

# I. The Loan Selection Process and Policies

**T**HIS REPORT is submitted by the U.S. Agency for International Development in accordance with Title XIII of the International Financial Institutions Act, as amended (section 537(h) of Public Law 100–202, 22 U.S.C. 262r–2, and 22 U.S.C. Sec. 262m–1–7). It serves two purposes. First, it lists proposed multilateral development bank (MDB) projects and other assistance proposals likely to have adverse impacts on the environment, natural resources, public health, or indigenous peoples. Second, it reviews progress on developing and implementing mechanisms to strengthen the environmental performance of these banks and measures to eliminate and mitigate adverse impacts.

Section I of this report describes who reviews proposals, how the assessment and reviews are done, and what we look for with particular attention to safeguard policies designed to address the most critical environmental issues. This section also provides an overview by noting recent developments concerning the MDBs, reviewing the interagency process for evaluating MDB loans, and making recommendations for programmatic improvements. Section II, “Multilateral Development Bank Assistance Proposals Likely to Have Adverse Impacts,” provides a sample selection of projects listed by region and country that exemplify the types of environmental issues that still arise in some MDB activities. In previous reports, infrastructure, power, natural resource extraction, and road projects were the most environmentally problematic sectors. Appendixes provide additional explanatory information. While greater emphasis is placed on the

World Bank than on regional banks in this report, this should not be taken as implying that the issues at the World Bank are greater than the regional banks. We expect to address the regional banks in more detail in future reports.

As this report was being revised, the World Bank released a draft of its *Operations Evaluation Department Review of the Bank’s Performance on the Environment* (23 March 2001). That draft report makes findings similar to those USAID makes herein and recommends, as we do, assessing the environmental impact of proposed adjustment loans, expediting borrowers’ transitions to renewable resources and increased energy efficiency, and establishing a system for resolving environmental disputes regarding bank-supported work. The World Bank’s environmental strategy discusses how the bank will implement many of the Operations Evaluation Department recommendations. USAID views this movement at the World Bank as exceptionally positive and is working to encourage its continuation and implementation.

USAID would like to acknowledge the valuable work of the Treasury Department’s Office of Multilateral Banks, the U.S. executive directors at the MDBs, the Environmental Protection Agency’s Office of International Affairs, the Department of State’s bureaus involved with MDBs, the National Oceanographic and Atmospheric Administration, the National Invasive Species Council, the U.S. Department of Agriculture’s Foreign Agriculture Service’s Development Resources Division, colleagues throughout USAID,

investigators of the General Accounting Office, the Congressional Research Service, the Netherlands Commission on Environmental Impact Assessment, and the many nongovernmental organizations monitoring both the banks and the agencies.

USAID also wishes to acknowledge the MDBs' environmental experts, who continue to produce some of the best analyses in the world. USAID hopes that as matters progress their expertise will be more strategically integrated—earlier and more deeply—in the larger process of developing and implementing bank loans and policies.

The resources available to USAID to carry out its duties under Title XIII are limited. The recommendations for improvements that we outline in this report are written in recognition of this so as not to require major increases in resources for USAID and other agencies.

## **USAID's Review of Proposed Multilateral Development Bank Loans**

Congress has given USAID an important role in the review of multilateral development bank loans. Title XIII sets out several elements of USAID's role:

In the course of reviewing assistance proposals of the multilateral development banks, the Administrator of the Agency for International Development shall ensure that other agencies and . . . overseas missions . . . analyze . . . the environmental impacts of multilateral development loans well in advance of such loans' approval to determine whether the proposals will contribute to the *sustainable development* [emphasis added] of the borrowing country. . . .

[S]uch 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 loan is particularly likely to have substantial adverse impacts, the Administrator . . . , 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. . . .

[T]he Administrator . . . 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].

Other sections of the law require the U.S. government to encourage MDBs to promote renewable, nonpolluting energy and other environmentally benign technologies to enhance development and the environment and, in the process, to coordinate those efforts with USAID and other development agencies (e.g., 22 U.S.C. 262j and 262f).

USAID and other development agencies have found that the underlying theme of sustainable development is maintaining the natural resource base on which economic and social development depend so progress can continue over time and backsliding is avoided. Even for agencies with narrower centers of interest (such as reducing poverty), success will not last

unless environmental soundness is fully assessed and integrated into their programs.

