determined. Ministry of Environment, Ken Lee Tower, Barracks St., Port Louis, Mauritius, Tel: (230) 212-6080, Fax: (230) 212-6671

Issues: When considering a national approach to both solid waste management and water supply it is very important not only to do a full EA, as indicated here, but to review a very broad array of alternatives for each that range beyond the usual Bank assessments of alternatives. For example, the Bank should not assume that chlorination should be the final treatment method of choice. Though it may be the most commonly used method in some countries like the United States, other methods are used widely in Europe. Nor should they assume that collection and land-filling are the solid waste handling methods of choice when a developing nation is actually likely to be very adept at recycling given the right incentives and appropriate technologies. We hope these questions will be addressed.

The third issue is the question of how to ensure responsive service and broad access to service when public utilities and other services are privatized in jurisdictions which may not have developed utility control boards or public service commissions, utility consumer protection laws, etc. Changes in the provision of essential commodities like water can be politically volatile as lower income people may fear being unable to afford such services, even if their products may become cleaner.

9. Rwanda: IDA – Private Sector Development

Rwanda
Private Sector Development

Rwanda-Regional Trade Facilitation (LIFT): The objective of the project is to jump-start private sector activity. The project will consist of a political risk insurance facility in support of commercial financing for productive transactions involving enterprises in participating countries and their foreign partners. Appraisal is scheduled for October 2000. Environmental Assessment Category B. PID: RWPE65788. US$ 5.0 (IDA). Consulting services to be determined. African Insurance Agency.

Issues: The question here which should be addressed very early on is whether the political risk insurance facility will have environmental and social guidelines, and what they will be. If not, the problem on the global scale of not having MIGA apply EA and safeguard policies as rigorous as those of the Bank will be repeated on the national and local scale as well, in effect avoiding EA and related polices that would apply when done by a government or a development bank.

Tanzania
Water Supply/Sanitation

(R) Dar es Salaam Water Supply and Sanitation: The project would support technical, commercial and financial rehabilitation of the water supply and sanitation service in Dar es Salaam. This would be achieved by privatizing Dar es Salaam Water and Sewerage Authority's operations and implementing a program of rehabilitation of all water supply and sanitation facilities and extension of piped water in poorly served neighborhoods. Appraisal mission is scheduled for May 2001. Environmental Assessment Category B. PID: TZPE59073. US$ 35.0 (IDA). Consulting services to be determined. Implementing agency is to be determined.

Issues: With regard to both of the above projects, there is a long-term trend toward privatization and toward leveraging private financing with Bank funds. This is turn may alter policies that the Bank recommends in order to attract that financing. Privatization in utilities and public services, which is a trend that the US has supported, may bring numerous benefits including a quick infusion of cash for governments, greater efficiency, and lower prices if competition or regulation ensures them. The more basic is the human need for the service, such as water, however, the greater is the need to ensure that it is provided in a way that is affordable, non-discriminatory, safe and responsive. Another problem with across-the-board privatization in the same utility sectors around the world over a relatively few years is that nearly any market can become flooded by excess supply. Prices are then depressed below their real long term value and the seller, in this case the people of the nation, lose money. Thus, such sales and the general “policy reforms and regulatory enhancements” need to be scrutinized in specific detail, and in regard to timing to meet demand or available private investment, as well as the physical choices to be made such as sanitation and delivery technologies to be applied. The second issue here is why two such apparently similar projects are rated differently for EA purposes, one being A and the other B.
11. Uganda: IFC/IDA – Hydropower

The following project has a full description due to the fact that it has been on the informal “watch list” of the Tuesday group for some time, that is a potential agenda item as it moves toward Board consideration. The analysis provided by the Bank below is not unfair and illustrative of the issues to be considered, therefore additional issues will not be raised at this point, except to say that it may be time to consider more carefully the cumulative effect of a series of dams in the area, and the powerful effect on the communities, and the indigenous, if numerous, local peoples who believe that this particular site is a particularly sacred home of certain spirits who will be disturbed by the development to the detriment of the local people. As noted below in the analysis provided by the Bank, cultural properties are addressed in safeguard policy. U.S. law, by the way, also recognizes that sacred sites present very real issues that can often be satisfactorily resolved without foregoing the ultimate objective of the agency. If such concerns are widely held yet dismissed out of hand, the repercussions are likely to be substantial.

Credit is due the Bank for the direct acknowledgement of the need to consider the findings of the World Commission on Dams whose work is due to come to a close in 2000.

Uganda Electric Power and Other Energy Adjustment

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Uganda-Bujagali Hydropower Project (®)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region</td>
<td>Africa Region/IFC</td>
</tr>
<tr>
<td>Sector</td>
<td>Electric Power and Other Energy Adjustment</td>
</tr>
<tr>
<td>Project ID</td>
<td>UGPE63834 (IFC code 8943)</td>
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<td>Borrower(s)</td>
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<td>Environment Category</td>
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<td>Date PID Prepared</td>
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<tr>
<td>Appraisal Date (est.)</td>
<td>Ongoing (IFC); September 2000 (IDA)</td>
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<td>Board Date (est.)</td>
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</tbody>
</table>

Sector Background

1. Access to Electricity. About 5% of the population has access to grid supplied electricity. Also, Uganda has one of the lowest per capita electricity consumption (44 kWh/year) in the world (India 300, China 580, USA 11,000 in 1996). About 72% of the total grid supplied electricity is consumed by 12% of the domestic population concentrated in the Kampala metropolitan area, and in the nearby towns of Entebbe and Jinja. The total domestic consumption of electricity in 1999 was approximately 900 GWh. In

159 The procedures under the Historic Preservation Act, the National Environmental Policy Act, and the 1996 Executive Order on Native American Sacred Sites are designed to identify and protect the physical integrity of such sites.
1999, the main categories of domestic consumption of electricity were residences (50%), industries (26%), commercial end-users (14%) and Government services (10%). Uganda is experiencing daily power shortages during peak demand of around 80 MW.

2. Uganda Electricity Board (UEB) was established in 1948 with a mandate to generate, transmit, distribute and supply electricity within Uganda and other countries in the region. UEB is wholly owned by the Government and operates under the legal arm of the Electricity Act, re-enacted in 1964. Its policies are determined by the Board of Directors, who are appointed by the Minister of Energy and Mineral Development. The day to day running of UEB is executed by the Managing Director (the chief executive officer) together with a management team appointed by the Board of Directors. UEB currently has a monopoly over generation, transmission and distribution activities in the country. These include the 180 MW Owen Falls Power Station and the 1 MW Maziba hydro power station, some isolated diesels, an interconnected 132 kV and 66 kV transmission network, a 33 kV sub-transmission network, and a distribution network at voltages of 11 kV and below.

3. UEB suffers from poor financial performance, operating inefficiencies, low productivity and inadequate funds for required investments. System losses, both technical and non-technical are currently estimated at around 34%. Poor collection has also been a concern in the past, though revenues collected improved to about 94% of electricity billed in 1999. Thus UEB realized only around 60% of the value of all electricity generated in the system in 1999. Though being addressed by the new management team, non-technical (or commercial) losses due to illegal connections and non-payment of utility bills continue to remain serious problems.

4. While the proposed Bujagali PPA presently contemplates UEB as the power off-taker, a fully privatized sector in which ideally multiple distribution companies will act as off-takers is crucial to the sustainability of the project (see paras. 6 and 7 on the status of Uganda's power sector reform program).

5. Power Exports to Neighboring Countries. UEB currently exports 30 MW to Kenya, 7 MW to Tanzania and 1 MW to Rwanda, or about 300 GWh with total annual export earnings of about $20 million. The Governments of Kenya, Tanzania and Uganda envisage a partnership within the context of East African Co-operation for the development of electricity generation and transmission projects which is likely to further
increase exports from Uganda. The Government is presently discussing export sales to neighboring countries for a portion of the power to be produced from the proposed Bujagali project. Existing transmission lines would permit up to 80MW of power exports to Kenya. Also, the provision of power to the mining area in northwest Tanzania is being explored.

6. Power Sector Reform Program. The Government has embarked on a reform program for the sector which includes: (i) establishing new electricity legislation and an independent regulatory regime to promote a commercially oriented private sector-operated industry structure, (ii) unbundling generation, transmission and distribution activities, and (iii) creating incentives for competition and private sector investment. The reform program has been motivated by the critical need to improve the performance of the power sector and attract investment. In June 1999, the Cabinet approved a power sector reform strategy, and revised electricity legislation was passed in October 1999. The recruitment of transactions advisers to assist the Government with implementation of the reform program is under way.

7. Power sector reform is essential to the financial viability of the Bujagali project. A critical indicator of progress on execution of the reform program will be the award of concessioning of UEB's distribution assets; this is perceived as a "point of no return" in the reform process, and a clear signal of the beginning of a financial turnaround of the sector. For this reason, the Government has placed importance on completing distribution concessioning as soon as feasible (target date April 2001), in advance of the commencement of construction for the proposed project.

Project Objectives

8. The proposed project would promote increased growth through the provision of adequate, reliable and affordable power in line with Uganda's comparative advantage. The project would help catalyze private investment to develop the country's significant hydroelectric potential, and potentially increase export of electricity to neighboring countries.

Rationale for IDA Involvement

9. The principal CAS objective is to reduce poverty in Uganda through rapid economic growth led by broad based foreign and domestic private investment. Recent surveys indicate that the quality and adequacy of power supply is the most binding constraint to private
investigation (Ugandan private firms surveyed in 1998 reported that they incurred on average about 89 days of power outages per year. In addition, 43% of the firms surveyed said they had their own back up generation - equivalent to about 60% of the installed capacity of the Ugandan interconnected public system - or up to 100 MW). This is also the case in rural areas which are seriously constrained by the lack of access to electricity. Current electricity shortages are estimated to cost Uganda annual economic losses in the order of $100 million.

10. The Bank Group's involvement is crucial to catalyze private investment and expand the provision of adequate and reliable electricity to support growth. The use of a range of Bank Group complementary financial instruments will help to attract international commercial finance in support of the project. A partial risk IDA guarantee would facilitate mobilizing commercial finance, which would provide for risk sharing with the commercial lenders. The lenders and sponsors would assume commercial risks (e.g. construction and operations risks), whereas IDA and the Government (by virtue of its counter-guarantee under the Indemnity Agreement with IDA) would only assume the risks relating to government performance as provided for in the project agreements.

11. IDA's ongoing lending program involves financial support for the power sector reform program under the Power III Project (Credit 2268-UG). The main component of this project is the civil works construction of the Owen Falls Extension (OFE) dam and the installation of 80 MW (out of 200 MW) of generation plant. During the interim period until the power sector is restructured, the Government and IDA have developed short-term targets for improved UEB operational and financial performance, to be implemented under UEB's new management team which has been in place since April 1999. A proposed Power IV project is currently being prepared with the potential support of the Bank Group and donors. Nordic aid has been secured for the third of five 40 MW units of generation at OFE. The Power IV project would involve installation of the fourth 40 MW of generation at OFE.

Project Description

12. The project includes the construction of: (a) a 200 MW (1700 GWh) run-of-the-river power plant on a Build-Own-Operate-Transfer (BOOT) basis, at Bujagali Falls; and (b) about 100 km of 220 kV and 132 kV transmission lines and associated substations. The project sponsor is AES Corporation (AES), Arlington, VA, and AES Sirocco, Limited, a wholly owned subsidiary of AES. The privately owned and operated
project company (Nile Independent Power) will sell electricity to UEB (or its successors) under a 30-year Power Purchase Agreement (PPA).

Project Costs Financing

13. Total project costs are estimated at $530 million. A tentative financing plan is described below.

<table>
<thead>
<tr>
<th>Financing Plan</th>
<th>US $ MN</th>
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<tbody>
<tr>
<td>AES (equity)</td>
<td>$110</td>
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<tr>
<td>OPIC (debt)</td>
<td>$100</td>
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<td>Export Credit Agencies</td>
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<td>IFC A loan</td>
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<td>IFC C Loan</td>
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<tr>
<td>AfDB (Project Finance)</td>
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<td>Commercial Loans IFC B loan and IDA Partial Risk Guarantee</td>
<td>$ 70</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$530</strong></td>
</tr>
</tbody>
</table>

14. The IDA partial risk guarantee would provide coverage only for loan default on scheduled debt service payments of both principal and interest resulting from the Government's failure to meet its payment obligations under the project agreements for certain defined risks possibly including: (a) Government breach of contract under the terms of the IA and the PPA; (b) political force majeure events, including war and expropriation; (c) convertibility and transferability of foreign exchange; (d) discriminatory changes in law; and (e) uninsurable natural force majeure. The precise scope of the guarantee coverage will be formulated through negotiations with the Government and the lender banks and would be limited to the minimum required to make the transaction bankable.

Implementation

15. Implementation Period: 44 months.

16. Executing Agency: AES and AES Sirocco Limited (London) is the private sponsor responsible for construction and operations of the Bujagali hydropower plant. AES Corporation was founded in 1981 and is a public corporation whose stock is traded in the United States on the NYSE. AES is the largest independent power producer in the world, with assets of $11 billion and approximately 40,000 MW of electricity generating plant. Its net income in 1998 was US $311 million. AES has a reputation for long-term sustainable investments that are both financially and socially acceptable to stakeholders. Its primary business is to develop, own and operate electric generation facilities in 17 countries around the
world. AES' operations are well risk diversified regionally amongst developed and emerging markets and into generation and distribution assets worldwide.

Sustainability

17. The generation investment will only be sustainable if the performance of the power sector improves. The Government is tackling this issue through a comprehensive sector reform program which will place the management and operations of generation, transmission and distribution facilities with the private sector, and which envisages an appropriate legislative and regulatory framework. The award of concession(s) for UEB's distribution facilities are targeted for April 2001), which is seen as a “point of no return” in terms of a financial turnaround of the power sector. This date coincides with the presentation of the proposed project to the Bank Group's Board of Executive Directors. Also, the sustainability of the project will be underpinned through the structure of the project which places the sponsor's equity at risk for poor performance (emphasis added.)

Lessons Learned

18. IDA assistance for the development of Uganda's energy sector began in 1961. To date, IDA has financed three power projects, with credits totaling about US$195 million. While the power sector assistance has improved physical facilities, it has been only partially successful in improving the efficiency and performance of the power sector. Also, IDA financed a petroleum exploration promotion project of $5.1 million. The design of the proposed project draws on the following lessons learned from Uganda and other countries:

Recent lessons emerging from the Asian experience underscore the importance of fundamental sector reform as a basis to ensure the financial sustainability of the power sector. The Government of Uganda has recognized that the restructuring the power sector involving private sector participation is required to achieve sustainable efficiency improvements, to meet the growing demand for electricity and to increase service coverage. The first phase of it restructuring plan will involve the unbundling of UEB's generation, transmission and distribution assets and the concessioning of UEB's distribution facilities (this the most management intensive activity of utility operations where productivity gains will have the biggest impact).

The importance of commercializing energy sector operations and promoting private sector participation.
The proposed project has been designed to maximize sector efficiency through private sector ownership and private sector management, technical and operational expertise. The structure of the proposed project will place the investor's equity and returns at risk for poor performance.

The importance of making investment decisions based on their technical, financial and economic merits, consistent with macro-economic and sector development objectives including minimizing costs and maximizing benefits to stakeholders. This has been taken into account in the design of the proposed project: it is proposed that new investments and entrants (IPPs) to the sector would be contingent upon the maintenance of adequate sector cash flows and certain financial ratios for the sector.

Program of Targeted Intervention (PTI): None

Environment Aspects

19. This is a category A project according to the Bank Group's Environmental and Social Review Procedure. To date, considerable progress has been made relating to the environmental and social aspects of the project. An alternative analysis of electricity generating options for Uganda concluded that hydroelectricity, from a cost, technology, engineering and social perspective, was the best option for Uganda and that the Bujagali project was one of several hydro options available to Uganda. Also a study is assessing the cumulative effects of several hydropower projects on the Victoria Nile as part of a Strategic EIA. The preliminary findings of the Strategic EIA are that the cumulative effects of future hydropower projects on the Nile river must maximize the objectives of regional economic development, access to electricity, health services, education services, land compensation and employment - all poverty alleviation objectives. Also reflected in the preliminary findings of the Strategic EIA is the need to adequately consider significant safeguard policy issues such as cultural properties, natural habitat and international waterways.

20. The sponsors have prepared an EIA for the project which was approved by the National Environment Management Authority (NEMA) of Uganda on November 1, 1999. An EIA for the transmission line to Kampala is currently available in draft form. Should the transmission line to Tanzania materialize, an EIA for this project component will also be prepared. The sponsors have retained a panel of experts to advise them on both EIAs.

21. The EIA approved by NEMA is undergoing an extensive
revision in order to comply with the ten Bank Group's Safeguard Policies and environmental and social guidelines, in particular: Projects on International Waterways (OP 7.50), Involuntary Resettlement (OP 4.12), Cultural Property (Bujagali spirits and aesthetics) (OP 4.11), Safety of Dams (OP 4.37), Natural Habitats (PO 4.04); Forestry (OP 4.36) and Environmental Assessment (OP 4.01). The important areas being revised are alternative configurations of the project (for example, the dam versus diversion channel option), land compensation, analysis of fisheries, the spiritual significance of Bujagali Falls (which will be flooded by the configuration currently envisaged by the sponsor), and the cumulative effects of the project in the context of the upstream Owen Falls project and Owen Falls Extension project and at least one downstream hydroelectric power project (Karuma, Kalagala, etc.).

A resettlement expert has been recently engaged by the project to assist with preparation of a resettlement plan for the dam site and transmission lines fully compliant with World Bank Group guidelines. Also, the sponsors have obtained the services of a specialist on traditional religions and cosmology to ascertain the spiritual significance of the water, and Bujagali Falls, to local communities and the possibilities of providing mitigatory measures that are consistent with the way of life of the local communities. The revised EIA is expected to be available in May 2000. The Bank Group has requested Uganda formally to notify the riparian states about its intention to proceed with the Bujagali project.

22. The sponsors have engaged in extensive public consultations since the preparation of the Public Consultation and Public Disclosure Plan in 1997. The project, in the context of the parliamentary debate on the Electricity Bill, has had wide national exposure. Consultations have been and will continue to be extensive with local impacted communities, government stakeholders and with the international NGO community. Such consultations have taken place during the preparation of the EIA for NEMA. The revisions to the EIA, to the alternative analysis of electricity generating options and to the cumulative effects study have been communicated to the sponsors with regard to meeting the Bank Group's environmental and social requirements. The public debate has not only focused on the potential impact of the project but on the national issue of electricity supply and the use of the Victoria Nile watershed in meeting this supply requirement. The sponsors are preparing documentation on the consultation process with the local communities to establish that there were informed and meaningful consultations.
23. Given that the dam will be over 15 meters in height (approx. 30 meters), it is classified as a 'Large Dam' consistent with OP 4.37 Safety of Dams, a panel of independent experts, acceptable to the Bank Group, will be appointed to form a Dam Safety Panel. Discussions have been initiated with the sponsor and the Bank Group concerning the appropriateness of the existing Panel of Experts presently involved in the Power III Project (Credit 2268-UG which is financing the Owen Falls Extension). The Bank Group has been in contact with the World Commission on Dams concerning the juxtaposition of its final report to decisions on this project. Informal discussions have taken place to ensure that our analysis will be consistent with the Commission's approach and recommendations.

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Note: This is information on an involving project. Certain components may not be necessarily included in the final project.

Processed by the InfoShop week ending April 7, 2000.
11. Zambia: IDA – Urban Development

Zambia
Urban Development

(R) Mining Township Services: The project will support the provision of efficient and sustainable water supply services, wastewater services and solid waste management in five mine townships, particularly during the privatization of Zambia Consolidated Copper Mines Ltd. The project will introduce a new management mechanism that promotes private sector participation and commercialization in the sector. Most likely through the use of a management contract, the project will help develop and operationalize a longer-term strategy to integrate the management of water, wastewater and solid waste in the five mine township with the responsible municipal institutions. Board presentation was scheduled for late June 2000. Environmental Assessment Category B. PID: ZMPE64064. US$ 37.7 (IDA). Consulting services will be required. Implementing agency is to be determined.

Issues: Any project that combines water, wastewater, solid waste and mining-dependent communities should be a category A requiring a full EA. Policy issues within the project include taking care to ensure that the externalities of mining are internalized in the price and future operations of privatized mining.
12. **Zimbabwe: IDA – Pop., Health & Nutrition; Transport Structural Adjustment; Public Sector Mgt.**

Most discussion of the following Zimbabwe loans will be reserved until the end of the Zimbabwe section in light of concerns affecting all of the projects including the general situation of the government and its land reform agenda and the national and local capacity to conduct environmental assessments. \(^{10}\)

**Zimbabwe**

*Population, Health and Nutrition*

(R) National Health Strategy Support: The project will support (a) decentralization of the health sector and a public/private mix on health financing issues; (b) provision of drugs and medical supplies; (c) preventive and curative care for reproductive health; and (d) strengthening of human resources. Appraisal mission is scheduled for June 2001. Environmental Assessment Category C. PID: ZWPE3325. US$ 50.0 (IDA). Consultants will be required. Ministry of Health and Child Welfare, I-4th Floor, Kaguvi Bldg., 4th St./Central Ave., Causeway, PO Box CY 1122, Harare, Zimbabwe, Tel: (263-4) 727-951, Fax: (263-4) 702-293, E-mail: PMUFHPII@healthnet.zw

**Zimbabwe**

*Transport*

(R) Road Maintenance and Reform: The project will help strengthen the government's ability to rehabilitate and maintain its roads through coordinated sector development plans, policy and institutional reforms, improved programming of rehabilitation and maintenance, private sector participation and human resource development. Negotiations are currently on hold. Environmental Assessment Category B. US$ 100.0 (IDA). Consulting services will be required. Ministry of Transport and Energy, Department of Roads, PO Box CY595 Causeway, Harare, Zimbabwe, Tel: (263-4) 700-991 Ext. 229, Fax: (263-4) 700-817

**Zimbabwe**

*Structural Adjustment*

Fiscal Restructuring: The credit will support the government's reform program to restructure public expenditures, reduce domestic debt, privatize state enterprises and initiate land reform. Board presentation is tentatively scheduled for July 2001. Environmental Assessment Category C. PID: ZWPE50320. US$ 140.0 (IDA). Consultants will be required. Ministry of Finance, Munhumutapa Bldg., Samora Machel Ave., Private Bag 7705, Causeway, Harare, Zimbabwe, Tel: (263-4) 722-101, Fax: (263-4) 796-563, Contact: Mr. C.T. Kuwaza, Senior Secretary

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\(^{10}\) The EA Capacity of local governments in Zimbabwe was described as an overriding issue in the 1999 report to Congress (see excerpt below). Zimbabwe has also been a leader of an informal caucus of nations acting to limit the application of or restrictions that may arise under CITES and the CBD, often with the support of Japan, for example, in regard to the trade in elephant ivory. Moving beyond differences of opinion about how the treaty is to be applied, this course of action has caused not only the US but African neighbors who share resources, such as Kenya and their elephants to raise serious objections about the effect upon that joint stewardship. These patterns should be considered and attention given in MDB loans, particularly to capacity building, to the extent to which such nations fulfill their existing duties under international law, including EA work as required in article 14 of the CBD, and annual reports to CITES.
Zimbabwe
Transport

Railways Restructuring: The project will include staff retrenchment and rationalization, infrastructure rehabilitation, studies and technical assistance, training and counseling and assistance to retrenched staff. Project preparation is under way. Environmental Assessment Category B. PID: ZWPE57096. US$ 60.0 (IDA). Consultants will be required.
National Railways of Zimbabwe, PO Box 596, Bulawayo, Zimbabwe, Tel: (263-4) 363-838, Fax: (263-4) 363-502

Zimbabwe
Public Sector Management

(R) Local Government and Development: The project will provide infrastructure financing and capacity building support for local governments, including urban and rural district councils. Negotiations completed. Board presentation is on hold due to country situation.

