

SECTION 4

INTERNATIONAL FINANCIAL INSTITUTIONS

CHAPTER TEN

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

10.1 Australia contributed \$1 million to IFAD in 1988-89 and the budget estimate remains the same for 1989-90.¹ While this inquiry's terms of reference concern the adequacy and effectiveness of Australia's participation in multilateral agencies such as IFAD, the evidence provided to the Committee concentrated on the performance of IFAD itself and on the issue of Australian funding. Nevertheless, the Committee has been able to utilise much of that evidence in its review.

10.2 IFAD is unusual among the multilateral development institutions mentioned in submissions because it has not been criticised for its environmental performance. It has been put forward as a model of how the effective use of funding for aid can lead to constructive and sustainable development.² The reputation of IFAD was highlighted by one submission; it stated that the World Bank's operations often have disastrous environmental consequences and a disastrous impact on the poorest people affected, but noted that it was to the World Bank's credit that it had, more recently, co-financed projects with IFAD.³

Aims

10.3 The primary objective of IFAD is to help increase agricultural production in developing countries. OECD donors supply 60 per cent of IFAD's resources, and OPEC countries the remaining 40 per cent.⁴ According to Results Australia:

IFAD was founded in 1977 as a result of a resolution taken at the World Food Conference of 1974. This conference had identified the short comings of the then-existing MDB's in effecting long-term improvements for the poorest and least privileged people in developing countries. IFAD was created as a revolving fund for concessional loans, a small and specialised agency of the UN with the specific mandate of raising food production and incomes among the poorest of the world's poor. It is the only international lending institution whose sole focus is the poorest of the poor.⁵

10.4 Decisions made by the IFAD Executive Board are reached by consensus. AIDAB noted that:

The extent to which any individual country can influence the direction of IFAD's policies and practices is dependent on their representative on the Executive Board rather than their percentage share of votes in the organisation.

Australia is in a constituency with Canada and Japan who, with Australian concurrence, have to date rotated the two positions of Executive Director and Alternate Director between them. Australia has never held a seat on IFAD's Executive Board.⁶

Praise for IFAD

10.5 Evidence received by the Committee drew comparisons between the World Bank and IFAD. Unlike the World Bank, IFAD is said to use small amounts of money to help the poorest to help themselves by promoting self-sufficiency, and by educating people in agriculture, health and family planning.⁷ Whereas the average size of the World Bank loan is \$55 million, the average size of the IFAD loan is \$7.5 million.⁸ Results Australia identified six features of IFAD operations which help to avoid the failures of World Bank projects. These are:

- exclusive concentration on the poorest, especially the rural poor and women;
- comprehensive advance research;
- involvement of the intended beneficiaries and other local groups at every stage;
- close co-operation with other development agencies, including regional and national authorities;
- parallel strengthening of government policies and institutions which help the poorest; and
- continued monitoring to help protect the gains made by project beneficiaries.⁹

10.6 Dr Friederike Veit described IFAD as having a 'grass roots approach' resulting in well-researched, environmentally sound projects.¹⁰

10.7 An article 'Patching up Poverty' in *The Economist* of 20 August 1988 stated that IFAD makes loans to third world villages rather than to their governments and that the villagers monitor their own performance. It stated that:

from 1978-87 IFAD lent to 33 such projects in 25 countries. Their repayment records are good. All of the money goes to the people who actually fund the project ... loans are usually made to

groups of five borrowers, rather than individuals. Group-members usually make a point of repaying in order not to lose face and the chance of qualifying for a renewal of credit. If one member defaults, the group is responsible; no more money is lent until full payment is made.¹¹

Australian Funding

10.8 In 1987 a number of submissions argued that the Australian Government should increase its funding to IFAD. They stated that Australia was the only OECD member of IFAD not to honour its pledge to IFAD for the 1985-87 triennium or to make a generous contribution to IFAD's Special Program on Sub-Saharan Africa.¹² However, in November 1987 the Government announced its decision to honour Australia's current commitment of \$8.48 million to IFAD-2, but indicated that it would not participate in the replenishment negotiations (due to start in 1988) for IFAD-3. This decision was based on the low level of the IFAD-2 replenishment, and the protracted nature of the negotiations necessary to conclude it; problems with the level of commitment from some donor countries, particularly in the OPEC group; concerns over the development effectiveness of IFAD; and questions regarding IFAD's overlap with other development agencies.¹³

10.9 In reaching its decision on IFAD the Government noted the views of Professor Helen Hughes that IFAD depended upon the World Bank and other agencies to do much of its project preparatory work; IFAD's projects entailed high risk as a result of poor preparation and support by the host country; IFAD's examination system was not yet systematic; and that IFAD was weak on infrastructure and institutional support.¹⁴

10.10 A range of Australian authorities, including AIDAB, had an input into this decision.¹⁵ Mr P Tormey, Assistant Secretary, Capital Markets Division, Department of the Treasury, told the Committee that:

At a time when aid funds had been constrained for budgetary reasons it is a question of supporting the most effective agencies. It is in that context that the Government decided to honour its current pledge but to put IFAD on notice that it would not be providing future funds.¹⁶

10.11 This decision aroused wide protest including that from a number of aid organisations. Results Australia, which had argued strongly in its submission to the Committee for increased support for IFAD, expressed the view that the decision to withdraw future Australian aid was 'ill informed and ill advised'.¹⁷

10.12 The Joint Committee on Foreign Affairs, Defence and Trade, which heard strong criticism of this decision from a number of quarters, found Australia's position to be at odds with world opinion. Both the World Bank and the US Agency for International Development had praised the work of IFAD. The Joint

Committee observed that there was room for an international organisation which successfully tackles rural poverty, and that it had not heard any evidence which convinced it that IFAD was not worthy of Australian support. It therefore recommended that Australia announce its intention to contribute to the Third Replenishment.¹⁸

10.13 On 12 September 1989 the Minister for Foreign Affairs and Trade, Senator Gareth Evans, announced that Australia would contribute approximately \$10 million to the third replenishment of IFAD:

Since the Government's previous decision not to contribute to IFAD - 3 was announced, information has come to light which addressed criticisms at that time ...

[t]his information shows that IFAD is an effective aid delivery vehicle that complements Australia's bilateral aid program and its membership of other development finance institutions.¹⁹

At the same time the Minister announced that Australia would contribute \$500 000 to the Special Program on Sub-Saharan Africa.²⁰

10.14 The Committee welcomes this decision and notes the positive response from Mr Rollason of ACFOA.²¹ Further, the Committee considers that the Australian Government should give immediate consideration to a further increase in funding for IFAD.

10.15 There has been an absence of evidence concerning the adequacy and effectiveness of Australia's participation in the decision-making processes of IFAD. Australia has never held a seat on IFAD's Executive Board.²² To maintain contact with IFAD an AIDAB officer in the Australian embassy in Rome has 'functional responsibility for aid matters pertaining to IFAD' and other organisations.²³

Conclusion

10.16 The Committee recognises, having regard to the relatively small size of Australia's contribution to IFAD, that AIDAB must allocate its monitoring resources in a cost-effective way. However, the Committee is of the view that despite the low level of Australia's present involvement with IFAD, AIDAB should seek to exercise an influence that includes promoting the Government's policy on aid and the environment.

10.17 The Committee therefore recommends that AIDAB monitors more closely the activities of IFAD particularly in relation to the environmental aspects of its projects. The Committee also recommends that AIDAB liaise regularly with the Executive Directors representing Australia's constituency and report annually to the Minister for Foreign Affairs and Trade on the operations of IFAD and Australia's involvement.

10.18 The Committee further recommends that the Australian Government give immediate consideration to a further increase in funding for IFAD.

