evaluation

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DESK REVIEW OF DFID'S PRIVATE SECTOR INFRASTRUCTURE INVESTMENT FACILITIES: STRATEGIC ENVIRONMENTAL IMPACT ASSESSMENT

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DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

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Preface

This Strategic Environmental Impact Assessment was prepared by John Horberry and James Whittle.

Full responsibility for the text of this report rests with the authors. In common with all evaluation reports commissioned by DFID's Evaluation Department, the views contained in this report do not necessarily represent those of DFID or of the people consulted.

Executive Summary

S1 In 2006 DFID commissioned an independent evaluation of its portfolio of Private Sector Infrastructure (PSI) investment Facilities. This Strategic Environmental Impact Assessment (SEA) forms part of the second phase of this evaluation, linking in to a wider Desk Based Review (DR) designed to establish how effectively DFID's interventions in the portfolio of Facilities have contributed to achieving DFID's core objectives.

S2 This is not an SEA in the conventional sense, more an audit of environmental due diligence within the portfolio. The terms of reference (ToR) proposed piloting elements of the OECD/DAC good practice guidance for the application of SEA[1] addressing three key questions:

Q1. Do Facility procedures and management controls incorporate measures to ensure that environmental issues are addressed and resourced systematically in a way that contributes towards intended Facility outcomes and due diligence?

Q2. Are there appropriate quality control, monitoring indicators, processes and baselines and Facility governance?

Q3. How do Facility environmental measures relate to environmental priorities and systems with respect to infrastructure?

S3 The assessment methodology employed by this SEA recognises the unique characteristics of different Facilities and Facility types, identifying key distinctions between investment and non-investment Facilities and those within the PIDG family of Facilities. To this end a sample basket of Facilities – both PIDG and non-PIDG was selected (by relevance, duration and available data) for further assessment against OECD/DAC guidelines. The initial findings are as follows:

Q1. Do Facility procedures and management controls incorporate measures to ensure that environmental issues are addressed and resourced systematically in a way that contributes towards intended Facility outcomes and due diligence?

S4 Although environmental due diligence performance varies according to the type and maturity of the Facility, there is in general across the PSI portfolio, a substantial body of evidence to suggest that Facility procedures and management performance do ensure that environmental issues are addressed and resourced systematically and that World Bank or IFC policies are followed. However, this applies more stringently in the case of formal transactions compared to more upstream activities. Facilities within the PIDG portfolio, which are governed by the PIDG Trust, are subject to Trust policy and are particularly notable for the emphasis placed on minimising environmental risk at each stage of the transaction process.

[1] Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) (2006): "Applying Strategic Environmental Impact Assessment: Good Practice Guidance for Development Co-operation"

S5 Facilities which are managed or administered by the WB such as GPOBA, PPIAF and WSP are also able to provide a degree of confidence associated with the Bank's stringent internal procedures with respect to the environment and management of donor risk.

Q2. Are there appropriate quality control, monitoring indicators, processes and baselines and Facility governance?

S6 The examination of the relatively limited evidence available (to this study) demonstrates that the issue of quality control and monitoring oversight undertaken by each Facility of its activities varies considerably by Facility type and output and also by the period of time that the Facility has been established. There are also clear differences between investment and non-investment Facilities. Infrastructure investment funds such as EAIF that lead to a concrete transaction can be audited and monitored using standard environmental management procedures. Investment Facilities which work towards a firm deal can also employ best practice in project development, but thereafter have to seek innovative solution to loss of control.

S7 Facilities which support good practice, policy and technical assistance rather than a physical project do not have systematic procedures. The WB/IFC policies are often used without any explanation as to how this will actually work when formal loans or credits do not result. It has not been possible in the course of this study to adequately investigate the monitoring and oversight process in these Facilities. This requires more time and a more rigorous and detailed project level study.

Q3. How do Facility environmental measures relate to environmental priorities and systems with respect to infrastructure?

