

**FY 2009 REPORT TO CONGRESS  
ON  
THE ENVIRONMENT AND MULTILATERAL DEVELOPMENT BANKS**

UNITED STATES DEPARTMENT OF THE TREASURY

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ON  
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**EXECUTIVE SUMMARY**

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This Report to Congress on the Environment and the Multilateral Development Banks (MDBs)<sup>1</sup>, covering the FY2009 reporting periods of these institutions, is submitted in compliance with Section 539(e) of Title V of Public Law 99-591 (1986) and Section 533(b) of Public Law 101-167 (1989). These provisions instruct the Secretary of the Treasury to report on how MDBs are promoting environmentally sound development and Treasury's efforts to encourage them to do so.

For many years, Treasury has encouraged the MDBs to reduce the negative footprints associated with their projects and seek out opportunities to make positive environmental impacts. In this context, Treasury's objectives have included: 1) the adoption of strengthened environmental safeguard policies; 2) incorporation of independent accountability and recourse mechanisms; and 3) the improvement of day-to-day sensitivity to environmental issues through a stronger commitment to project- and policy-level consultation with affected communities and international civil society. We believe our efforts have contributed to improved policies and practices across the MDBs.

The MDBs also have the capacity to play a significant role in the international climate architecture to finance efforts to reduce climate change, but to take up this role will require them to effectively take on a new challenge—helping developing countries reduce the carbon intensity of their economic output.

In the report that follows, we address four main topics related to the MDBs and the environment: 1) the MDBs and climate change; 2) developments in MDB environmental safeguards; 3) changes in MDB inspection mechanisms and the outcomes of key inspections; and 4) MDB environmental projects and U.S. votes on environmental grounds in the MDBs.

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<sup>1</sup>For purposes of this report, MDBs include the World Bank Group, Inter-American Development Bank, Asian Development Bank, African Development Bank, and European Bank for Reconstruction and Development.

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## I. Introduction

The reporting requirements for this report cover the following institutions:

African Development Bank (AfDB)

Asian Development Bank (AsDB)

European Bank for Reconstruction and Development (EBRD)

Inter-American Development Bank (IDB)

World Bank Group (WBG)

- International Bank for Reconstruction and Development (IBRD)
- International Development Association (IDA)
- International Finance Corporation (IFC)
- Multilateral Investment Guarantee Agency (MIGA)

The reporting periods covered vary by institution, reflecting their respective fiscal years, as indicated in Table 1:

Table 1

Institution	Reporting Period
WBG	July 1, 2008 – June 30, 2009
AfDB, AsDB, EBRD, IDB	January 1, 2009 – December 30, 2009

This report supplements information posted on Treasury’s public website that provides U.S. voting positions on environmentally sensitive MDB projects and policies. The URL for the site is:

[http://www.treas.gov/offices/internationalaffairs/multilateral\\_banks/environmental\\_impacts.shtml](http://www.treas.gov/offices/internationalaffairs/multilateral_banks/environmental_impacts.shtml)

## II. The Multilateral Development Banks and Climate Change

The Treasury Department believes that the multilateral development banks (MDBs) play a critical role in addressing climate change and other critical global environmental issues. In the context of the negotiations of a post-2012 international climate change financial framework, the United States has called for the MDBs to play a central role given their unique strengths. These include scale, leverage and financial expertise, and geographic scope.

*Scale:* Developing countries will need substantial additional finance – on the order of billions of dollars – to successfully shift their economies to lower-carbon development paths through the adoption of cleaner energy and transportation technologies, reduction of deforestation, and greater resilience to the negative impacts of climate change. In comparison to other development organizations, the MDBs have the demonstrated capacity to efficiently and effectively manage the level of financing necessary.

*Leverage and Financial Expertise:* The MDBs have the greatest degree of expertise in deploying the types of innovative financial instruments necessary for addressing climate change. They will be able to use new concessional financing to leverage their substantial capital bases to maximize the flow of climate finance.

*Geographic Scope:* The MDBs represent a network of like-minded institutions, able to operate at the global and regional levels, to address problems of global concern.

*Safeguards and Fiduciary Standards:* The MDB's strong safeguard and fiduciary policies will help ensure that MDB-financed projects do not lead to adverse climate impacts, unwise environmental trade-offs or misuse of funds.

*Development Planning:* Efforts to assist developing countries to address climate change and its impact will only succeed if countries fully integrate climate change considerations into their development strategies and strengthen domestic policies accordingly. Given their expertise, experience and extensive engagement in development planning and domestic policy reform, the MDBs are uniquely positioned to help ensure that countries' development plans and policies are consistent with the climate objectives.

The MDBs have demonstrated these positive attributes in their implementation of the Climate Investment Funds (CIFs), which were established by the United States and other governments to stimulate low-carbon, climate-resilient economic growth in developing countries. The CIFs are comprised of two multilateral trust funds, the Clean Technology Fund (CTF) and the Strategic Climate Fund, which provide grants and other co-financing to public and private sector programs developed through the MDBs. To date, 13 countries<sup>2</sup>, including the United States, have pledged nearly \$7 billion to the CIFs.<sup>3</sup>

The CTF is facilitating the development of country-led clean energy investment plans that can attract private financing and create new models for energy investments in developing countries. For example, CTF projects will help produce nearly a gigawatt of clean energy through a network of solar power stations across five countries in the deserts of Northern Africa. They have also helped foster private sector led, large-scale development of wind energy in the Oaxaca region of central Mexico. The CTF has already mobilized nearly \$44 billion dollars in planned investments for clean energy, energy efficiency and sustainable transport in just over one year of operations on a funding base of \$4.3 billion.

#### *Coal and Climate Change:*

To meet their growing energy demands, developing countries have been pursuing the increased burning of coal. In many ways, coal represents an attractive, relatively cost-effective energy solution. This is particularly true for China and India. Yet, the need to

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<sup>2</sup> As of April 1, 2010 - Australia, Canada, Denmark, France, Germany, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom and the United States.