Environmental Assessment Category B. PID: ZMPE3306. US$ 50.0 (IDA). Consulting services will be required. Ministry of Local Government and National Housing, Private Bag 7706, Causeway, Harare, Zimbabwe, Tel: (263-4) 790-601, Fax: (263-4) 708-943, Contact: Mr. S. Chakaipa, Deputy Secretary

Further detail from USAID 1999 Report:

Projected IDA Funding: ($ 30 million 1999, raised to 50 by mid-2000)
  Projected Total Cost: $ 60 million
  Tentative Board Date: Unknown
  Stage: Project preparation is underway.
  World Bank EA Category: B
  Project ID: ZMPE3306
  Project first entered: May 1998
  Entry last updated: April 1999

Description: The project will provide infrastructure financing and capacity-building support for local governments, including rural and urban district councils. Environmental Assessment Category B.

Issues: USAID/Zimbabwe reported that, though there is not much information on which to comment, if the project is going to finance infrastructure, it will qualify as a Environmental Assessment Category A project, not B as stated. [USAID/Zimbabwe Email 3/30/98]

USAID/Zimbabwe suggests that the project should include strengthening of environmental units of local governments. In Zimbabwe, at the moment, knowledge on environmental reviews is very limited and restricted to the Department of Natural Resources in the Ministry of Mines, Environment and Tourism. It is virtually absent within local authorities. USAID/Zimbabwe does not have any experiences with local governments requiring environmental reviews for any projects. Local governments don't have any mechanisms for screening projects for environmental reviews. The Zimbabwe EIA Policy placed this function within the Department of Natural Resources, who at the moment have severe capacity constraints. It might be necessary for the project to set up a mechanism for environmental reviews for its subprojects. [USAID/Zimbabwe Email 5/29/98].

Status: World Bank staff responded that USAID/Zimbabwe is quite correct that information is limited as we are at the initial stage of agreement with the Government on project design. However, we have agreed in principle that this
would be a "programmatic" operation under which infrastructure would be financed with proceeds of the IDA credit only if Local Authorities meet strict eligibility criteria.

Two types of Local Authorities (representing all local government in Zimbabwe) would be potentially eligible. First, Rural District Councils (RDCs) would be eligible for District Development Grants (DDGs) as continuation of the current Rural District Council Pilot Capital Development Project. DDGs are small, about US$100,000 equivalent per RDC per year, and these are approved against meeting all the criteria and procedures laid out in the agreed Operational Manual. Infrastructure projects (e.g., boreholes, small bridges and the like) are approved as part of the annual investment plan that is approved only if the evaluation presented in the Manual is satisfied. This evaluation includes environmental screening (EA Category B). The main objective of this project is RDC capacity building.

Second, any Local Authority (22 Urban Councils and 57 RDCs) potentially would be eligible to receive "matching" grants for financing of investments that are (a) creditworthy and attract financing from Zimbabwe's capital market and (b) meet all of the evaluation criteria to be determined in a "prospectus" provided to potential investors. These criteria will include screening of environment impact (again Category B). Exact investments will be demand driven by the Local Authorities and evaluated by the capital market. Some investments may be for "social" infrastructure such as school and health building rehabilitation or construction, for which a full EA may not be required. Other investments may be for "economic" infrastructure, such a water supply and sanitation or roads that, depending on their conditions may require a full EA (Category A). In the latter case, an EA would be done, summarized in the prospectus and placed in the public domain.

In summary, current dialogue with the Government indicates that investments partially financed by IDA will be demand driven, subject to strict eligibility and evaluation criteria and very diverse, ranging from small rural projects, to social infrastructure, to large economic infrastructure projects, most or all of which should have a full EA. Thus, the proposed operation would be classified as Category B as an overall operation, but some major infrastructure projects to be financed would be classified as Category A.

Issues: Update mid-2000:

Some loans in this series of loans are on hold pending resolution of a very volatile situation in Zimbabwe, which the recent election may help to calm. Key questions remain with regard to Zimbabwe's general governance conditions and concerning the above loans, however. The first of the three contains land reform support. Land Reform is at the core of the recent racial tensions and tensions between the Government and developed donors such as Great Britain. Therefore, the direction of support for it by MDBs will have a major impact on various ethnic groups, with resettlement, land use and other environmental and natural resource questions that should be aired carefully and probably more publicly than a category B would require, yet this is a Category C.

Another problem is the question of the government's willingness to confront the AIDS crisis and its social and economic effects directly. Thirdly, the combination of railway retrenchment and highway improvement, which is not unique to this country, raises the question of whether the Bank is pushing nations away from rail and toward motor transport too often in general. Rail is far more fuel efficient, though less flexible. Conversions should be done with caution.

An extensive article in Foreign Affairs, p.47, September/October 2000, Vol. 79. No. 5, Africa's Mess, Mugabe's Mayhem, by Robert I. Rotberg, for example, asserts, in essence, that President Robert Mugabe has misdirected resources to the extent that a once reasonably well run system is now in disarray. At the very least, the Bank should demonstrate before making further loans to Zimbabwe, that it has put firmly in place each of the corruption control mechanisms recommended by the GAO in its April 2000 report to Congress (GAO/NSAID-00-73). Other steps that might be useful as noted elsewhere, are financial disclosure statements, performance bonds and public institutional budget transparency. Absent these steps the loans are likely to be neither economically nor environmentally sound.
PROJECTS LOCATED IN ASIA AND THE PACIFIC


Cambodia
Rural Development

(R) Forest Concession Management and Control Pilot (LIL); (Cr. 3365-KH): The project will assist the government in implementing management planning and control regulations on forest concessions. The project was approved, following LIL procedures, on 5 June 2000. Environmental Assessment Category B. US$ 5.0 (IDA). Consulting services will be required to (a) conduct inventories and to prepare strategic and operational forest management plans; (b) design and conduct training programs; and (c) assist in project management. Department of Forestry and Wildlife, 40 Preah Norodom Blvd., Phnom Penh, Cambodia, Tel: (855-23) 219-282, Fax: (855-23) 214-966, E-mail: Secretariat@Camnet.com.kh, Contact: Mr. Ty Sokhun, Director, Department of Forestry and Wildlife.

Issues: Although this loan is small and may in fact be very helpful in controlling timber poaching, it opens up a window on that area of extreme environmental degradation and flouting of the law, which was the subject of several recent reports and an Asian Development Bank review in Cambodia. The project outlined above appears also to be closely related to the following from the 1999 Report. The substantive problems are whether facilitating additional timber harvests is the right step when controls on the export and purchasers’ imports of illegally harvested logs are still insufficient. And whether $5 million is enough on the other hand to control the problem. The Congress has noted the lack of pursuit of logging concessionaires who have engaged in illegal logging, the lack of open access to government records concerning Forest Crimes Monitoring, and the need for further information on the status of the involvement of Thie, Laotion and Vietnamese officials in illegal timber trade. Legal action against such perpetrators, especially if pursued with international cooperation should lead to recovery of fines and damages to help offset the cost of loans in the area of enforcement.

Cambodia:
Northeast Village Development
(formerly Northeast Rural Development)

Projected IDA Funding: $ 5.0 million
Projected Total Cost: Unknown
Tentative Board Date: May 1999
Stage: Negotiations completed
World Bank EA Category: B
Project ID: KHPE58841 (formerly KHPE45621)
Project first entered: January 1997
Entry updated: April 1999

Description: The learning and innovation credit aims at improving rural livelihoods by piloting innovative approaches to the selection, financing and sustainable operation of rural investment subprojects in select poorer

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162 Senate Rpt. 106-291, p. 24. The Senate Committee on Appropriations at p. 25 requests a report from the State Department on these issues by March 21, 2001.
districts of northeast Cambodia as part of a government decentralization initiative.

Issues: This activity will be focused on the provinces of the Northeast which are very sparsely populated and have some of Cambodia's most pristine forests, including a large population of indigenous peoples. An environmental assessment category "C" seems to not fill this need for clearer understanding of potential impacts of investments on the environment [The project had been an EA category C]. For example will roads be a part of this infrastructure investment? If so, what will be the impact on illegal logging, forest degradation, etc. Also, production is listed as an input. There are plans for large-scale plantations of palm oil, rubber, etc., which potentially have major environmental impacts if implemented. [e-mail: USAID/Cambodia 25Nov96]

USAID/Cambodia would like to correct the statement in the World Bank's Environmental Data Sheet for the "North East Rural Development" project that indicated that "this support has already led to adoption by the government significant short and long term policy changes for forestry, whose implementation is being monitored." Substantive policy recommendations in the forestry sector are only now being developed under the auspices of a World Bank Forestry Project. This project is tasked with developing recommendations that will affect forest policy, sustainable forest management, monitoring of illegal logging operations, and the legal environment conducive to sustainable forest resource use in Cambodia. The technical assistance team responsible for the policy recommendations (ARD) is scheduled to complete their assignment by the end of May 1998. Additionally, the statement that "it is expected that it will lead to the adoption by the Government of a National Environmental Action Plan in 1997" should also be amended. An executive summary of the final draft of the National Environmental Action Plan, focusing on 1) forest policy, 2) fisheries and floodplain agriculture in the Tonle Sap region, 3) coastal fisheries, 4) biodiversity and protected areas, 5) energy and the environment, and 6) urban waste was only recently circulated. [USAID/Cambodia email: 4/03/98]

Status: The World Bank responded that, having initiated a major effort on forest/logging policy in Cambodia over the past year, we are familiar with the value of and threats to the natural resources of the North East part of the country.

In fact, the proposed NE Rural Development Project will focus on raising incomes of poor farming households mainly in the Mekong river valley, from Kompong Cham up to Stung Treng, rather than in the two very sparsely populated, highland provinces of the northeast (Ratanakiri, Mondulkiri) that USAID/Cambodia probably has in mind.

The project would not include any large-scale plantation development. It would finance subprojects for the improvement of small-scale crop farming and livestock raising and possibly some non-farm enterprise development.

The project would help repair some of the roads and other basic infrastructure in the area, which as USAID/Cambodia knows, has received virtually no public investment or maintenance for nearly 30 years, but would not get into new road or highway construction. Thus, it would not be opening up forest land for commercial logging, and would help discourage illegal tree felling by local residents by improving alternative income earning opportunities in agricultural and similar activities.

By helping to establish village-based organizations for community development and by strengthening local government capacities for basic land use planning, the project would help pave the way for a possible GEF-supported natural resource management/ biodiversity conservation project in the NE of Cambodia. This possible GEF project would include the watershed areas of the three Mekong tributaries reportedly being considered for hydropower development by the MRC as well as critical riverine and wetland areas in the Mekong valley proposed as a RAMSAR site.

Thus, the proposed RDP does not raise any significant environmental issues but, rather, helps develop local capacities and willingness to prevent them. Its environmental category rating will be decided at the concept review stage (February 24). [E-mail: World Bank 18Feb97]
Global Witness, an NGO based in the United Kingdom, reported on progress as viewed by a variety of donors on the great problem of uncontrolled logging in Cambodia. Section of the report follow:

"The overriding issue within the forestry sector of Cambodia is how to achieve sustainable utilization of forest resources in an equitable manner for the benefit of the local communities and the national economy while maintaining the integrity of the resource and conservation of local flora and fauna." FAO Report on the Forestry Sector at the 2000 Consultative Group Meeting; 24th - 26th May 2000.

In the eighteen months prior to the CG in Paris on May 24th - 26th unprecedented progress was made in the Cambodian forestry sector. Following Hun Sen's 17 Point Declaration in January 1999 illegal logging has been drastically reduced. The formation of the Forest Crimes Monitoring Unit (FCMU) with Global Witness as the Independent Monitor has already produced significant results and the Asian Development Bank (ADB) Concession Review whilst failing to recommend a complete moratorium on logging and cancellation of the worst concessionaires was very strong on findings and provided many useful recommendations. The most notable announcement at the CG was made by Chan Tong Yves, Secretary of State at the Ministry of Agriculture Forestry and Fisheries (MAFF), when he declared the "firm intention" of the RGC to preserve the Central Cardamom Mountain area and take it out of concession. The donors unanimously welcomed this and the other progress that had been made.

Global Witness was concerned that because of this substantial progress "forestry" as a topic of discussion at the CG would slip down the agenda. However it was discussed in greater depth than ever before at a CG and raised by all the major donors in their statements to the group. Forestry was covered in some detail by Hun Sen in his opening address and the FAO, ADB and MAFF all prepared detailed papers on the subject. The strongest comments came from the Swedish, the British, the German and the Dutch delegations with some donors supporting Global Witness' calls for a moratorium on all concession activity. Aid continues to be linked to key reforms and this includes forestry.

Concessions

"Of the concessions where the consultant could obtain sufficient information to assess the number of harvestable coupes, 40% are estimated to have fewer than five years left, 50% have between 5 and 10 years left, and 10% have between 10 and 15 years left. Of the four companies that have never harvested their concessions, none have more than 10 years of viable annual coupes remaining." ADB Draft Cambodian Forest Concession Review Report; 31st March 2000.

The Need for a Moratorium

The Cambodia Timber Industry Association (CTIA) said in its statement to the CG 2000 that "All the stakeholders have come a long way from the recent past in situations which have been aptly described as a 'total system failure'...".

Whilst it is encouraging to note that the CTIA agrees with the ADB description of the concession system in Cambodia it should be pointed out that the CTIA has not come far enough...

Global Witness has consistently called for a complete moratorium on all concession activity. The need for a moratorium is the only logical conclusion that can be drawn from the recent ADB Concession Review. ...

Such problems can be handled in a number of ways and often require the use of multiple tools at once. For example, the Bank has procedures for listing and avoiding contracts with companies with which they have had significant difficulties, including difficulty verifying compliance with applicable policies and laws. The World Resources Institute (WRI) and the World Wildlife Fund have also continued to develop reports on timber harvesting and trade. Effective cooperation and action on these fronts to affirmatively ensure full compliance and take appropriate action when it is not evident can help considerably when dealing with the fragile and threatened ecosystems that many ancient, native forests have become.

report concludes that since the World Bank’s 1991 ban on direct financing of logging in primary tropical forests, the World Bank has used structural adjustment loans to fund forestry “reform”. This, despite the fact that structural adjustment loans are in the words of WRI, “the World Bank’s most significant instrument”\(^{163}\) and virtually half its lending agenda, generally are considered without Environmental Assessments. This in many cases has not worked for lack of the right conditions.

While this study did not cover Cambodia, nor Russia, which received a somewhat controversial World Bank forestry loan days after Prime Minister Putin moved the Environmental Ministry and the 200 year old Forest Service,\(^{164}\) under the more extraction-oriented Ministry for Natural Resources, its findings are worth taking into account in any forest-related project, sectoral, or structural loan. In Cameroon and Indonesia, for example, the “Bank has been unable so far to transform government commitments into meaningful change in concession allocation and management systems.” This was in large part due to the Bank’s “failure to firmly condemn corrupt” practices in Cameroon’s forest sector.\(^{165}\) In the meantime, virgin forests and their endangered wildlife are rapidly reduced and replaced by mudslides and floods waiting for the next storm to happen. That in turn pollutes rivers and drinking water and brings disease to humans and riparian wildlife alike.

The study finds that the Bank can make the difference in bringing about the necessary incremental government reform that itself is a condition of sustainable forest management. The study contends that the Bank need not wait for good governance if it is sufficiently vigilant in working with institutions and constituencies on the cusp of gaining control of the resource from the hands of harvesters who have not yet been controlled. It does acknowledge, of course, that the risks of actions that may promote timber harvesting absent an established control system are great. The question then becomes whether to take the risks and how to limit them.

Good tools, such as performance bonds, went unused due to lack of follow-through, according to the WRI Report. This in turn was often due to a lack of political will in the Ministry and the lack of a system to measure and monitor performance, as in Indonesia for example\(^{166}\). This suggests that was is needed is standing for competitors and NGOs to sue or seek redress of violations of law or conditions perhaps by appealing to the Bank itself in order to enforce the terms of the loan, or liquidate and use the performance bond to correct the situation. There are various legal systems for doing this from basic standing to sue complemented by awards of fees and costs to the old Qui Tam system in which a person who sues to enforce the law on behalf of himself as well as the state keeps half the applicable fine or fund secured by his litigation. Damages can mount to twice or three times the amount in question in fraudulent government procurement or anti-trust violations in the U.S. system. A lack of competent and independent judiciary could be accommodated by the establishment of an administrative law judge to hear appeals directly related to Bank-funded programs or projects.

As the Bank concludes the revision of its forestry policy, WRI recommends that:

- Structural Adjustment be subject to Environmental Assessments\(^{167}\);
- Such analysis should be broad and encompass social and environmental implications of proposed

\(^{163}\) The Right Conditions, p. 5.

\(^{164}\) See Europe and Eurasia section of this report.

\(^{165}\) Id, 4-5.

\(^{166}\) Id, at 136.

\(^{167}\) The Treasury Department has opposed this so far on the grounds that few governments assess the impact of changes in the federal reserve macroeconomic policies, for example. But the point is that EA’s can cover those elements of structural adjustment loans that will clearly have an identifiable impact on the environment, natural resources, and public health. The U.S. has long had official guidance on programmatic Environmental Impact Statements (40 C.F.R. 1500.1 et seq., 1510.1 et seq.). National decisions to increase harvests across the board and not just local scale decisions require an EIS, for example (Natural Resources Defense Council, Inc. v. Butz, D.D.C. 1974). The House Subcommittee on Foreign Operations in its report 106-720 (p. 85) instructed the Treasury Department and the USED at the Bank “to work with management to institute a dynamic, participatory process to assess the environmental and social impacts of structural adjustment loans and report to the Committee on progress toward this goal not later than June 15, 2001.” See also, the discussion of Ecuador’s structural adjustment loan, in this report under Ecuador.)
changes in the forest management rather than be limited to reviewing efficiency objectives;

- Involve key stakeholders and incorporate their insights into the proposed programs
- Open implementation oversight to public participation in a transparent manner
- Include staff with a broader set of skills beyond economics and give them incentives to reach goals beyond efficiency objectives.

Finally, the strategic implications noted include the need to identify latent constituencies for reform and a particular need to pursue good governance in regard to the environment and natural resources.
15. China: IBRD/IDA - Western Poverty Reduction & Inspection Panel Report, Rural Development

China

Western Poverty Reduction & The Inspection Panel Report

- Projected IBRD/IDA Funding: $ 60/100 million
- Projected Total Cost: $ 334 million
- Board Date: June 2000
- Stage: Remaining $40M Request Withdrawn
- World Bank EA Category: B
- Project ID: CNPE46564
- Project first entered: April 1999
- Entry updated: April 1999 / August 2000 (below)

The 1999 description by USAID is included verbatim as it provides key background information and an example of AID’s role in the process:

Description: The project seeks to reduce absolute poverty through a multisectoral program in an environmentally sustainable rural development that includes upland agriculture, rural infrastructure, social services, voluntary settlement and rural enterprise development.

Issues: This is a grossly miscategorized project, it definitely should have been an environmental assessment category “A” (complete EA) instead of a “B” (limited EA). The project will generate significant environmental and social impacts, and clearly calls for a complete EA. The World Bank’s policies on resettlement and environmental procedures call for projects that have significant resettlement, large-scale irrigation, drainage, waterways, flood control, land reclamation, and river basin development aspects to have complete EA (EA category A).

The project has a major voluntary resettlement scheme for an estimated 100,000 poor people currently living in marginal, eroded and mountainous areas of eastern Qinghai. About 26,700 ha of “suitable” land with adequate water resources has been identified in central Qinghai for resettlement. The irrigation development component entails the construction of a 40-meter-high dam and renovation of an existing 8-meter dam; and construction of an irrigation and drainage (wells) system on 26,500 ha in Qinghai.

According to the Project Information Document, the principal environmental issues associated with include land leveling and soil erosion; saline and sodic soils; energy and timber supplies for settlers; livestock management; and land compensation. On soils the PID mentions “the soil in much of the area Qinghai resettlement area is saline and a minor part of it is likely to be sodic as well... Additional work is required to define the severity and extent of the sodic soils.” Through field surveys, the bank should make sure that this question is resolved before approval. A full environmental assessment, completed with public consultation, would identify the appropriate alternatives and proper mitigation measures for developing these less-than-adequate soils.

The PID also mentions: “In the long-run, the development of good water management at the system level and at the field level is the key to avoiding salt problems. The supply of energy for cooking and heating and the demand for timber for construction purposes in Qinghai must be addressed before resettlement occurs. In the absence of adequate supplies there is potential for excessive demand on local timber resources particularly in the adjacent sensitive mountain areas.” Again, a complete EA is necessary to resolve these issues.
Western China Poverty Reduction Project, Summer, 2000:

In a watershed development that has great implications for MDB projects and policies generally, and for Treasury, USAID, State and other interagency cooperation, the World Bank Board took the unusual step of rejecting management’s recommendation in a vote on the Western China Poverty Reduction project. AID had criticized in its 1999 Report to Congress and asked Treasury for copies of the Inspection Panel Report and related documents for review by other agencies in June. After the vote, the Chinese withdrew the project. The United States Executive Director (USED) also called for systemic reform in the Bank to enforce Safeguard environmental and related policies that NGOs and some agencies fear are being formally weakened as well as sometimes not enforced. USAID expects to be actively engaged in the Bank’s current revision of the safeguard policies and in the design of the new pre-approval clearance mechanism and other remedies recommended by the USED.168

On Friday July the 7th, China withdrew its request for the remaining $40 million of the Western China Poverty Reduction Project. This was in response to the Board vote of 64% (comprising generally the Developed Nations’ votes) rejecting Management’s proposal that the Safeguard policies were general “guidelines” only and not to be enforced “mechanistically” or “literally”, and that Management decide when to provide the remaining funds that had been withheld pending the report of the Inspection Panel. Although the US opposed the project, in effect it created part of the majority of the Board which was prepared to decide that the decision would have to comeback to the Board pending further review. (See www.worldbank.org for news about and selected documents concerning Inspection Panel Report and Management response). The panel had found that despite assurances by Management in the summer of 1999 that the project was in compliance, the proposed project was in violation of 7 of the 10 mandatory Operational Policies that have been designated as the Bank’s major “Safeguard Policies”. Those violated include the policies on Environmental Assessment, Indigenous Peoples, Resettlement, Information Disclosure, and Conversion of Critical Natural Habitat. The Panel described “policy illiteracy” in the Bank and flaws in the Bank’s management process as reasons for the violations. The US position was to oppose Bank involvement even if it might make the project marginally more acceptable, because the Board could not be assured of that if the Banks own policies were being violated.

The US Executive Director on the Board called for Management to prepare specific proposals to address the overall Bank weaknesses identified in the Inspection Panel report including proposals to:

a) strengthen the role of internal Bank networks to better control of operations, including a mechanism with approval authority to ensure policies are fully understood and respected in Washington and in the field,

b) create a new compliance unit (as distinguished from the Quality Assurance and Compliance Unit established in 1998 and the Inspection Panel which as currently comprised which review respectively a selection of projects during operations, and only those that are the subject of formal complaints) to ensure that no project is moved to the board without prior certification as to compliance with all applicable policies, and

168 Although a dam was only one part of the withdrawn project, China has been among the most active dam builders in recent years, continuing with the Three Gorges Dam, which the Bank informally rejected several years ago. Water diversions may reach a point where the river dries up entirely as at the mouth of the Colorado River in the US at times. This has grave consequences for the ecosystems involved and even for major projects sharing the water. To wit:

From the World Bank's Development News of June 23, 2000, quoting the South China Morning Post:

BRIEFLY NOTED...A severe northern China drought has shut down the Xiaolangdi Dam, the largest and most expensive hydro-electric scheme on the Yellow River, reports the South China Morning Post, noting that the project, with six generators with a capacity of 1.8 million kilowatts, is backed by the World Bank with loans of more than $1 billion.

90
c) personnel incentives and disciplines to support these policies.  