S8 All Facilities work with partner governments to ensure that projects and transactions are consistent with national priorities and policy. Although this does not necessarily relate to specific environmental policy nor environmental sustainability there is an explicit link between investment and government commitment. There is also some evidence that appropriate monitoring processes are being built into project design and, therefore, integrated into project costs.

S9 Some Facilities offer great potential to mainstream positive environmental benefits through whole sectors through appropriate technical assistance in regulatory and policy interventions.

S10 In general, despite some isolated cases, there is little to suggest that host countries or recipients are having projects or onerous and unwanted environmental due diligence processes imposed upon them.

Major Recommendations

S11 All the Facilities have robust environmental due diligence processes in place. Since these conform to international best practice, these do address environmental and reputational risk and also seek the incorporation of benefit enhancement measures at the project level. However, in many cases there is space for greater value added. For example a number of DevCo projects have included supporting cross-cutting social and environmental support measures in project formulation. If DevCo and other investment Facilities were to include statements of positive intent in their operating manuals and policy, value added services and technologies could be more systematically applied.

S12 Facilities should address strategic environmental considerations, preferably by conforming with national or sub-national environmental policy where this is appropriate. If these considerations have not been assessed or the policies not formulated, then the risks to the project outcomes of the consequent uncertainty must be gauged. In some cases, the extent of this uncertainty may be so great as to undermine the viability of the investment.

S13 All Facilities should have an explicit statement of environmental policy in their operating manuals. Two contrasting examples include SUF, which has a clear statement of positive environmental intent in its operating handbook, compared to CLIFF, a similar Facility, which has none and does not believe it necessary.

S14 Facilities should seek to address strategic, long term, national environmental policy and goals, where they are able to do so. A positive example of this is ESMAP, which is already looking at sustainable energy. The PPIAF suggestion for looking at an alternative funding window for projects looking at climate change and infrastructure is an interesting one and one that could be mainstreamed for various different issues.

S15 Although the Facilities vary in size and scope, there are certain commonalities and there would be benefit in Facility managers meeting each other to discuss best practice and share lessons learned.

S16 Sub-contracting the environmental due diligence process to a third party provides objective oversight within a set budget. A set policy for commercial Facilities such as EAIF removes all potential for conflict of interest. This may also be relevant to WB housed Facilities such as WSP and ESMAP in which, although lying within the Bank, safeguards do not apply in practice to activities which are not WB transactions; for example loans and credits.

S17 Policy, technical assistance and regulatory Facilities offer donors a significant opportunity to engage with host country governments for the undertaking of strategic environmental reviews in relation to key sectors. Further investigation could be undertaken to understand the space in which these Facilities operate and the potential that they have in this area. This is especially relevant for Facilities such as PPIAF or TAF.

Abbreviations

AsPIFF	Asian Private Infrastructure Financing Facility
AusAid	Australian Aid Agency
CA	Cities Alliance
CAS	Consultancy and Advisory Services (IFC Department)
CBO	Community Based Organisation
CDM	Clean Development Mechanism
CIC	Corporate Investment Committee
CLIFF	Community-Led Infrastructure Finance Facility
DAC	Development Assistance Committee of the OECD
DGIS	Directorate General for International Co-operation of the Dutch Ministry of Foreign Affairs
DevCo	Infrastructure Development Collaboration Partnership
DFID	UK Department for International Development
EAA	Emerging Africa Advisory
EAIF	Emerging Africa Infrastructure Fund
EIA	Environmental Impact Assessment
ESMAP	Energy Sector Management Assistance Programme
ESSD	Environmental and Socially Sustainable Development Network
ESSN	Environmental Screening Summary Note
FMO	Netherlands Development Finance Company
GFDD	DFID Global Funds and Development Finance Institutions Department
GPOBA	Global Partnership for Output-Based Aid
HI	Homeless International
IFC	International Finance Corporation
MDGs	Millennium Development Goals
M & E	Monitoring and Evaluation
MOU	Memorandum of Understanding
NGO	Non-Government Organisation
OBA	Output-Based Aid
OECD	Organisation for Economic Co-operation and Development
PIDG	Private Infrastructure Development Group
PMU	Programme Management Unit
PPI	Private Participation in Infrastructure
PPIAF	Public Private Infrastructure Advisory Facility
PRISM	DFID project information and monitoring system
PSI	Private Sector Infrastructure Department (within DFID)
SEA	Strategic Environmental Assessment
SIFMA	EAIF Fund Manager
Sida	Swedish International Development Co-operation Agency
SUF	Slum Upgrading Facility