ENDNOTES

1. 1989-90 Budget Related Paper No. 4, p. 23.
2. See for example, Results Australia submission (No. 18), p. 3, Transcript of Evidence, p. 318; Dr J Davis Submission (No. 19); Dr F Veit Submission (No. 26); and Ms M Robertson Submission (No. 32).
3. Dr J Robbins Submission (No 21).
4. House of Representatives *Hansard*, 19 November 1987, p. 2363.
5. Results Australia Submission (No. 18), p. 3, Transcript of Evidence, p. 318.
6. AIDAB Submission (No. 1), Appendix 8, Transcript of Evidence, pp. 729-30.
7. Dr J Davis Submission (No. 19).
8. Results Australia Submission (No. 18), p. 4, Transcript of Evidence, p. 319.
9. *id.*
10. Dr F Veit Submission (No 26).
11. *The Economist* 20 August 1988 p. 72.
12. Results Australia Submission (No. 18), p. 5, Transcript of Evidence, p. 320 and Dr F Veit Submission (No. 26).
13. House of Representatives *Hansard*, 19 November 1987, p. 2363.
14. *ibid.*, p. 2361.
15. Dr P McCawley, Transcript of Evidence, p. 790.
16. Mr P Tormey, Transcript of Evidence, p. 232.
17. Mrs K Cloud, Transcript of Evidence, p. 325.
18. AIDAB Review, *op.cit.*, pp. 78-80.
19. Minister for Foreign Affairs and Trade News Release No. M157, 12 September 1989.
20. *id.*
21. *The Canberra Times*, 13 September 1989, p. 4.
22. AIDAB Submission (No. 1), Appendix 8, Transcript of Evidence, p. 730.
23. *id.*

CHAPTER ELEVEN

MULTILATERAL DEVELOPMENT BANKS

Overview

11.1 In this inquiry the Committee has before it the task of assessing the adequacy and effectiveness of Australia's participation in the decision-making processes of the international banks of which Australia is a member. The Committee received evidence from numerous organisations which pointed to environmentally damaging activities resulting from insensitive and badly managed aid projects financed by multilateral development banks to which Australia subscribes funds.

11.2 The Committee notes, however, that few of the submissions presented to it specifically addressed the ways in which Australia could influence the decision-making of these organisations and the limitations to Australia's influence.

Function of the Development Banks

11.3 The Multilateral Development Banks (MDBs) are the largest public development lenders in the world. Almost all of their lending is to governments and government agencies for development projects, either as a 'hard loan' that charges close to commercial interest rates, or as a 'soft loan' at little or no interest to the poorest countries. Funds for the hard loans are obtained mainly by borrowings in international capital markets supplemented by capital subscriptions from member countries and net income. Soft loans are financed by donor contributions.¹

11.4 As a member of the international aid community Australia supports three key international financial and development institutions. Bodies such as the Asian Development Fund (ADF) and the International Development Association (IDA) are able to provide aid on a scale, or in sectors, which may not be possible for a single donor.² The ADF and IDA are the highly concessional lending arms of the Asian Development Bank and the International Bank for Reconstruction and Development (World Bank) respectively. The three institutions supported by Australia, then, are the International Fund for Agricultural Development (see Chapter Ten), the Asian Development Bank and the World Bank.

Structure

11.5 Multilateral Development Banks are governed by Boards of Governors which have delegated decision-making on most policy issues to Executive Boards. Australia is represented at the Board of Governors by the Treasurer and belongs to

a constituency (group) of countries which elects an Executive Director to the Board and appoints other constituency representatives. Voting rights in the Boards are determined by shareholdings in the Banks.³ The role of the Boards in relation to the environmental work of the Banks largely concerns the determination of policy and its implementation.⁴

Procedure

11.6 Treasury informed the Committee that when a project goes to the Board for approval it is accompanied by substantial documentation which is summarised for the Board's consideration. This includes a short assessment of significant environmental impacts. If more information is required by the Executive Directors, it can be obtained.⁵ According to Treasury, because Directors and their staff have access to the Bank's staff they are able to consider the environmental aspects of proposed projects prior to their consideration by the Board.⁶

Australian Funding of MDBs⁷

11.7 In 1988-89 Australian contributions to international financial institutions amounted to \$180.3 million. This figure comprised \$52.5 million to the Asian Development Fund (ADF) and \$126.8 million to the International Development Association (IDA). The remaining \$1 million was contributed to the International Fund for Agricultural Development (IFAD). The estimated expenditure for 1989-90 is \$65.3 million. This is substantially lower than in 1988-89 because 'some expenditure scheduled for 1989-90 was brought forward'.

Criticisms of Multilateral Development Banks

11.8 Evidence presented to the Committee concentrated on the multilateral development banks and mainly on the World Bank. In general, submissions were critical of the environmental performance of these organisations. One noted that:

References to environmentally beneficial or even benign projects actually funded by international financial institutions are few.⁸

11.9 The Committee was informed that the banks fail to reach the poorest of the poor and may even worsen the conditions of this group because they generally fund large infrastructure projects which are of little relevance to farmers and labourers and may even deprive them of their livelihood.⁹

11.10 According to Results Australia, the practices of the MDBs often cause massive dislocations of indigenous people with the benefits of projects going to the privileged classes.¹⁰ Results Australia also said that the poor are not involved in the design or implementation of projects supported by MDBs, that the lending policies of MDBs can lead to massive indebtedness by developing countries and that MDB assistance has 'frequently and extensively been used to bolster repressive regimes in

the name of “stability”.¹¹ The Working Group on the Environmental Effect of Overseas Aid said that even when projects are intended for local people they will often be handed over to ‘companies who can utilise them for export commodities – such is the pressure of loan repayments after implementing the projects’.¹²

11.11 Although most of the evidence received by the Committee was critical of the past performance of MDBs, some witnesses noted that these organisations are now reacting constructively to public pressure on environmental issues,¹³ although perhaps not quickly enough.

WORLD BANK

11.12 The World Bank was established in 1945. It is by far the largest of the MDBs in terms of funding. In 1986-87 the World Bank Board approved 235 projects¹⁴ and made loans or credits of about \$US 17 billion.¹⁵ The World Bank has 6000 employees and deals with 146 member countries.¹⁶

Australia’s Role

11.13 Australia has 1.83 per cent of votes in the World Bank and is the largest shareholder in its constituency which includes New Zealand, the Republic of Korea, Vanuatu, Papua New Guinea, Western Samoa, the Solomon Islands and Kiribati. The total voting power of the constituency is 3.27 per cent. Australia has held the Executive Director position representing its constituency except during the periods 1970-77, 1980-82 and 1987-89. The Executive Director may speak on behalf of the constituents separately, but must cast the votes of all the members of the constituency as a bloc.¹⁷

Criticisms

11.14 The World Bank funds some very large-scale projects. It is also subject to the greatest amount of criticism from environmental groups. Some of the criticisms of the Bank are very broad. For example, Mr David Farrow said that it is an enormous, financially powerful bureaucracy operating in isolation and has ‘a single-minded determination to impose its own ideology regardless of context (eg local national aspirations)’.¹⁸

11.15 Other criticisms relate to the policies of MDBs and to their effects on developing countries. Results Australia, for example, asserted that they caused economic and physical displacement of the poor and failed to involve indigenous people, especially the poor, in the design and implementation of projects which were ostensibly intended for their benefit.¹⁹ Results Australia also complained of the MDBs reluctance to admit mistakes, to revise their development model and to take remedial action.²⁰ Other causes of concern were the emphasis placed by the MDBs on purely economic returns, their failure to account for short-term and long-term social and environmental costs of projects and policies, the sheer size of

their projects and the massive indebtedness they fostered.²¹ The Committee has already noted [at paragraph 1.5] that the pursuit of development in order to service foreign debt often results in environmental devastation.