After the Panel’s report and the withdrawal of the project it was noted by many observers that the Bank is in the process of revising several of these policies as well as consolidating the Operational Policies and Bank Procedures, which are mandatory, and the Good Practices which are for guidance only. In this on-going process, NGOs have found a trend toward weakening the policies and moving some from mandatory to guidance status (see The World Bank’s Policy Framework, 1999, p. 3, www.bicusa.org). Some expressed concern that if this is so, and if this trend continues with the current Forestry, Information, Resettlement, Indigenous Peoples, and Information Disclosure policy revisions which are underway now, then stricter enforcement of weakened policies will mean less protection than it would otherwise appear. This has particular relevance for China and some other major borrowers who have operated with relative independence of MDB and other donors and lenders even with regard to the operation of projects subject to “conditions”.

Throughout the 1990’s China has been the Bank’s largest borrower with new commitments averaging $2.5 billion per year and two hundred projects financed since lending began in 1981. Although by some measures the quality of performance has been higher than that of the average borrower, concerns about the implementation of safeguard policies adopted since 1989 led the Bank to establish a special Quality Assurance Group Panel to review six major projects in China. These reviews occurred at the mid-point of their implementation (roughly eighteen months after beginning and before completion). 

The General Accounting Office of the U.S. Congress (GAO) reported in September of 1998 on Public Consultation on Environmental Assessments and among other things, found that of the projects surveyed those in China tended to have less than adequate consultation. Furthermore, the Chinese government “typically submits project proposals for bank consideration only after much of the consultation and design are already complete.” This limits the ability of the consulted public and the Bank to have an impact on projects’ design.

Corruption continues to plague World Bank projects despite improvements in efforts to control it according to another GAO study of some of the largest borrowers from the Bank released in April of 2000. China, third largest borrower in 1999, had not been the subject of a “Country procurement assessment review” and most of the remaining top ten borrowers were not fully covered by the reviews aimed at controlling corruption even though the Bank was in some cases approving the overall Country Assistance Strategy first.

On August 1st The Washington Post reported that a Chinese court had convicted a former top-ranking official of the parliament of participating in a $5 million dollar bribery and kickback scandal and sentenced him to death. The article went on to say “Corruption, common at all levels of Chinese bureaucracy, is eroding the faith of people in their government...” . the article notes a campaign against corruption but cites a popular belief that those targeted for prosecution are limited to those who are out of favor, noting another investigation bogged down for months.

169 Although the Board was reviewing the question of whether to approve the release of $40 million, with grave implications for the environment and indigenous peoples, the Board and the Treasury Department did not treat the materials about the project, including the Inspection Panel Report, as items to be reviewed in the normal interagency review process, perhaps because it was being handled by different personnel at Treasury. USAID requested a broader circulation and discussion of the documents involving USDA, USEPA, and other agencies. As noted above, we look forward to a broad interagency discussion of how to fill in the details of the excellent remedies outlined by the USED.

170 Review of Safeguard Policies in China, Quality Assurance Group, penultimate draft December 1999, p. 8., more on this in this report, below.


172 Ibid.

173 World Bank – Management Controls Stronger, but Challenged in Fighting Corruption Remain, GAO/NSIAD-00-73

174 Id. At 20-24.

175 p. A17.
Given this level of concern and demonstrated risk, projects with major potential impacts on the environment, indigenous peoples and related sensitive areas in China or other nations with similar risk profiles should be accompanied by particularly strong reviews, internal safeguards and approved with a degree of caution not yet reflected in Bank operations. 176

China
Rural Development

Guangxi Baise Multipurpose: The project is designed primarily to protect Nanning and nine other downstream municipalities and counties against floods. The Baise Dam and Power Facilities component will consist of a 130 meter-high RCC dam and spillway, power facilities including a hydropower plant of 540 MW, two saddle dams and underwater works for a navigation shiplift. The institutional development component includes strengthening the Youjiang River Basin Development Corporation, development of a flood forecasting and monitoring system and operation procedures including the EPP and related institutional reform. The project also includes a resettlement component and an environmental management component. Project preparation has been put on hold at the request of the government. Environmental Assessment Category A. US$ 400.0 (IBRD). Consultants for project preparation and feasibility studies and dam safety review panel and a panel of international environmental and social experts have been appointed. Prequalification for two main civil works contracts will be undertaken soon. Youjiang Water and Power Development Corporation, No. 36 Jianzheng Rd., Nanning, Guangxi 530023, China, Tel: (86-771) 562-8529, Fax: (86-771) 563-7491, Contact: Mr. Yang, General Manager

Issues: Given the fact that the World Commission on Dams which was convened with the support of the World Bank among others, is just finishing its three year study of the costs and benefits of dams after several year’s of Bank funded studies of dams before that, it makes sense to wait before commissioning or moving ahead too quickly at any stage with plans for dams anywhere.

This is compounded for Chinese projects since the Quality Assurance Group found in 1999, as did the GAO with regard to environmental assessment outreach in 1998, weaknesses and mixed performances in applying safeguard policies there with only marginally satisfactory supervision of safeguard policies in two of the six major projects studied. 177

Concurring with the GAO, the QAG found that lack of effective consultation with affected peoples to be the Borrower’s most common problem.

The Bank’s greatest oversight weakness was in environmental mitigation though five different types of repeated supervision shortcomings were listed.

These were:

- lack of explicit management involvement, even in near crisis situations;
- a sense of complacency in which technical problems were underestimated and local capacity overestimated;
- lack of expeditious problem resolution;

176 While not perfect, and not tested by USAID, the professional polls commissioned by Transparency International of international business persons reflect perceived levels of corruption in most countries. A comparison of bribery in 19 major exporting countries ranked China last.

177 Review of Safeguard Policies in China, Quality Assurance Group, penultimate draft December 1999, p. 3.
• insufficient insistence on real consultation and disclosure of pertinent information with affected peoples in implementation; and
• inadequate project reporting and ratings.

The QAG also noted that earlier and more strategic use of a broad scoped, macro-level environmental assessment would be more productive. 178

Perhaps more informative were the recommendations of the QAG. These included but were not limited to:

1. Address the “Safeguard Dilemma” by
   - Defining reasonable compliance and
   - Considering a Safeguard Fund to finance costs of meeting Bank’s safeguards where they exceed costs of meeting borrower’s own.

2. Move Beyond Compliance: Use Safeguards More Strategically by
   - undertaking environmental and social assessments earlier in the project cycle to illuminate options and alternatives and
   - carrying out sector or province-wide assessments on macro issues even if it requires lengthening the project cycle and changing current budget practices.

3. Focus on Enhancing Participation and Consultation and ensure confidential and culturally appropriate data gathering techniques.

4. Make “line” management more accountable and give sector coordinators oversight responsibility over the currently poorly supervised task managers.

5. Give external monitors more independence from the organizations they review (through long term contracts for example).

178 Id, at 4.
Summary of Project Information (SPI)

Project number: 4897

Project name: India - Balagarh Power Company Limited

Country: India

Sector: L - Infrastructure

Region: Asia and the Pacific

Company name: Balagarh Power Company Limited

Environmental category: A

Projected board date: Uncertain

Date SPI disclosed: 05/09/2000

Project sponsor and major shareholders of project company

The project sponsors are CESC Limited (CESC) and Southern Energy Asia-Pacific Limited (SEAP):

CESC is an existing IFC client in whom IFC has made two previous investments. CESC is a vertically-integrated utility company that owns and operates the generation, transmission and distribution system that serves the metropolitan Calcutta area, and has been in existence for over 100 years. It is a publicly-traded company listed on the local stock exchanges in India.

SEAP is a wholly-owned subsidiary of the Southern Company (Southern) of USA and operates a number of independent power project (IPPs) in the Asian market. Southern is a reputable and financially strong electric utility with assets worldwide. Its ownership in SEAP is held through a direct wholly-owned subsidiary, Southern Energy, Inc. (SEI), which holds Southern's other international assets. Southern is the largest producer of electricity in the United States and operates more than 36,000 MW incl. 23,891 MW of coal-fired plant. SEI directly operates more than 4,000 MW outside of the United States and has an ownership interest in more than 15,000 MW. SEI has operations in Chile, Argentina, Brazil, UK, Germany, the Bahamas and Trinidad & Tobago, China and the Philippines. Southern has assets of more than US$36.2 billion and employs approximately 25,000 people in the United States and about 6,600 people overseas. In 1998, Southern reported a net income of US$977 million on revenues of US$11.4 billion. Shares of Southern, a widely held corporate stock, trade in the New York Stock Exchange.

The project company, Balagarh Power Company Limited (BPCL), a newly-organised company set up to develop, own and operate the project, will have the following ownership structure:

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>% Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>CESC Limited</td>
<td>94</td>
</tr>
</tbody>
</table>
SEAP Mauritius 30.2%
CESC/Other Investor 26.0%
Hanjung 7.0%
AIDEC 10.0%
ADB 13.9%
IFC 8.0%
Total Equity 5.0%
Total Equity 100%

Total project cost and proposed IFC investment
The total project cost is estimated at US$572 million. The proposed IFC investment consists of a senior A loan of US$45 million for IFC’s account, a senior B loan of up to US$100 million for the account of participants and an equity investment of up to 5% (US$9.2 million) of the common stock of BPCL for IFC’s account.

Location of project and description of site
The Balagarh power plant will be located on a greenfield site on Balagarh Island in the River Hugli, 70 km north of Calcutta. The site was originally earmarked for a power plant to be built by the West Bengal State Electricity Board (WBSEB). However, in an effort to attract private sector investment into power generation, the State Government has invited CESC to develop the proposed site as an IPP. The proposed site is well-situated with close access to major road and rail links and plentiful cooling water supplies from the River Hugli. The project will affect eight residential structures and about 1,600 people who are owners or users of the agricultural land for the site.

Description of company and purpose of project
Project Description
The Balagarh project is to build, own and operate a 2 x 250 MW coal-fired thermal power plant. The project is expected to be implemented over a 33-month schedule with the first unit entering commercial operation towards the end of 2003 and the second one three months later (for a total of 36 months). The energy output will be utilized entirely by CESC and sold under the basis of a two-part tariff power purchase agreement.

Primary equipment will include two pulverized coal steam generators, one for each of two turbine generators, designed to burn **high-ash low-volatile pulverized coal as the principal fuel supplemented by light diesel oil for start up and heavy fuel oil during low load operation.** The two steam generating units will be sized to ensure adequate margin over the requirements of the turbines, and to provide for auxiliary steam load and future degradation. Each boiler will be equipped with all required air preheaters, soot blowers and fans. The turbo generators will utilize a regenerative feedheating and reheat system and the condenser will operate on a closed cycle cooling system. A fully mechanized coal handling system to handle 2.8 million tonnes per year and partially covered storage capacity at the site sufficient for about 30 days reserve will also be provided.

**Coal for the plant will come from mines owned by Eastern Coalfields Limited in West Bengal and Bihar.** These mines are approximately 200 km from the plant site and are connected via existing rail links. These mines are well developed and are presently in production. Coal reserve estimates
indicate there is ample supply to cater for the plant throughout its lifespan.

It is proposed that under an operation and maintenance (O&M) agreement with BPCL, a CESC/SEAP joint venture will operate, maintain and repair the facility according to international industry practices using their own engineering, operation and maintenance staff. BPCL is proposing to implement the project through a lump sum turnkey Engineering, Procurement and Construction (EPC) contract with Hanjung of South Korea for the design, construction, procurement, supply, erection, installation and commissioning of all mechanical, electrical, control and instrumentation plant and equipment, and the power station civil works.

Development Impact/IFC Role/Fit with World Bank Group Strategy
This project will ensure secure and reliable power supply for the city of Calcutta and improve the efficiency of electricity generation in the region. A more reliable power supply should also help stimulate overall growth in economic activity in the area. It will also create local contract employment during the construction period, as well as permanent local jobs during operations. Private investment in the power sector would reduce the need for public investment and enable the Government of West Bengal (GOWB) to deploy more resources to meet poverty alleviation and social development objectives.

Despite the considerable development delays, this project will be one of only a handful of independent power projects developed to date in India under the revised Electricity Act Guidelines published in 1991, and the first to sell its output directly to a creditworthy private utility. The project will not require State and Central government counter-guarantees and its revenues will be directly funded, on a pass-through basis, by the tariff charged to CESC's customers. This project will help demonstrate to both government and private investors that power projects can be structured without the need for government support provided that output from such projects is tied to a creditworthy distribution company and a functioning regulatory framework.

The overall Bank Group strategy for India is aimed at helping the country achieve an "accelerated growth with equity" strategy that aims to double per capita income by the year 2010 and thereby significantly reduce poverty. In order to achieve this objective the Bank Group has focused on supporting policy reform, social and environmental issues, and private and financial sector development. Within the Bank Group's overall strategy, IFC's focus over the medium term will be on the: (i) development of the infrastructure sector (power, telecom, ports, roads and urban infrastructure); (ii) the development of the financial sector; (iii) greater participation in agribusiness as agriculture reforms progress; (iv) support for export oriented projects especially in the high tech sector; (v) increased private participation in the social sector through technical assistance programs as well as direct investments. This project is consistent with: (i) the overall Bank Group strategy of promoting private sector development in India and (ii) IFC's strategy of promoting private investment in the power sector in India. In addition to the development impact, IFC participation in the project will provide direct long-term financing, help mobilize additional sources of long-term debt, and ensure that the project is implemented in an environmentally sound manner.

Environmental and social issues - Category A

This is a Category A project according to IFC's Procedure for Environmental and Social Review of Projects, because it may result in significant adverse environmental and/or social impacts that are sensitive, diverse or unprecedented.

Location of environmental documents in locally affected community
The locations are:

1. Office of the District Magistrate, Hooghly, West Bengal, India
2. BPCL office near the site at village of Sripur, Balagarh, West Bengal, India
3. Local Library in village of Sripur, Balagarh, West Bengal, India
4. Office of the Block Land & Land Reforms Officer (BL & LRO), Jeerut, West Bengal, India
5. Balagarh Power Company Limited Head Office, CESC House, Chowringhee Square, Calcutta 700 001, West Bengal, India

Also a leaflet containing the non-executive summary for both the Environmental Impact Assessment (EIA) and the Resettlement Action Plan (RAP) has been prepared in vernacular and kept at all the above places for distribution to the interested persons.

To contact the project company, please write to:
Mr. J. Chakrabarty
Project Manager
Balagarh Power Company Limited
CESC House
Chowringhee Square
Calcutta 700 001
India

Tel/Fax: int'l + 91 33 225 5557
Email: jc@rpgnet.com

This Summary of Project Information is prepared and distributed to the public in advance of the IFC Board of Directors' consideration of the proposed transaction. Its purpose is to enhance the transparency of IFC's activities, and this document should not be construed as presuming the outcome of the Board decision.

Issues: The issues here are numerous. Issues raised in an interagency meeting in the summer of 2000 include the questions of whether cleaner renewable sources of energy on and off the grid are available; of conservation (inclining block) rates; of high ash content and whether it could be reduced through the use of more efficient mining equipment to remove lower quality material from the combustible coal; the impact on ambient air quality given decade old statistics in the materials agencies have reviewed; the cumulative impact of the development; the impact on the increased demand for coal upon the tigers of Bihar; and assertions of continued corruption and violations of Bank policies in the mining of coal there by Coal India assisted by a separate World Bank loan.179

17. Indonesia: IBRD – Transport

Indonesia
Transport

(R) Ports Environment Improvement: The project will assist the government in the implementation of policies that address the environmental issues of maritime transport. The objectives are to (a) develop the capacity for appropriate disposal of ship wastes; (b) upgrade the capacity for oil-spill prevention and contingency planning; and (c) develop the capacity to manage pollution from contaminated dredged materials. Date of negotiations is to be determined. Environmental Assessment Category B. PID: IDPE40892. US$ 4.2 (IBRD). Consulting services to be determined. Ministry of Communications, Gedung Karra, Lt. 4., J.I. Merdeka Bar, No. 8, Jakarta, Indonesia, Tel: (62-21) 784-2440; 381-1308, Fax: (62-21) 384-2190

Issues: This is a prime example of a project intended only to improve environmental control capacity and performance, and thus given a B classification. Depending upon the issues addressed and the technologies chosen, however, the Indonesians may rely to their detriment on out of date or incomplete approaches for handling very toxic and dangerous materials. For example, the Chad-Cameroon pipeline project (see Africa section above), one of the most heavily scrutinized projects involving port-transport led by one of the largest companies in the world, did not have any plans or requirement for controlling ballast water-borne invasive species nor any apparent large oil spill response technique except the use of dispersants, until final interagency review raised the subjects. For dredging yet to be done, there are the questions of whether to dredge at all in the near future, given limited resources to handle the toxic results, and when and how. These are questions that have taken intense scrutiny in the Hudson River and Saginaw Bay. Depending on the type of pollutants and remedial technologies present and the populations potentially exposed, they may be answered very differently and should be resolved with utmost care.

Vietnam
Rural Development

(R) National Water Resources Management: The project will introduce integrated water resource management in selected basins. Preappraisal is tentatively scheduled for June 2001. Environmental Assessment Category to be determined. US$ 130.0 (IDA). Consulting services to be determined. Ministry of Agriculture and Rural Development (MARD), 2 Ngoc Ha St., Hanoi, Viet Nam, Tel: (84-4) 733-0782, Fax: (84-4) 824-7133, Contact: Mr. Pham Hong Giang, Vice Minister, MARD

Vietnam
Transport

(R) Mekong Transport and Flood Protection: The project will support the government's efforts to complete the rehabilitation of Highway One. It will focus on (a) the protection of flood-prone sections in the central coastal area; and (b) the improvement of the surface transportation system in the Mekong Delta area. Negotiations are tentatively scheduled for September 2000. Board presentation is scheduled for October 2000. Environmental Assessment Category A. PID: VNPE42927. US$ 110.0 (IDA). Consulting services to be determined. Ministry of Transport and Communications, 187B Tay Son St., Hanoi, Viet Nam, Tel: (84-4) 851-1278, Fax: (84-4) 852-1013, Contact: Mr. Pham Ngoc Thuy, General Director, PMU1

Issues: The two projects described above involve potentially many environmental issues related to the water basin management questions described in the following section of the 1999 report. Whereas the Mekong Delta Water Resources Project was classified as a Category B, the Mekong Transport and Flood Control Project is an A. This should allow informed discussion of the effects of water-born transport interfaces with highway transport, dikes versus bridges and other issues that should be carefully considered. The nation-wide water resource project will almost surely call for an “A” categorization given the intense criticism of the lack of review in just the Mekong Delta Project in 1999 below:

Vietnam
Mekong Delta Water Resources Development

- **Vietnam Projected IDA Funding:** $102 million
- **Projected Total Cost:** $148 million
- **Board Date:** May 4, 1999
- **Stage:** Approved
- **World Bank EA Category:** B
- **Project first entered:** April 1999
- **Project information updated:** April 1999

**Description:** The Mekong is the 10th largest river in the world. This project will support completion of salinity control and water delivery systems, to improve agricultural production and increase rural income in some of the poor regions in the lower Delta. The proposed project would cover five subproject areas in six provinces with a total area of 535,000 ha (14% of the Mekong Delta). Four of the subprojects, South Mang Thit (225,682 ha), Quanlo-Phuonghiep (178,900 ha), Baring-Talin (31,000 ha) and Tiep Nhat (54,000 ha) are in the lower Delta. The Omon-Xano subproject (45,430 ha) is in the middle Delta. Each area is a unique hydraulic unit.
The basic approach to the development of the subprojects in the lower Delta is to prevent salinity intrusion by extending existing dikes and installing about 200 additional sluice gates on canals serving the agricultural areas, together with completion and improvement of existing irrigation systems. The sluice gates would close at low tide, especially in the dry season, to prevent saline tidal flows from entering existing agricultural lands. They would open in periods of high freshwater flow to allow drainage and flushing of contaminants. This would create a year-round fresh water environment to allow an additional crop to be grown in the dry season. Improvement of drainage and inundation in the wet season would secure the second or third crop. Existing canals would be enlarged where necessary and the density of secondary canals would be increased to improve water delivery capacity for irrigation and drainage. Tertiary canals and on-farm systems would be developed.

The Omon-Xano area is above the salinity line and freshwater is available all year round. The main aim of this subproject would be to improve flood protection and drainage through extending embankments and building sluices, and to improve secondary canals.

Overall, the improved water delivery systems of over 3,000 km of irrigation/drainage canals, embankments and structures would promote agricultural intensification and diversification by providing fresh water and through improved drainage. The project would facilitate rural transport through enhancements in canals, bridges and canal connected rural roads.

The project will also develop a number of deep groundwater wells to provide drinking water to the rural population of the region (about a million people), as mitigation for expected declines in surface water quality.

The project involves resettlement of 1650 families (moving homes), and compensation for 34,000 families expected to lose small parts of their farmland. It has a resettlement budget of $21 million, to be completely covered by the Government (a problematic practice in some countries, but the GoV appears committed). The Resettlement Action Plan (RAP) appears to have been well-done -- a major improvement over the prior Vietnam Inland Waterways project, which the USG opposed.

Issues: A USG review of the project found that the project’s limited environmental assessment inadequately addresses issues of surface and groundwater quality, fishery impacts, nutrition trends with specific reference to protein intake, water-borne diseases and pesticide exposure, and subsidence related to groundwater pumping. Such issues apply not only to the project area, but also to downstream impacts where the fresh water meets the sea.

According to USG interpretation of the Bank’s operational policies, the project should be classified as an EA category “A” because of the project’s significant resettlement, and large-scale irrigation, drainage, waterways, flood control, land reclamation, and river basin development aspects. The Bank says that it was given a category “B” due to the prior completion of a Mekong Delta Master Plan, which indicated a preference for these projects and included some sort of regional environmental impact assessment.

However, the area has a high international profile for environmental sensitivity, and a paucity of baseline data, as acknowledged by the project’s EIA numerous times.

The project does not convert non-agricultural lands, but its essential purpose is to control salinity intrusion and flooding in order to convert a formerly large area of seasonally brackish (salty) wetlands to a freshwater wetland regime. This will enable rice production to go from 1 or 2 crops per year to 2 or 3 crops (the Bank says the third crop will usually not be rice, but other crops with less water demand). This type and scale of land reclamation or conversion can be potentially ecologically significant, with diverse effects - to disease vectors such as mosquitoes carrying Japanese encephalitis and malaria, mangroves, fisheries, waterfowl, etc.

The project EA focuses by sub-project area on the issues of salinity, local hydrology, acidic soils, within-site fisheries economies, and inhibition of transport, without ever looking at the cumulative picture or areas
adjacent to the projects that are likely to be affected.

A USG interagency review (by NOAA, EPA, USAID, State, Treasury) of the EA and related documentation concluded that the environmental studies were too narrow in scope and suffer from a serious lack of baseline data on a variety of potentially serious issues:

a) There was no apparent consideration of development alternatives to the project, other than moving sluice gates from one location to another.

b) There are reports that some farmers prefer to and are already illegally pumping saline groundwater into some project areas in order to grow more lucrative shrimp, rather than rice. The sustainability of this practice is uncertain. The Bank assumes that this was occurring in areas that had been excluded from the project, as they expressly redesigned it to avoid overlap with shrimp production areas.

c) A variety of potentially serious issues were not even considered, such as: human health impacts of several different types, delta subsidence, changes in Mekong flows due to upstream development or water sharing agreements to be worked out under a forthcoming WB/GEF project, nutritional and other socio-economic impacts of changes in common property regimes such as subsistence fisheries, gender and economic aspects of farmer’s O&M responsibilities, etc.

d) A variety of other issues were very briefly mentioned but dismissed without basic data collection: water quality, increased use of pesticides and fertilizer use, sediment flows, fisheries, protected areas, etc.

e) The EA and other studies seem to make widely conflicting statements about a variety of issues, sometimes in adjacent sentences (e.g., magnitude of increases in pesticide and fertilizer usage; contamination/isolation of deep aquifers).

f) The mitigation plan suggests expanding a small existing integrated pest management program, but no funding was provided. The Bank promised to discuss this with the GoV in relation to a separate agriculture Bank project.

g) Monitoring components are inadequate (total of $300k). The Bank promised to increase the monitoring program, especially regarding fisheries, nutrition, water quality, and disease vectors.

