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Multilateral Lending Activities/Development Assistance and Sustainable Development

David A. Wirth

Boston College Law School, wirthd@bc.edu

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2. MULTILATERAL LENDING ACTIVITIES/DEVELOPMENT ASSISTANCE AND SUSTAINABLE DEVELOPMENT

For nearly a decade the relationship between development assistance and environmental quality has been the subject of a great deal of attention by environmental organizations, the public and governments. The following are some of the more significant developments on this issue in 1990.

(1) *The World Bank*

(a) *International Development Association (IDA) Replenishment*

In January, 1990, the Board of Executive Directors of the World Bank adopted the final report of the ninth replenishment of the International Development Association (IDA) – the “soft” loan window of the World Bank. With the infusion of \$15.5 billion, the IDA is committed to accelerating its efforts to promote sustainable development at three levels: (1) individual loans; (2) country programs and strategies; and (3) regional or global strategies. In particular, the IDA donors identified the following priorities:

(i) *Policy Guidelines*

IDA donors instructed the Bank staff to review all existing guidelines, and to develop new guidelines where needed, in order to ensure their conformity with the World Bank's 1989 Operational Directive 4.00, Annex A, on environmental assessment. Donor governments stated that they expected the Bank staff to develop guidelines for the following sensitive ecosystems: (1) tropical rainforests; (2) tropical dry forests; (3) wetlands; (4) mountain regions; and (5) coastal resources. These guidelines should be in place by the end of the replenishment period in June 1993. The Bank is still considering draft forestry policy guidelines originally promised for mid-1990.

The Bank reports that it has categorized 20% of its classifiable proposed projects, including dams and reservoirs, large-scale electrical transmission and rural roads, as appropriate for the highest level of scrutiny under the new environmental assessment procedures. Another 40% are subject to a more limited analysis. The details of the environmental assessment process are contained in a 900-page, looseleaf *Environmental Assessment Sourcebook* for use by Bank staff, borrowers and consultants.

(ii) *Environmental Issue Papers and Action Plans*

The IDA replenishment document calls for Environmental Issue Papers for each borrowing country and for follow-up Environmental Action Plans for each IDA recipient by 30 June 1991, or at the latest, by the end of the replenishment period in 1993. The results of these reports are to be incorporated into country lending strategies; priority will be given to those countries where major problems have been identified.

(iii) *Alternative Energy*

End-use energy efficiency and renewable energy programs will be priorities during the IDA replenishment period. The IDA donors also directed the World Bank to encourage least-cost energy planning methodologies in borrowing countries. In particular,

the IDA donors requested further integration into the Bank's lending operations of the bilaterally-supported Energy Sector Management Assistance Program (ESMAP), which conducts most of the Bank's work in energy conservation, end-use efficiency and renewable energy work. In October 1990, a high-level review commission reported 14 recommendations with respect to ESMAP, including a suggestion that ESMAP "be responsive to . . . the vastly increased importance attached to producing energy in an environmentally benign manner."

(iv) Access to Information

Improvements in the access to environmental information and enhanced public participation are to be integrated into IDA's work. In particular, as part of an ongoing process of consultation with affected groups and local organizations, the IDA donors emphasized the necessity for the environmental assessment process to be conducted in a fully open and participatory manner. Moreover, the IDA donors directed that completed environmental assessments be made available to the public.

(v) Debt-for-Nature Swaps

The donors also recommended that the IDA act as a catalyst in debt-for-nature swaps even though the Bank will not directly finance such transactions. In May, the Bank adopted a paper that identifies mechanisms by which the Bank can facilitate such transactions: (1) creating favorable macroeconomic conditions conducive to swaps through policy dialogues with the governments of debtor countries; (2) helping to mobilize resources for swaps; (3) bringing the necessary parties together; and (4) coordinating its own lending operations with proposals for swaps.

(b) The Global Environmental Facility (GEF)

After preliminary meetings in March, June and September 1990, the representatives of 25 industrialized and developing countries, meeting in Paris in November, agreed in principle to create the Global Environmental Facility (GEF). Originally proposed by the government of France, the GEF will address four global environmental issues: (1) stratospheric ozone depletion; (2) the "greenhouse" effect; (3) the degradation of international water resources; and (4) loss of biodiversity. The GEF will include a trust fund, with an anticipated budget of \$1-1.5 billion over a trial 3-year period. The GEF will make financing available by grant, or on a highly concessive basis for situations in which the recipient country bears the cost of environmental protection for benefits that accrue to the global community, or for environmentally beneficial investments that do not meet the Bank's ordinary economic rate of return tests. The GEF resources are intended to supplement the recipient countries' assistance from other sources.