11.16 A number of these deficiencies have been acknowledged by the World Bank. In giving evidence before this Committee in March 1988, Dr Jeremy Warford cited the example of livestock production in Costa Rica and Brazil which benefited only a very narrow elite group rather than the society as a whole, and which had disastrous effects on the environment.²²

11.17 AREA cited a number of projects with which the World Bank has been involved, some of which resulted in the displacement of large numbers of indigenous people, abuse of 'legal land rights' and the clearing of 'large tracts of rainforest on soils unsuitable for agriculture'.²³ The emphasis given by the Bank to funding large-scale infrastructure projects was said to be harmful to both the environment and the poor. A typical comment was that the World Bank:

seems to have a record of backing large dams (known to be uneconomic ... 20 years ago!), large migrations displacing indigenous people, large scale land clearance.²⁴

The view that the Bank primarily finances the construction of power plants, telecommunications, airports and other infrastructure and that these rarely benefit the poor appears to be widespread.²⁵

The Size of Projects Funded

11.18 The suggestion that the Bank should increase lending for small scale projects involving the poor, appeared in several submissions.²⁶ The on-lending referred to subsequently in this Report [see paragraph 11.25] is one mechanism through which this can be achieved, but it accounts for a minor proportion of the Bank's total lending.²⁷

11.19 AREA suggested that the Bank prefers large-scale projects because these are 'more cost effective' to administer since the 'project cycle and economic assessment is basically the same for small or large projects'.²⁸ AREA pointed out, however, that:

... small community based projects are better able to incorporate in the planning and implementation process, the principles of sustainable economic and environmental development.²⁹

The Committee is sympathetic with the concern of the World Bank to pursue cost-effectiveness. However, while larger development projects might be justified on such grounds, there are considerable potential environmental difficulties that can

accompany such an approach. Cost-effectiveness in economic terms cannot excuse adverse environmental effects, which may even render a project not cost-effective in the longer term.

Three Widely Criticised Projects

11.20 The criticisms of World Bank projects made in submissions received by the Committee included repeated references to three projects: Polonoroeste, in Brazil; transmigration in Indonesia; and the Narmada valley dams in India.

11.21 Results Australia was particularly critical of Dr Warford's presentation to the Committee of the Polonoroeste project, during which he indicated that the Bank had ceased disbursement of the loan at one stage until the Brazilian Government had taken 'measures that we felt were appropriate' to protect the Amerindian reserves.³⁰ Results Australia argued that there was no evidence that the Bank seriously suspended any projects which were identified as being environmentally detrimental.³¹

11.22 According to the Treasury, however, these three projects:

have long histories and were started by the borrowing countries without Bank assistance. In these and other projects, Bank interventions have reduced adverse environmental impacts.³²

11.23 Dr Warford described to the Committee the dilemma with which the Bank is confronted in dealing with the types of projects which have received most of the attention and genuine concern from the outside world:

Do we associate ourselves with a program which we know contains all kinds of terrible environmental problems, knowing that we may be able to do a lot to make it a lot better but also knowing that at the end of the day there will be residual problems there ... which we will be associated with? The question is: Do we play safe and say, 'Fine, you go ahead and do that, we will have an education or telecommunications project and protect our image', or do we actually get in there and try to do our best knowing at the end of the day that we are going to get into trouble? ... It seems to me there is a danger that project officers could decide to play safe and walk away from a project where they could have a potential for doing a lot of good.³³

Recent Reforms

11.24 There are strongly held views that the World Bank does not sufficiently address the problems of the poor, that it supports economically, socially and environmentally unsound projects and often makes conditions worse, at least in the long term.³⁴ However, its critics acknowledge that there may be signs the Bank is becoming more environmentally sensitive and slowly improving its policies.³⁵

11.25 Dr Warford advised the Committee of the World Bank's perspective: the Bank had been the leader among development institutions on environmental matters and it had done much to raise consciousness of environmental issues both in the developing countries and among other multilateral aid institutions. Even before the Stockholm Conference of 1972 the Bank had been concerned with the environmental manifestations of individual projects and it had also actively sought possibilities for lending for environmental projects per se.³⁶ However Dr Warford acknowledged the difficulties inherent in large-scale projects, stating that 'many of our projects have had consequences which have been totally unanticipated' because of the great complexity of environmental issues.³⁷ He mentioned two responses to this problem. One was to break large projects into more manageable units, to 'phase them'. The other was to lend to institutions which then on-lend according to certain agreed criteria.

The idea basically is to try to make sure that we do get down to the grassroots level, we do encourage small-scale industry, do encourage small-scale activities in the rural area, cottage industries and so on. We do that through an intermediary.³⁸

11.26 The World Bank appointed its first environmental adviser in 1970 and has frequently affirmed its commitment to sustainable development.³⁹ According to the Treasury:

Since 1971 more than 1700 projects (representing over 50 per cent of the number of loans provided) have included components to prevent or mitigate seriously harmful environmental impacts.

The environmental impact of Bank projects is examined from an early stage in the project cycle. The Bank's environmental guidelines preclude projects which cause severe or irreversible environmental deterioration or endanger public health and safety, and require measures to be taken to offset adverse impacts on displaced people or disadvantaged vulnerable groups.⁴⁰

11.27 The Bank has prepared policy statements on a number of environmental matters although, according to environmental groups such as AREA, the lack of trained staff and institutional commitment has meant that these are often mainly

public relations documents.⁴¹ A number of environmental initiatives were announced by the President of the World Bank to the World Resources Institute on 5 May 1987. They were to:

- begin an urgent, country-by-country assessment of the most severely threatened environments in developing nations;
- promote a continent-wide initiative against the advance of the desert and the destruction of forests in Africa;
- contribute to a global program to support tropical forest conservation; and
- participate in a co-operative effort by the nations of the Mediterranean and other international agencies to prepare a long-term campaign to protect that sea and its coasts.⁴²

11.28 In a recent structural reorganisation of the Bank environmental matters have been given increased emphasis. As a result of the reorganisation, two of the four senior vice-presidencies have a direct involvement in environmental matters. An Environment Department is located in the Senior Vice-Presidency for Policy, Planning and Research.⁴³ It has authorised 23 higher level positions and has three divisions.⁴⁴ The Senior Vice-Presidency for Operations is divided into four vice-presidencies dealing with Latin America and the Caribbean; Asia; Africa; and Europe, the Middle East and North Africa. Each of these vice-presidencies has an environmental division of five or six people who carry out the project-by-project environmental review process 'at all stages in the project cycle'.⁴⁵ These divisions can draw on the specialist skills contained in the Environment Department. According to the Treasury the 'Bank's environmental specialists undertake environmental training of other World Bank staff and selected personnel from developing countries and maintain liaison with relevant NGOs'.⁴⁶

11.29 The regional environment divisions identify the key environmental issues in each country to which the Bank lends in order to alert the officers who make the decisions at the country department about their importance. These issues may then become incorporated into the objectives of the work program for that country.⁴⁷ The Environmental Department is carrying out more in-depth studies on about 15 or 20 countries which examine one or two specific environmental issues in detail.⁴⁸ There are 'roughly 65 staff plus consultants' in the Environment Department and the four environment divisions; 25 per cent are economists.⁴⁹ This represented an eightfold increase in Bank staff devoted formally to environmental work since July 1987.⁵⁰ With the additional staff the Bank has moved in the direction of hiring economists (not formerly represented), anthropologists, behavioural scientists and ecologists.⁵¹

11.30 The Bank saw the integration of economists into the environmental area as being particularly important. While recognising the major intangible aspects of environmental matters to which it may be difficult to apply a dollar value, for example the benefits of preserving the environment of an indigenous tribe to allow it to continue its existing lifestyle, Dr Warford pointed out that:

when it comes to identifying the policy instruments, the measures that we might want to introduce to make sure that those people can survive, then economics becomes very important because we can devise policy instruments – prices and taxes and subsidies; property rights issues; distribution of land, income, wealth – those kinds of hard economic issues which will induce people to behave in such a way that they do not find it worth their while to encroach upon the tropical rainforests for example.⁵²