TA	Technical Assistance
TAF	Technical Assistance Facility
TAP	Technical Advisory Panel
TI-UP	Technical Infrastructure and Urban Planning
TOR	Terms of Reference
WB	World Bank
WSP	Water and Sanitation Program
WSUP	Water and Sanitation for the Urban Poor
WWF	World Water Forum

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1. BACKGROUND AND INTRODUCTION

1.1 In 2006 DFID commissioned an independent evaluation of its portfolio of Private Sector Infrastructure (PSI) investment Facilities.

1.2 As part of the Phase 2 desk based Facility evaluation, terms of reference (ToR) were included for a freestanding Strategic Environmental Assessment (SEA) to review existing Facility systems for managing, monitoring and addressing environmental issues in delivery of Facility objectives, including how these relate to countries own systems and identifying elements of good practice which could be replicated or scaled up and improvements made where needed.

2. METHODOLOGY AND ASSUMPTIONS

2.1 The ToR propose that a focused SEA piloting key DAC guidance questions is undertaken noting three key questions:

Q1. Do Facility procedures and management controls incorporate measures to ensure that environmental issues are addressed and resourced systematically in a way that contributes towards intended Facility outcomes and due diligence?

Q2. Are there appropriate quality control, monitoring indicators, processes and baselines and Facility governance?

Q3. How do Facility environmental measures relate to environmental priorities and systems with respect to infrastructure?

2.2 The limitations of comprehensively addressing these questions in a time limited desk study must be recognised, as must the unique characteristics of each Facility. For example, a differentiation must be made between investment and non-investment Facilities and, to some extent, between PIDG and non-PIDG Facilities. Investment Facilities such as EAIF and project development Facilities including InfraCo and DevCo have or lead to, projects and processes whose environmental due diligence can be audited against international best practice. Non project based Facilities such as PPIAF and GPOBA which focus on intangibles such as regulation and capacity building do not necessarily have an evidence base that can be drawn on for meaningful conclusion. This has major implications for Q2, which, in some cases is beyond the scope of this study. To fully understand this process will require both more time and a greater degree of Facility engagement.

2.3 It should also be noted that Facilities that fall under the umbrella of PIDG are not only governed by their own policy and mandate, but also by those of the PIDG Trust which provides high level supervision and due-diligence.

2.4 To this end a sample basket of Facilities – both PIDG and non-PIDG have been selected for further assessment against OECD/DAC guidelines. A list of these Facilities is displayed in Table 1. These Facilities were selected for relevance, duration and available data.

Table 1. Facilities Selected for Detailed Audit

PIDG	Non-PIDG
• Emerging Africa Infrastructure Fund (EAIF) • Infrastructure Development Company (InfraCo) • Infrastructure Development Collaboration Partnership Fund (DevCo Advisory) • Global Partnership for Output Based Aid (GPOBA)	• The Public-Private Infrastructure Advisory Facility (PPIAF) • Community –Led Infrastructure Finance Facility (CLIFF) • Water and Sanitation Programme (WSP)

2.5 As part of Phase 1 of the PSI evaluation, the available evidence base for undertaking an SEA was reviewed and an initial analysis undertaken with respect to the inclusion and integration of Environment in Facility design, set-up and management and outcomes. Although the evidence base was limited, available documentation has been revisited to ensure completeness and to provide the basis for other aspects of this assessment.