As one of its first steps in reviewing MDB activities for environmental soundness, USAID sends information about these projects and other activities to its missions around the world for review and comment through its Early Project Notification system. Information derived through the EPN system is shared with Treasury, other agencies, and the public in cases of loans particularly likely to have substantial adverse effects.

Within this context, USAID develops information and analysis concerning specific bank projects and overall processes. We share that information and analysis with other agencies. They bring their own expertise as well to interagency review meetings at two levels: the environmental reviews that occur weeks or months before the relevant MDB board votes, and the overall review that occurs as little as a week or two before the boards vote. Complementing this interagency process is the Tuesday Group of concerned NGOs and government agencies. Meeting monthly for more than a decade, it addresses policies and macroeconomic and project loans of the MDBs. Meetings are held in Washington and attended by representatives of several agencies and about 25 NGOs, as well as guests from around the world. USAID and the Bank Information Center, an NGO serving citizens groups concerned about MDBs, co-chair the meetings. Minutes from the meetings are shared with about 165 NGOs worldwide.

## **The Pelosi Amendment, Environmental Assessment, And Recommendations For Improving the Review Process**

USAID's role under Title XIII complements the Pelosi amendment in (section 1307, 22 U.S.C. 262m-7). The Pelosi amendment in most cases requires that the United States not vote in favor of

any MDB action 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 of the proposed action and of alternatives . . . has been completed by the borrowing country or the institution, and made available to the board of directors of the institution.

Further, the assessment or a comprehensive summary has been made available to the "bank, affected groups, and local nongovernmental organizations." Consideration of the adequacy of such assessments is part of the USAID and interagency process of reviewing proposals and making recommendations to the U.S. executive directors (representatives of the U.S. government on each bank's board of directors). Assessments are occasionally late or found inadequate, and this amendment has consequently been useful in our effort to improve the environmental process at the banks.

## **An International Review System**

Title XIII, section 1304, lays out a cooperative information exchange system:

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.

To date, such sharing has been infrequent but helpful. USAID is working to increase this process. For example, in the case of the Chad–Cameroon pipeline, USAID received an analysis by the Netherlands Commission on Environmental Impact Assessment of the project’s General Oil Spill Response Plan (GOSRP) from concerned NGOs. This led USAID to ask U.S. agencies with special expertise to review the GOSRP. They agreed with the Dutch about the inadequacy of the plan. Their concerns about the plan were shared by USAID and eventually were incorporated into the official U.S. position represented by the U.S. executive director. The Netherlands Commission has now proposed that an international body be established to review each year a selection of important environmental assessments, particularly ones with international ramifications, to improve the practice worldwide and to provide decision-makers with the best available analysis.

In response to NGO requests for bank documents and information on the Chad–Cameroon Pipeline Project, USAID reviewed the statutory provision requiring the public release of information concerning likely substantial adverse effects. USAID determined that it should promptly release such information (except for agency decision memoranda), and the Agency provided this information to interested NGOs.

Along the lines of supporting open disclosure, the World Bank is revising its

information disclosure policy as well as completing its environmental strategy and other related policies. Although the banks have made information more available on the Internet, the United States, the G–7 finance ministers, and others have urged the bank to be even more transparent.

## **Multilateral Development Bank Safeguard Policies: Substantive Limits Complementing the Assessment Process**

The binding policies of the World Bank protecting environmental and related values are called *safeguard policies*. The environmental assessment policy was the first of what are now 10 safeguard policies created since 1989. As the term indicates, they are intended to safeguard people and resources that could be harmed by projects that are not carefully assessed and planned before they are implemented. These are

- 4.01 — Environmental assessment
- 4.30 — Involuntary resettlement
- 4.04 — Natural habitats
- 4.36 — Forestry
- 4.09 — Pest management
- 4.37 — Safety of dams
- 4.11 — Cultural property
- 7.50 — Projects on international waterways
- 4.20 — Indigenous peoples
- 7.60 — Projects in disputed areas

The World Bank has additional directives and guidelines in place to run its operations, but these policies are the only ones enforceable by persons who potentially could be harmed. The policies are ultimately enforced through the World Bank’s Inspection Panel. Several of them,

such as policies on forest, resettlement, information disclosure, and indigenous peoples, are being revised. Related strategy papers such as the forest and environmental strategies are also being revised. The cultural property policy may also be updated, and a gender policy may be added.

The indigenous peoples policy is a particularly acute concern given the often close relationship of indigenous peoples to the land in its natural state and their traditionally limited access to government. Some fear that the safeguard policies may be weakened in this process, even though their enforcement has occasionally been uneven. This is in part due to a persistent misperception among many borrowing nations that compliance is too expensive and diverts resources from immediate benefits.