<sup>3</sup> USD 6.9 billion as of April 1, 2010.

dramatically reduce greenhouse gas emissions resulting from the burning of coal is one of the most significant challenges in the global climate agenda.

In December 2009, after months of consultations with other USG agencies, Non-Governmental Organizations and MDB staff and management, Treasury released a guidance note<sup>4</sup>, Treasury's Guidance to MDBs for Engaging with Developing Countries on Coal-Fired Power Generation (Coal Guidance). This guidance note encourages the adoption of "no or low-carbon" energy options rather than coal-based energy programs and projects. The guidance is intended to be adapted by the individual MDBs and incorporated into their respective operational policies, country and sector strategies, and other procedures that are related to the public or private project cycle for coal-powered generation operations.

The Coal Guidance is comprehensive yet flexible, delineating procedures and actions MDBs should take to reduce coal-based projects and programs such as providing assistance to increase countries' capacities to evaluate coal alternative options, provide financial support to countries to level the playing field where policies bias investment decisions against no or low-carbon energy sources, and assist borrowers to identify public or private sources of external financing to cover the additional costs to consumers that alternative energy investments might generate.

### **III. Safeguards**

Environmental safeguards are the policies against which MDB operations are measured to assure accountability. As such, these policies can be considered part of the "does no harm" aspect of the MDB's environmental approach. The United States was integral to the development of these policies and has remained a strong champion of their robust implementation. Treasury focuses on the periodic reviews and updates of these standards, with the objective of modernizing their application and scope in light of contemporary concerns, technology and development practices. Since Treasury's last report, two MDBs have revised their safeguard policies: the EBRD and AsDB.

#### EBRD – Environmental and Social Policy:

The EBRD's Board of Directors approved a new Environmental and Social Policy in May 2008. The United States encouraged the adoption of a more robust policy that broadened the scope of the previous policy and moved it significantly towards harmonization with the IFC's safeguards framework with respect to both scope and substantive requirements.

Like the IFC's safeguard approach, the EBRD's policy makes a clear distinction between the EBRD's responsibilities and client responsibilities. The EBRD's policy organizes client responsibilities into a set of subject matter "Performance Requirements" that

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<sup>4</sup> [http://www.ustreas.gov/offices/international-affairs/multilateral\\_banks/guidance.shtml](http://www.ustreas.gov/offices/international-affairs/multilateral_banks/guidance.shtml)

closely mirror the IFC's Performance Standards but have separate performance requirements for financial intermediaries and with respect to stakeholder engagement.

The EBRD is engaging in policy dialogues with governments to enter into joint Sustainable Energy Action Plans (SEAPs), which provide the EBRD and governments with an enhanced platform to pursue policy improvements, thereby enabling increased investments in support of ambitious climate financing objectives. In December 2009, the EBRD signed SEAPs with Bulgaria, Kazakhstan, Ukraine and Russia. These plans connect high priority areas for reducing energy intensity with EBRD banking operations. For example, under the Ukraine Carbon Market Facilitation Programme, the EBRD and the National Environmental Investment Agency of Ukraine are developing the legal and regulatory basis for Green Investment Scheme contracts. Furthermore, the EBRD signed a Memorandum of Understanding (MOU) with the Russian bank, Sberbank, for cooperation on energy efficiency and carbon finance in Russia. The MOU will support activities under the Russia Sustainable Energy Finance Facility, and paves the way for co-financing and carbon finance.

The EBRD's Sustainable Energy Initiative (SEI) (begun in 2006) and the creation of a new Energy Efficiency and Climate Change Department have demonstrated the EBRD's strong performance in this area. At the 2009 Annual Meeting, the Board of Governors approved Phase 2 of the SEI and set ambitious objectives for the 2009-2011 period. The Board expanded the scale and reach of SEI activities, set an investment target within a range of Euro 3-5 billion (\$3.9 - \$6.5 billion) and a total project value range of Euro 9-15 billion (\$11.7 - \$19.5 billion), and a corresponding carbon reduction target range of 25 to 35 million tons of CO<sub>2</sub> per annum.

#### Asian Development Bank – Safeguard Policy Statement:

After an extensive review and consultation process, the AsDB Board of Directors approved a new Safeguard Policy Statement in July 2009. The United States supported this policy, which creates a more coherent, consistent and comprehensive safeguard policy than previously existed and was a driving force for inclusion of a number of improvements to the draft policy initially proposed by management.

The new policy is similar in scope and level of protection to other MDB safeguards policies, and includes a number of important improvements over the previous policy. These improvements include greater clarity with respect to borrower/client responsibilities; clearly identified principles; strengthened safeguards implementation oversight; explicit inclusion of economic displacement in the involuntary resettlement protections; a commitment to restore livelihoods to pre-project levels or better where they are subject to significantly adverse impacts; benefit-sharing with affected people; improvements in consultation and participation; greater clarity in the safeguards requirements for different lending modalities (such as framework approaches and financial intermediaries); and, for the first time, a specific provision on greenhouse gases. The Safeguard Policy Statement complements important provisions in the social protection strategy and related procedures on social assessment and impact mitigation.

The policy also permits use of country environmental systems on a pilot basis. United States' concerns about the use of country safeguards as a general approach resulted in adoption of this approach on a pilot basis only.

#### **IV. Looking Ahead:**

In 2010, we will focus on the following MDB reviews and commitments:

##### **IDB – Review of Environment and Safeguards Compliance Policy:**

The IDB is reviewing its 2006 Environment and Safeguards Compliance Policy. The Bank has convened a nine member Independent Advisory Panel on Sustainability to undertake this review. The panel, chaired by Dr. Tom Lovejoy of the H. John Heinz III Center for Science, Economics and the Environment (Washington, D.C.), is conducting the assessment.

