

**U.S. Treasury Views on
Environmental/Social Risk Management
at the
Multilateral Development Banks**

Wednesday, January 11, 2017
Washington Area Branch – IAIA

Agenda

- About Us: U.S. Treasury and the MDBs
- MDB Project Review
- Environmental and Social Risk Management Policies at the MDBs
- Trends and Challenges

About Us: U.S. Treasury and the MDBs

U.S. Treasury Oversight Responsibilities:

- Multilateral Development Banks (MDBs)
- Energy and the Environment (GCF, GEF, CIFs)

Office of Development Results and Accountability

- MDB project review and monitoring
- Safeguards policies
- Inspection Panel and similar mechanisms at other MDBs

MDB Project Review

U.S. reviews MDB projects in order to:

- Assess development impact and additionality
- Exercise our fiduciary responsibilities as a shareholder
- Assess whether project risks have been adequately identified, avoided and mitigated
- Apply relevant U.S. domestic legislation

MDB Project Review

U.S. Treasury leads an interagency review process of MDB projects that:

- Employs a risk-based approach
- Draws on expertise from across the U.S. government
- Takes into account input and information from external stakeholders

MDB Project Review

U.S. also devotes resources to monitoring projects after they are approved by an MDB Board of Directors.

- U.S. Treasury conducts desk-based review of a limited number of high profile projects
- USAID, by Congressional mandate, also conducts monitoring reviews of a subset of MDB projects

Environmental and Social Risk Management at the MDBs

The United States also takes keen interest in the E/S risk management policies of the MDBs themselves (aka safeguards).

- History of U.S. interest and engagement
- Continued focus on MDB safeguard reviews
 - Implementation of World Bank's new ESF
 - Ongoing discussions around the Green Climate Fund's E/S policies
- Importance of meaningful consultation with affected communities and local experts in the design and implementation of projects.

Emerging Trends, Challenges, and Opportunities

- Evolving development assistance landscape with a much wider range of development financiers, with differing policies and views on the importance of E/S risk management.
 - MDB Board Dynamics
- Wider range of financing instruments that may not be well suited for the E/S risk management systems.
 - Financial intermediary lending
 - Development policy lending
- Ongoing debates about the efficacy and efficiency of safeguards.

Emerging Trends and Challenges Financial Intermediaries (FIs)

- Attractive lending model for the private sector windows of the MDBs. At IFC and EBRD, FI lending is a core part of business model.
- Challenges to effective safeguards implementation
 - Project oversight is delegated to FIs.
 - FIs may not have robust E/S Management Systems.
 - IFC's oversight resources are limited.
 - Access to grievance redress maybe more difficult
- Assessment of an FI project's E/S risks is difficult.

Policy Lending

Investment Lending

- Project
- Direct impacts
- E/S impact assessment is relatively routine
- ESIA
- New policy in place

DPLs

- Policy reform
- Indirect impact – policy encourages or discourages activities that have impacts
- E/S assessment is not routine
- Strategic, sectoral and regional assessments require different methodology
- Does policy need review?

Debates on Safeguards

- Ongoing debate at the MDBs on safeguards with two broad camps who draw largely on anecdotal evidence
- Limited systematic/rigorous data and analysis
 - Boston University undertaking a study to generate more empirical evidence on the efficacy of safeguards
 - G.R. Eccles (Harvard Business School) and colleagues found that “high sustainability” companies outperformed “low sustainability companies” over an 18-year period.

Private sector leading the way?

- 7000+ companies issued sustainability reports in 2014
- Harvard's Zofnass Program and the Institute for Sustainable Infrastructure: "Envision" rating system for developing sustainable infrastructure
- Morgan Stanley: framework for company valuation that incorporates E/S factors presenting material risks or opportunities

Questions and Conversation?

- What challenges do you face today? What opportunities do you see?
- What trends do you see emerging?