USAID has made many observations about safeguard policies. Perhaps the most important is that many of the current policies have not been consistently applied. One reason is that until the relatively recent creation of the inspection panels there was no independent means of ensuring that general policies were applied to specific cases. It is still too early to determine whether the inspection panel process will result in the desired effect of reduced or eliminated violations while facilitating a smoother flow of project design.

Recent experience has demonstrated that the banks' employees and officers remain ambivalent or unsure about the extent to which their actions are controlled by these policies. This may be partly because the banks' practices and officials have been, like diplomats, largely beyond the jurisdiction of the normal legal systems of the nations where they work.

There has been little independent enforcement since local authorities either lack jurisdiction or are sometimes unlikely to exercise it when borrowers fail to comply with national or international laws or a bank's own policies. This occurs even when the policies might be seen as elements of a contract between the bank, the borrower, and the contractors, enforceable by third-party beneficiaries.

An example of this lack of enforcement is represented in the World Bank Inspection Panel's report on the Qinghai province portion of the Western China Poverty Reduction Project (WCPRP). This report describes several violations of the bank's policies. The reason appears to be that the decision to fund the project was made first and the analysis was undertaken afterward. Eventually, the project was withdrawn, but the bank was slow to respond to the problems encountered. USAID believes that part of the problem is a lack of clarity within the World Bank about how the safeguard policies are to be implemented. The slow initial response of the bank's managers to the issues raised in the WCPRP Inspection Report suggests that even at the highest levels the World Bank had not embraced safeguard policies as binding conditions that must be fulfilled before bringing a project to the board.

The difficult Western China Poverty Reduction Project actually gave rise to positive developments. A new and creative partnership seems to have begun with like-minded tier-one (lending) countries, such as Japan, at the bank to insist on a standards-based system. On behalf of the U.S. government, but echoing concerns of others, the U.S. executive director called upon the bank to

1. Strengthen 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
2. 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
3. Require personnel incentives and disciplines to support these policies

Such a compliance unit as recommended (2 above) could review projects that have been highlighted by expert agencies or citizens in the affected region. These groups could include the monthly Tuesday Group of NGOs and agency representatives and the Interagency Environmental Working Group of Treasury, State, USAID, and EPA.

Additional problems encountered are that environmental assessment summaries sometimes contain references to “recommended” prevention or control measures that *should be* taken but lack a clear statement of what will be done, by whom, when, and with what consequences for nonperformance. In other cases, some environmental issues are missed altogether, and by the time the assessment is released for public review it is too late for the bank to undertake analysis and modify the project before the board votes on it. Sometimes improvements can be made within the context of the agreed loan, but such changes are difficult. These weaknesses in the process contribute to the issues seen in the other projects listed in the second section of this report (“Multilateral Develop-

ment Bank Assistance Proposals Likely to Have Adverse Impacts”).

## Recommendations

In the second half of this section, USAID recommends improvements in the way proposed loans are summarized and made available for review by governments and the public and also describes three substantive areas where greater caution, and perhaps new standards, are required.

### *The Review Process*

Although final project appraisal documents effectively assess the financial prospects of loans, the appraisal and assessment documents do not always indicate with objective measures how well the undertaking is expected to perform with regard to social, environmental, and poverty-reduction issues. Even when internal decisions reflect such judgments, publicly available draft assessments should make a reasonable case that the proposed action is the best available alternative for addressing needs of the country and include plainly stated indicators of environmental, social, and economic development. For example, USAID’s U.S.–Asia Environmental Partnership produces the Eco-Industrial Index, which gauges economic and industrial efficiency by measuring carbon emissions, water pollution, commercial energy use, and industrial output. The index indicates the relative level of environmental performance in a country.

Assessments for projects with substantial impacts, known as category A projects, are required to be preceded by the publication of draft assessments, under the World Bank’s Operation Policy 4.01. These should be available not just in-

country but also globally—and preferably electronically. Bank documents could explain how the bank management has chosen a proposed action or program from the available alternatives on the basis of the presumably optimal long-term development impact per dollar invested.

