Review and Update of the World Bank's Environmental and

Social Safeguards Policies, Phase 3

U.S. Consultation

Remarks by U.S. Treasury Assistant Secretary for International Markets and Development, Marisa Lago

February 22, 2016

I would like to open by thanking our World Bank and civil society colleagues for the thought and effort that has gone into planning for this consultation, as well as for all of the work and engagement in the four years leading up today.

The safeguards review has been a bumpy ride with disagreements amongst stakeholders along the way. It is easy to look at the negatives. However, we must also look at the positives. I firmly believe that we all have been, and continue to be, guided by the same compass: avoiding harm, identifying and managing risks, and maximizing positive environmental and social outcomes in World Bank-financed projects. Mark King's presentation highlighted these goals, as well as the challenges that remain, including how a new Environmental and Social Framework (ESF) will be implemented.

So, my aspiration for the next few days is that we have an open, transparent consultation with multiple stakeholders, and arrive at an enhanced appreciation of the issues. While I am generally an optimist, even I do not expect that we will have full agreement on all of the issues. But I am confident that we will get closer to a final ESF that delivers environmentally and socially sustainable projects that benefit borrowing countries and their citizens.

Let me also reinforce that the World Bank's safeguards review is important, since the world is watching. The final ESF will govern World Bank investment lending for years to come. And given the World Bank's leadership role, it is certain to affect the policies of other multilateral development banks and bilateral development agencies. Therefore, the final ESF must address emerging issues, strengthen existing protections, and focus on implementation.

In events like these, the temptation is to dwell on those things that we do not like. To counter this, let me begin by noting that the U.S. government is pleased with much of the substance in the ESF, including expansion of the ESF into new areas such as labor and climate; more explicit prohibition of discrimination; protections for vulnerable and excluded groups, including lesbian, gay, bisexual, and transgender (LGBT) communities; improved social assessments; expanded requirements to consult with affected people throughout the project life cycle; and the recognition that implementation, across the project life cycle, needs to be improved.

But, there also remain a number of concerns about this draft of the ESF and ways in which it can improve. As the United States prides itself on being an activist shareholder of the World Bank, U.S. government experts will provide detailed comments on the draft ESF in the next few days. My role is to begin by framing four broad, systemic concerns.

First, Hart Schafer spoke of resources and implementation. The written document is important – very important – but equally as important is how it is implemented in individual projects. The World Bank is proposing a “fit for purpose” approach in which strong standards are tailored to individual projects by experienced professionals. This sounds good, as you need a balance between prescription and the realities of individual projects. But, to be effective, this approach needs to be well staffed and well resourced.

Hart’s comments about significant increases in staffing and budget for safeguards are encouraging. But, Treasury likes numbers. I remain concerned by the opaqueness of the discussion. We need to see baselines for current budget and staff. And, we need to understand how budget and staffing will be augmented to meet the requirements of the existing safeguards, as well as the new issues and increased implementation requirements of the proposed ESF.

We agree that use of borrower frameworks has the potential to lead to stronger development outcomes, but this is not assured. Using borrower frameworks is appropriate when the borrower has a solid legal framework, the capacity to implement that framework, and a track record of having done so. But how do you judge whether the borrower meets these tests and against what standard? We believe that the standard in the consultation paper – “that the standards set by the World Bank must always be met” – is appropriate. But we need more information on the proposed methodology for assessing borrower frameworks. Management should provide the detailed methodology to both donors and borrowers well in advance of Board consideration of the final ESF. Donors want reassurance that the methodology is sufficiently rigorous, while borrowers want assurances that World Bank decisions on using borrower frameworks are not arbitrary.

We continue to believe that, in the first five years of the ESF, borrower frameworks are not appropriate for “high” and “substantial” risk projects. Once the World Bank has established a track record for managing the use of borrower frameworks, there can be a basis to expand their use.

We also need more information from the World Bank on the plans to provide technical assistance to borrowers to help them strengthen their environmental and social risk management frameworks. The idea for a new multi-donor trust fund to support such capacity building is poorly defined. Further, we need a commitment from World Bank Management to use the World Bank’s own financial resources.

The World Bank is increasingly financing projects with other institutions. This is especially the case for large infrastructure projects, which generally tap multiple financiers, including emerging development institutions. We very much welcome the harmonization of requirements to avoid duplication and reduce the burden on borrowers. But, we must also recognize that not all financial institutions have the same, rigorous standards as the World Bank. We should follow two cardinal rules. The World Bank should insist on its environmental and social requirements in co-financed projects. This is especially important as we finalize the World Bank’s revised

ESF as the new gold standard. The corollary is that the World Bank should not finance projects with environmental and social standards weaker than its own.

The fourth issue – the timely disclosure of assessment and mitigation documents, coupled with rigorous monitoring of projects – is one that puzzles me. The draft ESF looks to be a step backwards on timing and disclosure of key risk assessment and mitigation documents. The ESF should say clearly and unambiguously that the ESIAs, resettlement plans, and Indigenous Peoples plans should be publicly available well before the project goes to Board. The same standard of disclosure should also apply to the environmental and social commitment plan.

Failure by the World Bank to be clear on this basic issue raises the possibility that timely disclosure will not occur. We hope for more clarity in the final ESF so that public disclosure is not a "tick the box" exercise, but rather allows the public and project-affected people to provide meaningful input to these key documents.

We are pleased that the draft ESF puts more emphasis on project monitoring. We believe that communities can contribute to project monitoring, and that monitoring information should be disclosed and shared with affected communities. On risky and complex projects, we look for the increased use of independent, third-party monitoring.

My focus on these four structural issues is to underscore their importance and to set the stage for the other issues that will be raised by U.S. experts in the coming days. Human rights, involuntary resettlement, the treatment of Indigenous Peoples, labor – all are critical issues for the United States.

Finally, while these discussions only cover Investment Lending, there is another important discussion that we will be pursuing in the coming years around the safeguards approaches that should apply to development policy lending and program for results. As an end state, we seek a coherent, consistent approach to using appropriately tailored safeguards in all World Bank activities.