The Advisory Panel is conducting an independent review that will include consultations with governments, the private sector, beneficiaries, and civil society organizations. Based on the Advisory Panel's conclusions, it will provide advice and recommendations to the IDB on the implementation of its policies, as well as guidance on emerging sustainability issues in the region and the Bank's capacity to address them. The Advisory Panel began its work in August 2009.

##### **AfDB – Review of Environmental and Disclosure Policies:**

Following the establishment of the Quality Assurance and Results Department in 2008, the AfDB began staffing a dedicated Compliance and Safeguards Division within the department. Following initial preparatory work in 2009 by the Safeguards Division, the Safeguards and Environment and the Climate Change Divisions will begin reviewing and updating the AfDB Group Policy on Environment (2004), the Integrated Environmental and Social Impact Assessment Guidelines (2003), and the Environmental Review Procedures for Private Sector Operations (2001). The AfDB is reviewing its disclosure policy and intends to adopt and begin implementing an updated policy in line with MDB best practices in 2010.

##### **IFC – Review of the Sustainability Policy, Performance Standards and Disclosure Policy:**

In fulfillment of its commitment to undertake a review of its 2006 safeguards and disclosure policies, the IFC initiated a review and update process in 2009 that is expected to result in Board approval of updated policies. The review includes extensive consultations with stakeholders, and is intended to strengthen the existing policy and also to address key new areas such as climate change.

The IFC's review and update are important not only for IFC operations but also for other financial institutions that model their standards on those of the IFC for determining, assessing and managing environmental risk in project financing, such as the Equator

Principles Financial Institutions (EPFIs). (The EPFIs is a group of over 60 financial institutions worldwide that have adopted a set of 10 principles, which directly refer to the IFC Performance Standards, to ensure that the projects they finance are developed in a manner that is socially responsible and reflect sound environmental management practices.)

#### Adoption of Treasury's Coal Guidance:

Over the next year, Treasury will monitor the MDBs' adoption of the guidance. The guidance will also influence our input on relevant sector strategies and operational policies, and inform our own voting positions on coal-related operations at the MDBs.

### **V. Accountability Mechanisms**

Since the last Environment Report submitted to Congress in 2008, and with the strong support of the United States, the MDBs have continued to strengthen recourse mechanisms to ensure their accountability to those affected by MDB projects.

- **IDB:** The IDB has undertaken significant reform of its accountability mechanism, which provides recourse for parties that have been negatively affected by IDB-financed projects. The previous recourse mechanism, the Independent Investigation Mechanism (IIM), established in 1994, had conducted only five investigations, and lacked the confidence of civil society in the region. The Bank's new mechanism, the Independent Consultation and Investigation Mechanism (ICIM), significantly improves the IDB's recourse mechanism by increasing its independence from management and expanding requesters' access to the mechanism.
- **EBRD:** In 2009, the EBRD adopted a new inspection mechanism, the Project Complaint Mechanism (PCM), to replace its Independent Recourse Mechanism (IRM). The EBRD's new mechanism provides two functions: a compliance review function that assesses whether the Bank has complied with its policies, specifically its environmental policy and the project specific provisions of the public information policy, and a problem-solving function that aims to restore dialogue between the parties in order to resolve the issues underlying the grievance. The new mechanism is more accessible to the public, has a dedicated officer and budget, and gives greater consideration to requesters, for example by allowing complainants to comment on the Management Action Plan prior to its consideration by the Board.
- **AfDB:** The African Development Bank's Independent Review Mechanism (IRM) is also undergoing a review after its first three years of operation. A draft review report has been prepared and includes a number of recommendations for improvement of the mechanism, including increased outreach and more resources for outreach, greater transparency of Bank policies, and setting a deadline for management to take actions after a case review.

## *Cases*

Below we review three MDB inspection cases in two countries, Albania and Uganda, and the lessons learned. These cases provided opportunities for the MDBs to revisit the robustness of their compliance with safeguard policies and led to actions to strengthen their implementation.

**Albania:** In response to environmental threats to a 168-km stretch of Albanian coastline, which was being blighted by unregulated construction, poor infrastructure, and uncollected/untreated waste, the World Bank began preparation of the Albania Coastal Zone Management and Clean-up Project in 2004. The purpose of the project was to protect coastal resources and cultural assets, while promoting sustainable land use, community participation and improved environmental conditions.

Responding to an August 2007 request from families (“Requesters”) in the coastal town of Jale, the Inspection Panel investigated the World Bank’s compliance with its operational policies on the design, appraisal and implementation of the project, and assessed whether there had been harm or potential harm to local, affected peoples. The Inspection Panel presented its report on December 1, 2008 and concluded that:

- the Bank had not followed its own policies in the management and supervision of this project,
- harm had been done to a number of families during implementation of the project, and
- the Panel encountered unusual difficulties accessing accurate and complete information.

Bank management acknowledged that a series of unacceptable errors had led to the violation of a number of Bank operational safeguards policies, including the Involuntary Resettlement Policy, and inappropriate demolitions of several homes and businesses in Jale. The project’s implementation was suspended by Bank management on January 9, 2009. Concurrently, the Bank agreed to a Management Action Plan that included:

- Agreement between the Government of Albania and the Bank for an independently monitored case-by-case judicial review of Requesters’ cases to determine if compensation was due (this is an ongoing process),
- Bank funding of the Requesters’ legal fees,
- Hiring of an Independent Observer of the judicial process to report on a confidential basis to Bank management, and
- Recommendation for an Accountability and Performance Review into alleged Bank staff misrepresentation to the Inspection Panel of events surrounding project preparation, board presentation and project supervision.

The findings of the Inspection Panel’s Progress Report on the Implementation of the Management Action Plan dated July 2009 indicated that adequate progress had been

made to justify the restructuring of the project for board discussion for late 2009 or early 2010. The components related to land use planning were dropped at the request of the Government of Albania.