Developed countries have realized that while widely practiced in the past, conversion of wetland ecosystems, whether from wet to dry or from brackish to freshwater regimes, is a major ecological sustainability issue. The United States is now spending billions of dollars to undo the billions it spent on such works in Florida, Louisiana, Texas, California, etc. A cavalier attitude toward such delta modification has proven to be catastrophic in Senegal. It should not be taken lightly or dismissed as minor because sufficient data is lacking on the Mekong delta.

The U.S. believes this project should have had a far more comprehensive regional/sectoral environmental assessment, with baseline data collection, and including long-term sustainability issues. This should include an appropriate array of ecologists and social impact specialists, not just engineers and economists.

Documents reviewed:

a) Human health implications, by member of World Bank Panel of Experts on tropical health and water projects.
b) Hydrological study by NOAA.
c) Fisheries study, by USAID.
d) Sub-project level EIAs
e) Rural drinking water supply study, including limited aspects of groundwater.
PROJECTS LOCATED IN EUROPE AND CENTRAL ASIA


The Issues raised are discussed after the several Croatia loan entries.

Croatia
Municipal Environmental Infrastructure

WW Water Supply & Sanitation Report Date: 05/27/98 Loan No: 4352 Credit No: Report No: 17075 Report Type: Project Appraisal Document Keyword: Municipal wastewater Drinking water standards Water pollutants Water utilities Private sector participation Wastewater collection Wastewater treatment Disposal Water treatment Water delivery Institution building Technical assistance Municipal water distribution systems Abstract: The Municipal Environmental Infrastructure Project seeks to: a) reduce municipal wastewater pollutant discharges into the environmentally sensitive Kastela and Trogir Bays consistent with Croatian and EU (European Union) standards; b) improve the safety, reliability, and delivery of drinking water in the project area; and c) improve the operational and financial performance of the water and wastewater utility, to make it more attractive for private sector participation in the future. There are three project components. First, the wastewater component will include reconstruction, expansion, and upgrading of the wastewater collection, treatment, and disposal system for the Split, Solin, Kastela, and Trogir municipalities. Second, the water component will cover reconstruction and upgrading of the water treatment and delivery systems for the Split, Solin, Kastela, and Trogir municipalities. Third, the institutional strengthening component will provide technical assistance to the project agencies.

Croatia
Power

Gas Sector Development: The primary objectives of the project are to (a) improve gas supplies through enhanced physical and commercial diversification; (b) ensure a continued economic source of natural gas and compensate for declining domestic gas production; (c) provide fuel as an alternative to coal; (d) provide a cleaner and cheaper substitute to fuels currently in use by residential, commercial and industrial consumers; (e) facilitate more consumer choice in fuel supply; (f) promote regional international gas trade; and (g) facilitate a legal and institutional framework for the gas sector. The project will include construction of a 200 km 75 bar gas transmission pipeline between Zagreb and Slavonski Brod. Project preparation has been delayed. Environmental Assessment Category B. US$ 80.0 (IBRD). Consulting services to be determined. Industrija Nafte d.d. Zagreb (INA) -- NAFTAPLIN-Gas Division, 10000 Zagreb, Croatia, Tel: (385-1) 645-0000, Fax: (385-1) 645-2507, Contact: Mr. Darco Karacic, Director

Croatia
Public Sector Management

(R) Bankruptcy Administration (formerly Bankruptcy Administration Technical Assistance): The project will help finance the establishment of orderly insolvency proceeding while modernizing selected commercial courts and strengthening bankruptcy trustees. This will include (a) developing and testing a replicable model for court and case management; (b) creating a legal information system; (c) designing and implementing a regulatory framework for trustees and administrators; (d) upgrading the skills of in-court and out-of-court professionals; (e) increasing public awareness about bankruptcies and building a consensus among bankruptcy professionals; and (f) designing insolvency and dispute resolution framework. Negotiations are scheduled for September 2000.
Pension System Investment: The project will help finance investments required to support the reform of the pension system. The reforms are intended to restructure the current pay-as-you-go pension tier while adding both mandatory and voluntary funded tiers to the pension system. The project is likely to include (a) a broad range of technical assistance and training; (b) support for the strengthening or creation of organizations to plan, implement, administer, regulate or supervise the reformed system, especially the second and third pillars; and (c) preparation of public information programs concerning the reforms. Project preparation is under way. Environmental Assessment Category C. US$ 30.0 (IBRD). Consulting services to be determined. Implementing agency is to be determined.

Issues: In June of 2000 that the current Croatian government admitted that the nation as whole suffered from corruption. The World Bank was reported by the Government Accounting Office to have lost over half a million dollars in Croatia in 1997 due to a sophisticated scheme involving corrupt government procurement procedures. It was also reported that no criminal charges had been brought. It seems the Bank should be very careful before moving ahead with Croation projects except those targeted specifically at this problem until the problem of corruption is under control.

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180 The New York Times, in a series of articles, reported:

**CONGRESSIONAL REPORT SAYS CORRUPTION IS STIFLING BOSNIA**

By CHRISTOPHER MARQUIS with CARLOTTA GALL

Pervasive crime and corruption are blocking the success of the Dayton peace accord in Bosnia, and the Clinton administration should consider suspending its extensive aid until local authorities show a determination to fight such abuses, a General Acc ...

July 7, 2000, Friday

See also, **LEADERS IN BOSNIA ARE SAID TO STEAL UP TO $1BILLION**

By CHRIS HEDGES

As much as a billion dollars has disappeared from public funds or been stolen from international aid projects through fraud carried out by the Muslim, Croatian and Serbian nationalist leaders who keep Bosnia rigidly partitioned into three ethnic encl ...

August 17, 1999, Tuesday

**CROATIA'S DEMOCRATIC MESSAGE**

The stinging electoral defeat inflicted on Croatia's ruling party this week is encouraging news for the entire Balkan region, especially if it is followed by the election of a reform-minded president in separate votes later this month. Croatia and S ...

January 6, 2000, Thursday

Bosnia suffers from similar problems. See New York Times, July 8, 2000, Saturday
The question arises as to whether the 1998 project profiled first has experienced corruption "leakage".

In regard to the gas pipeline for importing natural gas, it makes sense to determine whether domestic and renewable options, such as biomass and methane, or conservation and efficiency investments have been exhausted especially given recent rising natural gas prices. Energy pipeline construction, along with considering alternative avenues that may reduce CO2 emissions as well as impacts from siting to risk of explosions and fires, all lead to the suggestion that a category A would be more appropriate. During the noted delay in project preparation these and related issues could be addressed.

The World Bank estimated that thirty per cent of some energy project financing can be lost through corruption. Thus in regard to bankruptcy, the state and injured parties should remain liable for the collection of debts that might be otherwise forgiven from those who were responsible for, and especially beneficiaries of, corruption induced losses. That is in a sector plagued by corruption, special care needs to be taken not to forgive the guilty or negligent too easily and pass the burden on to the taxpayer or donor.

There is also the question of increasing foreign debt to pay for the gas and price volatility which go to the economic viability of the project.

The Pension Fund is a very good area to review given the past problems, but some elements should not be overlooked and these include social and environmental screening of pension fund investments as the UK and some Nordic countries are now doing, governance of the funds themselves, and leveraging fund investments for environmental and social improvement as well as using such safeguards as a fiduciary duty.

181 (see World Bank Energy for the Poor, report section 2, appendix – www.worldbank.org)
20. Russia: Coal and Forestry Sector Guarantee Facility

Russia
Coal and Forestry Sector Guarantee Facility

(From the World Bank, emphasis added)

Region Europe and Central Asia
Sector Private and Financial Sector
Development Project ID RUGU60045; RUGU57893
Borrower(s) Russian Federation
Implementing Agency Federal Center for Project Finance (FCPF)
Environmental Category FI
Date PID prepared June, 2000 Appraisal June, 2000
Board Date, September 12, 2000

Background. Coal: Russia is the world’s sixth largest producer of coal, having produced about 239.8 million tons of coal in 1999. Years of poor management of the sector in the Soviet period (inefficient use of investment funds, geological depletion of some traditionally major basins, deteriorating safety conditions, corruption, antiquated equipment) together with the general collapse of demand in the early 1990s, made apparent the full-blown crisis in the industry by 1993, when prices for coal were liberalized and many coal enterprises proved to be highly loss-making. Subsidies from the Federal budget to the sector grew to the unsustainable level of more than 1% of GDP. In recognition of the state of crisis in the industry, in 1993 the Government embarked upon an intensive restructuring of the coal industry. The overall objectives of GOR’s coal sector reform program were stated in its Letter on Coal Sector Policy (November 28, 1997). The Second Coal Sector Adjustment Loan (Coal SECAL II; Report No. P-7202-RU) was developed to support this reform program and to deepen the achievements of Coal SECAL I (Loan No. 4058-RU) through a program directed toward four objectives: Separation of state management functions and commercial activities in the industry and improvement of sector governance. Continued reduction and improved management of coal subsidies, aiming at the eventual elimination of coal subsidies. Development of a strengthened and more targeted social safety net for affected workers, their families and communities. Establishment of a more efficient and sustainable industry and promotion of an accelerated privatization program. Due to delays in the implementation of the agreed coal sector reform program, attributable in part to the August 1998 economic crisis, Coal SECAL II was restructured in mid-1999 at the request of the Government. As a result, the remaining funds under the loan were divided into four "social" tranches of $50 million each and two "privatization" tranches of $100 million each. Since the restructuring of the loan, to date, three "social" tranches and one "privatization" tranche have been disbursed totaling $250 million. With the recent privatization of KrasnoyarskUgol (March 2000), private and privatized coal companies account for 44% of overall 1999 coal production. In addition, initial actions have been taken to prepare for sale of the Federal shares in the remaining coal companies in the Government’s 1999-2000 privatization program. If these first steps lead to the sale of the Federal shares in all cases, an additional 24% of the industry (based on 1999 production) will have been privatized.

B. Forestry: Russia has the largest forest resource of any country. Forests comprise 764 million ha, an area fifteen times the size of France. Before 1989, Russia was second only to USA as an industrial wood producer. Annual wood production averaged more than 300 million m3, accounted for 2% of GDP and employed 2 million people directly and 10 million people indirectly. Since 1990 commercial roundwood production has fallen dramatically to less than 70 million m3 in 1998. Although the harvesting and processing sectors have been privatized, most enterprises are operating at a loss. Nevertheless, the industry has shown some recovery in 1999, following the devaluation of the Ruble. The number of industries reported as operating at a loss fell to just over 50% in 1999, compared with 68% in 1998. Commercial roundwood production increased to 72 million m3 and exports, which had fallen in value to $3 billion in 1998, increased to $3.6 billion. There was also a modest recovery of foreign investment in the pulp and paper industry. The great majority of exports continue to be in saw-logs, however, with relatively low value added for the Russian economy, and many industries are operating with obsolete, inefficient and environmentally damaging harvesting and processing equipment. Furthermore, technical skills (in use of the latest processing...
technologies) and modern management and business skills need to be upgraded. **Russia has a long history of forest management, with well developed institutions and a tradition of research in both forest management and timber utilization.** Russian authorities are committed to improving forest sector management.

A new Forest Code was issued in 1997, which provides the overall framework for sustainable forestry management, and regulations are under preparation for implementing the code and for introducing an improved legal framework for forest utilization.

The Sustainable Forestry Pilot Project recently approved by the Board will address forest management and utilization issues by supporting (a) regulatory reforms including reforms in leasing and introduction of 'evergreen' leasing systems, whereby lease renewal is contingent on sustainable management and operation; (b) introduction of mandatory certification, and piloting of voluntary certification, so that enterprises can document their sustainable management practices; and (c) training of forest enterprise employees in both use of modern technologies and modern business practices. It will also address technical management issues, including improved forest land use planning, fire and pest management as well as forest regeneration. C. Sector issues to be addressed by the Guarantee Facility Project: Sustainable Forestry.

The proposed project is designed to complement and supplement the Sustainable Forestry Pilot Project by supporting only those transactions that are consistent with sustainable forest management practices. (Details of the environmental procedures that will be utilized to appraise and monitor individual transactions are described below.) By giving private owners of forest enterprises, as well as regional entities responsible for the allocation of forest resources, the assurance that non-commercial risk guarantees will be available to help them attract private loans, the Facility will demonstrate that compliance with sustainable forest management practices is compatible with commercial viability. These guaranteed loans will be used to help modernize and refurbish existing facilities, introduce more efficient operations, restore production in the forest sector, produce higher value-added forest products, increase access to export markets, and improve the human resource base through on-the-job training. Through renewed investment, there would be increased use of modern, environmentally friendly harvesting and processing equipment, thereby reducing environmental damage from harvesting operations. In addition, increased employment would act as a catalyst for other economic activities in towns where forest enterprises are the main employer, and help restore their viability as attractive places to live, thereby reducing the cost of public sector welfare payments. Finally, by increasing tax revenues both from stumpage fees and enterprise taxation, it would help restore the financial flows to the public sector at both federal and regional levels, thereby providing funding for sustainable forest management and increasing general revenues.

Coal Sector Restructuring. The Guarantee Facility will complement and reinforce the privatization component of Coal SECAL II by helping private and privatized mines attract the financing they need to increase their working capital and modernize and refurbish their fixed capital stock. In addition, the Guarantee Facility will supplement the mine closure component of the Coal SECAL II by extending support to non-coal sector transactions in coal mining communities, thereby helping to create alternative sources of employment. Objectives **The project's main development objective is to help Russian coal and forestry enterprises finance the fixed and working capital assets they need to restore production, exports, and employment.** Specifically, a $200 million Coal and Forestry Sector Guarantee Facility would issue special non-commercial risk guarantees against a discrete list of government interference risks. A market survey indicated that these guarantees would mitigate those government interference risks that are of greatest concern to potential Guarantee Holders and would help to attract substantial amounts of commercially viable private loans to Russian coal and forestry sector enterprises. Description(1) Implementing Agency The Federal Center for Project Finance (FCPF), established by GOR, would implement the project on behalf of and as agent of the Government of Russia. The FCPF is a 100% state owned enterprise, created by the Ministry of Economy via decree # 545 of June 2, 1995. It was created initially to support World Bank loan projects, but by Government Resolution #951 of July 28, 1997, it was also authorized to act as the Government’s agent for the Russian portion of the Sea Launch guarantee project. It is governed by a Supervisory Board chaired by the Minister of Economy and consisting of representatives of MGI, MOE, MOF, and GOR Office. Pursuant to a Government Decree that will be issued in conjunction with the project, the FCPF will be authorized, inter alia, to (i) sell Guarantee Contracts against a discrete list of non-commercial risks, (ii) process applications in compliance with operating procedures and eligibility criteria set out in the Operations Manual agreed with the World Bank; and (iii) monitor, mitigate, and prevent the occurrence of risks that could give rise to claim payment obligations. Day to day operations would be handled by an independent, professional group of staff and managers. A Steering Committee
consisting of officials from various ministries and agencies including the Ministry of Finance, Ministry of Economic Development and Trade, Central Bank of Russia, Ministry of Fuel and Energy, Federal Forest Service, and Customs Service would oversee project implementation. The FCPF would sell Guarantee Contracts against a discrete list of government performance and political force majeure risks to foreign equipment suppliers, trading companies, and commercial lenders who provide finance for working capital or fixed capital inputs to Russian forestry and coal enterprises. The FCPF would be authorized to sell Guarantee Contracts backed by the IBRD for a period of five years from the date of effectiveness. Guarantee Contracts could have a maximum tenor of ten years.

2) Guarantee Contract A.

Risk Coverage: The terms and conditions of the Guarantee Contracts sold and administered by the FCPF would be set out in a standard form of Guarantee Contract and would cover the following risks:
- Inability to convert and transfer currency. Government action that for at least 90 days prevents a Payor or the Guarantee Holder from converting Rubles to make a Payment Amount or from transferring out of Russia the Payment Amount. However, this coverage would not grant the Guarantee Holder a right to convert local currency into foreign exchange at a guaranteed future exchange rate or at a favorable rate of exchange. Losses arising from currency depreciation are NOT covered.
- Expropriation. Government action that for at least 90 days: (i) deprives a Guarantee Holder or a contractor under a Covered Contract of a good covered by such contract, (ii) deprives such contractor of its property so that it cannot continue to carry on its business, or (iii) deprives the Guarantee Holder or the holder of the relevant credit of funds needed to make credit payments.
- Seizure of goods or restrictions on import, sale, use of export. Government action that for at least 90 days results in the seizure of goods to be delivered under a Covered Contract, or material new restrictions on the import into, the sale in, the use in or the export from Russia of such goods.
- War or civil disturbance. Politically motivated acts of war or civil disturbance in Russia which cause destruction of goods to be delivered under a Covered Contract or make the contractor unable to carry on its business for 90 days or more.
- Issuance or cancellation of licenses. Government failure to issue or renew licenses necessary licenses as agreed by the parties in advance. This provision would pertain only to those licenses that are explicitly identified and listed in an Annex to the Guarantee Contract.
- Imposition or increase of taxes. Government imposition of new or increased taxes relating to the import into, use in, sale in or export from Russia of a good to be delivered under a Covered Contract. This provision would not provide coverage against any imposition or increase in taxes, levies or duties of a general nature, including, without limitation, tax, sales or consumption tax, stamp duty, or corporate or personal taxes on income.
- Interference in the carriage of goods. Government action that prevents or delays the carriage or storage of goods to be delivered under a Covered Contract.

Any risk that is not explicitly listed and defined in the Guarantee Contract is not covered. Equally important, the Guarantee Contract does not grant any special commercial privileges, legal benefits, or tax advantages to the Guarantee Holder or any of its local partners and suppliers. All foreign and local enterprises associated with a guaranteed transaction would be subject to the same legal, tax, and regulatory regime as any other foreign or domestic enterprise doing business in Russia.

Issues: This large loan should have a full EA in order to comply with the letter and the spirit of the Pelosi amendment, despite the general good intentions and particular features of the project. Five days before the Russian Sustainable Forestry Project 182 (which it cites) was approved, the following project is closely related to the more recently approved Coal & Forestry Sector Guarantee Facility. Many of the same issues are raised in both.

RUSSIAN FEDERATION SUSTAINABLE FORESTRY PILOT PROJECT

LOAN AMOUNT: IBRD-US$60 million
Terms: Grace period=5 years, maturity=17 years

PROJECT DESCRIPTION: The project aims at improving public sector management of the country's forests through policy reform, improving land-use management, protecting and regenerating of forested areas; and supporting the development of a more favorable environment for private investment in the sector. Benefits from the project include increased government revenues from improved resource assessment and taxation, rapid forest growth from improved regeneration, conservation of...
President Putin moved the 200 year old Forest Service, which the loans were intended to support indirectly and to rely on quite directly, as well as the Russian State Committee on Environmental Protection (the rough equivalent of the EPA), into the Ministry for Natural Resources. At the time the loans were considered, the extent of any diminished capacity to enforce environmental law was unclear but a matter of serious concern among NGOs and others within and outside of Russia. The group EcoJuris was reported to have challenged the reorganization in the Russian courts. The health of responsible agencies is essential in ensuring the coal projects and business guaranteed by the above facility will be net improvements, let along the best choice of how to spend this amount. Careful application of the GAO corruption control recommendations\(^{183}\) is also especially important to the success of loans to Russia.

Since the loan was premised in part upon the administration and enforcement provided by those agencies, it may be appropriate to consider special oversight mechanisms or other precautions for the Sustainable Forestry loan and the guarantee facility until it is clear to a broader circle of the interested public and agencies how enforcement and administration will be carried out after the change.

Given the focus of the GAO report on corruption on the largest borrowers of the Bank, and the Bank’s own findings\(^{184}\) cited by the GAO that

- “only 40 percent of Bank-supported projects have had substantial impact on institutional development,” and that
- “the Bank’s achievements in institutional building in the financial sector were deemed likely to be sustainable in just 50 per cent of countries,”\(^{185}\)

there is reason to suggest a full assessment covering specific safeguards in this sort of loan.

There is the general question of whether the Bank should provide guarantees of payment for failure of or damage due to its projects – particularly due to any violations of policy or law as well as providing guarantees for loans to commercial entities. In other words, such Bank loans might be seen as a two way street, where loans go out but something comes back to restore the harmed areas, if they go bad. Such performance insurance or bonds could be a high-profile part of most project loans with substantial risks to the environment or substantial risks of corruption, as in the extraction or privatization of valuable resources. Claims against them could be adjudicated in local courts or, where the court system is immature, claims could be filed in another system, perhaps one established as a quasi-judicial system of the Bank, rather like a system of Administrative Law Judges.

The project description notes consultation with NGOs, including the one that reported to the Tuesday Group in July and September 2000 on the serious concerns about loans for Russian forestry raised by the reorganization of the Russian forest service and environmental agency this year.

Again, this project has several very good elements and there is no doubt that Russian coal and forest industries could be cleaner, but there are additional questions that the Bank could consider before acting in this sort of context:

For example:

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Project Name Russia-Sustainable Forestry Pilot Project Region Europe and Central Asia Sector Forestry Project ID RUPE53830 Borrower Russian Federation Implementing Agencies Federal Forest Service, Moscow Regional Administrations Foundation for Enterprise Restructuring, Moscow (see contact names at end of document) Environment Category B Date this PID approved September 17 1999 Date initial PID prepared May 10, 1998 Projected Appraisal Date September 26, 1999 – Board Approved, early summer, 2000.

\(^{183}\) GAO/NSIAD-00-73.


\(^{185}\) GAO/NSIAD-00-73 at 17.
• Is there a similar loan in the works or in place to guarantee long term security for renewable energy and conservation and non-timber uses of forests? Unless there is, these guarantees may draw private capital away from competitive insulation or renewable energy firms, or lower impact forest uses, for example.

• Have the US or other agencies with expertise in the forest and coal sectors had a look at the terms so far, as anticipated in 22 U.S.C. 262m-2&3?

Finally, one might ask, as the Pelosi amendment would seem to expect, “Why not abstain from loans or other actions such as guarantees that will likely have a substantial impact on the environment as a whole unless those loan or guarantee projects have each had an EA addressing the basic questions at the programmatic level?” Particular concerns in regard to Russian timber production in the Russian far east where USAID has sustainable forest programs includes the potential impact on endangered species such as the Amur or Siberian Tiger which relies on nearly roadless or near-wilderness forests for protection for itself and its prey from poachers. This may be particularly important if some of the smaller loans guaranteed will not be covered by one or more EAs either, although the questions each would address are at different levels of scale. By selectively objecting to Financial Institution (FI) packages targeted for natural resource uses or other key areas, we would not need to be concerned with all FI loans. For general FI loans, we could simply require evidence that they include compliance with applicable laws and will avoid individual projects that would violate safeguard policies of the Banks, for example, at least until the Bank loan is repaid under the normal schedule.

\[\text{e.g. by guaranteeing long term continuity of taxes and leases for timber harvests and coal production}\]
Description: The EBRD’s objectives would be to:

a) increase nuclear safety in Ukraine by facilitating closure of the Chernobyl nuclear power plant and strengthening the Nuclear Regulatory Authority; and

b) stimulate reform and privatization of the Ukrainian power sector.

The financing of K2R4 would support Ukraine’s market-oriented reforms, in particular the privatization and financial strengthening of the electricity sector. In turn, this would advance economic transition. Successful implementation of this project would also provide an internationally acceptable benchmark for safety levels of nuclear power units with VVER 1000 type reactors.