The GEF will operate under the tripartite direction of the Bank, the United Nations Environment Programme (UNEP) and the United Nations Development Program (UNDP). UNEP is expected to play a key role in strategic planning, disseminating information among member countries, assuring consistency with existing and future global environmental agreements, and coordinating research and data gathering. UNDP will play an intermediate role in organizing pre-investment and feasibility studies and assessments, with an anticipated emphasis on institution-building and training on a country-specific basis. The Bank will administer the trust fund established under the auspices of the GEF and manage project implementation.

The GEF's activities will be coordinated with the interim Multilateral Fund created

pursuant to the (→) London Agreement to the Montreal Protocol on Substances that Deplete the Ozone Layer in June 1990. Under the Agreement to the Protocol, the Fund is to be administered by the Bank, UNEP and UNDP, and will total at least \$160 million during a 3-year period. If India and China become parties to the Protocol, the Fund will increase to at least \$240 million.

(2) Inter-American Development Bank (IDB)

(a) Environmental Protection Division

In December 1989, the Board of Directors of the Inter-American Development Bank (IDB) approved a proposal to establish an Environmental Protection Division within the Project Analysis Department. In 1990, one of the most significant developments was the creation and staffing of this Division which will include 15 professionals. The new Division is charged with the following functions: (1) providing specialized analysis in terms of sustainable development; (2) developing new projects specifically for environmental protection and conservation purposes; (3) reviewing all projects in order to ensure proper environmental impact assessments and measures; and (4) advising other units of the IDB on environmental issues and the development of its policies.

(b) Environmental Assessment

In February 1990, the IDB adopted procedures for classifying and evaluating the environmental impacts of its operations. The procedures apply to all IDB operations including specific investment loans, policy-based lending and technical assistance. The procedures also provide for greater public participation in project planning.

(c) Sector Guidelines

In 1990, the IDB also adopted guidelines for the approval of agricultural policies as well as for programs in the transportation and mining sectors.

(3) Tropical Forestry Action Plan (TFAP)

The IDA replenishment document urges renewed attention to the Tropical Forestry Action Plan (TFAP) – a joint program of the World Bank, the United Nations Food and Agriculture Organization (FAO) and UNDP. This document supports IDA's plans to triple its lending in the forestry sector in fiscal years 1990–92. TFAP has come under considerable criticism for allegedly failing to respond to the deforestation crisis, and in some cases for exacerbating it. A high-level review team reported its findings with respect to TFAP in June 1990. The review team's report recommended a number of changes including greater attention to policy reform and local capacity building. Several unofficial, critical reports made additional recommendations including making the TFAP process more open and accountable to the public, developing a new management structure (as an alternative to the present arrangement under the FAO's Forestry Department) and improving quality control. A further review of TFAP is still underway and is addressing new operational guidelines as well as other institutional and procedural reforms.

(4) European Bank for Reconstruction and Development (BERD)

On 29 May 1990, representatives of 40 countries, the European Economic Community

and the European Investment Bank signed the Agreement Establishing the European Bank for Reconstruction and Development (commonly known by its French acronym "BERD"). (See 29 *Int'l Legal Materials* 1083 (1990).) The BERD, whose principle office is to be located in London, is modeled along the lines of the World Bank and other regional development banks. Its fundamental purposes are to assist Central and Eastern European countries promote private initiatives in the transition to market-oriented economies. Article 2(1)(vii) of the Agreement identifies, as one of the functions of the new institution, the "promot[ion] in the full range of its activities [of] environmentally sound and sustainable development."

(5) *The Houston G-7 Summit*

While environmental concerns did not occupy the preeminent position they held at the 1989 "Green" Summit, they nonetheless were featured prominently in the meeting of the heads of State of the world's major industrialized countries – the Group of Seven (G-7) – in Houston in July 1990. In particular, the Houston Economic Declaration contains a number of references to Third World environment and development issues. (See 12 *Int'l Env't Rep. (BNA)* 409 (1990).)