2.6 Each of the selected Facilities was then contacted by email, with a follow up telephone conversation where necessary and appropriate. Sources of data and information have been cross referenced against each Facility examined.

2.7 The following sections provide a Facility by Facility analysis, followed by some more general conclusions.

3. PIDG FACILITIES

PIDG – An Introduction and Overview

3.1 The PIDG is a multi-donor organisation, created in 2002, to facilitate PSI in infrastructure in developing countries, with the objective of promoting poverty reduction through growth.

3.2 The PIDG encompasses four Facilities and two associate programmes, each designed with some degree of synergy with the others. While each has a distinct and individual role, there is a body of evidence to demonstrate how two or more Facilities can work together to deliver a comprehensive package (TAF, GuarantCo, DevCo and GPOBA in particular[2]).

3.3 PIDG is not a legal vehicle and has established the PIDG trust (based in Mauritius) to own and manage the programmes it operates. PIDG overall guiding policy is set out in its constitution and in a set of Trust policies and these provide the overarching credo for each Facility.

3.4 PIDG policies include a stated commitment to the environment. The basic constitution clearly sets out its commitment to "accepted principles of ethics, social responsibility and environmental concern…", while Schedule 2 of the trust policies states explicitly the responsibilities of the PIDG trustees. These are to:

- Seek to ensure that the environmental effects of their investments are assessed and monitored in the planning, implementation and operational stages;
- Require all projects in which they invest to be designed and operated using internationally accepted environmental good practice;
- Take account of all relevant international environmental agreements, including the 1992 Framework convention on climate change and the 1997 protocol to that convention, the convention on biological diversity and the convention on desertification;
- Not knowingly support projects or businesses which contravene any relevant international environmental agreement to which either the host country or any Government which funds or supports the PIDG trust or EAIF is a signatory; and
- Assess the environmental standards and practices proposed for planned projects and achieved by operational projects with reference to the relevant WB standards for the activity concerned or local regulation if they are more stringent.

3.5 The Facilities that fall under the PIDG umbrella are all subject to these policies and all make reference in their core documentation to following World Bank/IFC guidance though it should be noted that most documentation is vague about what this actually means in practice.

3.6 It should also be noted that under PIDG Trust policy, an identified protector and enforcer is declared to uphold standards. DFID is the nominated enforcer of the PIDG portfolio of Facilities.

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[2] See for example the role of TAF with InfraCo and GuarantCo on the Kalangala Infrastructure Services Project

3.7 Each of the PIDG Facilities have been reviewed against the key requirements of the ToR, with a number analysed in greater detail.

Emerging Africa Infrastructure Fund (EAIF)

Table 2. EAIF - Overview

<table>
<tr><td colspan="2">Facility
Emerging Africa Infrastructure Fund (EAIF)</td></tr>
<tr><td colspan="2">Facility Objective and Mandate
Provide long-term loans (on commercial terms) to pro-poor private sector funded service projects in Sub-Saharan Africa across range of sectors including telecoms, transport, water and power.</td></tr>
<tr><td>Intended Facility Outcomes
Improvement in infrastructure services in Sub-Saharan Africa leading to economic growth and increased access for the poor. Precise outcomes depend on investment.</td><td>Project History
Formally launched in January 2002
12 major deals to date including major cellular network expansion; power plant and industrial infrastructure.</td></tr>
<tr><td colspan="2">Environmental Procedures: Subject to PIDG Trust policies: EAIF has a sound environmental policy contract with the Netherlands Development Financing Company (FMO) to undertake environmental due diligence.</td></tr>
<tr><td colspan="2">Key Documentation Reviewed:
EAIF ESSN, EAIF progress reports 4,5 and 6; PIDG annual report 2005-2006, EAIF annual review, A review of the Emerging Africa Infrastructure Fund (EAIF) (2004); EAIF MOU.
Interviews with: Nick Rouse</td></tr>
</table>

Procedures and Management Controls

3.8 EAIF management is undertaken by Standard Infrastructure Fund Managers Africa Limited (SIFMA); part of this management responsibility is subcontracted to Emerging Africa Advisors (EAA), comprising five professionals and based in London.