*Lessons Learned.* The inspection case highlighted conflicting assessments as to the applicability of the Involuntary Resettlement Policy to land zoning projects. In order to clarify the applicability of the Involuntary Resettlement Policy to these types of projects, the World Bank's Operations Policy and Country Services Department issued a Guidance Note that outlined: (1) the types of risks intrinsic in land use planning projects, (2) how and when the Bank's related Safeguard Policies should be triggered during project preparation, (3) the range of measures available to mitigate risks as part of implementation, and (4) recommended actions during project supervision.

Moreover, the inspection case revealed gaps in mechanisms to assure that project documents presented to and approved by the board mirrored the project agreements between the Bank and the government of the project country. For example, the board was told that the Government of Albania had committed to a moratorium on demolitions, when in fact there was no such commitment. Based upon the Albania case, a full review was undertaken of all active projects Bank-wide to determine whether there were other discrepancies between board documents and the terms in actual loan agreements. This led to corrections in a number of project documents of other countries, although nothing was found that was equivalent to the major error in the Albanian project.

The Accountability and Performance Review was completed and appropriate actions were taken including with regard to Bank staff and reported to an Executive Session of the board in April 2009.

**Uganda:** In 2007, the United States supported an \$860 million, 250 megawatt Private Power Generation (Bujagali) project in Uganda, sponsored by the IDA, IFC, MIGA and the AfDB (the Bujagali Hydropower Project). In Uganda, a country where only one in 10 people has access to electricity and blackouts are common, expansion of power generation is crucial to help Uganda emerge from its current power crisis and create the growth needed to meet Uganda's development objectives. In addition, the United States supported the project based on steps to be taken by the project sponsor, the World Bank Group, and the Government of Uganda to mitigate adverse social and environmental impacts. For example, the Government of Uganda designated Kalagala Falls as a biodiversity offset, including the preservation of the Mbira forest reserve. In addition, we noted the Ugandan authorities' intentions to adhere to improved management of the water levels of Lake Victoria, and their assurances that any deviation from the agreed release of water would be done in consultation and agreement with affected countries.

*World Bank:* Responding to a request from a Ugandan non-governmental organization (NGO), the National Association of Professional Environmentalists, the Inspection Panel investigated the World Bank's compliance with its operational policies on potential environmental, economic, and social impacts. The Panel found instances of non-compliance with several policy provisions, noting, for example, that the assessments of

project alternatives and cumulative impacts excluded Lake Victoria from the project's area of influence. The Panel also found that the project did not meet Bank policy requirements to achieve livelihood restoration for people displaced several years ago in the first Bujagali project, and that it had failed to adequately address and mitigate the flooding of a significant cultural property of high spiritual value to the Basoga people, a local community.

*Lessons Learned:* In response to these findings, Bank management took several remedial actions, including the timely implementation of a sustainable management plan for Kalagala Falls, updating and implementing a cultural property management plan, and undertaking an enhanced socio-economic study to support and fully achieve livelihood restoration.

Because the Bujagali project highlighted the challenges of implementing IDA and IFC safeguard rules concurrently, the WBG has also sought to facilitate joint IBRD/IDA-IFC projects by establishing guidelines to facilitate concurrent application.

*African Development Bank:* The Bujagali Hydropower Project was the first investigation undertaken by the African Development Bank's Independent Review Mechanism (IRM) in response to a request from Ugandan NGOs and individuals. In June 2008, the IRM panel report found a number of areas where project implementation failed to comply with the AfDB's own standards, policies and guidelines. The findings included: 1) that there was a failure to resolve all legacy issues from an earlier Bujagali project prior to the commencement of the new project activities; 2) that the perfunctory references to the gender dimension of the project in the AfDB's documents constituted non-compliance with the requirements of the AfDB's Policy on Gender; and, 3) that there was a shortage of systematically collected data about the situation of the project-affected people before the commencement of the project. The lack of such data made it difficult to establish confidently that the resettlement plan met all the requirements of the applicable AfDB policies.

The IRM's first monitoring report on the AfDB's implementation of the Action Plan was published on August 16, 2009. In light of AfDB's slow response to the recommendations, the monitoring report emphasized the importance of implementing the Action Plan in a timely manner and reiterated that AfDB management needed to immediately address three key issues raised in the original report: 1) resettlement and compensation (ensuring resolution for both the process of providing appropriate restoration of the livelihoods of involuntary resettled people and outstanding compensation issues); 2) cultural and spiritual issues (ensuring that the consultation process be continued in order to mitigate effects of the cultural/religious tension that will be caused as a result of the inundation of the Bujagali Falls); and 3) the Kalagala Off-set and Forest Reserves mitigation measures be reviewed by the AfDB, as indicated in the Action Plan, and that it be implemented as intended.

*Lessons Learned:* AfDB management agreed to an Action Plan requiring follow-up on the IRM's main findings on resettlement and compensation issues; stakeholder

consultations; cultural and spiritual issues; Kalagala Falls offset and Forest Reserves mitigation measures; systematic collection of data; overlapping transmission lines; gender issues; and, the negative impact of ongoing construction work and rock blasting at the Bujagali Dam site.

In the broader context, the following key lessons can be drawn from the MDBs' joint experience with the Bujagali Project:

- greater coordination of environmental safeguard policies among MDBs for large complex projects is critical for successful project implementation;
- the financing of a project by multiple MDBs provides the opportunity to reinforce the adoption and implementation of best practices; and
- ongoing project implementation monitoring is essential to assure that mitigating measures and safeguard recommendations are fully implemented.

## **VI. Environmental Projects**

### *Background*

The MDBs fund activities explicitly designed to generate environmental benefits. Some activities are freestanding environmental projects, while others are components of major infrastructure or other projects. Sometimes freestanding projects are implemented to offset another activity, such as supporting low- or no-carbon power generation in tandem with a conventionally fueled power project. Increasingly, environmentally beneficial programs are being “mainstreamed,” or folded into, projects whose main development objective is not considered solely environmental. For example, agricultural or rural development projects may include natural resource management and conservation components. Many industry and energy projects of varying size encompass environmentally beneficial measures, such as new pollution controls or other “clean development” initiatives.