With regard to tropical forests, paragraph 66 of the Houston communique declares: "We are ready to cooperate with the Government of Brazil on a comprehensive pilot program to counteract the threat to tropical rain forests in that country. We ask the World Bank to prepare such a proposal, in close cooperation with the Commission of the European Communities, which should be presented at the latest at the next Economic Summit. We appeal to the other concerned countries to join us in this effort. Experience gained in this pilot program should immediately be shared with other countries faced with tropical forest destruction. The Tropical Forestry Action Plan must be reformed and strengthened, placing more emphasis on forest conservation and protection of biological diversity."

The World Bank is now in the process of implementing this recommendation. In February 1990, the Bank approved a loan of \$117 million to Brazil, which is designed to support the first 3-year phase of that country's national environmental program and to strengthen its environmental agency, IBAMA. Regions of special emphasis include the Amazon, the Pantanal wetlands, the Atlantic forest and coastal areas.

With respect to multilateral development banks (MDBs), paragraph 72 of the Houston communique provides: "We recognize that developing countries will benefit from increased financial and technological assistance to help them resolve environmental problems, which are aggravated by poverty and underdevelopment. Multilateral development bank programs should be strengthened to provide greater protection for the environment, including environmental impact assessments and action plans, and to promote energy efficiency. We recognize that debt-for-nature swaps can play a useful role in protecting the environment. We will examine how the World Bank can provide a coordinating role for measures to promote environmental protection."

(6) *Economic Commission for Europe (ECE)*

On 16 May 1990, the meeting of the Ministers from 34 countries in Europe and North America in Bergen, Norway, under the auspices of the UN Economic Commission for Europe (ECE), resulted in the (→) Bergen Ministerial Declaration on Sustainable Development in the ECE Region. In paragraph 13(e), the Ministers agreed "[t]o support, in addition to present development assistance, programmes to increase the flow of capital

and environmentally sound technology to developing and East European countries to assist the efforts by the receiving (*sic*) countries on high priority resource and environmental management projects and to meet their international obligations to protect the global environment." The Ministers also endorsed the proposal for the World Bank Global Environmental Facility and emphasized the importance of reducing external debt burdens in part through debt-for-nature swaps.

(7) *Organization for Economic Cooperation and Development (OECD)*

The Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) has been concerned with environmental issues for a number of years. In 1990, the DAC produced two important reports: (1) a study of good practices for environmental impact assessment of development projects; and (2) a survey of good practices for country environmental studies.

(8) *Interparliamentary Conference on the Global Environment*

This international conference of more than 200 legislators from 42 countries met in Washington, D.C., from 29 April to 2 May. The final decision document, sweeping in scope, advocated, *inter alia*, the following actions concerning multilateral financial institutions, development assistance and sustainable development: (1) the structuring of development aid programs to avoid exacerbating the global warming problem; (2) the adoption of laws and international agreements that compel international lending institutions to perform environmental impact assessments, including, in particular, assessments for marine and water resources; (3) the avoidance of negative impacts on forests and other natural resources in all financial assistance, including multilateral lending; (4) the creation of a Bank for Sustainable Development, the capital for which would be drawn from the military and defense budgets of the major industrialized countries; (5) the creation of a "Green Window" at the World Bank as an interim measure pending the establishment of the Bank for Sustainable Development; and (6) the adoption of policies to facilitate debt relief, including debt-for-nature swaps.

(9) *Enterprise for the Americas Initiative (EAI)*

One of the most exciting developments on the national level is the first stage of the implementation of the Enterprise for the Americas Initiative (EAI), which is designed to promote relief from official debt owed to the government of the United States by Latin American and Caribbean nations. Title VI of the Food, Agriculture, Conservation, and Trade Act of 1990, P.L. No. 101-624 (1990), the so-called "Farm Bill," was signed into law by President Bush on 28 November 1990, and authorizes the Executive Branch to restructure P.L. 480 "Food for Peace" debt for eligible countries. Not only will these debts be reduced, but, in a model based on site-specific debt-for-nature swaps, the interest on the new obligations may be paid in local currencies into an environmental fund. The legislation mandates that non-governmental organizations play a role in implementing and managing the environmental programs funded with the local currency payments through environmental framework agreements negotiated pursuant to the terms of the Act. The rest of the EAI, which has not yet been enacted into law, contains additional trade, investment and debt components, as well as a proposed 5-year technical assistance grant fund for the IDB totaling \$1.5 billion of which the United States would contribute \$500 million.

David A. Wirth