Environmental summary (from the Project Summary Document on EBRD’s website)

The EIAs were made publicly available in the end of 1998 by the project sponsor. Environmental Action Plans (EAPs) for the two NPPs are being developed. The EAPs will be covenanted in the project’s loan documentation.

The EIAs set out the policy, legal and administrative framework, details of the existing environments, details of the proposed project including arrangements for radiological protection, and the potential environmental impacts associated with the project, taking into account both normal operation and abnormal conditions. Measures are identified to mitigate possible environmental and radiological impacts.

Assessments of the impacts of predicted discharges from both K2 and R4 during normal operation indicate that the annual radiation dose which would be received by the most exposed member of the public would be substantially less than 1 per cent of the regulatory limit set by Ukrainian regulations. These regulations are consistent with those recommended by the International Commission on Radiological Protection (ICRP). The annual radiation dose to the population residing within 30km of the NPPs, taking into account the other operational nuclear reactors at the Khmelnitsky and Rivne sites, and assuming normal operations, would also be well within internationally accepted radiological protection criteria.

The EA also covers transport of fuel, consideration of a worst-case design-basis accident, occupational safety, and emergency planning. Regulatory documentation dealing with radioactive waste management is currently in preparation together with a national policy on radioactive waste management.
Spent fuel will continue to be stored at both sites for significant periods following the initial three-year decay period, which is customary prior to fuel reprocessing. Assuming that current proposals for the capacity of the spent fuel ponds at both sites are realized, no significant environmental or radiological impacts are anticipated. A package of regulatory documents dealing with decommissioning is currently in preparation. Prior to commissioning of the reactors, the operator will need to have undertaken an assessment of the different strategies for decommissioning.

Environmental impacts which are not related to radiation exposure may arise during completion and operation of the NPPs. The effects of construction impacts would be reduced due to the 3km sanitary protection zone around the NPPs. Such impacts would be of little significance beyond 3km from the NPPs.

The operation of both K2 and R4 would result in increased water requirements at both NPP sites. The exact requirements and the extent to which they can be met from surface or artesian sources require further assessment at both sites.

Public consultation: Public consultation was undertaken at two stages during the process of preparing the EIAs. Scoping meetings were held at three locations in Ukraine at the end of 1996. The outcome of these meetings was taken into account when defining the terms of reference for the EIAs. A further meeting, which was held in Kiev in September 1997, provided information that was taken into account in the preparation of the EIAs. The public was invited to provide comment on the EIAs, which were made publicly available during the third quarter of 1998. Details of the public consultation process will be made available by Energoatom.

Alternatives: The EIA methodology required comparison to be made between the completion and operation of K2 and R4 and the "no change option." The latter assumed that the operation of two of the units at the Chernobyl NPP site would continue following completion of an upgrading and safety program and that K2 and R4 would not be completed. This comparison has indicated that routine discharges of radioactivity from two units at Chernobyl would significantly exceed those from the operation of K2 and R4. There would also be an increased risk of a catastrophic accident as a result of the continued operation of Chernobyl. This would lead to widespread radioactive contamination. Work is also being undertaken on an initial assessment of the environmental impacts that would be associated with a thermal power sector program in Ukraine, which assumes closure of Chernobyl without the completion of K2 and R4.

Issues: The Bank Information Center and its European partners have raised the following concerns.

Safety problems: The reactors at K2/R4 are far below present safety standards and would not be allowed to operate in any western country. Furthermore, Energoatom (Ukraine's state-owned nuclear energy company) is planning to begin operating these reactors before implementation of all safety measures; the company will only correct some of the known safety problems at the first refueling. Therefore, even the designed (but unsatisfactory) safety level will only be reached after three years of operation. These safety problems are compounded by the fact that Ukrainian workers are not getting their salaries.

Economic evaluation of the project: One of the EBRD's conditions for its involvement is that the project must be the least-cost option. In 1997, the EBRD contracted an independent Panel of Experts to review the economics of the project. The Panel concluded that: "...K2/R4 are not economic. Completing these reactors would not represent the most productive use of 1 billion USD at this time." At the time of this conclusion, the cost of completion was expected to be 1.2 billion USD; that figure has now risen to 1.72 billion USD.

The Panel found that power needs in Ukraine are declining, and that these needs could best be met through conservation and demand-side management, as several studies have shown. Recent developments in Ukraine have confirmed the Panel's findings. In 1997, energy consumption in the country declined by an additional 7%, and in 1998 by another 3%. There is a significant over-capacity in electricity generation in Ukraine, with overall installed capacity at 53.9 GW in 1997 (mainly in the base load sources). Even without the Chernobyl nuclear power plant, this is about twice the capacity needed to cover current peak electricity demand, which in 1997 was 27.2 GW. In addition to this, there was a significant decrease in gas prices on the world market,
making gas-based alternatives cheaper than in previous analyses. Meanwhile, the price of atomic waste storage increased dramatically (Russian prices for storing Ukrainian waste rose by more than 20% since December 1998). All of these factors have an impact on the least-cost analyses. In addition, a recent confidential EIB study says: "A substantial degree of uncertainty attaches to a number of key parameters of the project, notably - but not exclusively - the demand of electric power and project costs, resulting in high financial and economic risk relative to the [energy] sector ..."

Non-payment issue Ukraine is currently in a critical financial situation. This loan could make the situation even worse, especially as cost overruns and construction delays are highly probable. The current rate of monetary payment for energy in Ukraine is very low (16.4 %), and payment for electricity is even lower. According to G. Sazonov, monetary payment for electricity is now 4.2-4.5%, while barter payments make up 52-53% of the total bills. This means that over 40% of all electricity is presently going unpaid. Furthermore, recent experience has shown that as electricity prices increase due to tariff reform, a lower collection ratio results. So, despite higher tariffs, the total income to generators and distributors will remain constant at best, and is more likely to decrease in the foreseeable future. It is therefore highly questionable whether the Ukraine will be able to repay the loan in the foreseeable future.

Public opinion in Ukraine: The great majority of residents in the Rivne and Khmelnitsky region oppose K2/R4. A survey done in 1998 indicates that 94 % of respondents answered "No" to the question: "Do you agree with the completion of new units at the Rivne and Khmelnitsky NPPs?" Yet Ukrainian authorities stated openly that they were going to ignore public opinion on this issue. Furthermore, they are attempting to silence the debate about the K2/R4 project by using coercion and force to intimidate the project's critics. Incidents involving the Ukrainian Secret Service have raised serious concerns regarding human rights violations against those who oppose K2/R4.

Where the money should go/Alternatives to K2/R4 The EBRD, the G-7 governments, and other international financial institutions should stop working on the K2/R4 project. They should instead finance the gas turbines project and other energy sources proposed by Ukraine when the MoU was under negotiation. The Ukrainian energy sector has a problem with peak load capacity, a problem which can be solved not by nuclear plants, but rather by gas power plants. In addition to this, the Ukrainian State Committee for Energy Conservation has prepared a list of 66 alternative energy projects, which would more than compensate for the 2000 MW presently produced by Chernobyl. All of the proposed alternative projects will provide equal or greater possibilities for use of Western technologies.

Issue: Update July 2000:

Negotiations are moving toward EBRD consideration of a potential request from the Ukraine for a loan to complete construction of the K2R4 nuclear reactors. The donor community is very much divided with France in favor and Germany and Sweden opposed. Some have attempted to assert that a cold winter in 2000 may interfere with the scheduled closure on December 15th of the remaining famously flawed Chernobyl reactor unless commitments are made to complete the two additional nuclear reactors. This analysis is flawed in so far as many options for increasing efficiency, and adding renewable and other less risky capacity, particularly peak load capacity, have a much shorter lead time than nuclear plants. Poland, for example, has recently sought proposals for a large "wind farm." More complete Assessment of the alternatives and safeguards is called for in such a situation.

[AAfter this report was circulated for review, the Board took up this loan in December in the first of a two-step process granting approval subject to several conditions. The Board will revisit the issues in early 2001. The USG position included numerous utility reform and financial control recommendations, aimed in part at ensuring system safety, as well as a request to clarify the process for assigning liability. This was based on a USAID recommendation that a full liability system be ensured.]
PROJECTS LOCATED IN LATIN AMERICA AND THE CARIBBEAN

22. Argentina-Chile: IDB – TransAndean Highways

Argentina-Chile
Transportation

Bank: Inter-American Development Bank

Project Name: Andean Highways
Country: Argentina
Sector: Transportation
Project Number: AR0202

Project Description: The objectives of the program would be to: (a) contribute to the economic integration process between Argentina and Chile through improvement in land transportation for freight and passenger cargoes; and (b) support exports from both countries, as well as other MERCOSUR countries by facilitating access to ports on the Atlantic and Pacific Oceans. The program would rehabilitate and repave the five most important mountain passes and improve the gravel surfaces of seven other unpaved mountain passes. It would consist of a program of multiple works and include the following components: (a) improvement of the geometric characteristics and pavement of mountain roads that carry large volumes of international traffic in order to bring them up to international standards of operational safety and improve their technical standards; (b) improve roads that connect border cities so that they can be used year-round in order to stimulate trade among those cities and other important markets; (c) procurement of snow and ice removal equipment and equipment to measure the weight and dimensions of trucks; (d) implementation of technical administrative methods to facilitate border crossing controls and procedures; and (e) institutional strengthening of the executing agency (DNV) in areas related to mountain road administration, operation and construction.

Estimated Total Cost: $400,000,000

Estimated IDB Financing: $200,000,000

Process Stage: In preparation stage.

Anticipated Procurement: The program would finance road rehabilitation works, including pavement for five mountain passes and gravel surface improvements for seven passes. Consultants would be hired for prefeasibility, feasibility, engineering and environmental studies, as well as project supervision. Road works would be continued for highways shown to be feasible. The works would be performed on some 1,000 km of roads and include the following activities: (a) leveling works to relocate and widen existing platforms; (b) installation of surface and underground drainage works; (c) bridge construction and special works to stabilize platforms and prevent collapses; (d) construction and improvement of surface treading; (e) installation of vehicle and pedestrian traffic-safety equipment; (f) installation of vertical and horizontal signage; and (g) protection measures in environmentally sensitive areas. Consultants would be hired for technical supervision, including environmental fiscalization of the works. They would also be needed to provide specialized technical assistance and advisory services to the DNV in areas such as: (a) facilitation of border-crossing processes; (b) vehicle weight and dimension controls; (c) accident and crash prevention and attention measures for vehicles with dangerous cargo; and (d) outsourcing of operations and maintenance services on border roads. In addition, consultants would be needed to provide institutional strengthening and training to the DNV in various technical and administrative areas to improve efficiency. A component may be included to conduct studies for improving and rehabilitating other road tranches to connect mountain pass roads, as well as for improving technical construction and maintenance in cold climates subject to snow storms. Environmental Classification: Environmental Impact Assessment has been completed.

187 For Information on IDB projects and Eas see http://www.iadb.org/exr/english/PROJECTS/cia.htm, (http://www.iadb.org/EXR/doc98/pro/)
Issues: A major highway project that includes funds for planning additional highways is always going to require careful review. When it crosses a continental divide, it has an impact on two major watersheds, raising concerns about potential spills, invasive species, and the cumulative impact of human in-migration into areas that were too remote before to be developed. Chilean forests are among the world’s finest and most rapidly exploited temperate rain forests. The Chilean government was at one point supporting an environmental accounting of these forests which was suspended in the late 90’s before it was completed. The Chilean temperate rain forests also include threatened Chilean redwoods (*Alercis Fitzroya*) and other sensitive species. This development may not effect those stands but we expect to review the EA with these sorts of questions in mind.

23. Bolivia: IDB/WB – Export Corridors, Poverty Reduction, Transportation, Public Sector

Bolivia
Export Corridors - Highway

An email from USAID’s Environmental Officer in Latin America:
“ In Bolivia, we have the IDB (and eventually WB)-funded Santa Cruz - Puerto Suarez Road, which is going full bore. It really is opening up a whole region of Bolivia (Chiquitano Forest, Chaco, and the Pantanal) that currently has little access.” (Summer 2000):

**IDB/WB - Export Corridors: Santa Cruz-Puerto Suárez Highway**

| Description: | IDB: The goal of this proposed project is to increase the competitiveness of Bolivian products in international markets by decreasing transportation costs in the country and assuring that the Santa Cruz-Puerto Suárez Highway remains open and passable throughout the year. The program will include works, studies, and an environmental impact mitigation component.  

WB/IDA: The credit will finance construction of the San José-Puerto Suárez road, a sector of about 400 km of the export corridor Santa Cruz-Puerto Suárez. Identification mission is scheduled for fiscal year 2000.  

Issues: USAID/Bolivia understands that this project aims at improving an existing road, that it has major economic and development significance, and that it will have an environmental impact mitigation component. It is not the direct impacts of the road itself that are of concern, but rather the indirect ones. The project... |
description itself alludes to those potential indirect impacts when it implies that this is a natural area for population expansion.

Specifically, USAID/Bolivia wants to make sure that the improved road will not accelerate haphazard colonization and deforestation, in particular into areas that are 1) inappropriate for long-term agricultural production, or 2) of high biological value (e.g., the Tucavaca Valley; while much of this is already slated for "traditional" development, at least portions of this valley need to be protected -- see RAP Working Paper No. 4, "The Lowland Dry Forests of Santa Cruz, Bolivia: A Global Conservation Priority," July 1993. An improved road would almost certainly put this area under increased conversion pressure, and maybe that "protection" issue should be considered and resolved before the road work would begin).

There is also the issue of what impact the road would have on the Bolivian Pantanal. According to biologist Ted Parker, "Although worldwide attention has been focused on conservation efforts in Brazil, the Bolivian Pantanal may be of even greater biological importance due to the very extensive tracts of undisturbed dry forest and cerrado..." (p. 52). He goes on to flag his fears of "an increasing emphasis on mining (e.g., Cerro Mutun), the export of natural gas, and harvest of timber in the dry forests to the northwest" (p. 56) -- the kind of things this project will presumably encourage. Cerro Mutun is just to the south of Puerto Suárez.

USAID/Bolivia would like to see rigorous enforcement of authoritative land-use planning before the road improvements begin. The improved road would also potentially move more people relatively close to the Kaa Iya del Gran Chaco National Park (where USAID supports work with WCS and the Izoceño indigenous people). There should be some guarantees that it would not encourage encroachment into the park (in particular with cattle ranches, logging of quebracho, or irrigated agriculture). Some increased protection for the northern border of the park linked to the road improvement might also make sense.

The road is a priority development project, and USAID is not suggesting that it should not go ahead. But it suggests it should be classified as an IDB EA Category 4, or World Bank EA Category A -- "operations that may have significant negative impacts on the environment and will require a detailed environmental assessment." This activity would also explore the feasibility of other transportation infrastructure improvements in this environmentally fragile area, and it would be a good idea to make sure everyone knows, up front, how important the question of environmental impact is when doing this kind of planning. Participation and consultation will be important during the EA process [USAID realizes that IDB has changed its EA classification system to eliminate numbered category in March 1997]. [e-mail: USAID/Bolivia 12/05/96]

The local Wildlife Conservation Society (WCS) representative, STRONGLY endorsed USAID/Bolivia's recommendation -- that a full impact assessment should be required.

Not only are the areas flagged above of critical conservation importance, but there is also the Chiquitano dry tropical forest that goes from the north to the south of the proposed road. This is also "important and highly threatened habitat," according to the WCS. Many of these areas have already been flagged as being of critical conservation importance in the Santa Cruz land use plan (the PLUS, done with German and World Bank funding). WCS echoed USAID concerns: These areas should have some concrete protection before the road improvement. In addition, USAID/Bolivia strongly recommends that an anthropologist be on the team. The reason is the project is likely to affect several important indigenous peoples groups, i.e., the Izoceños and Chiquitanos (USAID/Bolivia is working with both groups under its forestry and biodiversity conservation work), as well as the Ayoreos and perhaps others.

USAID/Bolivia recommends using the project as a vehicle to ensure that these areas are protected, i.e., build into the project, on the basis of the EA, resources to mitigate the indirect impacts of the road construction. [e-mail: USAID/Bolivia 12/12/96]

The project would also give a push for the Hidrovia Waterway -- the paved road would go right to its door, so
to speak, and that would make agricultural production and logging that much more profitable, over a much bigger area. The pressures from those sectors for the Hidrovía would therefore increase substantially; all the more reason to do some serious thinking before the road gets improved.

**Status** These comments have been conveyed to IDB staff, which responded that since April 1997, IDB has not used environmental classification by category for its projects, but determines on a case-by-case basis the scope of the EIA required. Particularly for this project, a full EIA was required which corresponded to the earlier category 3 classification. For the Santa Cruz - San José segment, a consulting firm is preparing the detailed engineering design and the detailed environmental assessment. For the San José - Puerto Suárez segment, this firm is preparing the EIA and feasibility study. Although slowly, the studies are proceeding forward. The draft of the EIA has been presented and the final report (feasibility studies and engineering designs) is expected for April, 1999. The IDB staff plans to commission additional environmental and social impact studies for the corridor, which would not preclude the presentation and acceptance of the designs from the consulting firm for the Pailón-San José segment. [IDB March 1999]

The World Bank responded that regarding the Santa Cruz-Puerto Suárez Road, including the San José-Puerto Suárez segment, which is the one in the World Bank's portfolio. IDB plans to finance the segment Pailón-San José, which together with the existing Santa Cruz-Pailon will complete the Santa Cruz-Puerto Suárez Road.

Concerning the section San José-Puerto Suárez, the World Bank has not yet started the project preparation, pending the results of the prefecasibility study financed by IDB, as USAID rightly said in its message, and the approval of our budget for fiscal year 2000, which starts on July 1, 1999.

With respect to USAID's concerns about the environmental assessment categorization for the project, the categorization of "B" is provisional and it will not be definitive until the Project Concept Document Review, when most probably will be changed to "A". In any case, the World Bank plans to conduct a full EA, as we have done with the Abapo-Camiri Road, now in the final stage of preparation. The full EA will be performed separately from the one for Pailon-San José, to be prepared by IDB, but in close coordination with it.

Finally, our tentative Board Date is now May 2001, to give time enough to complete and discuss the engineering design and the EA. It could be advanced if both are completed before expected.

World Bank staff will be also happy to discuss the environmental issues with USAID at the early stages of project preparation. [World Bank email, 4/19/99]

*July 2000 Update from IDB website (note the different information posted within the May – July period of 2000 in the following entries concerning this project):*

**Bolivia**
Transportation

Loan
(BO0036)

**Inter-American Development Bank Portion:**

Increase the competitiveness of Bolivian products in international markets by decreasing transportation costs in the country and assuring that the Santa Cruz - Puerto Suárez Highway remains open and passable throughout the year. The program will include works, studies, and an environmental impact
mitigation component. Estimated total cost: $135 million. Environmental classification: Category 3. The environmental study was completed in December 1998, but it needs to be expanded to include evaluation of the Santa Cruz - Puerto Suárez corridor. In preparation stage.

Amount of loan: $60 million

Anticipated procurement: The following works would be financed:
(a) construction of a 1,500 meter, two-way bridge; (b) paving and improvement of a 220-km segment of the Pailon - San José section of the highway; and (c) improvements of 380 km of roads (San José - Puerto Suárez segment). Contracts for earth moving, paving, bridge construction, and drainage would be financed. Weight control and other equipment would be purchased. Consultants would be hired for construction supervision and institutional strengthening activities. The program would also finance studies to identify other transportation infrastructure improvement needs in the eastern and southeastern regions of the country. (emphasis added) A firm has been hired to carry out technical, economic and environmental studies.

Executing Agency: Servicio Nacional de Caminos: Av. 20 Octubre 1829, Casilla 1485, La Paz, Bolivia. Tel: (591-2) 351-746; Fax: (591-2) 391-764. Contact: Carlos Klinsky, Executive Director

BOLIVIA

Transport: World Bank part of joint IDB/WB project also known as the Export Corridors Project, IDB:

San José-Puerto Suarez: The credit will finance construction of the San José-Puerto Suarez road, a section of about 300 km of the export corridor Santa Cruz-Puerto Suarez. Identification mission scheduled for fiscal year 2001. Environmental Assessment Category A. US$ 65.0 (IDA). Consulting services to be determined. Servicio Nacional de Caminos, Edif. Centro de Comunicaciones, Piso 8, Ave. Mariscal Santa Cruz, esq. Ororu, La Paz, Bolivia, Tel: (591-2) 342-957, Fax: (591-2) 391-764

Since our 1999 report, the World Bank has upgraded the project to an A, requiring a full Environmental Assessment. We look forward to reviewing the assessment.
BOLIVIA: Poverty Reduction Strategy Paper & Debt Relief

Like 39 other countries, Bolivia has been designated by the World Bank and the IMF as initially eligible for debt relief. Forgiveness of loans is similar to the granting of loans in that it is in some ways an expense for the MDBs and their major contributors, it comes with certain conditions and it calls for a degree of “ownership” by the people of the “social contract” or Poverty Reduction Strategy Papers (PRSPs) involved in realigning spending and borrowing priorities. In essence, people care how the newly available funds that would have gone to pay the debt will be spent. How they will be spent and which loans are forgiven often has a direct bearing on such things as patterns of natural resource use and indigenous peoples’ rights.

Northern and southern NGOs reported in the July, 2000 Tuesday Group Meeting on a second round of public consultations now unfolding in Bolivia, which in 1998 was the subject of a United Nations report critical of a too-limited national dialogue. The reports indicated that:

- There is a conflict over the exact amount proposed to be allocated for debt relief (whether it is to be $60 or $90 million a year)
- There has been extensive social, political, and economic dialogue for investigation of papers but many feel it has not been uniformly open to the public.
- There are high expectations for this process
- If expectations are not met, there is anticipation of increased social conflict
- There is a conflict between quick debt relief and a comprehensive, thorough PRSP process.
- The national dialogue survey is biased: when asking individual citizens to check off their biggest concerns, “land, or land reform” was not included as a choice yet remains one of the biggest problems facing Bolivia.
- PRSP compilation difficult and expensive taking as much as a year in some countries at an average budget of $1.5 million

The General Accounting Office reported (June 2000) on the Heavily Indebted Poor Countries Initiative begun in 1996 by the World Bank and the IMF and expanded in 1999. The GAO reviewed several countries including Bolivia and found that:

- The MDBs may not be able to provide the portions of the debt relief that they had been expected to provide,
- that current expectations of economic growth in debtor nations are too high (9 per cent per year for 20 years in four of the seven countries analyzed), and
- that prerequisites such as approved Poverty Reduction Strategies may make relief much slower than expected.
- The actual amounts of debt relief are not always clear nor is it clear that resources that could be made available for poverty reduction would often have to be from new borrowing as nations are still overcommitted after limited debt relief.
- Thus greater contributions may be demanded soon either directly or indirectly of major bilateral donors.

GAO notes a primary weakness in the growth projection is that the reliance of these countries on the export of primary commodities such as coffee leaves them to vulnerable to vast fluctuations in commodity prices.

The GAO study revealed that privatization of government owned concerns was a requirement of most such debt relief, including Bolivia’s. Just days earlier on June 30, The New York Times reported that a senior official of the International Monetary Fund said Horst Kohler, the new director of the IMF, is expected to

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188 (GAO/NSIAD-00-161)
189 (often referred to as “HIPC”, pronounced “Hippik”)
190 (p. C2)
ease some of the conditions previously required of borrowers. The official said that many of the broad economic changes the Fund had required in recent years had been designed by the World Bank. The official said the IMF now feels their programs should not be used as leverage to advance hotly disputed World Bank ideas, especially those involving the sale of state owned companies. (emphasis added).

Privatization is one of the most pervasive components of Bank lending. It has had support from the US and other sources, but it has been used very broadly and described often in Bank documents as a goal in its own right rather than analysed for its development benefits in each situation. Therefore, this conclusion by the IMF raises questions about whether the Banks should reassess their privatization efforts, or their speed and intensity since the IMF may have determined that some are counterproductive and since such efforts may be less likely to succeed if they are not supported by the IMF as well.