Reception of Reforms

11.31 These reforms are of the kinds said to be necessary in many of the submissions received by the Committee. A number of submissions emphasised the continuing need to fund small scale appropriate technology projects which promote self-sufficiency and the meeting of health and welfare needs.⁵³

11.32 The reorganisation was commended by AREA,⁵⁴ and the Joint Committee on Foreign Affairs, Defence and Trade welcomed the new determination to improve 'consideration of environmental factors'.⁵⁵ DASETT argued that the changes in the World Bank designed to improve its environmental performance reinforced the need to ensure that environmental matters were given 'due weight and attention in the advice provided to Australia's representatives'.⁵⁶

World Bank's Monitoring Capacity

11.33 The Bank does not initiate proposals itself, but responds to requests from member governments. This means, for example, that although it is willing to support environmental rehabilitation projects, its ability to do so is limited by the interest of member countries. Dr Warford, however, told the Committee that 'about 2,000 World Bank projects over the lifetime of the Bank have had environmental components associated with them, in many cases, perhaps most cases, over the wishes of the governments themselves'.⁵⁷ At the policy level, however, the Bank has called for environmental issues 'to be elevated to the highest levels of country planning'.⁵⁸ It has also indicated its intention to increase efforts to integrate natural resource management into country and economic sector studies and to expand its cooperation with NGOs.⁵⁹

11.34 One of the points made by the Working Group on the Environmental Effect of Overseas Aid was that although the World Bank:

has extensive policies to protect the natural environment and indigenous people ... these policies are often not implemented by the recipient country, and the Bank does not have the resources to police them. There is too little (if any) environmental assessment of proposed projects ... In reality, no on-site assessment is made by the Bank.⁶⁰

In contrast, Treasury stated that:

The Banks monitor projects to ensure that loan conditions (including environmental ones) are adhered to, and where necessary can delay or refuse disbursement if they are not.⁶¹

Treasury also suggested that borrowers have an incentive to comply with loan conditions in that they will generally wish to avoid the risk of a reduction by the Bank in future lending to the recipient.⁶² AIDAB informed the Committee that the focus of the World Bank's environmental activity is the incorporation of mitigating measures into its large-scale projects and that the Bank was able to address environmental concerns by setting loan conditions during negotiations with member governments.⁶³ Nevertheless, while funding could be stopped if the environmental conditions were not met 'it is not easy to ensure that they are adhered to' and by the time the funding is suspended the damage may have already occurred, as with the Polonoroeste Project in Brazil.⁶⁴

11.35 There is no doubt that the development of policies will have little impact unless they are effectively implemented and Dr Warford admitted that the Bank:

can make loan agreements on projects and we can agree with a country that certain environmental safeguards will be built in, but we go away and we come back and we find that perhaps these things were not done as well as we would have liked.⁶⁵

11.36 In such circumstances disbursement of the loan may cease until the agreed conditions have been met. Staff of the Bank are sent throughout the period of the disbursement of the loan to check on the implementation of a project 'to see that things are going as planned, the money is being spent as in fact agreed upon and the loan conditions being met'.⁶⁶ The Committee hopes that as a matter of course such staff include members of the Environment Department.

11.37 The Operations Evaluation Department of the Bank, which reports directly to the members of the Board, not to the President, evaluates the performance of project and lending activities in general, once the loan is completed. Where there have been implementation problems these are subjected to 'a fairly independent review'.⁶⁷

ASIAN DEVELOPMENT BANK

11.38 The Asian Development Bank (ADB) was established in 1966. It is owned by the governments of 32 countries from the Asia Pacific region and 15 countries from Europe and North America. Loans from ordinary capital resources, which account for 68 per cent of ADB lending, 'are generally made to member countries which have attained a somewhat higher level of economic development'. These loans are at near commercial rates. The 'soft loan' arm of the Bank is the Asian Development Fund (ADF). Loans from the ADF are made on highly concessional terms and almost exclusively to the poorest borrowing countries.⁶⁸

Australia's Role

11.39 Australia is the fourth largest shareholder in the ADB and has consistently held both the Executive Director and Alternate Executive Director positions in its constituency.⁶⁹ The other members of the constituency are Hong Kong, Kiribati and the Solomon Islands. The total voting power of the constituency is 7.76 per cent of which Australia accounts for 6.077 per cent.⁷⁰ As at 30 September 1987 the Australian constituency was the seventh largest (in terms of voting power) of the twelve elected constituencies.⁷¹ The Executive Director may speak on behalf of individual constituents and may cast their votes separately.⁷² As with the World Bank, decisions are usually reached by consensus.⁷³

Environmental Monitoring Capacity

11.40 After signing the Declaration of Environmental Procedures and Principles in 1980 the ADB established an environmental office at its headquarters in Manila.⁷⁴ An environmental specialist was appointed in 1981 and another in mid-1982.⁷⁵ Two other steps have been taken since then: the Board of Directors endorsed a working paper on environmental policies and procedures in January 1986, and in April 1987, an environmental unit was established and a third environmental specialist was appointed.⁷⁶ The environmental unit has the same general objectives as the World Bank's Environment Department, 'emphasising activities which encourage sounder use of natural resources in pursuit of sustainable development'.⁷⁷ According to the Treasury the environmental specialists 'provide advice to Bank Staff at all stages of the project cycle and also undertake resource centre activities, institution strengthening and external and in-house training. They draw together and complement the environmental work done by ADB project staff and consultants, and the Bank's Post Evaluation Office'.⁷⁸

11.41 Among the future activities identified in the 1987 report on the 'Implementation of the Bank's Environmental Policies and Procedures' were the integration of environmental planning and natural resource management into country and sector work, a review of the Bank's arrangements for treating social aspects of Bank projects, the compilation of a register of national, regional and international NGOs dealing with environment/indigenous peoples issues in

developing member countries, a review of the need for appropriate guidelines to protect wildlands or other critical areas, and the publication of Country Profiles outlining the environmental legislation and administration of selected developing countries and in-house and external training sessions.⁷⁹ In its supplementary submission to the Committee, AIDAB pointed out that the 'country profiles on environmental legislation and administration of selected developing member countries' have now been published. AIDAB stated that it 'found the Bank's work to be useful in developing environmental guidelines for the Bureau'.⁸⁰

Criticisms

11.42 AIDAB has noted that:

As a development institution which finances environmentally sensitive projects the Asian Development Bank faces similar problems to the World Bank.⁸¹

11.43 AREA commented that the ADB:

appears to be insensitive to the need to consult with non-government organisations (NGO's) about environmental and cultural issues associated with projects. A recent US Treasury Department report ... states that the US Executive Director of the ADB believed there were very few organisations in the region which could participate usefully in project work. Yet, in Asia in particular, there are a wealth of active and qualified NGO's whose informed participation could only improve ADB project quality.⁸²

11.44 Mr William Brown was critical of the administrative structure adopted by the ADB, 'an isolated [environmental] unit within the hierarchy', and the obstacles it presented to adequate environmental assessment:

they set up their office in 1980 with two staff, since expanded to three; they have gone through a copious quantity of paper and in a space of four years they have reviewed some 2,860 documents and have given 927 formal comments which has meant reviewing several major documents each and every working day and perhaps they were somewhat isolated from the main body.⁸³

11.45 The Joint Committee on Foreign Affairs, Defence and Trade was critical of the ADB's standards of project appraisal, and of its response to attempts by that Committee to obtain information in response to allegations put before it. That Committee concluded that Treasury officials were not sufficiently forceful in representing the Committee's concerns, and that multilateral institutions are currently inadequately accountable to the Australian public. It recommended that strong representations be made to the management of the ADB that Australia

demands the highest standards of accountability and disclosure. If this was not forthcoming continued support for the Bank's management should not be assumed. It also recommended that the Bank encourage, rather than discourage, critical attitudes towards management decisions among its staff. It concluded that the 'strategic placement of Australian staff in the ADB (and the World Bank) is clearly essential if Australian interests are to be served'.⁸⁴

11.46 This Committee endorses the recommendation of the Joint Committee on Foreign Affairs, Defence and Trade to the effect that strong representations be made to the ADB about Australian concerns for accountability and disclosure.

