To: The Board of Executive Directors
From: The Secretary

Inquiries to: Mr. Giorgio Lecessi (extension 1054)

Supersedes: GN-2208-19(1/06)
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The Policy and Evaluation Committee of the Board met on November 10 and December 8, 2005 and on January 12 and January 17 and 18, 2006 to discuss the Environmental and Safeguards Policy (GN-2208-18). The discussion took place against the backdrop of the Blue Ribbon Panel report on Environment. It is also the basis of Management’s proposed Sustainability Initiative.

At the initial meeting on November 10, discussion focused on many issues including, national legislation versus Bank policy, the impact on new projects and projects already approved, the need to build country capacity, transaction costs, link with other Bank policies, the consultation process, and budget implications. At that meeting, Directors asked that a number of changes be incorporated into the policy.

On December 8 the Committee reviewed a revised version of the document (GN-2206-14). Management opened their presentation by highlighting the amendments made to the previous version to reflect discussion by Directors. During its presentation, Management explained that the new text for Directives B.1 and B.2 in relation to countries’ legislation and standards was drafted to make it clear that all Bank projects must adhere to directives of the Policy and in addition must comply with national legislation.

The discussion in the December 8 meeting mainly centered on: (1) overall policy and the objective of bringing the Bank in line with other IFIs and with the Equator principles; (2) concerns about including Category A projects under country systems; (3) the consultation process and when and how to include affected and interested parties; and (4) the need to include references to international standards and guidelines for pollution prevention. Directors also stressed the need for a balance between the environment and economic development. Management finally clarified that the A, B, and C category systems cannot cover PBLs, financial intermediation operations, and other forms of non-investment and flexible lending instruments.

On January 12, the Committee discussed a second revised version of the document, (GN-2208-15). That version contained the following amendments: (1) the inclusion of category A projects in the use of in country systems for the environmental policy; (2) a definition of the terms affected and interested parties; (3) inclusion of references of the financing of protected areas; (4) clarification as to how the policy applies to the private sector; (5) reference to country priority setting; and (6) a clarification that projects under construction must meet policy requirements.

Discussion in the January 12 meeting centered on whether the flexible lending instruments should be included in the policy or whether they could, instead, be included in the guidelines. In general, the chairs were divided between those who favored including these instruments in the policy, while others favored using the guidelines.
Other issues discussed during this session included how strongly the policy should emphasize including interested parties. At the end of the meeting, it was agreed that there were two major issues outstanding; the issue of the applicability of the policy to flexible lending instruments and ensuring that in-country systems for the environment meet Bank requirements.

At an informal meeting of the Committee held on January 17, it was agreed that the issue of applicability to flexible lending instruments would be resolved by inserting a new modified paragraph B.13 that has been included in the revised text of the policy. The new paragraph specifically states, “For policy based loans, the Bank will analyze during the design phase whether specific country policies and/or institutional changes supported by the operation are to have significant and direct effects on the country’s environment and natural resources.” New language of financial intermediations operations and loans that are based on performance criteria, sector-based approaches or conditional credit lines for investment projects was also included. Many Directors, while wanting to support the new policy, reiterated reservations about including PBLs in the policy. The EVP, joining the informal meeting, assured Directors that including PBLs would not have a negative impact on future Bank lending.

It was also agreed that paragraph 4.18 would include a new definition of relevant parties and that paragraph 4.19 would include a change of potentially affected parties

A final informal meeting of the Committee was held on January 18. At that meeting, a chair proposed a new paragraph B.16 for in-country systems. This paragraph was discussed in detail. With some modification a consensus emerged on most of the revised language. It was agreed that the policy’s guidelines for this policy shall be prepared taking into account the best practices in line with other multilateral financial institutions to allow the respective country systems to be used only in a project related to this policy.

Finally, the last sentence of paragraph 4.13, was changed to read “Where in the opinion of the Bank, the environmental risks are deemed to be too great, the Bank would support the proposed investment only once the plan for mitigation is agreed to”.

Management has included the above changes in the revised version of the Policy, which I recommend that the Board approve today.