The review process could do more to ensure compliance with safeguards and other standards before consideration by the boards of directors, as recommended by the U.S. executive director at the World Bank, by incorporating some of the basic principles used in U.S. environmental impact assessment reviews. Final assessments could accept or reject recommendations made in comments on draft assessments with explanations concerning each major point or category of concerns raised. An appeals process—perhaps as a part of the inspection panel, but working in conjunction with local authorities—could be established to handle objections that the proposal is or will be in violation of bank policies. That appeals process could include the power to halt further work on any aspect likely to be in violation and to do severe harm. These changes would encourage broader participation and ownership at both the borrowing-country and donor level.

Appeals might also be heard for major discrepancies between environmental or related development objectives and project choice as well as apparent violations of policy, though appellants should shoulder the burden of proof. Such a process could help bring lending in line with fundamental development objectives as well as the safeguard policies, thus mainstreaming them.

Substantive standards are ineffective without transparency and accountability.

In the United States, for example, various laws help ensure objectivity on the part of officials who award contracts, adopt regulations, implement programs, and enforce the law. For the World Bank, the Operations Evaluation Department's draft *Review of the Bank's Performance on the Environment* recommends that the bank "establish a transparent adjudication process to resolve differences" with regard to safeguard policies (23 March 2001, p. 26.) Instituting this recommendation would be desirable.

### **Assess the Impact of Proposed Macroeconomic Loans**

The World Bank applies its safeguard policies, including its requirement for environmental assessments and their public review, to project lending but not to most structural adjustment loans, which are generally made to support changes in government policies and operations from the fiscal and financial sectors to privatization and trade. The World Bank's articles of agreement require that the bank should make loans for projects or reconstruction, except in special circumstances. The bank's structural adjustment policy (Operational Policy 8.60), implementing the limitation set in the articles of agreement, limits structural adjustment loans to 25 percent of overall lending. During the 1990s, structural adjustment lending reached an average of 29 percent. In the late nineties it was nearly half of bank lending, though it declined to 33 percent in fiscal year 2000. According to the World Bank's recent draft final report, "Adjustment Lending Retrospective,"

[O]nly a small share of adjustment loans include environmental indicators as integral components of their monitoring and evaluation systems so as to enable impacts on the ground to be fully monitored.

Structural adjustment and other macroeconomic loans often contain provisions with direct and substantial environmental and public health effects. The bank is renaming its structural adjustment loans. They will be called “poverty reduction support credits” in low-income countries and “development support loans” in middle-income countries. Bank management is also proposing to revise its structural adjustment policy. That revision may seek to remove the 25 percent limit. By whatever name it is known, if a structural adjustment loan, or any other loan, is likely to have a significant impact on the environment it should be covered by a full environmental assessment.

One tool for assessing macroeconomic loans and country-level strategies, as well as other major loan proposals, was recommended by the bank on 5 June 1997. That recommendation was for countries and MDBs to use full-cost gross domestic product—or natural resource accounting such as the bank has begun to develop in its genuine domestic savings (GDS) index—to measure the stewardship of natural resources. The bank publishes the GDS in its *World Development Indicators* but could assess the use of the GDS or similar measures on a more microeconomic scale as an additional means of evaluating the impact of proposed actions. This would be in addition to the standard GDP measurement—rather than replacing it.

### **Increase Information Disclosure**

Although much MDB information is available on the Worldwide Web, it is not always usefully organized or retrievable. Regular and timely public disclosure by the banks should include lists describing future MDB projects, with estimated schedules for board consideration several

months in advance. Such lists should include loans recently assigned environmental categories based on the environmental impact of each loan. This would enhance and complement the operations of the USAID early notification system substantially.

When the board considered the Chad–Cameroon pipeline, the U.S. Treasury Department’s Office of Multilateral Banks drafted a chart for tracking commitments made to the board concerning board-imposed or other conditions for the project. Such charts are a convenient way to track performance and an important tool for other agencies and interested parties with fewer personnel assigned to the job of reviewing MDB performance. USAID found this helpful. The Agency hopes such charts (or a similar process) continue to be used for the more controversial and complex loans.

### **Review Proposals Earlier And More Systematically**

The U.S. Interagency Working Group for Multilateral Assistance (WGMA) reviews final project appraisal documents just before board action, and the interagency environmental review group assesses summaries of environmental assessments. This process could be improved first by considering early on, as provided in the temporary 1992 Treasury Department regulations, whether projects have been assigned the right environmental assessment category by the MDB and second by requesting that the bank correct it when it is believed that such a correction is needed. The environmental assessment categorization determines whether any environmental analysis will be undertaken and, if so, at what level. Because the final assessment must be avail-



able for projects with substantial impacts by 120 days before the board date and considering that the public should have a reasonable amount of time to view and comment on it, this review of the categorization should come earlier in the process. Other comments provided at that point could also be addressed by the borrower and bank as the proposal and any draft assessment are prepared.