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ENDNOTES

1. Treasury Submission (No. 37), p. 1, Transcript of Evidence, p. 47.
2. 1989-90 Budget Related Paper No. 4, p. 22.
3. Treasury Submission (No. 37), pp. 2-3, Transcript of Evidence, pp. 48-49.
4. *ibid.*, p. 12, Transcript of Evidence, p. 58.
5. *id.*
6. *id.*
7. Statistics and information provided in this section are from the 1989-90 Budget Related Paper No. 4, pp. 23-24.
8. Working Group on the Environmental Effect of Overseas Aid Submission (No. 41), p. 3, Transcript of Evidence, p. 429.
9. Results Australia Submission (No. 18), p. 2, Transcript of Evidence, p. 317.
10. *id.*
11. *id.*
12. Working Group on the Environmental Effect of Overseas Aid Submission (No. 41), p. 8, Transcript of Evidence, p. 434.
13. Results Australia Submission (No. 18), p. 7, Transcript of Evidence, p. 322.
14. Treasury Submission (No. 37), p. 12, Transcript of Evidence, p. 58.
15. Dr J Warford, Transcript of Evidence, p. 3.
16. Mr W Brown, *Working Paper No. 87/2*, p. 8, Transcript of Evidence, p. 482.
17. Treasury Submission (No. 37), Attachment 1, p. 1, Transcript of Evidence, p. 63.
18. Mr D Farrow Submission (No. 11), p. 6.
19. Mrs K Cloud, Transcript of Evidence, p. 324.
20. *ibid.*, p. 325.
21. *id.*
22. Dr J Warford, Transcript of Evidence, p. 29.
23. AREA Submission (No. 28), p. 26, Transcript of Evidence, p. 365.
24. Dr J Robbins Submission (No. 21), p. 2.
25. See for example, Mr G Johnson Submission (No. 33), p. 1; and Ms N Ravenswood Submission (No. 34), p. 1.

26. Mr M Spencer Submission (No. 16), p. 2; Ms P Harley Submission (No. 23); Ms M Robertson Submission (No. 32); and Ms N Ravenswood Submission (no. 34), p. 1.
27. Dr J Warford, Transcript of Evidence, p. 32.
28. AREA Submission (No. 28), p. 27, Transcript of Evidence, p. 366.
29. id.
30. Dr J Warford, Transcript of Evidence, pp. 11-12.
31. Mrs K Cloud, Transcript of Evidence, pp. 329-30.
32. Treasury Submission (No. 37), p. 5, Transcript of Evidence, p. 51.
33. Dr J Warford, Transcript of Evidence, p. 35.
34. See for example, Mr M Spencer Submission (No. 16); Dr J Davis Submission (No. 19); Ms P Harley Submission (No. 23); Ms J Frenda Submission (No. 27) and Ms N Ravenswood Submission (No. 34).
35. See for example, Mr C McQueen Submission (No. 3), p. 4.
36. Dr J Warford, Transcript of Evidence, p. 4.
37. *ibid.*, pp. 5 and 31.
38. *ibid.*, p. 32.
39. Mr W Brown, *Working Paper No. 87/2*, p. 8, Transcript of Evidence, p. 482.
40. Treasury Submission (No. 37), p.3, Transcript of Evidence, p. 49.
41. AREA Submission (No. 28), p. 27, Transcript of Evidence, p. 366.
42. AIDAB Submission (No. 1), p. 19, Transcript of Evidence, p. 652.
43. Dr J Warford, Transcript of Evidence, p. 13.
44. *ibid.*, p. 15.
45. *ibid.*, p. 13.
46. Treasury Submission (No. 37), p. 4, Transcript of Evidence, p. 50.
47. Dr J Warford, Transcript of Evidence, pp. 14-15.
48. *ibid.*, p. 15.
49. *ibid.*, p. 17.
50. *ibid.*, p. 7.
51. *ibid.*, p. 8.
52. *ibid.*, p. 19.
53. See for example, Mr M Spencer Submission (No. 16); Ms M Robertson Submission (No. 32) and Ms N Ravenswood Submission (no. 34).

54. AREA Submission (No. 28), p. 27, Transcript of Evidence, p. 366.
55. AIDAB Review, *op.cit.*, p. 74.
56. DASETT Submission (No. 42), p. 16, Transcript of Evidence, p. 837.
57. Dr J Warford, Transcript of Evidence, p. 10.
58. AIDAB Submission (No. 1), p. 18, Transcript of Evidence, p. 651.
59. *id.*
60. Working Group on the Environmental Effect of Overseas Aid Submission (No. 41), p. 8, Transcript of Evidence, p. 434.
61. Treasury Submission (No. 37), p. 12, Transcript of Evidence, p. 58.
62. *id.*
63. AIDAB Submission (No. 1), p. 18, Transcript of Evidence, p. 651.
64. *id.*
65. Dr J Warford, Transcript of Evidence, p. 5.
66. *ibid.*, p. 12.
67. *id.*
68. Treasury Submission (No. 37), Attachment 11, Transcript of Evidence, p. 170.
69. AIDAB Submission (No. 1), Appendix 8, Transcript of Evidence, p. 729.
70. *id.*
71. Treasury Submission (No. 37), Attachment 1, Transcript of Evidence, p. 64.
72. *id.*
73. AIDAB Submission (No. 1), Appendix 8, Transcript of Evidence, p. 729.
74. AIDAB Submission (No. 1), p. 20, Transcript of Evidence, p. 653.
75. Treasury Submission (No. 37), Attachment 11, Transcript of Evidence, pp. 175-76.
76. *ibid.*, pp. 176-77.
77. Treasury Submission (No. 37), Transcript of Evidence, p. 56.
78. *ibid.*, pp. 9-10, Transcript of Evidence, pp. 55-56.
79. AIDAB Submission (No. 1), p. 22, Transcript of Evidence, p. 655.
80. AIDAB Submission (No. 1A), p. 9.
81. AIDAB Submission (No. 1), p. 20, Transcript of Evidence, p. 653.
82. AREA Submission (No. 28), p. 28, Transcript of Evidence, p. 367.

83. Mr W Brown, Transcript of Evidence, p. 538.
84. AIDAB Review, op.cit., pp. 75-77.

CHAPTER TWELVE

AUSTRALIA'S PARTICIPATION IN THE MULTILATERAL DEVELOPMENT BANKS

IDENTIFICATION OF FUNDS

12.1 The Institute of Foresters stated that Australian representatives should make clear that Australian aid funds have to be used on projects that abide by the principles of the World Conservation Strategy and that all projects should have the necessary environmental safeguards built into them.¹

12.2 However, AIDAB informed the Committee that Australia's participation in decision-making bodies of multilateral development institutions was limited to participation in governing bodies. The funds Australia provided go into a consolidated pool from which allocations are made, usually for specific projects. It is impossible to directly identify Australian funds against any particular project.²

COORDINATION OF AUSTRALIA'S PARTICIPATION IN MDBs

Consultation: Treasury and AIDAB

12.3 ACFOA advised the Committee that there is insufficient consultation between Treasury and AIDAB, and that on issues of development and environment AIDAB should be the principal, not the lesser participant.³ Ms W Fisher, Director of AIDAB's International Financial Institutions Section, outlined to the Committee the procedure by which AIDAB liaises with MDBs. Both Treasury and AIDAB receive documentation from the Executive Director's office in both banks. Although the Executive Director is usually appointed from Treasury that officer is an employee of the bank concerned and represents the whole constituency of which Australia is a part. Ms Fisher stated that there are 'frequent consultations between AIDAB and Treasury'. However, due to staffing constraints, a great deal of this communication was by phone. Despite differences of priorities and perspectives, joint advice, which can be initiated either by AIDAB or Treasury, is prepared for the Executive Director. The advice is forwarded for consideration, along with the contributions of the other countries in the constituency.⁴