For example, the sale of a utility may bring in short term cash but lose a long term source of both revenue and policy. This is the case when a government is the direct supplier, rather than the regulator. It can more easily provide services at rates that recover costs and provide for modest use at low rates to cover basic human needs such as cooking and modest heating, but encourage conservation by charging more per unit used for larger amounts (inclining block rates).

The change of direction for the IMF also brings into question other practices of the MDBs reflected in many loans, but it remains to be seen which practices will be dropped by the IMF and the full reasoning behind the changes. Nevertheless, it calls for more careful review of Structural Adjustment and other programmatic loans that to date have lacked even the basic public analysis provided by Environmental Impact Assessments.

The next three Bolivia projects are described following the project descriptions.

Bolivia
Public Sector Management

Judicial Reform: The project will assist in (a) the implementation of the strategic plan adopted by the Judicial Council for 2000-04; (b) implementation of alternative dispute resolution mechanisms; (c) the establishment and operation of a judicial school; and (d) the implementation of the Judicial Career Act, including development of an incentive package. Project preparation is under way. Environmental Assessment Category C. US$ 20.0 (IDA). Consulting services to be determined. Ministry of Justice/Judicial Council

Bolivia
Social Sector

Indigenous People: The project will (a) strengthen the institutional and organizational capacity of indigenous communities and organizations as well as governmental institutions working with these groups; (b) reform indigenous legal framework; and (c) test innovative subprojects managed by and for indigenous communities. Project preparation is under way. Environmental Assessment Category B. US$ 5.0 (IBRD). Consulting services to be determined. Viceministerio de Asuntos Indigenas y Pueblos Originarios (VAIPO), Sanchez Lima 2072, Mazzanine, CP M-10126, La Paz, Bolivia, Tel: (591) 237-4295

Bolivia
Transport

Road Rehabilitation and Maintenance: The project will support (a) institutional
development activities to strengthen managerial capacity of the Servicio Nacional de Caminos and inter-institutional coordination; (b) investments for the rehabilitation of specific segments of the road network; and (c) technical assistance for the design of new projects. Project is being identified. Environmental Assessment Category to be determined. US$ 40.0 (IDA). Consulting services to be determined. Servicio Nacional de Caminos, Edif. Centro de Comunicaciones, Piso 8, Ave. Mariscal Santa Cruz, esq. Ororu, La Paz, Bolivia, Tel: (591-2) 342-957, Fax: (591-2) 391-764

Issues: As noted elsewhere, the combination of judicial reform and a substantive focus, such as environmental law and/or indigenous people's rights seems to be mutually reinforcing for the success of each element. Therefore, the Bolivian projects, we hope, will be coordinated. The transport sector loan above may have a larger impact on Bolivia than any one highway, so its assessment bears careful consideration to ensure that the ministry's EA capacity and the inclusion of indigenous peoples in planning is assured.
24. **Brazil: IDB - Cana Brava Hydroelectric Dam**

*Brazil
Hydroelectric Dams

The Cana Brava project was deferred by the IADB after the US objected on "Pelosi" procedural grounds (EA not available 120 days before Board consideration) and on the basis of several substantive concerns noted by NGOs in the field, EPA, USAID field and Washington staff, and Treasury Department staff.

One of the major concerns was that the project appeared to be already well-underway even in terms of local construction. The objection made then and perhaps more clearly in early September concerning the IDB’s Dona Francisca Hydroelectric Power Project (BR-0315). This dam is 610 meters long and 51 meters high. This project was the subject of an EIA done under Brazilian law in 1992. Project location and design were altered a bit in 1997 and construction on the project was begun in August of 1998 with the reservoir to be fully filled by October 2000. USAID and State Department representatives made the point that to come to the Board for a loan to help pay for the dam while you’re filling the reservoir does not make the process of consultation over the alternatives to the dam, or alternative locations or designs very meaningful, thus negating the purpose of the Pelosi amendment. The advice of the USAID was to withhold US support for the dam in light of the impossibility of fulfilling the intent of the Pelosi Amendment.

The Dona Francisca was as of September scheduled for Board consideration on November 22.

The description of the Cana Brava project below is taken from the IADB website entry that is much more detailed. We have also taken the unusual step of including an entire letter from an NGO as it illustrates the dynamic as seen from the point of view of the NGO and its indigenous and other local supporters.

Meetings of the Working Group on Multilateral Aid (WGMA) were not held for several weeks in the summer. In early September, USAID learned that the Treasury Department had concluded agreements for the Bank for what it deemed conditions adequate to address the concerns of the U.S.. The project was approved on August 9, 2000.

1.1 The Cana Brava Hydroelectric Power Project (the "Cana Brava project" or the "Project") entails the construction and operation of a 450-MW hydroelectric power plant and the construction of a 50 km 230-kV transmission line. The Project is located on the Tocantins River, between the municipalities of Minaçu and Calvacante in the State of Goiás, approximately 250 km north of Brasília, in the center-west region of Brazil. The Project is among the first private projects to be developed under the new institutional and regulatory framework established in 1995 and 1996, and is also one of the first Independent Power Producers (IPP) or self-generators to be financed under a project finance scheme in Brazil. The Project involves a private producer and a private off-taker, with tariffs set freely among private parties. Any excess production above the contracted level will be sold to the market. As such, the Project represents a key step towards the creation of a competitive electricity market in Brazil, an effort that has received continuous support from the Inter-American Development Bank (IDB).

1.2 Tractebel Brasil Limitada ("Tractebel") was awarded the Cana Brava Project Concession Contract, as a result of an international competitive tender, in March 1998 by Agencia Nacional de Energia Eléctrica (ANEEL), the Brazilian regulatory agency for the electric sector. The concession provides for the use of the river resources for a period of 35 years. Tractebel, through its subsidiary Centrais Geradoras do Sul do Brasil, S.A. ("Gerasul" or the "Sponsor") has created a special purpose company, Companhia Energética Meridional (CEM), to implement the project. The Project will be constructed under a turnkey fixed-price Engineering, Procurement and Construction ("EPC contract") contract by a consortium formed by four Brazilian companies: two civil works construction companies, Construtora Norberto Odebrecht S.A. and Construtora Andrade Gutierrez S.A.; and two equipment suppliers, Voith S/A Máquinas e Equipamentos
and Siemens Ltda. CEM will enter into an Operation and Maintenance Agreement with Gerasul for the term of the Concession Contract.

1.3 Gerasul will finance the project using a combination of BNDES long-term financing and an IDB A/B loan. The Sponsor has requested IDB financing for the Cana Brava Project in the amount of US$160.2 million, consisting of an A-Loan in the amount of US$75 million and a B-Loan of US$85.2 million. BNDES financing will be in the amount of US$138 million. Total project costs are estimated at US$426 million, of which 30 percent will be contributed by the Sponsor with equity, and the remaining 70 percent will be funded with debt, as mentioned above.

II. PROJECT DESCRIPTION

1. A. Location

2.1 The Cana Brava Project will be located in the upper reach of the Tocantins River Basin, in the State of Goiás, approximately 250 km north of Brasilia, in the center-west region of Brazil (see Figures 2-1 and 2-2). The Tocantins River runs northward from the Brazilian heartland to the Atlantic Ocean, over a distance of 2,500 km, and in the Project area, the river separates the municipalities of Minacu and Cavalcante. The Cana Brava Project dam site will be located approximately one km downstream from the Tocantins River’s confluence with the Carmo River, approximately 46 km downstream from the São Felix River, and approximately 50 km downstream from the Serra da Mesa hydroelectric power plant. In the Tocantins River, below the Cana Brava Project, there is another hydroelectric power plant in operation (Tucurui) and another presently under construction (Lageado). The Project transmission line will connect the Cana Brava dam site to the Serra da Mesa interconnection facility (at the Serra da Mesa dam site) and will run parallel to the existing road between Minacu and the Serra da Mesa dam site.
Brazil, in August 1999, MAB promoted a public hearing in the Environment Commission of the Federal Chamber of Deputies in Brasilia to denounce the social and environmental disasters caused by dams in Brazil and to request Brazilian authorities to take steps to ensure that these not be repeated.

The work of the movement in defense of dam-affected people, recognized both inside and outside Brazil, has not been respected by those responsible for construction of Cana Brava dam. In his letter, Mr. Paranhos states that “the movement does not represent the local population and there are only three current members of the movement who came from the South region of the country with interests different from the defense of minorities”. We wish to remind the constructor that the movement’s work is protected by the Brazilian constitution which guarantees citizens the right to socially organize and to freely move throughout the country; a constitutional guarantee observed since the end of the military dictatorship.

Given this fact, MAB, an organization which exists to defend its grassroots members, the dam-affected people, can and should travel to different regions when it deems necessary. The reluctance of the constructor to recognize MAB’s legitimacy as a representative of the populations affected by Cana Brava dam demonstrates that the company does not want to negotiate with organized populations, because when organized, they are strengthened in the process necessary to defend what is legitimately theirs.

Mr. Paranhos states in his letter that demands made by those affected by Cana Brava dam and delivered to the company are nothing more than “a claims list by people from outside the State, with no representation...thus not deserving, by the developer, any specific answer.” Tractebel uses these maneuvers to completely ignore the demands of the dam-affected people. These demands were formulated by local people and were placed in the hands of community leaders who, as dam-affected people themselves, are part of the movement. It is therefore ironic that the company suggests that the demands of the Brazilian citizens affected by the dam project were made by “outsiders”, and for this reason not deserving a response from Tractebel, a Belgian company doing business in Brazil. We ask the company who are the real outsiders here. We wonder whether it is with this same level of seriousness that this Belgian company regards organizations which represent citizens of its own country.

According to Mr. Paranhos, in the process of “investments made worldwide”, Tractebel/CEM/Gerasul “has always respected cultures, the environment, and has also promoted improvement in the quality of life and, above all, respect for the directly and indirectly affected communities”. As an illustration, Mr. Paranhos points to Gerasul’s supposed success in Santa Catarina state “where both socially and in environment terms we have managed to keep a regional interaction and participation that was well received and acknowledged by the affected population.” MAB wishes to clarify that, in environmental terms, Gerasul is failing to comply with the policy decision of CONAMA, the National Environment Council, which determines that a 100-meter environmental protection reserve must be maintained around the perimeter of all artificial lakes. Currently, Gerasul is only providing compensation to those whose landholdings are within 30 meters of the reservoir at Itá dam (IDB project BR-0271), in the states of Santa Catarina/Rio Grande do Sul, and therefore is failing to respect our country’s environmental laws. In social terms, the company’s behavior is also inadequate. Despite the fact that construction of Itá dam is already completed and the reservoir is being filled, 60 families have been camped under black plastic lean-tos for more than a year, in an area belonging to Tractebel in Catuípe, Rio Grande do Sul. Despite the fact these families have been directly affected by the dam, the company has not recognized this fact, and therefore the families have not received any type of compensation. Now, after more than one year of resistance, these people are beginning to be recognized by the company as affected populations. Tractebel’s attitude regarding the populations affected by Itá makes clear their true motive for criticizing MAB’s work in organizing the populations affected by Cana Brava dam – the company already is aware of the persistence and determination with which organized populations have confronted attempts by the company to evade its basic obligations. If the families affected by Itá had not resisted for more than a year under plastic lean-tos, their rights would have been denied by Tractebel. By denying the rights of hundreds of families affected by Cana Brava dam, the company is trying to undermine the organizational power of the dam-affected people – organized populations are more difficult to trick.

Notwithstanding the company’s claims that all the problems caused by Itá dam have been resolved, many families, their lands already flooded, have still not received compensation. Small businessmen, whose economic activities have been made inviable by the departure of a large number of farmers expelled by the formation of the reservoir, have received no compensation. If some of the families affected by Itá have managed to improve their quality of life, this certainly did not occur as a result of the respect “above all” that Tractebel says it has for dam-affected populations. Victories in achieving resettlement with dignity were
obtained only through a great deal of struggle and through the organizing power of the dam-affected people. During the process of setting up the thirteen resettlements at Itá, the dam-affected populations were, in every case, obliged to use pressure tactics such as camps set up in front of company offices, and the occupation of work sites and offices so that their legitimate demands would be heard by the company. Only when pressured did the company buy fertile lands to resettle the populations and to respect their basic rights.

Mr. Paranhos affirms that the occupation of the Cana Brava dam work site by the affected populations was "totally illegal and without legitimacy". The occupation of the Cana Brava work site, which took place earlier this year, reflected the disdain with which the company has treated the dam-affected populations. Taking over a work site is a last option used by populations to pressure the company so that their rights may be respected by the constructors and by responsible authorities. This civil disobedience was carried out by the dam-affected families themselves - men, women, and children, mostly small farmers, who in despair face the imminent loss of their way of life and the certainty that they are not being fairly compensated for these losses. Therefore, it is a lie that this occupation "was conducted by major landowners...aiming at increasing the price of land at the reservoir area for their own benefit". Once more, the company uses false statements to try to discredit the legitimacy of the mobilization to cover up its own disrespect for the rights of the affected populations.

Tractebel uses the practice common among dam builders of trying to discredit organizations which defend the rights of dam-affected people and their forms of mobilization so as to promote individual "negotiations". In this way, the company tries to undermine the bargaining power which organized populations achieve. This practice has increased exclusion in our country because, when further weakened, affected populations do not become beneficiaries of the project; on the contrary, not having access to fair compensation and to resettlement projects which aid their development, the dam-affected cannot overcome the impacts they have suffered as a result of the project, and become transformed into the poor living in urban slums, or join the masses of rural landless workers who wander throughout our country.

High-quality resettlement programs designed with the participation of the affected populations are the best way to mitigate negative impacts on affected populations. Despite the high regard that Tractebel says it has for the affected populations, the company has yet to acquire lands for resettlements, and has instead been making false statements regarding the number of people who wish to be resettled, trying in this manner to exclude families from the process. Through its work with the populations affected by Cana Brava, MAB estimates that at least 250 families express the wish to be resettled. However, Mr. Paranhos has publicly been quoted as citing a much smaller number. Besides, the small landholders whose lots are less than five hectares in size are not being considered by the company for becoming beneficiaries of resettlement projects. While the construction of Cana Brava dam is proceeding on schedule, resettlements are not being carried out, and there continue to be only vague intentions stated. This attitude by Tractebel is used as a way to pressure populations. Since only the construction timetable is being respected, affected people are faced with the filling of the reservoir in the near future, are obliged to accept ridiculously low compensation values for losses suffered and are more likely to permit that their rights as legitimate beneficiaries of the project be disrespected by the constructors.

As to the affirmation by Mr. Paranhos that there are no quilombolas affected by Cana Brava dam, MAB wishes to clarify that there are families living in the Limoeiro community who identify themselves as descendants of the Kalunga quilombos. The Limoeiro community, on the banks of the São Félix river, will be directly affected by Cana Brava dam.

Today, the premiss that dams promote development is being questioned throughout the world. There are sufficient cases proving that dams have caused serious social and environmental impacts, which generally were not predicted by the Environmental Impact Studies legitimizing these projects.

This being said, MAB asks the Inter-American Development Bank to not finance the Cana Brava project, since the constructor, despite its discourse to the contrary, has demonstrated total insensitivity to the local population. Saying it is committed to improve the quality of life locally, the company refuses to negotiate with legitimate representatives of the affected communities and makes false statements about them. While it completes construction of the dam, the company is not acquiring resettlement areas for the affected populations. The jobs which have been created during the construction process are, for the most part, temporary, and many have been filled by cheap labor from outside the region, therefore not promoting the "economic sustainability of families" as the company states. Your institution's money could be better
directed towards projects which result in greater distribution of income among the population, representing a true advance toward their economic sustainability. Dams, and principally dams constructed in the way that Tractebel does business, only increase the exclusion of local populations, whose ways of life are sacrificed in the name of a “progress” which only benefits a few.

Sincerely,

Sadi Baron

Coordinator
Brazilian Movement of Dam-Affected People (MAB)
Ecuador: IMF/WB – Structural Adjustment Loans

Ecuador
Structural Adjustment Loans

Ecuador is currently undergoing a joint IMF-World Bank program of structural adjustment, which means among other things, major changes at the national level in many sectors as a condition for future borrowing.

Issues:
- Major concerns among the population according to NGO reports include lack of participation, rapid privatization, and pressure to open resource extraction such as additional oil wells and pipelines.
- Dollarization is also a concern for an already devastated economy, and a recent level of approx. 6,000 Sucres to the dollar may decrease to 25,000 to one dollar (Ecuador would be one of the first countries to institute Dollarization).
- Debt Servicing accounts for over fifty percent of the budget while social programs such as education and health care have been further reduced and are said to be capped by the agreement at under ten percent.

NGO's are making the Ecuador Structural Adjustment Loan a prime example of the need for Env'I and Social Assessments of such large loans. These have not generally been done by the Bank.

The Treasury Department's 1992 regulations applying the Pelosi Amendment require EA's of "projects" only and not Structural Adjustment Loans, but the Pelosi amendment requires a vote against any action without an EA if that bank "action" is likely to have a significant effect on the human environment. The Pelosi amendment uses the word "action" and includes both "projects and programs" and "loan proposals" in the description of the actions to be assessed and reviewed in public. (22 U.S.C. Section 262m-7 (a) and (b)).

Some NGOs assert that the CAS will in effect require Ecuador to issue more oil pipeline permits than it otherwise might have issued and that it will cap health care and other social expenditures by the government which in turn will have a significant impact on the human environment.

The following analysis seems to raise serious questions even about the economic viability of the loan, if the people of Ecuador are in fact as opposed as some assert, despite the chance that it might help stop the decline of the banking sector there.

An "Information Alert" from one NGO focusing on this loan is quoted at length not to endorse all of its contents but to note that the questions it raises warrant careful consideration.

JUNE 4, 2000

STRUCTURAL ADJUSTMENT PROGRAM (SAP) INFORMATION ALERT ON IMF LOAN TO ECUADOR, ACCOMPANIED BY INFORMATION (BASED ON INTERVIEWS) ABOUT THE WORLD BANK'S STRUCTURAL ADJUSTMENT LOAN (SAL) AND DRAFT COUNTRY ASSISTANCE STRATEGY (CAS)

I. INTRODUCTION

After many months of economic chaos and failed attempts to negotiate with the IMF, the Government of Ecuador (GOE) has finally reached agreement with the IMF. The GOE's new loan, called a "Stand-by Arrangement," secures the IMF's "seal of approval" for the Government's economic policies. This "seal of approval" enables the cash-strapped and highly unstable Government to borrow from a range of creditors (e.g. World Bank, Inter-American Development Fund).

191 As noted above, Congress has again directed the Treasury Department to develop a process for completing environmental assessments for structural adjustment loans.
Bank, and the Andean Development Corporation). The IMF derives its power from its capacity to mobilize resources from the financial community. The IMF loan in the amount of $300 million leveraged approximately $1.7 billion from other creditors. Now that resources are flowing to the GOE, the Government has restarted negotiations with bondholders.

This "SAP Information Alert" focuses on the structural adjustment policies that are conditions of the 12-month IMF Stand-by Arrangement, the World Bank Structural Adjustment Loan (SAL) and the World Bank Country Assistance Strategy (CAS). The sources of information for the "SAP Alert" include the following:

* The Government of Ecuador's "Letter of Intent" to the IMF. This document is (in theory) written by the Minister of Finance or Central Bank Governor to the Managing Director of the IMF outlining the economic policies the government is planning to implement. In practice, this document is often drafted by IMF officials or consultants.
* The "Memorandum of Understanding" between the IMF and the government.
* The "Project Information Document" for the World Bank's Structural Adjustment Loan (SAL). This is a public document, available prior to Board approval of the loan, that summarizes the basic content and objectives of the loan.
* Information derived from interviews about the World Bank's draft Country Assistance Strategy (CAS) for Ecuador. The World Bank prepares a CAS for each of its borrowing countries. The CAS describes the rationale and purpose for the Bank's lending to the GOE over the next two years. The CAS also outlines the Bank's plans for specific lending operations. In Ecuador, the World Bank plans a range of operations; some will provide powerful reinforcement for IMF structural adjustment conditions.

The information sources outlined above, with the exception of the Project Information Document, are not publicly available in draft form. They may become public documents only after the loan or country strategy has been signed by the Government of Ecuador and approved by the IMF or World Bank Board of Directors. Public debate and citizen participation in important economic policy decisions is seriously impeded by this policy of secrecy on the part of the IMF, the World Bank and borrowing governments.

The Stand-by Arrangement permitted the GOE to receive $112 million initially. Five equal bimonthly installments of $37 million will follow, if the GOE complies with the IMF's performance criteria. (See below for description of performance criteria, which are mandatory, or binding, conditions with which the GOE must comply.) A common IMF performance criteria requires that borrowers meet certain fiscal targets. The GOE's Stand-by Arrangement stipulates that the GOE's fiscal budget deficit cannot exceed 2% of GDP. If this target is missed, then the IMF can suspend or terminate the Arrangement. Part IV describes the World Bank's role in reinforcing IMF conditions. First, the Bank insists that its borrowers be in "good standing" with the IMF in order to receive Bank resources. That is, borrowers must comply with IMF conditions. Second, according to sources, the Bank may cut back its own lending to the GOE if the GOE fails to consolidate social sector programs and maintain social spending levels at designated levels over the next three years. This may be cause for concern, given the fact that social spending has dropped sharply in recent years and given the dire circumstances of most of Ecuador's population.

II. BACKGROUND

The citizens of Ecuador are experiencing nothing less than a social and economic catastrophe. In one year - 1999 - the economy collapsed:

* poverty increased to 44% from 38% in 1998;
* GDP fell by 7%;
* consumer prices rose by nearly 60%;
* unemployment increased by about 50%;
* real wages decreased by more than 20%;
* children between 6 and 15 years of age unable to afford schooling increased to 64% of the eligible population from 50% in 1998;
* those unable to receive medical attention rose to 70% from 50% in 1998; and
* the value of the sucre fell by two-thirds. Hence, the frozen bank deposits and the valuation of the sucre at 25,000 to the dollar has eroded the real value of wages and the minimal savings of the poor and the middle class.

It is expected that, as of this year, half of the population of Ecuador will be living below the poverty line. Approximately one third of the population lacks access to safe water. Over 40% of the population lacks access to sanitation and health services. There is a significant and growing level of income inequality.
There is widespread and deep concern about aspects of the IMF transaction. In particular, citizens ask:

* Whether these resources will fuel capital flight and fraud. There is a history of rampant corruption in Ecuador. When the last four presidents of Ecuador were ousted or imprisoned, corruption was involved.3
* Whether U.S. foreign policy interests are driving the IMF involvement in Ecuador. Some say that the Government of Ecuador demanded the IMF loan in exchange for allowing the U.S. to maintain its military bases in the country.
* Whether the loan effectively bails out private investors at the expense of the taxpayers of Ecuador, adding to the country's already deep burden of debt.
* Whether the dollarization process, which subordinates the monetary and financial policies of Ecuador to those of the U.S. Federal Reserve Bank, can be halted or reversed.
* Whether the IMF-backed economic policies will further impoverish poor and middle-class citizens of Ecuador.
* Whether attempts to exploit oil reserves will have irreversible negative consequences for the environment and marginalized populations. Plans for economic growth rely heavily on construction of a second trans-Andean pipeline and high and rising oil revenues.
* Whether the privatization and public sector reform components of the structural adjustment program will reduce access to services, raise prices, exacerbate unemployment or undermine collective bargaining rights.

Proponents of the Government's economic reform agenda say that it will foster broad-based growth; opponents say that the agenda will further impoverish the majority of Ecuador's population. Opponents claim that the processes of dollarization and plan for recapitalizing the banking sector will add to the country's towering debt. There is concern that the IMF- and World Bank-backed agenda will erode public institutions, require cutbacks in social services and cutbacks in subsidies of basic goods, mandate regressive reforms to the tax structure, and contribute to an overall decline in the quality of life for the citizens of Ecuador.