The MDBs are increasingly using financial intermediaries (commercial banks, investment funds, etc.) as an efficient means to broaden access to financing for small and medium size private businesses. The MDBs tend to use a specialized environmental classification, Financial Intermediary (FI), for these transactions instead of the standard environmental categories A through C. However, some of these businesses are engaged in activities that may have significant environmental impacts. The Treasury Department has called on the MDBs to consistently look beyond the investment in the FI itself and to the on-the-ground subprojects to determine environmental classification and the appropriate environmental standards and safeguard practices the MDBs should apply to such subprojects.

Below is a sampling of Treasury supported, MDB financed environmental projects and project components:

## World Bank

- Colombia. In December 2008, the IBRD approved a \$450 million Third Programmatic Development Loan for Sustainable Development. The loan supports the Colombian government's efforts to mitigate the effects of growing urbanization, notably inadequate water and sanitation management and increasing air pollution.
- Peru. In February 2009, an IBRD \$330 million Third Programmatic Environmental Development Policy Loan Program was established to support the government's efforts to strengthen environmental governance and institutions, and mainstream environmental sustainability in the development agenda of key sectors (mining, fisheries, and urban transport and energy).
- China. A \$200 million loan for the Shanghai Urban Environment Project was approved in June 2009 to help counties develop solid waste management, wastewater treatment facilities, and reduce water pollution to improve the basic quality of life of their populations.

## EBRD

- Romania. In March 2009, the EBRD board approved an environmental loan of approximately \$390 million to a Romanian oil company to finance a series of environmental sector sub-projects, including large-scale cleanup of legacy contamination, reduction of product losses through pipeline replacement, and health and safety measures (including traffic management, energy efficiency and other environmental remediation investments).
- Turkey. In May 2009, the EBRD provided \$58 million in financing for a 135 MW wind farm project in Turkey. The project is the largest wind farm development in Turkey to date, and is an important part of Turkey's effort to diversify its energy portfolio and improve the country's energy security.
- Poland. In January 2009, the EBRD board approved a financing package consisting of a \$38.7 million senior long-term debt facility, a \$5 million debt service reserve facility, and a \$1.7 million guarantee facility for the construction and operation of a 50MW wind-farm located near Tychowo in northern Poland. The project represents the first wind-farm project financing in Poland without concessional financing or recourse to the sponsor, and helps Poland meet its renewable energy targets which were set in line with EU requirements.
- Ukraine. In April 2009, the EBRD provided a loan of approximately \$15.5 million to the municipal district heating company of Ivano-Frankivsk to partially convert its energy supply to biomass. The project is expected to result in additional annual reductions of 5.2 million cubic metres in gas consumption and

around 10 kilo tonnes of CO<sub>2</sub> per annum – enough energy to provide heating for a 10,000-strong community in Ukraine for an entire year.

- Mongolia. The Salkhit Wind-farm Development, a \$1 million equity investment, was approved by the EBRD in December 2009. As the first renewable energy project in the country, and the first private generator in an otherwise state dominated sector, the project is a landmark in the Mongolian power sector. The project also achieves a significant step forward in establishing the viability of renewable energy in the Mongolian economy.

### IDB

- Mexico. In October 2009, the IDB approved a \$40 million non-sovereign guaranteed loan to BBVA Bancomer, one of Mexico's leading commercial banks, for the construction of a new "green" corporate headquarters. The company is building a \$900 million corporate campus in Mexico City and is seeking Leadership in Energy and Environmental Design (LEED) certification. When completed, the Bancomer headquarters will be among the first buildings in Latin America to acquire such international recognition. The project also brings BBVA Bancomer's vast network of branches and commercial buildings into line with internationally certified standards of energy savings and efficiency.
- Peru. In December 2009, the IDB provided a \$25 million non-sovereign guaranteed loan to Maple Ethanol S.R.L. to help finance construction of a sugarcane ethanol plant with production capacity of 35 million gallons of fuel per year in the province of Piura, on the northwest coast of Peru. The project includes a 14,000-hectare sugarcane plantation on marginal land that the parent company, Maple Energy, purchased from the government of Piura and private individuals.
- Guatemala. In June 2009, the IDB board approved \$22 million to improve Guatemala's ability to safeguard protected areas by preventing land ownership disputes regarding and encroachments on the protected areas. Encroachments have become particularly serious in the northern department of Petén, which has been under serious pressure from forestry interests and new settlement. The loan enables Guatemala to establish a state-of-the-art physical cadastre that provides the country's System of Protected Areas with legal and geographical certainty regarding borders.

### AfDB

- The Lake Chad Basin Sustainable Development Program. In December 2008, the AfDB, in cooperation with the World Bank and other donors, agreed to provide \$95 million to finance a program to restore the productivity of Lake Chad. Lake Chad Basin covers nearly 1 million square kilometers. Nearly 30 million people in five countries -- Cameroon, Niger, Nigeria, the Central African Republic, and Chad --share the Lake and rely upon its waters, fish, and

- ecosystem. But, the Lake is drying up. The program will help restore over 8000 hectares of sand dunes, combat erosion over 27,000 hectares, and stop the proliferating vegetation that is choking the Lake. In addition, the program will clean out the Vrick canal to augment the volume of water flowing into the Lake; undertake feasibility and implementation studies on redirecting waters from the Oubangui River in the Central African Republic to the Lake; and, undertake studies to reduce the water losses provoked by the many small dams built on the waterways feeding the Lake.
- Congo Basin Ecosystems Conservation Support Program. In March 2009, the AfDB board approved \$56 million to support the sustainable and concerted management of forest resources and protected areas through conservation of the Congo basin, the second largest tropical forest in the world and the second “green lung” of the planet (after the Amazon). Home to unique species of flora and fauna, the forest is a rich repository of natural resources that provide many people with their primary source of income, but it is being cut down. Poor farmers and villagers rely on the forest for subsistence farming and use the wood as fuel. The timber industry, a major employer of thousands of workers in these countries, has been increasing its activities in the last five years.