12.4 Treasury told the Committee that it does not have its own environmental expertise, but believed that 'projects which are environmentally good are usually also economically good and vice versa, looking to sustainable development over the longer term'.⁵ Treasury also believed that the Banks were committed to projects which are environmentally sound and sustainable⁶ and relied primarily on the 'multilayer procedures within the Banks and the external advice coming to it from NGOs and recipient governments' when assessing projects.⁷ If a project was felt to

have environmental deficiencies the Executive Director 'would refer it to bank staff and then he would come here and we would put it out to DASETT, to CSIRO, using AIDAB ... to any other person or consultant who might have relevant input'.⁸ In his evidence to the Committee Mr P Tormey, Assistant Secretary, Capital Markets Division, Department of the Treasury, insisted that Treasury was in 'frequent contact with AIDAB and it (AIDAB) has its environmental unit'.⁹

12.5 Concerning Treasury's relations with international financial institutions, the Joint Committee on Foreign Affairs, Defence and Trade noted that 'Although AIDAB is routinely consulted, the Committee is unaware of anything which would constitute effective dialogue on matters of policy substance'.¹⁰ The Committee notes that in February 1989, the Joint Committee recommended that the Minister for Foreign Affairs and Trade should be Australia's Governor of both the World and Asian Development Banks, and that there must be 'regular and real dialogue' between senior Treasury and AIDAB officials on the critical issues facing the banks.¹¹

Consultation: Treasury and DASETT

12.6 Treasury's reliance on DASETT in assessing the environmental impact of World Bank projects appeared to be minimal. Mr Tormey told the Committee that he could not recall an instance in the past two or three years when a query about a project from the Executive Director had been referred on by Treasury to DASETT.¹² DASETT agreed that 'historically' its opinions and Australian views on environmental matters had great difficulty in getting through to the decision-making areas of MDBs.¹³ Treasury had never consulted DASETT when briefing the Executive Director on the board of the World Bank¹⁴ although DASETT believed such consultation would be useful. Mr B Odgers, Director, Procedures and Agreements, Environment Assessment Branch, DASETT, told the Committee:

We are quickly approaching the stage where we can give consistent and systematic advice on global environmental priorities because of the evolution of new treaties, arrangements and conferences ... Our Treasury does not have that sort of expertise.¹⁵

Liaison between AIDAB and DASETT

12.7 AIDAB informed the Committee that 'strong links have been established between AIDAB and DASETT. Senior officers from both organisations meet regularly to exchange information' and 'DASETT has provided valuable assistance in developing draft environmental guidelines'.¹⁶ The Committee believes that this process could be usefully expanded to include the consideration of projects proposed by the MDBs.

Conclusion

12.8 Evidence presented to the Committee led it to conclude that the process of consultation between AIDAB and Treasury when assessing MDB projects in order to prepare advice for Executive Directors, has been inadequate and should in future be more thorough and systematic. Primary carriage should be with AIDAB (with the consultation and involvement of DASETT) as recommended at paragraph 11.39.

12.9 Having regard to Australia's current environmental policies and widespread community concern at potential environmental damage from MDB projects, it is essential that comprehensive project assessments and advice of high quality be provided to the Executive Directors. The Committee believes that this can best be achieved by combining the relative expertise of Treasury, AIDAB and DASETT. The Committee therefore recommends that Treasury, AIDAB and DASETT establish regular and systematic consultation whereby:

- designated officers meet on each occasion that an Executive Director's office provides documentation (either policy or project-related) for comment; and
- advice is prepared for the Executive Director as a result of these meetings which reflects Australia's policies and concerns in relation to the environmental aspects of development; and
- Australian representatives should not support environmentally undesirable projects.

AUSTRALIA'S ACCESS TO MDB PROJECT APPRAISALS

12.10 According to AIDAB, Australia was generally not involved in the appraisal or evaluation missions carried out for individual projects, although Australians or Australian companies may be involved in project studies and management.¹⁷ One of the claims made by Mr D Farrow in his submission to the Committee was that:

many assessments, reports, documents and supporting evidence prepared for and by the [World] Bank and on which its decisions are based, are not available for general scrutiny. What this means ... is that our parliamentary representatives cannot discuss the advisability or otherwise of World Bank activities because they (and we) are not entitled to know even the most fundamental details of projects proposed or already in train.¹⁸

12.11 The Working Group on the Environmental Effect of Overseas Aid said that Australia should insist that MDBs make project assessments available for member countries and non-government organisations in recipient countries.¹⁹ ACFOA believed that Treasury does not disseminate adequately the information they are provided by the World Bank. It said that Treasury should make information on prospective projects available to environmental groups through AIDAB and ACFOA so that they can have input into the decision-making process.²⁰

12.12 According to AIDAB, the full-time Executive Directors at the World Bank and Asian Development Bank analyse and report on Board meetings and seminars. Bank documents and papers due for discussion at Executive Board meetings are circulated amongst Departments in Canberra for comment, and the Australian Executive Directors respond to requests for information from Australia concerning Bank activities.²¹

12.13 ACFOA argued that the problem did not lie in the failure of the World Bank to supply information to either AIDAB or Treasury. The principal deficiency was the failure of either government body to comment on individual World Bank projects unless there was a public outcry about them. This resulted from the lack of expert staff. It was the opinion of Mr G Barrett, consultant with ACFOA, that this is 'another reason why they need assistance from outside' their own areas.²²

12.14 The Treasury informed the Committee that Australia had raised with the Banks the issue of NGO access to project documents but that:

the Banks wish to maintain the confidentiality of project documents. Such documents often contain confidential assessments of the strengths and weaknesses of the Bank member countries, the release of which could be embarrassing to the Banks and/or member countries, as well as possibly being seen as an infringement of sovereignty.²³

12.15 Although project documents were considered to be confidential, the Treasury indicated that both the World Bank and the Asian Development Bank had recently taken steps to improve liaison and consultation with NGOs.²⁴ Moreover, NGOs and individuals could apply directly for visitor status to the World Bank meetings secretariat and such status would usually be granted.²⁵ The Committee notes, however, that such access is not available without considerable cost to an NGO.

12.16 ACFOA claimed that it had found that when Treasury refused to hand on World Bank information it could subsequently obtain the information from the Australian Executive Director's office in Washington, or through international NGOs. The need to use alternative channels prevented Australian NGOs from having the same input into the Bank's decision making processes that northern

hemisphere NGOs have.²⁶ ACFOA believed that Treasury was more restrictive with information supplied by the World Bank than the bank itself. Mr G Barrett told the Committee:

The World Bank puts on most of its documents a thing saying: 'This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not be otherwise disclosed without World Bank authorisation'. That is put on there basically for form. If you go to Europe or North America, those sort of documents are on every academic shelf. The bank is not too fussed about what happens with those documents, so long as they are not used for purposes that are against the bank's role or function. If they are used in a proper way to assist development and to assist debate about development issues, the bank is quite happy for those documents to be distributed. It does not do it officially itself but it is quite happy for its member countries to allow access to those documents. Treasury has a much stricter view than the bank itself has and certainly a much stricter one than, for example, the US Government does, because under its freedom of information law, all those documents are available.²⁷

12.17 Mr Barrett recommended that in order to improve the flow of information from the World Bank to the Australian public the official bank documents obtained by Treasury should be placed in a public place, such as the National Library.²⁸ Mr Rollason, Executive Director of ACFOA, suggested that the documents should be available on request in order to assist NGOs make 'more informed comment' on relevant issues.²⁹

12.18 It appears to the Committee to be pointless to refuse access to documents as a matter of course if the same material is readily available from other, perhaps less convenient, sources. The Committee recommends that the Department of Foreign Affairs and Trade (DFAT) and AIDAB should develop and publish a policy on access to MDB documents which on the one hand reflects the sensitivity required in the handling of such information and on the other hand recognises the legitimate interests of organisations such as ACFOA. AIDAB and DFAT should have regard to the more liberal practices adopted by other members of the MDBs when formulating the policy.