### **Engage USAID Missions And Bureaus More Fully**

USAID's modest staffing and heavy workload limit its ability to increase the level of reviews undertaken by its missions and bureaus. Yet the direct connection between the success of USAID's programs and those of the MDBs makes it essential for the Agency to continually refine its efforts to ensure that the banks' projects are the best they can be. To this end, USAID is working to obtain information as early as possible to give its staff more time to fit these reviews into their workloads.

### **Share Environmental Analysis More Broadly**

To be more effective, USAID is approaching other federal agencies and other governments to review the environmental soundness of MDB projects. USAID is inviting other federal agencies to review project proposals where they have special expertise. For example, NOAA has special expertise in coastal pollution from oil tanker filling operations.

In the case of other countries, the G-7 nations and their finance ministers have expressed a desire for cooperation to improve the transparency and performance of the MDBs regarding safeguard policies

and due diligence. Previous G-7 commitments to leverage better performance from MDBs have not yet resulted in change as substantial as some had hoped. As a start, USAID has begun reaching out to the Netherlands, the United Kingdom, and Japan because those nations have indicated a desire to cooperate on these issues.

As a step toward more cooperation and better timing of information, the World Bank is revising its Web-based access. It is hoped that this will track the expected dates of board votes as well as dates and places that draft and final environmental assessments and other documents come available (though summaries could be on the Web). This could also track related information and responses to inquiries of major stakeholders concerning those environmental assessment summaries and other documents.

Thus, the environmental assessment and review process is slowly being improved. USAID hopes it will become a vehicle for public discussion of a program or project as it develops from conception to review to funding. The Agency looks forward to cooperating with the Treasury Department, other relevant agencies, and NGOs in developing these reforms.

### ***Recommendations for Improving Safeguards and Standards***

Safeguard policies can provide efficient protection for valuable natural and human resources. For example, it is possible for one oil spill restoration and compensation effort to cost \$10 billion and still leave reduced populations of valuable fish and other species more than a decade later. In such a case, what once seemed to be an excessive prevention has turned out to be too little. The 1986 Chernobyl nuclear re-

actor accident created a hundred times the fallout of the two atomic bombs dropped on Japan in World War II. Fifteen years after the accident, USAID is helping detect thyroid disease and other repercussions in Ukraine. As already noted, some feel that safeguard compliance is too costly. While cost must be considered, the best combination of safety and efficiency is to weigh the full costs, risks, and liabilities against the expense (and benefits) of safeguard compliance and adopt appropriate safeguards using the best available technologies and practices. In the remainder of this subsection, USAID highlights three areas requiring greater attention and notes that new environmental strategies may help address these concerns.

### **Invasive Species Safeguard Policy Needed**

According to the National Invasive Species Council staff, the United States alone spends \$100 million a year controlling invasive species that damage ecosystems in areas where they have few, if any, natural controls. On 12 June 2000, the State Department hosted a roundtable and workshops on invasive species. It was noted that agricultural products and industrial raw materials have the greatest potential to contribute to species invasions. Many exotics that have become invasive pests in developing countries were introduced in development projects. The World Bank spent \$45 million in 1997 on invasive waterweed management to protect \$10.5 billion worth of investments threatened by various aquatic weeds.

In the Chad–Cameroon Pipeline Project, the plans did not address invasive species that could be transported to Cameroon and other nearby coasts in the ballast water of oil tankers. Before the board

vote, USAID requested that the World Bank adopt such a requirement. We are unaware of any steps taken to do so. The U.S. government has adopted the Invasive Species Management Plan, which could be used as a starting point by the World Bank in developing a safeguard policy. USAID will encourage the bank to consider development of such a safeguard policy. Until then, the Agency will continue to include this issue in its normal reviews of MDB projects and programs.

### **Weighing Risks, Costs, and Benefits In Energy Development And Resource Extraction**

#### **THE WORLD BANK'S ENERGY POLICY**

The bank in 1993 adopted a policy supporting a shift toward environmentally desirable energy efficiency and renewables and away from the expansion of fossil fuel use in the face of increasing evidence of the resulting harm. In its 1993 paper *Energy Efficiency and Conservation in the Developing World*, the World Bank listed one of four pledges—to increase support for demand-side management. This means to increase support for conservation, efficiency, and appropriate pricing. MDB environmental assessment summaries for power plants, coal mines, and related utility loans reviewed by USAID from March 2000 through early 2001 included relatively little discussion of demand-side management or tools such as rate design.