#### AsDB

- India. In April 2008, the AsDB approved \$105 million to support the Gujarat Paguthan Wind Energy Financing Facility, which is comprised of the Samana wind power facility, located in Gujarat state, and the Saundatti wind power facility in Karnataka state, totaling 183.4 MW of power generation. The project is one of the largest such initiatives in the country and supports the Government of India’s “Power for All by 2012” initiative, a strategy for universal electricity supply by 2012.
- China. In December 2009, the AsDB board approved a \$40 million loan for the Shaanxi Qinling Biodiversity Conservation and Demonstration Project, which represents about 70% of China’s biodiversity, including an estimated 300 giant pandas. The Project is intended to protect globally-significant species and sustain economic growth. This will be measured by a reduction in degraded land and soil erosion, an increase in the area that protects endangered species, and an increase in rural incomes and employment.
- Kyrgyz Republic. The \$16.5 million Issyk–Kul Sustainable Development Project, approved by the AsDB in September 2009, is the first phase in a longer-term initiative by the AsDB to support environmental management and to improve urban service delivery in the Issyk–Kul *Oblast*. Lake Issyk–Kul (“warm lake” in Kyrgyz) is the world’s second largest saline lake, a Ramsar site of globally significant biodiversity and a United Nations Educational, Scientific and Cultural Organization (UNESCO)-designated biosphere reserve. The Lake forms a significant part of Issyk–Kul *Oblast* and contributes to its economic growth

through tourism. However, existing water supply and sanitation infrastructure—including solid waste management—are decrepit, dysfunctional, and poorly maintained and, as a result, are contributing to the Lake's pollution.

- Sri Lanka. Approved by the AsDB in September 2009, the \$100 million Greater Colombo Wastewater Management Project will improve the urban environment and public health for 1.5 million urban and suburban resident in Greater Colombo through higher marine and inland water quality. Significant environmental benefits resulting from the Project include improved hygiene and sanitary conditions, better sewage disposal, and a healthier ecosystem.

## GEF

The Global Environment Fund (GEF) is a World Bank trust fund that includes the participation of the UN Environment Program, the UN Development Program and the MDBs. The GEF often leverages co-financing from other multilateral, bilateral aid agencies and beneficiary countries. For example, the GEF funded a project in early 2009 to improve the management effectiveness of the Maya Biosphere Reserve (MBR). The entire operation totals over \$33 million, and is being implemented by the IDB. The Maya Biosphere Reserve has 17 natural ecosystems, more than 40 species of mammals, 256 species of birds, 97 species of reptiles, 32 species of amphibians and 55 species of fish, as well as cedars, pines, bread-nut trees, gum trees, relict mangroves (the most inland occurrences of mangrove in the Yucatan Peninsula), rare mollusk-based reefs, caves and cenotes (a sinkhole containing groundwater) within its borders. Equally important is the MBR's role in bridging borders: the 2.1-million-hectare reserve is the core of a regional corridor connecting protected areas in Mexico and Belize.

## **VII. Reporting Period Performance**

As Table 2 shows, environmental projects have increased at all of the MDBs in dollar terms (with the exception of MIGA whose data was not available). As a share of total MDB financing, the picture is less clear, as this share can fluctuate considerably from year to year. In addition, there are differences in the way the institutions classify projects as having primarily environmental objectives. Finally, total loan volume changes or exchange rate fluctuations may exaggerate the magnitude of some yearly percentage changes.

Table 2. Total Environmental Projects<sup>5</sup>

Institution	FY07 US\$ millions	FY07 share of total financin g	FY08 US\$ millions	FY08 share of total financing	FY09 US\$ millions	FY09 share of total financing
AfDB	225	5%	575	11%	787	7%
AsDB	989	10%	2,600	25%	4,300	26%
EBRD	1,578	18%	1,487	19%	1,820	17%
IBRD/IDA	2,017	8%	2,662	11%	n/a	n/a
IDB	1,100	12%	1,800	15%	n/a	n/a
IFC	450	5%	1,400	12.3%	1,030	9.8%
MIGA	155	11%	n/a	n/a	n/a	n/a

In US FY08, the U.S. abstained or voted no on Pelosi Amendment or other environmental disclosure grounds on 14 projects (“Pelosi votes”) representing less than 0.90% of total projects. (See Table 3). In FY09, there were 38 such votes that represented 2.5% of total projects. This increase in the frequency of Pelosi votes reflects three factors:

- 1) That, while MDBs’ internal standards and actual project-development practices have made significant progress over time, the high standard set by the Pelosi Amendment remains challenging in some cases, particularly when the MDBs are seeking to respond to emergency situations. FY08 and FY09 lending contained unusually high volumes of emergency lending.
- 2) That the MDBs are investing an increasing share of their resources in infrastructure projects. These projects are more likely to raise environment disclosure issues than other types of lending, such as governance or social sector lending. The Treasury Department has supported this increased investment in infrastructure, which can have high development impact, but has called for the lending to be supported by high-quality environmental practices that are consistent with the Pelosi Amendment.
- 3) That an increased share of MDB lending is being directed to private-sector borrowers, especially to financial sector borrowers who will leverage and on-lend MDB resources. Treasury has pressed consistently for greater investment in the developing world’s private sector—the engine of sustainable economic growth. While the Treasury Department has found that more than 90 percent of MDB private sector lending is consistent with the Pelosi Amendment, it remains true that a larger proportion of private sector lending remains inconsistent with Pelosi Amendment disclosure requirements than the corpus of MDB lending as a whole. The Treasury Department continues to press to see environmental practices in private sector lending improve.

<sup>5</sup> Environmental projects as defined by the individual institutions.