3.9 EAIF subcontracts its environmental and socio-economic due diligence to FMO (Netherlands Development Finance Company) who actively follow the Equator Principles (based on IFC environmental and social performance standards) and subscribe to the principles of good corporate governance.

3.10 The overall process is clear. The FMO are contracted to undertake environmental due-diligence for each investment (an audit of the reputational risk of the borrower is undertaken by EAIF) before the loan is approved and ensuring that a pre-project environmental impact assessment and management plan have been produced in accordance with IFC performance standards and that relevant environmental certification has been approved by the host government. FMO will also supervise and enforce project monitoring by the FMO during the course of the loan.

3.11 An environmental specialist within FMO manages the whole process. The specialist is responsible for auditing environmental aspects of an application and ensuring that the Environmental Impact Assessment and relevant environmental measures are in order. If there are doubts or concerns, the specialist will engage international consultants to undertake a review and make recommendations as appropriate.

3.12 Discussions with both FMO and EAIF have revealed a slight tension in this sub-contract relationship of environmental process. For FMO, this tension lies in the role that the Dutch

Ministry of Foreign Affairs (DGIS) plays as a PIDG partner – in particular through funds that DGIS have allocated to cover the due-diligence process. Although this relationship is relatively distant, it is enough to create a level of discomfort and although there is no evidence to suggest conflict of interest, the possibility does exist for financiers to bring pressure to bear on the environmentalist. EAIF have suggested that in the future this environmental oversight could go out to a third party.

Monitoring and Governance Oversight

3.13 The FMO environmental specialist reports directly to the EIAF on environmental aspects which feed into the standard PIDG monitoring and evaluation (M&E) form. Although the form currently has no explicit environmental check, Facility managers are "environmentally aware" and environmental considerations can be recorded in free text on this form. A current project for a palm oil mill in Uganda provides a good example. The M&E form observes that although the loan has in principle approval from the credit committee, it is currently on-hold until outstanding environmental and social issues are resolved.

Project Level Implementation

3.14 All projects when applying for funds must demonstrate to EAIF that the project is consistent with and supports national development priorities. Although environmental priorities are not explicitly mentioned, interviews with EAIF suggest that these are taken into consideration. A review of project documentation and M&E forms highlights the example of the Kibuye Renewable Energy Project in Rwanda; following EAIF's initial identification of the opportunity, EAIF has been appointed as a joint arranger with the IFC for the debt financing of an investment in a renewable energy project under development in Kibuye. Initial project screening demonstrated that this renewable energy project would also lead to a substitution of imported oil by locally generated, sustainable power, also making the country eligible for carbon credits from the World Bank, consistent with national environmental and energy policy. In addition, it was noted that taking gas out of the lake would alter the stability of the lake, leading to potential environmental hazard; a detailed research project supported by a grant from TAF was commissioned to ensure that the release and any impacts resulting from the project will be measured and monitored appropriately.

3.15 This has fed directly into the EIA and the EMP, both of which are being undertaken to meet World Bank safeguard policies.

3.16 The FMO have made it clear that the environmental process on this project and all EAIF projects must meet WB safeguard policies. If a recipient fails to do so, EAIF reserve the right to simply withdraw funds.