There is a wealth of projects and studies demonstrating that low-impact renewable energy and efficiency improvement projects are in many situations economically competitive and viable (at 3 to 5 cents per kilowatt hour). Examples of re-

newable, relatively low-impact measures include the Asian Development Bank's Philippines renewables partnership with USAID, several Chinese wind energy projects, and numerous energy-efficiency projects. The bulk of all MDB bank money in the energy sector still goes for nonrenewable or high-impact energy projects (such as large hydroelectric dams). USAID has found that some environmental assessment summaries fail to reflect consideration of a reasonable range of alternative strategies and technologies beyond siting alternatives or moderate variations in means of combusting the same fuel. These alternatives should include 1) investments in conservation and efficiency, 2) rate reform to encourage conservation, and 3) low-impact technologies such as wind and geothermal.

Many still hope that concessional and publicly supported lending programs will be where the developing world will be successfully engaged in addressing climate change and other commonly shared concerns over "public goods." It had been expected that during 1997–2000 the World Bank would routinely calculate the potential impact of all its energy projects on climate change and assist developing country clients in financing more climate-friendly options. In reviewing environmental assessment summaries from 2000, we found little evidence that such global or even national-level impact calculations for greenhouse gases or other pollutants were being completed or considered. Some local ambient pollution levels are considered, as are national standards in many cases. But net impacts on national, regional, or global emissions or other indicators of environmental quality and efficiency and the effects of alternatives are

usually not presented. How much these concerns will be a factor in loan selection remains to be seen. USAID will continue its efforts to encourage the banks in this direction.

#### ARMED CONFLICT OVER NATURAL RESOURCES FOR EXPORT

The direct impact of armed conflict on the environment, indigenous peoples, and the poor can be severe. The indirect effects, through disabling governmental and private controls on pollution and sustainable natural resource management, can be equally profound. If the presence of high-value natural resources in developing countries can lead to conflict, then MDBs should proceed with great caution when facilitating their production. High-profit exports such as minerals, timber, and oil and gas can lead not only to armed struggles for their control but also large scale environmental damage when they are mined and harvested to maximize short-term profits. In two recent studies of armed conflicts since the 1960s, the World Bank found that the single greatest cause of armed conflict within poor countries was their dependence on primary natural resource commodities for export. The risk grew in direct proportion to the share of GDP coming from the export of primary commodities that are easily stolen and sold or made the subject of extortion.

The potential for environment-related conflict is a factor USAID considers when reviewing proposed loans and listing them (in section II). In considering loans for resource exploitation, the capacity to fight corruption and to regulate effectively must be assessed and ensured before loans are approved.

## **Revising MDB Environmental Strategies**

The World Bank has recently revised its environmental strategy, and the Asian Development Bank is doing the same. These strategies function as the action-oriented counterparts to the more passive limits of safeguard policies. While the safeguard policies should be expanded to include such pressing issues as invasive species control, the environmental strategy revision is another opportunity to address the entire dynamic of the banks' operations. Along with the strategies, USAID is encouraging the banks to address all segments of their portfolios to provide forest conservation, smart power, clean air, clean drinking water, and fresh water for environmentally sound agriculture. Each strategy should require due diligence in all aspects of bank lending, investing, and purchasing that directly affect the environment. The strategy should include positive environmental targets as requirements supported by budgets, staff, and incentives and achieved through regular reviews and adjustments.

## **Conclusion**

While the banks are making encouraging environmental progress in their internal reviews, the safeguard policies, and the inspection panel, USAID notes that the MDBs still have a distance to go in improving their environmental review process. As in previous reports, infrastructure, power, natural resource extraction, and road projects continue to be the most environmentally problematic sectors reviewed by USAID in this report.

Despite progress made, the world faces increasingly unsustainable deforestation, withdrawals of fresh water from aquifers and rivers, inadequate access to safe water, increases in the number of species that are threatened, and ground-level ozone threatening both human health and that of wildlife and plants. The relatively steady number of new problem projects over the years exhibiting the same kinds of problems underscores the continuing need for independent environmental monitoring of MDB proposals and efforts to improve the banks' project and program selection processes.