Opponents of the Government's agenda led a broad mobilization and protest in January 2000. The Confederation of Indigenous Nationalities of Ecuador (CONAIE) and other popular movements organized a parallel government led by CONAIE's Antonio Vargas.4 CONAIE and its allies might be in power today were it not for the U.S. working with the Ecuadorian military to put President Noboa in power.5

CONAIE has proposed that some of the more controversial economic policies be subjected to a democratic political process. The organization proposes holding a plebiscite on certain policy conditions attached to the IMF loan, including dollarization of Ecuador's currency and the privatization of state-owned companies.

What is the Government's agenda? Much of the agenda is evident in IMF and World Bank conditionality. Part III describes IMF conditions. Part IV, which is based on interviews, describes plans that the World Bank intends to implement through its Country Assistance Strategy and a Structural Adjustment Loan (SAL).

(After describing the MIF conditions they go to the interlocking World Bank conditions.)

IV. CONDITIONS OF WORLD BANK ASSISTANCE

The World Bank's Country Assistance Strategy (CAS) outlines a group of loans that the Bank plans to implement over the course of the next three years. Reportedly, the Bank is considering an "initial scenario" wherein the GOE would be permitted to borrow $425 million over three years for a series of loans, including a structural adjustment program and a public sector reform and privatization program; programs to promote banking sector rehabilitation and corporate debt restructuring; and rural development and social sector programs.7 Rural development programs would include plans to reduce the transaction cost for land title registration by 10% in two years.

World Bank Conditions. The World Bank has two main types of conditions.
* Triggers. Trigger conditions are identified in a Country Assistance Strategy (CAS). Trigger conditions can determine the total number and volume of loan operations for which a country is eligible, and the pace at which loans are disbursed.
* Tranche release conditions. These are the conditions attached to the release of a disbursement, or installment of a loan under implementation.

The Structural Adjustment Loan (SAL). The SAL comprises $150 million of the $425 million CAS program. SAL conditions focus on public sector reform including reform of the tax system, making operational the oil stabilization fund, and implementing the privatization process in electricity and telecommunications. The Bank will assist in the development of legislation that will open the electricity and telecommunications sector to private sector participation.
and also assist in the preparation of legislation that will increase private investment in the exploration and production of hydrocarbons. Other SAL conditions address rehabilitation of the banking system, reprivatization of Banks controlled by the Asset Guarantee Agency, and the monitoring and targeting of social sector programs.

The punitive scenario. The Bank will cutback its lending from $425 million to $150 million over three years if the GOE fails to meet two important “trigger” conditions: (1) comply with the IMF program, and (2) consolidate social sector programs and maintain (and not exceed) social spending levels at designated levels over the next three years. It appears that the target for social sector spending may be 7% of GDP, on average, over the next three years. This could be a very unsatisfactory arrangement if GDP continues to shrink. (GDP fell by 7.3% in 1999.) Under this punitive scenario the Bank would extend a small structural adjustment loan ($50 million) together with two smaller loans for Social Development and Health and Financial Sector Technical Assistance.

It is inappropriate for the Bank to cutback its own lending program if the GOE misses, or fails to adhere to designated social sector spending targets. This is a highly political stance. Reportedly, the Congress of Ecuador has been excluded from decisions about social spending targets. In 1999, social sector spending fell by 10%. Public spending on health care has fallen by 40% since the mid-1980s. Increasingly, people are unable to afford health care; children are unable to afford school. Children are attempting to enter the labor force in droves. The situation is expected to get worse. The Bank estimates that consumer prices will rise by 60% in 2000; this is after an earlier 60% rise in 1999.

Other key CAS “trigger” conditions that, if unfulfilled, could delay Bank lending include banking sector restructuring and recapitalization; drafting of hydrocarbon and electricity legislation; and satisfactory performance on Bank-financed operations. Failure to meet these conditions would postpone implementation of loan operations.

V. COMMENTS AND QUESTIONS:

1. Debt reduction. Why is there no comprehensive debt reduction program for Ecuador? In dollar and percent terms, how has new foreign borrowing from the IMF and other foreign creditors, and the restructuring of Paris Club and bondholder debt, affected future debt servicing requirements? What percentage of obligations -- debt stock and debt servicing - is owed to the IMF? The World Bank? The Inter-American Development Bank? Bondholders? Commercial Banks?

2. The goal of poverty reduction. At the 1999 Annual Meetings of the IMF and World Bank, the IMF declared that, henceforth, poverty reduction would be the overarching goal of its operations. What impact will the IMF and World Bank loan have on:

   * The distribution of income and resources?
   * The standard of living for the poorest 20% and the poorest 40% of the population?
   * Prices of basic foods and other staples?
   * Job creation?
   * Access to safe water, basic health care and primary education?

3. Social sector spending. Why is the World Bank setting a target for social sector spending at 7% of GDP, on average, over the next three years? Will the target be implemented if GDP continues to fall? What social impacts will the people of Ecuador experience as a result of spending at the targeted level?

4. Privatization. What are the anticipated social impacts of privatizing telecommunications and electricity services? Will independent impact assessment studies be undertaken that assess alternative policy options? How might private monopoly take-overs be prevented? How might access to, and costs of, services be affected? Would collective bargaining rights be upheld in newly privatized enterprises?

5. Price hikes. What are the anticipated social and environmental impacts of increases in the prices of fuel, gasoline and cooking oil? How will transportation and household costs be affected?

6. Hydrocarbon exploration. What are the anticipated social and environmental impacts of building and operating oil pipelines? Which corporations are involved? How can the public obtain these impact assessments?

7. Capital flight and corruption. What steps are the national authorities, the IMF and World Bank, and the banking sector taking to ensure that new loan resources will not fuel old patterns of capital flight or fraud and corruption by government officials and the private sector?
8. Private sector burden-sharing. What steps are being taken to ensure that private creditors bear a significant share of the cost of Ecuador's default on its obligations? As a public institution, can the IMF provide assurance to Ecuador's citizens that it is not orchestrating a public bailout of private sector debt. "Socializing" private debts puts an unjust burden on the fiscal budget and the country's poorest citizens.

9. IMF Governance. How might the shareholding governments of the IMF modify the governance structure of the IMF to ensure that IMF decisions are not guided by the foreign policy interests of the United States Government or any other government? A member of the International Financial Institutions Advisory Commission (the "Meltzer Commission"), which was appointed by the U.S. Congress, said that the IMF loan to Ecuador is:

best understood as a means of sending political payola to the Ecuadorian government at a time when the United States wishes to ensure continuing use of its military bases there for monitoring drug traffic." -- Charles Calomiris, Professor of Finance at Columbia University

10. Dollarization. Can the process of dollarizing the economy be halted?

11. Civil service reform. What transitional arrangements are being made to provide security and job training to the civil servants who are being terminated? What civil service functions will be sacrificed?

12. Credit. How might the banking reform and the control of the monetary system by the U.S. Federal Reserve affect access to and affordability of credit?

13. Trade. What is the anticipated revenue loss as a result of removing import tariff surcharges? Will it generate new imports that undermine domestic industrial or agricultural production?

14. Taxes. What revenue gains are expected as a result of the expanded engagement of multinational oil companies in Ecuador? What tax burden will these companies bear? What are the anticipated impacts of the proposed tax reforms on the proportional burden-sharing of different income levels and sectors within the overall tax structure? If the impact of some or all of the proposed tax reforms is to create a more regressive tax structure, what alternatives to the proposed measures can be suggested for revenue enhancement?

Issues (continued):

It is of some interest to note here that at the nearly same time as the Ecuador loan was being considered by the Bank Board, the IMF's new managing director, Horst Kohler, was indirectly telling the media, through an unnamed senior official, that the IMF would no longer be making compliance with the policies favored by the World Bank a requirement in the IMF's lending. The clear implication of a New York Times article June 30, 2000 summarizing draft recommendations of a panel convened by the IMF itself, was that the IMF now considers some of the structural adjustment policy requirements it had essentially adopted from the World Bank to be wrong. Wrong in particular for a more short-term oriented lending institution as both Treasury Secretary Summers and the Meltzer Commission recommended the IMF become again. The article said that IMF was considering a series of major changes and that officials believed that "their landing programs should not be used as leverage to advance sometimes hotly disputed World Bank ideas, especially those involving the sale of state-owned enterprises." This is a sort of reverse spin on the general perception that it has been the IMF that has been the leader in imposing harsh conditions in structural adjustment loans and in getting the Banks to deny project loans to those countries not complying with IMF conditions.

It is also worth noting that on May 3rd, 2000 the Inspections Panel agreed with NGOs requesting an Inspections Panel investigation and recommended to the Board an investigation into violations of safeguard policies in an Ecuadorian mining project. This is notable because few such inspections have taken place, yet everyone one as of late 1999 had found violations. Thus the Bank is on notice to allocate sufficient funds or to be prepared to secure them from the violators in order to correct anyh violations finally confirmed to be

192 P. C2, IMF Expected to Ease Demands on Debtor Nations, by Joseph Kahn
193 INSP/R2000-5
fair and to do justice in its operations. These funds or the money with which to pursue them could be granted or at least acknowledged in the structural adjustment process that is asking the population to make further sacrifices.

Simultaneously the Board was given a report by its Operations Evaluation Department in June of 1999 prepared a report which was distributed to the Executive Directors on June 15th 2000, one year later as they were about to consider the Structural Adjustment Loan. The OED found that the Country Assistance Strategy of 1993 and high-lending from 1994-8 to implement its reforms had essentially failed. Much of the blame was placed on high turnover at the Bank and Bank “willingness to lend even when necessary conditions of sustainability were not present.” The report recommended a number of steps for the new assistance strategy ranging from restructuring the existing debt to small scale flexible lending targeted at grassroots poverty reduction and gender oriented initiatives as well as non-lending services designed to build wide societal support for reform. The report noted that the new Administration’s Minister of Finance agreed with these recommendations.

Finally it is also enlightening to note a July 2000 study of social safety nets by a consultant to USAID.194 The study found that a very small portion of governments’ budgets devoted to ensuring social safety nets and targeted at the very poor can be very effective at easing transitions without costing so much as to substantially slow reforms. Specifically the report measured the cost of government assistance to lift everyone in Nicaragua out of extreme poverty throughout each year. Extreme poverty was defined as having insufficient income for an adequate diet. The study found that the cost could likely be covered by small improvements in tax collection or better targeting of existing aid to the poor. It found that this could be accomplished by increasing the annual national debt by 2 per cent. Furthermore, it should be noted that such aid can prevent children from being driven into the labor force prematurely. Thus the aid will let them continue their education, which is of greater value in the long run to the nation, and it helps lift them lift themselves out of poverty. That cycle thus makes that investment in “human capital” pay for itself, and be sustainable. Such an approach to calculating the cost of various reforms could help make long term loans more economically viable.

194 Macroeconomic Impacts of Social Safety Nets, Gustavo Arcia, Senior Economist, Center for International Development, Research Triangle Institute. Based on Nicaragua but applicable to most developing nations, it found the extremely poor could be given income support sufficient to lift them above the extreme poverty line.
PROJECTS LOCATED IN THE MIDDLE EAST AND NORTH AFRICA

Middle East and North Africa

26. Iran: IBRD - Water Supply/Sanitation
Water Supply/Sanitation: IBRD

Tehran Sewerage (Ln. 4551-IRN): The project will support phase one of a development program that includes the extension of wastewater collection and disposal facilities for Greater Tehran. This phase consists of interceptors and laterals, two trunk mains and wastewater treatment works. Areas to be covered by a wastewater collection system are about 16,500 hectares for a population coverage of about 2.1 million. The project will also include operations and maintenance equipment. Approved by the Executive Directors on 18 May 2000. Environmental Assessment Category A. PID: IRPE69946. US$ 145.0 (IBRD). Consulting services will include technical assistance, training and consulting services for institutional development, tariff study and project management, engineering design and construction supervision, updating of the wastewater development program, and feasibility study and engineering design for phase two investments. Tehran Sewerage Company, No. 14 Andisheh St. Shanned Dr. NBeheshti Ave., Tehran, Islamic Republic of Iran 15686, Tel: (89-21) 840-1310, Fax: (98-21) 840-9194, E-mail: TSC@TAVANA.NET

Issues: The USED voted against this project reflecting in part concern expressed by Members of Congress such as Rep. Ben Gilman, Chairman of the House Committee on International Relations over the lack of due process, as he perceived it, afforded to Jewish defendants charged with espionage. In addition, USAID expressed concern in interagency meetings about the Baha'i religious minority that has also suffered persecution and discrimination in recent years. USAID also noted the dangers to all people inherent in the plans to use treated sewage for fertilizer, especially for cereal grains, as indicated in the Project documents. This continues to be a problem even in developed countries when toxic chemicals or insufficiently treated sewage remain in the fertilizer. Ensuring that run off and industrial waste will not find its way into fertilizer is essential, otherwise fire retardants and other very persistent and dangerous compounds may be absorbed by crops and the livestock or people consuming them.

The above is in addition to the serious issues concerning of Iran’s military development and apparent support of terrorism as addressed directly in the FY2001 House Report, 106-720, at 82.
27. **Jordan: IBRD - Disi Amman Conveyor Project, Samra First Private Power**  
**Jordan: IFC - Jordan Gateway Industrial Zone**

**Jordan**  
Water Supply/Sanitation

**Disi/Amman Water Conveyor** – August 2000 Summary:  
The development objective of the operation is to provide an adequate and reliable supply of bulk water to meet the needs of municipal and industrial consumers in greater Amman. The project will be implemented and managed by a private sector concessionaire, with costs recovered from consumers, and within the context of a strengthened national water resources management capability. Project preparation is underway. Environmental Assessment Category A. PID: JOG 51749. US$ 100.0 (IBRD partial risk guarantee). Consulting services to be determined. Water Authority of Jordan, PO Box 2412-5012, Amman, Jordan, Tel: (962-2) 680-100, Fax: (962-2) 679-143, Contact: Dr. Hazim El-Naser

**Issues:** The project is intended to pump groundwater from the Disi aquifer that is non-rechargeable. The Feasibility Study conducted on the Disi aquifer shows that it will sustain a water supply of 50 million cubic meters per year for 100 years. The major environmental issues facing this project are the sustainability of the project, soil erosion and cultural heritage. [e-mail: USAID/Jordan 12/12/96]

**Status:** An EA has been prepared by consultants to the government of Jordan as part of the Feasibility Study and is the subject of Bank review. Because of the high cost of the project, the Bank is giving priority support to a project to improve the efficiency of water management in Amman. (USAID’s comments supporting this project have been received). The non-renewable nature of the Disi aquifer (depletion of natural capital) will be taken into account during the economic appraisal of the project according to established Bank practices. World Bank staff agrees with USAID’s other comments and appropriate provision will be made in project design. [World Bank fax: 1/30/97] (See 2000 update above.)

**Jordan**  
Power

**Samra First Private Power** --August 2000 summary: Construction of a 450 MW, dual-fired (diesel oil and natural gas) combined-cycle power plant to be located near Amman and developed by a private special purpose company on a build, own and operate basis. It will (a) support the Government’s new initiative for private power generation and its efforts to tap new sources of private capital for the power sector; (b) add new power generating capacity at competitive prices while improving the efficiency and reliability of the power supply; and (c) strengthen the capacity of the Ministry of Energy and Natural Resources to prepare future private projects and put into effect key policies for the sustainable development of the energy sector. The evaluation of proposals for the selection of the private project sponsors is completed. Environmental Assessment Category A. US$ 50.0 (IBRD partial risk guarantee). Consultants have been selected. Ministry of Energy and Natural Resources, PO Box 140027, Amman, Jordan, Fax: (962-6) 582-1398, Contact: Eng. Ahmad Bashir, Secretary General, Ministry of Energy and Natural Resources

**Details:**

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<td>Tentative Board Date:</td>
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Stage: The request for proposals for selection of private project sponsors has been released.

World Bank EA Category: A

Project ID: JOPA55678
Project first entered: February 1999
Entry updated: August 2000
Task Manager: Ms. Zoubeida Ladhibi-Belk (458-0020)

Description: The project will consist of a 300-450 MW, dual-fired (diesel oil and natural gas) combined-cycle power plant to be located near Amman and developed by a private special purpose company on a build, own and operate basis. It will (a) support the government's new initiative for private power generation and its efforts to tap new sources of private capital for the power sector; (b) add new power generating capacity at competitive prices while improving the efficiency and reliability of the power supply; and (c) strengthen the capacity of the Ministry of Energy and Natural Resources to prepare future private projects and put into effect key policies for the sustainable development of the energy sector.

Issues: USAID is trying to mitigate the environmental effect of As-samra treatment plant on the people residing around As-Samra. At present the residents of As-Samra as well as residents of other nearby communities suffers environmentally from the effect of Refinery, the existing thermal power station located near the Refinery, plus the As-Samra stabilization ponds. The GOJ is planning to build a mechanical wastewater system to replace the As-Samra Ponds, and thereby reduce the environmental effect on the people of those areas.

This power project is planned to be built near As-Samra, for several reasons among which, to use the effluent coming out from the As-Samra to cool the power plant towers. In addition to its environmental effect on the communities, the effect of warming the effluent should be examined and discussed in details. Warming the treatment plant effluent will have its effect on the use of this effluent on using it in irrigation plus it may effect the water reservoir of King Talat Dam.

In Aqaba, the National Electric Power Company is expanding the capacity of its existing thermal power station, which uses heavy fuel oil, from 260 MW to double this capacity. The present expansion will meet Jordan demand through 2005-2010. The plant in Aqaba uses seawater as a cooling source. [USAID:Jordan email: 02/04/99]

Status: World Bank staff responded that:

a) The expansion being mentioned for Aqaba power station is being completed and has been taken into consideration when doing the demand forecast to investigate the timing of the proposed Samra power project. Based on the current estimate Samra will be needed as early as 2002/2003;

b) The site for Samra was selected for two main reasons: one, as indicated in USAID’s message, i.e the use of the waste water from the treatment plant; the second is the close proximity to the load center is Amman;

c) The project is classified as Category A for environmental assessment. The environmental aspects of the project will be carried out in accordance with the Bank's directives and guidelines. The issues USAID raised will be investigated when the selected sponsors will be preparing the environmental assessment. [World Bank email, 05/05/99]
Jordan
Jordan Gateway Industrial Zone, IFC

Note: The following summary is derived in large part from a notice by Friends of the Earth/ Middle East, and reflects concerns of other organizations as well. The inclusion in this form is intended not as an endorsement of the accuracy of every assertion but to illustrate the role of NGOs in the process and the kinds of issues that should be raised in the EA process early on if that process is followed properly by the Banks and interested parties.

Summary: The IFC is considering a $15 million loan for the construction of an industrial estate along the banks of the Jordan River. This site will connect to a smaller Israeli site via a new bridge. Construction is ongoing. FIBI Investment House Ltd. Is the sponsor of this project, as well as the Israeli project linked to it. It is a subsidiary of FIBI Holdings, the Safra banking group’s business arm in Israel. The project is located on the banks of the Jordan River, 8 kilometers south of the Sheikh Hussein Bridge, primarily on the Jordanian side. In the future, a bridge will be built connecting both sides that will be used to facilitate trade and export activities.

The Jordanian part of the enterprise will require an investment of $30 million. The IFC, as of late this spring, was considering a $15 million loan. Work began in early April. The site is the future home of an Export Processing/Light Industry Zone, that is expected to employ up to 14,000 Jordanians, with a large percentage of the goods produced traded through Israel, under free trade conditions as a ‘Qualifying Industrial Zone.’

The major environmental organizations in the Middle East are opposed to the site, although they do recognize the importance of industrial development in the region and complain that the IFC refuses to use its influence to stop work until the EIA is completed and reviewed.

NGOs further complain that:

• The Jordan River Valley very little development on the scale of this project. Environmental authorities in Jordan and Israel are interested in establishing a nature reserve in this area.
• The company sponsor has refused to cooperate with NGOs in a public consultation process. Construction began before an EIA was written. The Jordanian environmental authorities are on record opposing development in this region.
• Even if this project is completed according to the highest environmental standards, the rural character of the region will be permanently altered. This development may well lead to more projects with less effective environmental guidelines.
• The IFC’s own ‘Best Practices’ were not followed by the sponsor, even after the project entered the pipeline. The IFC should not reward this sponsor by supporting it after the fact.
• There are other industrial zones that the IFC could support, and this project is not dependent on IFC support for financing.

The IFC contends that it has made this project better by:

Requesting an EIA, which is not required by Jordanian law (although it would probably be required of any Party to the Convention on Biological Diversity under Article 14); addressing NGO concerns, protecting an archeological site; and assisting the sponsor with environmental management.

The IFC also contends that: ‘The current site is the best site on the Jordan River. This project must be located on the River.’ ‘The project has secured all the necessary permits from the Jordanian authorities.’
Environmental groups are not opposed to the development of a new industrial estate. However, if construction continues at the current site, the Jordan River Valley will be irreparably and negatively affected. To prevent the degradation of this area, the FOE believes the sponsor should stop work and relocate to a nearby urban area such as Irbid, where an industrial zone is already flourishing.

The project area is well known for its biological, ecological, and archeological significance. It is adjacent to the Jordan River, an extremely threatened body of water that also serves as an international boundary.

**The Jordan Valley Authority (JVA) owns the land.** The site was chosen (on the Jordanian side) because of its unsuitability for agriculture. The JVA's position is that environmental concerns are solely the responsibility of the Jordanian environmental authority.

**Landscape changes:** The valley is largely occupied by orchards, fields, or grazing areas. This project will turn it into an industrial zone with factories, roads and other outlying commercial areas. The change will be irreversible. While the environment ministers from Israel and Jordan recently held a meeting to discuss the establishment of a transnational Jordan River nature reserve, a new development will create facts on the ground for invite future developers to build on.

The area along the Jordan River was a closed military zone. This area should be investigated in detail to determine the existing natural biota, which might include many rare species of plants and animals, since there are numerous reports from the Royal Society for the Conservation of Nature (RSCN) of rare and endangered species in the Jordan Valley. The project area contains all the essential elements that would support the presence of such species.

The construction and operation activities may lead to dramatic changes in the water quality and quantities. Land movement and generated dusts will increase the sediment loads of the JR water. In addition, dumping of industrial wastewater into the river will change its water chemistry.

* The establishment of industrial zone with several thousands of workers will increase the pressure on the services in the area. Thus there will be increased in the build up area and facilities to accommodate and support increased numbers of incoming labors from outside of the area.

JVA assumes that the infrastructure has minimal or no impacts on the environment. Therefore, they do not see the importance of finalizing an Environmental Impact Assessment (EIA). The developer was allowed to begin infrastructure development before an EIA was completed. An EIA should be completed sometime in June, and each industry within the project will have to submit its own EIA. The JVA have expressed an interest in ensuring that only environmentally friendly industries move in. They maintain that providing an adequate wastewater treatment plant is sufficient for keeping the surrounding area and the Jordan River in their current condition. They also stated that the project would never be allowed to expand beyond the currently allocated boundaries, since the surrounding land is zoned for agricultural use, and cannot be changed without approval from the Cabinet of Ministers.

When asked about the possibility of providing an ecological corridor that would permit free movement of fauna north and south of the project, JVA responded that such a corridor is not being planned.

Friends of the Earth: Middle East (FoEME) held a meeting with the GCPE (Jordanian officials in charge of environment). They stated that the project was not approved by the GCPE, and showed FoEME an official letter from the GCPE to the Ministry of Rural Affairs recommending that no industrial zone be established on the Jordan River.

The GCPE did not have additional information regarding the project, and were not aware that it had started (as of early April.) FoEME informed them of the infrastructure work being carried out, and
suggested that construction be halted.