12.19 The Committee notes that the ADB appears to adopt a more stringent attitude to access to its project documents. AIDAB indicated that it was unable to provide the Committee with details of a Nepal pulp mill project supported by the ADB because 'documents relating to this Project are confidential to the ADB and we would require clearance'.³⁰ The Committee has not received evidence that NGOs have obtained ADB documents through other sources.

12.20 In this context, the Committee recommends that Australia request the Executive Directors representing its constituency to ensure that the recent steps taken by the ADB to improve liaison and consultation with NGOs are effective and that opportunities for external organisations to have input are maximised.

12.21 The Committee further recommends that AIDAB (through the Department of Foreign Affairs and Trade) include in its annual report:

- a statement of the operation and level of use resulting from the access provided by the policy recommended above [at paragraph 12.18]; and
- an assessment of the method and effectiveness of liaison between the ADB and NGOs.

AUSTRALIAN INPUT INTO MDB DECISION-MAKING

12.22 Treasury informed the Committee that the Directors representing Australia at the World Bank and the Asian Development Bank:

have been instructed to continue to play a constructive role in the implementation of ... environmental initiatives and continued efforts to improve the environmental work of the Banks. However, the impact of such efforts is influenced by the size of our Bank constituencies, which have 3.3 per cent of votes in the World Bank and 7.3 per cent in the ADB.³¹

12.23 AIDAB advised the Committee that most decisions on project proposals are reached by consensus and the matters 'seldom, if ever, come to a formal vote in the Executive Board'.³²

To exercise effective influence however, an Executive Director needs adequate information about the environmental aspects of projects so that he can engage in detailed discussion with relevant Bank staff before proposals come before the Board.

This consensus style of decision making allows scope for co-operation between EDs [Executive Directors] who hold similar views on a particular issue. In particular it is an effective way for Australia to support environmental initiatives from the United States.³³

12.24 Dr Warford provided some interesting comments on the decision-making process of the World Bank and the role of Board members. When asked whether any projects had not been proceeded with because of an adverse environmental assessment he said:

I do not know of any dramatic examples where we have gone all the way through developing a project and said 'Sorry' at the last minute - there is no such project. In fact, the decisions are made way upstream at a very early planning stage of a project.³⁴

He indicated that the final decision about a loan is made by the Board but that:

there are key points in the decision-making process. By the time it gets to the board it is too late [for the environmental department to be influential]. In many cases by the time it gets to the Vice-President for Operations it is too late. The key points in the decision are made very, very early on ... In the event that there is a major disagreement between the environmental division and the rest of the vice-presidential unit, they have the right of appeal to the Vice-President, who basically makes the decision about whether the loan will go ahead or not.³⁵

12.25 When asked what the implications were for Australian representation, given that important decisions were made lower down than board level, Dr Warford commented that:

The role of board members varies tremendously according to the board members. Some of them are much more active than others, but they do play an important role. A letter from the executive director or a telephone call ... is something which we take very seriously, of course.³⁶

12.26 AIDAB informed the Committee that because of the limited scope for influencing project proposals, the main effort of Australian Executive Directors' Offices at the MDBs has been directed towards influencing policies. For example, efforts to increase environmental work have been supported in Board policy discussions, committees, and other meetings. Australia has also consistently raised concerns about the environmental impact of projects with senior Bank staff.³⁷ Comments that Australia's participation in the decision-making process has been inadequate and ineffective, in part because 'we have few rights and little power to direct (... given the voting structure of the World Bank)³⁸ need to be viewed in this context.

12.27 The former Australian Executive Director at the World Bank has also 'cautioned that attempts by industrial countries to impose their values on developing countries can be counterproductive and can create resistance to desirable policy change'.³⁹

12.28 The Rainforest Information Centre noted that the Australian Treasury appeared to rely on information collected by the World Bank for its assessments, with the role of the Executive Director and staff of the Australasian Sector being to vet projects with respect to economic feasibility and return. It stated:

Australia will become an adequate and effective contributor to the decision making process of the international banks and multilateral aid agencies in relation to the environmental aspects of development projects when it develops the ability to assess the environmental and cultural effects of proposed developments itself.

... [this] will occur when the knowledge, skills and advice of the 'people on the ground', the organisations and peoples within both donor and recipient countries that are concerned with these issues, is sought and used.⁴⁰

Australia's Participation

12.29 The Joint Committee on Foreign Affairs, Defence and Trade in its report of February 1989 expressed the view that continued Australian membership of the Bank was an essential aspect of the aid program. However, it warned, effective membership required greater participation and awareness of development issues in policy formulation.

12.30 The Committee recommends that the Bank's programs, as they affect the environment, be carefully monitored by Australian representatives. Effective Australian membership of the World Bank requires greater awareness of the Bank's handling of environmental issues.⁴¹ The World Bank is more a development agency than a bank and the relevant Australian Government authority to participate should be the one central to our ODA programs. Australian representatives therefore should draw on the environmental advice available from DASETT, and the Committee recommends that Australian representation on the World Bank Board and at the Asian Development Bank should pass from Treasury to Foreign Affairs and Trade. Australian nominees for Executive Directors should be AIDAB officers.

TREASURY'S ASSESSMENT OF WORLD BANK ENVIRONMENTAL PLANNING PROCEDURES

12.31 Mr Tormey of the Department of the Treasury emphasised the role of the boards of executive directors in determining the banks' policies. The boards put environmental policy in place and determine the various procedures which bank management should follow.⁴² Mr Tormey noted that recent initiatives in both banks were decided on by the boards and that:

if the banks' internal procedures are good enough projects which are bad environmentally should not reach the board level and we now have various layers of protection.⁴³

12.32 Treasury described the process of checking as being firstly the preparation of environmental impact statements by the recipient countries themselves, under guidelines laid down by their own environmental legislation and with considerable technical assistance from the bank and other international agencies like UNEP.⁴⁴ This was followed by a project analysis by the World Bank staff following 'quite comprehensive guidelines' laid down by the bank. Adherence to this process was ensured by 'watch-dog environmental units', and backup assistance supplied by the environmental department. The board then reviewed this process taking into account comments from non-government agencies and external consultants.⁴⁵ Treasury concluded:

that process should ensure projects coming to the board which are environmentally sound. If something slips thorough the net the executive directors using the project documentation, using the views of NGOs with their direct access to bank staff and with their access to backup in their own governments can make those views known, and if need be, vote against the project.⁴⁶

12.33 One of the submissions received by the Committee claimed that the Australian Executive Director at the World Bank 'has never objected to a project'.⁴⁷ Treasury contradicted this⁴⁸, pointing to examples in its submission of occasions where the Australian Executive Director of the World Bank criticised the World Bank's environment record. He is said to have described a major policy paper by the World Bank on Environment, Growth and Development as a 'somewhat smug document' which 'perhaps did not address directly enough bank mistakes in the environmental area'.⁴⁸

12.34 So far as the Asian Development Bank is concerned it is known that an Australian Executive Director asked that it be recorded in the Minutes of a Board Meeting that he did not support a Nepal pulp and paper project, the objection being on environmental grounds.⁴⁹ Treasury admitted, however, that the voting record of the Executive Director is not usually made available to the public. It is provided to member governments on the rare occasions that a formal vote is taken on an issue.⁵⁰ Whenever possible the Bank attempted to reach decisions by consensus. Treasury informed the Committee that:

Australian representatives at the World Bank have strongly supported recent efforts to improve the Bank's environmental performance ... [the former Australian Executive Director] took a prominent role in efforts to enhance the Bank's environmental work in policy discussions in the board, in relevant committees and in informal discussions with other ED's [Executive Directors] and Bank Staff.⁵¹

12.35 The 1987-88 Report of the Executive Director representing Australia's constituency at the World Bank stated that:

We have ... been supportive of the Bank's efforts to put more emphasis on environmental considerations. In short, we have accepted the prevailing view that development which leads to environmental degradation is not sustainable and, accordingly, is inconsistent with the Bank's longer-term development mandate.⁵³

12.36 It is clear that the concerns expressed in many submissions flow from a lack of publicly available information. AREA and ACFOA recommend that AIDAB prepare an annual report on the use of Australian funds by multilateral development banks.⁵⁴ According to the Working Group on the Environmental Effect of Overseas Aid, AIDAB should have staff trained in ecology and socio-cultural impact analysis to regularly assess 'all Australian multilateral aid projects' and should 'report to the Treasurer, Department of Foreign Affairs and the Australian people annually'. The report should:

highlight recommendations for issues to be raised by Australian representatives on international financial institutions and ultimately the proportion of the aid budget allocated to international financial institutions.⁵⁵

12.37 **The Department of the Arts, Sport, the Environment, Tourism and Territories recommended that it, together with AIDAB and Treasury, should 'jointly review and assess Australian participation in international aid agencies, (including multilateral development banks) with a view to determining how its contributions can be most effectively used to promote environmentally responsible development'.**⁵⁶ The Committee endorses this recommendation.

Conclusion

12.38 The Committee notes that the work of an Executive Director's office extends over the whole range of bank matters and is not limited to examining projects associated with the lending program of the bank.

12.39 The Committee believes that despite the voting structures of the MDBs, active and well-informed Executive Directors can be influential in the decision-making processes of the banks. Since important decisions are made before the board level it is important for Executive Directors to be in contact with staff in the vice-presidential units and to provide Australian input into the decision-making process at that level as well.

12.40 Australia's effectiveness in the MDBs is dependent upon the policy advice and project assessments provided to the Executive Directors representing its constituency. **The Committee has recommended [at paragraph 12.9] that Treasury, AIDAB and DASETT establish a regular and systematic process of consultation in order to produce the advice necessary for Executive Directors to effectively represent Australia's position on environment policy as it affects proposed projects.**

12.41 The Committee believes that Australian NGOs could play a significant part in assessing projects and providing feedback to Australia's representatives in the MDBs. In order to facilitate this contribution the Committee has recommended [at paragraph 12.18] that Treasury and AIDAB develop a policy to provide relevant organisations with access to appropriate MDB documents.

12.42 The Committee recognises that a large proportion of concern about Australia's effectiveness in the decision-making processes of the MDBs results from the shortage of publicly available information. Having regard to the level of Australia's commitment to these institutions the Committee is of the view that information should be made available on a regular basis.

12.43 The Committee therefore recommends that the current responsible Department, the Treasury, include in its annual report to Parliament an outline of:

- Australia's current representation on the MDBs;
- Australia's official position on major projects and any formal votes taken;
- the projects for which AIDAB, Treasury and DASETT have provided assessments;
- any MDB environment-related policy initiatives which have occurred; and
- Australia's input to such policy developments.

Following the adoption of the Committee's recommendation in paragraph 11.39, this reporting function will reside with AIDAB through the annual report of the Department of Foreign Affairs and Trade.

John Black
Chairman

December 1989

ENDNOTES

1. Institute of Foresters of Australia Submission (No. 9), p. 3.
2. AIDAB Submission (No. 1), p. 23, Transcript of Evidence, p. 656.
3. Mr R Rollason, Transcript of Evidence, p. 1207.
4. Ms W Fisher, Transcript of Evidence, pp. 806-7.
5. Mr P Tormey, Transcript of Evidence, p. 236.
6. *ibid.*, p. 239.
7. *ibid.*, p. 236.
8. *id.*
9. *ibid.*, p. 238.
10. AIDAB Review, *op.cit.*, p. 70.
11. *ibid.*, p. 71.
12. Mr P Tormey, Transcript of Evidence, p. 238.
13. Mr N Quinn, Transcript of Evidence, p. 930
14. Mr N Quinn and Mr B Odgers, Transcript of Evidence, pp. 931 and 932.
15. Mr B Odgers, Transcript of Evidence, p. 932.
16. AIDAB Submission (No. 1A), p. 6.
17. AIDAB Submission (No. 1), p. 23, Transcript of Evidence, p. 656.
18. Mr D Farrow Submission (No. 11), p. 6.
19. Working Group on the Environmental Effect of Overseas Aid Submission (No. 41), p. 9, Transcript of Evidence, p. 435.
20. Mr G Barrett, Transcript of Evidence, pp. 1204-5.
21. AIDAB Submission (No. 1), p. 24, Transcript of Evidence, p. 657.
22. Mr G Barrett, Transcript of Evidence, p. 1208.
23. Treasury Submission (No. 37), p. 13, Transcript of Evidence, p. 59.
24. *id.*
25. *id.*
26. Mr Rollason, Transcript of Evidence, p. 1206.
27. Mr G Barrett, Transcript of Evidence, p. 1205.
28. *ibid.*, p. 1209.
29. *ibid.*, p. 1210.

30. Letter from D Barber, Acting ADG, Appraisals, Evaluation and Sectoral Studies Branch, to Secretary, 9 December 1988.
31. Treasury Submission (No. 37), p. 15, Transcript of Evidence, p. 61.
32. AIDAB Submission (No. 1), p. 24, Transcript of Evidence, p. 657.
33. *ibid.*, pp. 657-58.
34. Dr J Warford, Transcript of Evidence, p. 10.
35. *ibid.*, p. 21.
36. *ibid.*, p. 39.
37. AIDAB Submission (No. 1), p. 24, Transcript of Evidence, p. 657.
38. Mr D Farrow Submission (No. 11), p. 7.
39. Treasury Submission (No. 37), p. 14, Transcript of Evidence, p. 60.
40. Rainforest Information Centre Submission (No. 20), p. 13, Transcript of Evidence, p. 950.
41. AIDAB Review, *op.cit.*, pp 74-75.
42. Mr P Tormey, Transcript of Evidence, p. 233.
43. *id.*
44. *id.*
45. *ibid.*, p. 234.
46. *id.*
47. AREA Submission (No. 28), p. 28, Transcript of Evidence, p. 367.
48. Mr P Tormey, Transcript of Evidence, p. 233.
49. Treasury Submission (No. 37), Attachment 15, p. 2, Transcript of Evidence, p. 213.
50. Treasury Submission (No. 37), Attachment 16, Transcript of Evidence, pp. 214-15.
51. Mr P Tormey, Transcript of Evidence, p. 249.
52. Treasury Submission (No. 37), p. 13, Transcript of Evidence, p. 59.
53. The World Bank Office of the Executive Director for Australia, Kiribati, Republic of Korea, New Zealand, Papua New Guinea, Solomon Islands, Vanuatu and Western Samoa, 1987-88 Report, p. 8 [Attachment 3 to letter from D Barber, Acting ADG, Appraisals, Evaluation and Sectoral Studies Branch, AIDAB, to Secretary, 9 December 1988].
54. Mr G Reynolds, Transcript of Evidence, p. 411; Mr R Rollason, Transcript of Evidence, p. 1212.

55. Working Group on the Environmental Effect of Overseas Aid Submission (No 41), p. 9, Transcript of Evidence, p. 435.
56. DASETT Submission (No. 42), Transcript of Evidence, p. 858.