Table 3. Treasury abstention or no votes related to MDB environmental disclosure practices

Institution	FY08 Number of Pelosi Votes	FY08 Pelosi Votes / Total Votes	FY09 Number of Pelosi Votes	FY09 Pelosi Votes / Total Votes
AfDB	2	2.0%	10	6.4%
AsDB	1	0.0%	0	0.0%
EBRD	3	1.9%	9	5.6%
IBRD/IDA	2	0.5%	9 <sup>6</sup>	2.1%
IDB	0	0.0%	1	7.7%
IFC	6	2.6%	9	3.9%
MIGA	0	0.0%	0	0.0%
Total	14	0.9%	38	2.5%

## VIII. Summary and Conclusion

In an effort to strengthen MDB policies and practices related to the environment, we have sought to improve MDB safeguard policies, urge strict compliance with the due diligence practices necessary to ensure that those safeguards are followed, and strengthen independent inspection mechanisms. We have also urged the MDBs to significantly scale up efforts to help developing countries address the impact of climate change while substantially reducing support for coal projects, especially in middle income countries.

These efforts have borne fruit. During this reporting period, the EBRD, AsDB and AfDB strengthened their environmental and social safeguards and the World Bank, EBRD and IDB adopted revisions to their inspection mechanisms to make them more accessible, accountable and credible. In addition, Treasury’s new coal guidance has influenced decisions at the MDBs to scale back or abandon coal projects.

Looking ahead, we anticipate that our intensive engagement in current reviews underway at the IDB, AfDB and IFC will also result in significant improvements. In addition, we will continue to work with the MDBs--especially through the CIFs--to support low-carbon, climate-resilient economic growth in developing countries.

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<sup>6</sup> Includes a Pelosi abstention on a World Bank managed Trust Fund for Gaza

**Environment (Annual Report) -- Pub.L. 99-591, Section 539**

- (a) The Secretary of the Treasury shall instruct the United States Executive Directors of the Multilateral Development Banks to
- (1) vigorously promote a commitment of these institutions to
    - (A) add professionally trained staff with experience in ecology and related areas to undertake environmental review of projects, and strengthen existing staff exercising environmental responsibilities;
    - (B) develop and implement management plans to ensure systematic and thorough environmental review of all projects and activities affecting the ecology and natural resources of borrowing countries, including
      - (i) creation of a line unit to carry out such reviews as part of the normal project cycle,
      - (ii) appointment of an environmental advisor to the Presidents of the Multilateral Development Banks,
      - (iii) institution of a regular program of monitoring all ongoing projects to ensure that contract conditions and general bank policies to protect the environment and indigenous peoples are fully complied with;
    - (C) create career and other institutional incentives for all professionally trained bank staff to incorporate environmental and natural resources concerns into project planning and country programming activities;
  - (2) vigorously promote changes in these institutions in their preparation of projects and country programs that will prompt staff and encourage borrower countries to
    - (A) actively and regularly involve environmental and health ministers, or comparable representatives, at the national, regional and local level, in the preparation of environmentally sensitive projects and in bank-supported country program planning and strategy sessions;
    - (B) actively and regularly seek the participation of non-governmental indigenous peoples and conservation organizations in the host countries at all stages of project planning and strategy sessions;
    - (C) fully inform local communities and appropriate non-governmental organizations with interests in local development projects of all project planning sufficiently in advance of project appraisal to allow informed participation of local communities and non-governmental organizations that may be adversely affected by them;
  - (3) establish a regular integrated multidisciplinary planning process to conduct land use capability analyses in reviewing potential loans. Such plans shall include, but not be limited to, a review of ongoing or other potential resource utilization efforts in and adjacent to the project area;
  - (4) vigorously promote a commitment of these institutions to develop and implement plans for the rehabilitation and management of the ecological resources of borrower nations on a sustained basis. Special attention shall be paid

to soil conservation, wildlife, wetland, estuaries, croplands, grasslands, forests, and fisheries, including-

- (A) long-term programs of research designed to manage ecosystems properly;
  - (B) provision of adequate extension workers, park rangers, social forestry experts, and other appropriate personnel; and
  - (C) improved programs of training in environmental science and land-use planning;
- (5) vigorously promote a commitment of these institutions to increase the proportion of their programs supporting environmentally beneficial projects and project components, such as technical assistance for environmental ministries and institutions, resource rehabilitation projects and project components, protection of indigenous peoples, and appropriate light capital technology projects. Other examples of such projects include small scale mixed farming and multiple cropping agroforestry, programs to promote kitchen gardens, watershed management and rehabilitation, high yield wood lots, integrated pest management systems, dune stabilization programs, programs to improve energy efficiency, energy efficient technologies such as small scale hydro projects, rural solar energy systems, and rural and mobile telecommunications systems, and improved efficiency and management of irrigation systems.
- (6) place an increased emphasis on upgrading the efficient use of energy and other resources by borrower nations. Such efforts shall include, but not be limited to
- (A) significantly increasing the proportion of energy project lending for energy efficiency improvements, and decentralized small scale facilities such as solar, wind, or biomass generating facilities; and
  - (B) conducting an analysis of the comparative costs of any new energy generating facilities with the cost of increasing the energy efficiency in the project service area;
- (7) seek a commitment of these institutions to fund projects to protect and preserve crucial wetland systems and to avoid expenditures for projects designed to convert major wetland systems. Development proposals which may affect these areas should be the subject of detailed impact assessments so as to avoid detrimental impacts to fisheries, wildlife and other important resources;
- (8) vigorously promote the establishment within the Economic Development Institute of the World Bank of a component which provides training in environmental and natural resource planning and program development;
- (9) regularly raise, at meetings of the Boards of Directors of these institutions, the issue of their progress in improving their environmental performance, with specific focus on the measures set forth above; and
- (10) require at least a four week project review period between the time when staff recommendations are presented to the board and board action on any projects.