Economic Viability

Jordan has four QIZ status industrial estates, and an additional 10 more planned. The one in Irbid (the closest city to the current site) is doing very well and expansion is underway. At the same time, Jordan has recently joined the WTO and trade is being liberalized across many tracks. The relative benefits of QIZ status will therefore decrease over the next few years. The current location of the site will then become a disadvantage being away from urban centers of employment and services. FoEME believe that this site is being promoted for primarily political reasons of proximity and convenience. While these might be legitimate in the short term when measured against the damage to be done and the alternatives available FoEME concludes that the current project site can not be justified. If the project is completed, it will become a showcase for regional economic development made possible by peace. Because of the environmental damage that may be caused and the shaky economic rationale for IFC financing, this project may also become a showcase for how the peace process can result in unsustainable development and environmental damage. FoEME believes that by choosing an alternative site away from the Jordan River and near an urban setting, peace, economic and environmental objectives can be better met. 195

Issue Comment: There is a considerable difference of opinion as to the condition of the environment in this area and its sensitivity, yet most acknowledge that even compromised, semi-natural areas of this part of the world may be key to restoring and sustaining biodiversity, nature’s water services and related values. There is also a lack of information concerning the need for the project in light of the rapidly evolving trade relations in the area. These differences highlight the useful role that a participatory EA process plays in helping build understanding, if not consensus, concerning major development proposals and therefore are generally worth doing right.

195 Much of the above information is taken from material published by Friends of the Earth: Middle East 1025 Vt. Avenue, Suite 300. Tel: 202-783-7400 x205. Fax: 202-783-0444. Email: . Website: www.foeme.org.
Appendix A: Environmental Assessment Categories at MDBs
Appendix B: Treasury Regulations Implementing Pelosi Amendment:

PART 26
ENVIRONMENTAL REVIEW OF ACTIONS BY MULTILATERAL DEVELOPMENT BANDS (MDBs)
(31 CFR Part 26)

Sec. 26.1 Purpose
26.2 Availability of project listings.
26.3 Availability of Environmental Impact Assessment Summaries (EIA Summaries) and Environmental Impact Assessments (EIAs).
26.4 Comments on MDB projects.
26.5 Upgrades and additional environmental information.


26.1 Purpose

This part prescribes procedures for the environmental review of, and comment by Federal agencies and the public on, proposed projects of multilateral development banks (MDBs).

26.2 Availability of project listings.

(a) The Office of Multilateral Development Banks of the Department of the Treasury (hereinafter "MDB Office") will ensure that the Environmental Protection Agency (EPA), the Council of Environmental Quality (CEQ), the Department of State, the Agency for International Development (AID), the National Oceanic and Atmospheric Administration (NOAA), and the Bank Information Center (BIC) (which is a private, nongovernmental organization located in Washington, DC) receive copies from each multilateral development bank (MDB) of project listings describing future MDB projects and assigning environmental categories based on the environmental impact of each project. If an MDB has not provided a project listing to one of these entities, these entities may obtain the project listing by contacting the MDB Office, 1500 Pennsylvania Avenue, N.W., Washington, DC 20220, (202) 622-0765.

(b)(1) Members of the public may obtain copies of project listings from the BIC, 2025 Eye Street, N.W., suite 522, Washington, DC 20006 ((202) 466-8191, not a toll free call).

(2) If a copy is not available from the BIC, members of the public may arrange to review and/or copy a project listing by contacting the MDB Office which will make a copy available at the Department of the Treasury Library, 1500 Pennsylvania Avenue, N.W., Washington, DC ((202) 622-0990, not a toll free call). Members of the public are advised that they must make an appointment with the Treasury Library before they visit and that a charge (currently 15 cents per page) is imposed for the use of the library photocopier.

26.3 Availability of Environmental Impact Assessment Summaries (EIA Summaries) and Environmental Impact Assessments (EIAs).

(a) EIA summaries.

(1) The MDB Office will provide for the distribution of EIA Summaries to the entities identified in section 26.2 (a).
(ii) Members of the public may obtain copies of EIA Summaries from the BIC, 2025 Eye Street, N.W., suite 522, Washington, DC 20006.

(ii) If a copy of an EIA Summary is not available from the BIC, members of the public may arrange to review and/or copy an EIA Summary by contacting the MDB Office (202) 622 0765 (not a toll free call), which will make a copy available at the Department of the Treasury Library, 1500 Pennsylvania Avenue, N.W., Washington, DC. Members of the public are advised that they must make an appointment with the Treasury Library (202) 622 0990 before they visit, and that a charge (currently 15 cents per page) is imposed for the use of the library photocopier. To the extent possible, EIA Summaries will be available for review and copying at least 120 days before scheduled consideration of a project by the MDB Executive Directors.

(b) EIAs

(1) The African Development Bank, the European Bank for Reconstruction and Development, and the Asian Development Bank. Arrangements to review an EIA may be made by contacting the MDB Office (202) 622 0765 (not a toll free call), which will obtain a copy of the EIA through the Office of the United States Executive Director of the appropriate MDB and make it available for review and copying in the Department of the Treasury Library. Members of the public are advised that they must make an appointment with the Treasury Library, (202) 622 0990 (not a toll free call), before they visit, and that a charge (currently 15 cents per page) is imposed for the use of the Library photocopier.

(2) the International Bank for Reconstruction and Development, the International Development Association, and the Inter American Development Bank.

(i) Members of the public may review EIAs at the public reading room of the concerned MDB.

(ii) If a particular MDB does not have a public reading room, members of the public may arrange to review and/or copy an EIA by contacting the MDB Office (202) 622 0765 (not a toll free call), which will obtain a copy through the Office of the United States Executive Director of the concerned MDB and make it available in the Department of the Treasury Library, 1500 Pennsylvania Avenue, N.W., Washington, DC. Members of the public are advised that they must make an appointment with the Treasury Library (202) 622 0990 not a toll free call) before they visit, and that a charge (currently 15 cents per page) is imposed for the use of the library photocopier.

26.4 Comments on MDB projects.

(a) Public comments

(1) Written comments

(i) A member of the public wishing to provide written comments on a MDB project must provide 2 copies of the comments to the Office of the Multilateral Development Banks, U.S. Department of the Treasury, 1500 Pennsylvania Avenue, N.W., room 5400, Washington, DC 20220. Written comments should be submitted not later than two weeks after the member of the public has access to the particular document on which it wishes to offer comments either the project listing, the EIA Summary, or the EIA for a particular project. Written public comments will be provided by the MDB Office to the U.S. Government agencies participating in meetings of the
Working Group for Multilateral Assistance (WGMA), which meetings are described in 26.4(c). The WGMA is an intergovernmental subcommittee of the Development Coordination Committee whose functions are set forth in the Presidential announcement of May 19, 1978, Vol. 14, No. 20, p. 932 of the Weekly Compilation of Presidential Documents. The WGMA meets to discuss the U.S. position on upcoming MDB projects.

(ii) All written comments will be available for inspection and copying in their entirety in the Department of the Treasury Library, 1500 Pennsylvania Avenue, NW., Washington, DC (20209090). Members of the public are advised that they must make an appointment with the Treasury Library before they visit, and that a charge (currently 15 cents per page) is imposed for the use of the library photocopier.

(2) Oral comments. Oral comments from a member of the public may be made in periodic meetings convened by the BIC. Information concerning these meetings may be obtained by contacting the BIC or the MDB Office. The MDB Office will summarize the present such comments in the WGMA meetings described in 26.4(c).

(b) U.S. agency comments. Comments from U.S. agencies shall be provided through the WGMA.

(c) Consideration of comments. The WGMA will consider all comments made by the public and U.S. agencies. The WGMA may review a project up to three times. The first review will consider whether the project has been assigned the appropriate environmental category by the MDB. This review will take place as far in advance as possible of Board consideration for the project. The second review will consider the EIA Summary or the EIA (or information discussed in 26.5(b)(1)), and comments received from the public on such documentation. The third WGMA review, which will take place shortly before Board consideration of the project, will consider the position of the U.S. Government on the project.

26.5 Upgrades and additional environmental information.

(a) Environmental category upgrades. If the WGMA and the Department of the Treasury determine that a project would have a significant impact on the human environment analysis planned by the MDB is insufficient, the Department of the Treasury will instruct the United States Executive Director of the concerned MDB to request that the MDB upgrade the project to an environmental category requiring additional environmental analysis. Members of the public may call the MDB Office to inquire about upgrade requests for specific projects.

(b) Additional environmental information

(1) If the WGMA and the Department of the Treasury determine on the basis of the first WGMA review that:

(i) A MDB project would have a significant impact on the human environment, and

(ii) The MDB appears to have made an appropriate decision that such project merits environmental analysis, but less than a full-fledged environmental impact assessment as defined by that MDB's own procedures, the Department of the Treasury will obtain, through the United States Executive Director of the concerned MDB, such environmental information from the MDB (e.g., environmental chapters from project feasibility studies or environmental data sheets) which contains this environmental analysis. The MDB Office will provide this environmental information to the entities described in Sec. 26.2(a).

(2) If such environmental information is insufficient to provide an adequate basis for analyzing the environmental impact of the proposed project and alternatives to the proposed project, the Department of the Treasury will instruct the United States Executive Director of the concerned MDB not to vote in favor of the project.
Appendix C: World Bank Forestry Policy

OP 4.36
September 1993

These policies were prepared for use by World Bank staff and are not necessarily a complete treatment of the subject.

Forestry

Note: This document is based on The Forest Sector: A World Bank Policy Paper, 7/18/91, and also complements the following Bank guidelines: OD 4.01, Environmental Assessment; OD 4.20, Indigenous Peoples; OD 4.30, Involuntary Resettlement; and OMS 2.36, Environmental Aspects of Bank Work. Staff should also consult OD 14.70, Involving Nongovernmental Organizations in Bank-Supported Activities; OPN 11.02, Wildlands; and OPN 11.03, Management of Cultural Property in Bank-Financed Projects. Questions may be addressed to the Director, Agriculture and Rural Development Department.

1. Bank involvement in the forestry sector aims to reduce deforestation, enhance the environmental contribution of forested areas, promote afforestation, reduce poverty, and encourage economic development. In pursuit of these objectives, the Bank applies the following policies:

(a) The Bank does not finance commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest. In borrowing countries where logging is being done in such forests, the Bank seeks the government's commitment to move toward sustainable management of those forests, as described in para. 1(d) below, and to retain as much effective forest cover as possible. Where the government has made this commitment, the Bank may finance improvements in the planning, monitoring, and field control of forestry operations to maximize the capability of responsible agencies to carry out the sustainable management of the resource.

(b) The Bank uses a sectorwide approach to forestry and conservation work in order to address policy and institutional issues and to integrate forestry and forest conservation projects with initiatives in other sectors and with macroeconomic objectives.

(c) The Bank involves the private sector and local people in forestry and conservation management or in alternative income-generating activities. The Bank requires borrowers to identify and consult the interest groups involved in a particular forest area.

(d) The Bank's lending operations in the forest sector are conditional on government commitment to undertake sustainable management and conservation-oriented forestry. Such a commitment (which may be reflected in specific conditionalities; see Good Practices 4.36 for examples) requires a client country to

(i) adopt policies and a legal and institutional framework to (a) ensure conservation and sustainable management of existing forests, and (b) promote active participation of local people and the private sector in the long-term sustainable management of natural forests (see paras. 19-20 of OD 4.01, Environmental Assessment);

(ii) adopt a comprehensive and environmentally sound forestry conservation and development plan that clearly defines the roles and rights of the government, the private sector, and local people (including forest
(i) undertake social, economic, and environmental assessments of forests being considered for commercial use;

(iv) set aside adequate compensatory preservation forests to protect and conserve biological diversity and environmental services and to safeguard the interests of forest dwellers, specifically their rights of access to and use of designated forest areas; and

(v) establish institutional capacity to implement and enforce these commitments.

(e) The Bank distinguishes investment projects that are exclusively environmentally protective (e.g., management of protected areas or reforestation of degraded watersheds) or supportive of small farmers (e.g., farm and community forestry) from all other forestry operations. Projects in this limited group may be appraised on the basis of their own social, economic, and environmental merits. However, they may be pursued only where broad sectoral reforms are in hand, or where remaining forest cover in the client country is so limited that preserving it in its entirety is the agreed course of action.

(f) In forest areas of high ecological value, the Bank finances only preservation and light, nonextractive use of forest resources. In areas where retaining the natural forest cover and the associated soil, water, biological diversity, and carbon sequestration values is the object, the Bank may finance controlled sustained-yield forest management. The Bank finances plantations only on nonforested areas (including previously planted areas) or on heavily degraded forestland.

2. The Bank does not finance projects that contravene applicable international environmental agreements.

1. "Bank" includes IDA, and "loans" includes credits.
2. Definitions are given in Annex A.
The Banks could use its *World Development Indicators* ’Environment Section as a set of measures for selecting and rating loans based on expected and actual impact on the national level performance in each indicator. As another example of a goal and set of indicators, USAID’s are set forth below. In addition to goals and indicators such as these, a development institution uses project-specific criteria for measuring success. In 1998, a small foundation-funded project, Accounting for the Environment, developed a set of indicators that included both environmental and governance measures and ranked several countries against each other so as to compare the stewardship of countries at similar levels of development. Yale University has also developed a sustainability index including non-environmental criteria.

In essence, to better fulfill the purpose of Environmental Assessment, the Banks should ensure and demonstrate with substantial evidence that loans will not be likely to undermine the sustaining of earth’s living natural resources or ecosystem functions, and that the loans will maximize net benefits according to these widely accepted criteria. Mid course reviews should present measurements to confirm that this “do no harm” approach is working.

**USAID GOAL: The world’s environment protected for long-term sustainability.**

Environmental degradation threatens human health, undermines long-term economic growth, and impairs critical ecological systems upon which sustainable development depends. Careful management of natural resources and the environmental impacts of rural and urban development is essential if investments in development are to yield sustainable benefits. Unpolluted and undegraded natural resources are required for long-term economic growth and food security. Clean air and water are prerequisites to people’s health. Sustainable management of natural resources, energy and urbanization builds public/private sector partnerships; increases public awareness through education and training; crosses gender, cultural and class lines; stretches across the political spectrum; and strengthens civil society.

**U.S. NATIONAL INTEREST: Environment**

Not only is the U.S. affected directly by global climate change, the loss of biodiversity, the spread of pollutants, the use of toxic chemicals, and the decline of fish stocks in the world’s oceans, but struggles over land, water and other resources can lead to instability and conflict which may become serious and direct threats to U.S. interests, as well as the U.S. itself. U.S. leadership is essential to resolving global environmental problems and promoting environmentally sustainable economic growth in developing countries. USAID is the lead U.S. government agency for international environmental development assistance and coordinates its environmental programs with the Departments of State, Energy, Agriculture, Interior, Commerce and Treasury as well as the Environmental Protection Agency.

1. **USAID OBJECTIVES:**

   The threat of global climate change reduced;
   
   • Biological diversity conserved;
   • Sustainable management of urbanization including pollution management promoted;
   • Use of environmentally sound energy services increased; and sustainable management of natural resources increased.

2. **COUNTRY CONTEXT INDICATORS:**

   • National environmental management strategies.
   • Conservation treaties ratified and implemented.
   • Nationally protected areas (in hectares and as percent of total land area)
- Carbon dioxide emissions, average annual rate of growth
- Percent of urban population with access to safe drinking water
- Percent of urban population with access to sanitation services
- GDP per unit of energy use
- Percent of energy production from renewable sources
- Annual change in total forest area (percent change and in hectares)
- Annual change in natural forest area (percent change and in hectares)
- Annual change in plantation forest area (percent change and in hectares)
Appendix E: Remarks by Ambassador Harriet C. Babbitt, Deputy Administrator
U.S. Agency for International Development

Remarks by Ambassador Harriet C. Babbitt, Deputy Administrator
U.S. Agency for International Development at the
International Conference on Accelerating Grid-Based Renewable Energy Power
Generation for a Clean Environment
Lewis Preston Auditorium, The World Bank March 7, 2000

I am proud that the U.S. Agency for International Development is a co-sponsor of the conference. We strongly endorse all efforts to encourage cooperation and better share our resources and capabilities. USAID already conducts cooperative activities with the World Bank’s Energy Sector Management Program, the Global Environment Facility, and the Asia Alternative Energy Program. We all share the same goals: to provide for sustained increases in energy supplies in ways that protect the world’s environment and biodiversity.

Without cooperation and the sharing of resources and capabilities—which this conference can encourage and accelerate—these goals will be impossible to achieve. USAID has long recognized the important role of energy production in its development mission. Additional energy is a vital element in our efforts to help developing countries improve the health, education, agriculture, transportation and economic opportunities of their citizens.

But the wrong choices in how that energy is produced and used can ADD to the difficulty of meeting those goals. Our priorities are to help developing countries get the energy they need without damaging the environment on which their futures depend.

Developing countries’ energy use will overtake that of industrial countries in the next 20 years, and is expected to account for three-fourths of the increase in global energy use between now and 2050. Renewable energy can help make developing countries more self-sufficient—making additional debt less necessary—create direct opportunities for local employment, and help limit net greenhouse gas emissions.

Our agency has been involved in encouraging efficient renewable energy for the past 15 years. This fiscal year, we will spend more than $18 million on renewable energy related activities.

USAID works on two fronts to help build a strong, sustainable renewable energy infrastructure:

First, we partner with the public and private sectors from the United States and our host countries, and with the community of multilateral development institutions, to create policies that encourage the development and use of renewable energy.

Second, we work with these partners to build the human capacity to plan and manage these energy applications over the long term.

During the last two fiscal years, efforts by our Washington-based renewable energy program led to the production of nearly 200 megawatts of electric power from:

- wind;
- environmentally responsible hydropower;
- geothermal energy;
- biomass generation, and
over 4,000 solar photovoltaic systems in Brazil, India, Indonesia, the Philippines, Guatemala and South Africa.

These programs have contributed to nearly $800 million of increased financial commitment to renewable energy projects:

In Nepal, our Mission facilitated two privately developed run-of-river power plants scheduled to place 96 megawatts of new generating capacity onto the Nepali national grid this year-- eliminating power outages that had become routine for 3 million Nepalese citizens. The new $98 million Bhotekoshi project represents the largest U.S. energy investment in Nepal.

In India, USAID activities to reduce the technical, financial, economic and institutional risks associated with biomass energy systems resulted in the installation of 270 Megawatts of generating capacity from commercial biomass. More than 1.5 million Indians have benefited.

In Brazil, the impacts of USAID's aggressive Brazil Energy Program have been dramatic. BEP has worked on the restructuring and privatization of the electric sector and supported pioneering programs for renewable energy and energy efficiency.

In 1999 alone, USAID support led to the installation of 15 megawatts of new capacity from wind energy systems for rural communities, and to the development of an investment package for 293 megawatts of small hydro projects. The BEP assisted in drafting renewable energy legislation resulting in the enactment of nine new laws and leveraged $382 million for clean energy projects in Brazil.

In Central America, USAID's most recent assistance is part of our commitment to further the Guatemala Peace Process and the recovery from Hurricane Mitch. Our technical assistance has helped to leverage hundreds of thousands of dollars of support from Dutch and Canadian development agencies, the European Union, and international NGOs for basic rural energy services from renewable energy.

The good news from these numerous examples is that they demonstrate effective cooperation among bilateral donors, NGOs, and multilateral institutions. The bad news is that we are talking about select projects, not the systemic changes that are required to accelerate renewable energy. It is the systemic change -- which Jim Wolfensohn emphasized earlier -- that we hope this conference will address.

USAID is determined to help developing countries leapfrog polluting technologies and make efficient use of renewable energy resources.
Appendix F.

Excerpt from USAID Position Announcement – Controlling Corruption in Privatization

Mass privatization programs create thousands of new publicly owned companies, millions of shareholders, and a requirement for effective company laws and capital market institutions to handle registration and trading of company shares. Furthermore, above and beyond the newly privatized firms, thousands of other new private enterprises are spontaneously coming into existence as the government exits from direct involvement in the productive economy. All of these firms require a legal/regulatory environment fully conducive to their creation, operation and (when needed) dissolution due to insolvency.

The key commercial/economic laws, policies and regulatory entities needed to support the new E&E market economies include:

1. Land issues (privatization, titling, real estate markets);
2. Enterprise formation (company laws, business registries);
3. Business transactions (contract law, collateral/secured transactions law and registries);
4. Tax regimes (income, payroll taxes as they affect business decisions);
5. Business finance (access to debt and equity capital via effective banking and capital markets systems);
6. Accounting standards and practices consistent with international norms and conducive to foreign investment;
7. Open competition (de-regulation policy, anti-monopoly laws, government procurement rules, etc.);
8. Trade regimes (laws/policies on subsidies, customs, tariffs, intellectual property, etc.);
9. Effective means for business exit (bankruptcy and insolvency laws and procedures); and
10. Anti-corruption measures (financial disclosure, ethics codes, watchdog groups) to help insure transparency and credibility in the functioning of laws and policies.

USAID has been a leader in virtually all of these market reform categories. The E&E Bureau relies heavily on highly skilled staff working in the EE/MT office in Washington, who work closely with USAID Missions in the E&E countries to assess, design and implement specific activities in the particular contexts faced by each country. Special attention is given to measurement of results and cross-comparison of experience in one country vs. another, in order to record lessons learned and to speed efforts to find and employ the most effective reform models. Again, one constantly confirmed lesson is the inter-dependence of all components of market reform, i.e., the need to systematically pursue each category of reform in a coordinated and carefully sequenced manner.

Explicit attention is also given in EE/MT the linkage between economic and democratic reforms, in particular the development of independent judiciaries, efficient court systems, and capable legal professions in E&E countries. The judicial/legal system plays a critical role in the implementation and enforcement of economic and commercial laws, and many USAID-financed economic reform activities include elements of judicial training or other components aimed at enforcement issues. EE/MT works closely with the E&E Bureau Office of Democracy and Governance (EE//DG) to effect this end.

The multilateral agencies most heavily engaged in market reform are the International Monetary Fund (IMF) and the World Bank. USAID technical assistance activities are often directly linked to the formation and/or carrying out of conditionally clauses attached to major IMF and World Bank loans/credits to E&E countries. This mutual leverage helps insure successful market reform efforts. In addition, the European Union (EU), the European Bank for Reconstruction and Development (EBRD), and the Organization for Economic Cooperation and Development (OECD) play very active roles in market reform support and their programs are also closely followed and coordinated with USAID efforts.

Within the U.S. Government, USAID also works intensively with the Department of Commerce, the Department of Justice, the Federal Trade Commission, the Treasury Department, and many other federal agencies to help assure that the best possible U.S. expertise can be brought to bear on given market reform needs in E&E countries. Overall coordination of USG programs is handled by the State Department, which ensures that USAID and other USG efforts are well coordinated and supportive of broad U.S. foreign
policy objectives.

Objective: Anti-Corruption Initiative

As a new and critical part of the E&E Bureau program, special attention is now being directed at the prevalence of corruption in transition country economies and societies and measures which can be taken to reduce the incidence of corrupt behavior. Corruption and other fraudulent and criminal activities are highly detrimental to the stability of democratic institutions, erode the rule of law, and undermine the trust and confidence of citizens in the fairness and impartiality of public administration. For the economy, corruption hampers economic growth by undermining the business climate and discouraging both domestic and foreign investment.

Given the cross-cutting nature of the corruption problem, and its real and potential negative impact on the success of all E&E Bureau programs in the transition countries, the Bureau has established a separate Anti-Corruption Initiative. Work on the initiative is being coordinated by the E&E Bureau Anti-Corruption Working Group, consisting of representatives from all Bureau technical offices including EE/MT. In the countries of Central and Eastern Europe, the anti-corruption program is being implemented in close collaboration with the Stability Pact for South Eastern Europe. In the countries of the Former Soviet Union, work is closely coordinated with the World Bank and other international organizations. For the region as a whole, the common objectives are:
- Adoption and implementation of European and other international instruments and conventions to combat crime and corruption;
- Promotion of good governance and reliable public administrations;
- Strengthening of legislation and promotion of the rule of law;
- Promotion of transparency and integrity in business operations; and
- Promotion of an active civil society in combating corruption.