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(c) The Secretary of the Treasury and the Secretary of State shall regularly undertake and continue diplomatic and other initiatives, in addition to those mentioned in subsection (a)(5), to discuss measures to improve the environmental performance of the Multilateral Development Banks with the representatives to these institutions, and with ministries from which they receive their instructions, of borrower and donor nations. In particular, joint efforts shall be undertaken with borrowers and donors to ensure cooperative implementation of the reforms described above.

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(e) The Secretary of the Treasury shall prepare and submit to the Committees on Appropriations by January 15, 1987, and annually thereafter, a report documenting the progress the Multilateral Development Banks have made in implementing the environmental reform measures described in paragraphs one through eight of subsection (a).

(f) In the report of the Secretary of the Treasury required by subsection (e), regarding the implementation of staffing measures suggested in subsection (a)(1)(A), the Secretary of the Treasury shall specifically discuss the progress of the International Bank for Reconstruction and Development in upgrading and adding environmentally trained professionals to each of its six regional offices to review projects for their prospective ecological impacts.

(g) The Administrator of the Agency for International Development in conjunction with the Secretaries of Treasury and State shall

(1) instruct overseas missions of the Agency for International Development and embassies of the United States to analyze the impacts of Multilateral Development Bank projects proposed to be undertaken in the host country well in advance of a project's approval by the relevant institution. Such reviews shall address the economic viability of the project; adverse impacts on the environment, natural resources, and indigenous peoples; and recommendations as to measures, including alternatives, that could eliminate or mitigate adverse impacts. If not classified under the national security system of classification, such information shall be made available to the public;

(2) in preparation of reviews required by subsection (g)(1), compile a list of categories of projects likely to have adverse impacts on the environment, natural resources, or indigenous peoples. The list shall be developed in consultation with interested members of the public and made available to the Committee on Appropriations by December 31, 1986 and semiannually thereafter; and

(3) study the feasibility of creating a cooperative "early warning system" for projects of concern with other interested donors.

(h) If a review required by subsection (g)(1) identifies adverse impacts to the environment, natural resources, or indigenous peoples, the Secretary of the Treasury shall instruct the United States Executive Director of the Multilateral Development Bank to seek changes to the project necessary to eliminate or mitigate those impacts.

HISTORY: (Pub.L. 99-591, § 539, Oct. 30, 1986, 100 Stat. 3341.)

PL 101-167:

## ENVIRONMENTAL CONCERNS

SEC. 533. (a) It is the policy of the United States that sustainable economic growth must be predicated on the sustainable management of natural resources. The Secretary of the Treasury shall instruct the United States Executive Directors of each multilateral development bank (MDB) to promote vigorously within each MDB the expansion of programs in areas which address the problems of global climate change through requirements to--

- (1) augment and expand the professional staff of each MDB with expertise in end-use energy efficiency and conservation and renewable energy;
- (2) develop methodologies which allow borrowing countries to include investments in end-use energy efficiency and renewable energy as explicit alternatives in the 'least cost' energy sector investments plans they prepare with MDB assistance. Such plans shall give priority to projects and programs which support energy conservation, end-use efficiency and renewable energy sources in major economic sectors, and shall compare the economic and environmental costs of those actions with the economic and environmental costs of investments in conventional energy supplies;
- (3) provide analysis for each proposed loan to support additional power generating capacity, comparing the economic and environmental costs of investments in demand reduction, including energy conservation and end-use energy efficiency, with the economic and environmental costs of the proposal;
- (4) assure that systematic, detailed environmental impact assessments (EIA) of proposed energy projects, or projects with potential significant environmental impacts, are conducted early in the project cycle. Assessments should include but not be limited to--
  - (A) consideration of a wide range of alternatives to the proposed project including, where feasible, alternative investments in end-use energy efficiency and non-conventional renewable energy; and

- (B) encouragement and adoption of policies which allow for public participation in the EIA process;
  - (5) include environmental costs in the economic assessment of the proposed projects with significant potential environmental impacts, or power projects, and if possible for all projects which involve expansion of generating capacity of more than 10 MW, develop a standard increase in project cost as a surrogate for the environmental costs;
  - (6) encourage and promote end-use energy efficiency and renewable energy in negotiations of policy-based energy sector lending, and MDBs should consider not proceeding with policy-based sector loans which do not contain commitments from the borrowing country to devote a significant portion of its sector investments toward energy efficiency and renewable energy;
  - (7) provide technical assistance as a component of all energy sector lending to help borrowing countries identify and pursue end-use energy efficiency investments. This technical assistance shall include support for detailed audits of energy use and the development of institutional capacity to promote end-use energy efficiency and conservation;
  - (8) work with borrowing countries, with input from the public in both borrowing and donor countries, to develop loans for end-use energy efficiency and renewable energy, where possible 'bundling' small projects into larger, more easily financed projects; and
  - (9) seek the convening of a special seminar for board members and senior staff of each MDB concerning alternate energy investment opportunities and end-use energy efficiency and conservation.
- (b) The Secretary of the Treasury as a part of the annual report to the Congress shall describe in detail, progress made by each of the MDBs in adopting and implementing programs meeting the standards set out in subsection (a), including in particular--
- (1) efforts by the Department of Treasury to assure implementation by each of the MDBs of programs substantially equivalent to those set out in this section, and results of such efforts;
  - (2) progress made by each MDB in drafting and implementing least cost energy plans for each recipient country which meets requirements outlined in subsection (a)(2);

(3) the absolute dollar amounts, and proportion of total lending in the energy sector, of loans and portions of loans, approved by each MDB in the previous year for projects or programs of end-use energy efficiency and conservation and renewable energy.

(c) Not later than April 1, 1990, the Secretary of the Treasury shall request each MDB to prepare an analysis of the impact its current forestry sector loans will have on borrowing country emissions of CO<sub>2</sub> and the status of proposals for specific forestry sector activities to reduce CO<sub>2</sub> emissions.