Infrastructure Development Company (InfraCo)

Table 3. InfraCo - Overview

<table>
<tr><td colspan="2">Facility
InfraCo</td></tr>
<tr><td colspan="2">Facility Objective and Mandate
Reintroduce entrepreneurial approach by finding infrastructure projects in developing countries and repackaging them as investments attractive to private sector investment</td></tr>
<tr><td>Intended Facility Outcome
Conditions in which providers of finance for infrastructure in developing countries can increase their commitments. Actual outcomes depend on type of investment – non transaction outcomes yet realised</td><td>Project History
Wide range of investment projects covering energy, agribusiness, housing and water and sanitation, predominately in Africa have been developed but no projects sold.</td></tr>
<tr><td colspan="2">Environmental Procedures: PIDG umbrella policy requires enforcement of WB environmental safe guard policies. Environmental assessment and due diligence undertaken on case by case basis using third party consultant. Down stream monitoring potentially built into sale.</td></tr>
<tr><td colspan="2">Key Documentation Reviewed: InfraCo ESSN; InfraCo 2006 Annual Report; Project M&E Forms; PIDG annual report; InfraCo Pilot Programme Project Submission; InfraCo Operational Policies and Guidelines
Interviews with: Ebbe Hamilton</td></tr>
</table>

Procedures and Management Controls

3.17 The nature of InfraCo as an investment facilitator creates a slightly unconventional framework for the application of environmental risk and due-diligence processes. In its role as developer, InfraCo must do everything necessary to achieve the closing of a contract with an investor who will implement the project. This includes undertaking environmental assessment and the attainment of relevant government certification and approvals. This assessment is undertaken in line with IFC policy.

3.18 Section 2.4 of the Facility Operational Policies and Guidelines entitled "Community and Environmental Impact" require that:

"the company will include in its due diligence for each opportunity and analysis of the social and ecological impacts on the environment. In particular the Company will follow, as a minimum, the environmental and social due-diligence procedures applied by FMO…..InfraCo shall seek to ensure that post sale the private sector party that controls the project continues to comply with environmental and social standards no less stringent than those to which InfraCo itself was subject"

3.19 Although no projects have yet been sold, in the development of all projects third party consultants are employed to undertake an audit in compliance with these standards. Due diligence procedures also exist for the audit of potential project buyers; under the integrated management system internal guidelines, InfraCo have to conduct a background check with all counter-parties with whom it is entering into material contracts (other than governments, para-statals, etc). A sales contract for a project would be such a material contract. Those background checks look to broad reputational issues which include environmental credentials and any blacklisting.

Monitoring and Governance Oversight

3.20 Concern has been raised that Facilities such as InfraCo, due to the nature of their deals, can lose control and influence once the project is sold. This includes the ability to manage environmental risks and benefits. However, InfraCo appear to have a number of mechanisms at their disposal to exert some control, including the careful application of environmental clauses in contracts.

3.21 In addition to contract clauses, InfraCo can retain minority equity interests in projects and with it the right to appoint a director (although it may chose not to). InfraCo consider this to be most effective mechanism as it puts it in a position to monitor compliance with environmental covenants at the operating level of the Project. In cases where such an equity interest is not retained or where there is no board representation, InfraCo would rely on the monitoring that project lenders would undertake as part of the financing of the project. It should be noted that due to the large size of projects coming through InfraCo, even the smallest infrastructure projects require third party debt financing with some multilateral/bilateral involvement which ensures that strict environmental compliance is in place.

3.22 InfraCo is also able to draw upon the resources of other Facilities to form a total package that can mitigate some environmental risk. For example: In Uganda, the Kalangala Infrastructure Services Project is on the verge on fruition. InfraCo is developing a single large commercial project that will eventually be sold to the private sector; the project is made up of four distinct infrastructure components – a ferry refurbishment, water supply, electricity supply and local road improvements. International consultants have been engaged to undertake extensive public consultation works and to undertake an EIA that will satisfy national requirements as well as applicable WB safeguard policies. A number of local contractors will assume responsibility for a complex project that they have no previous experience of implementing or managing. Recognising the risk, TAF is being employed to provide TA to the contractors, both on construction methods and environmental monitoring.

Implementation

3.23 Although no projects have yet been sold, InfraCo have made it clear that the terms of a deal must include appropriate provision for the management of environmental aspects to meet WB safeguard policies.

3.24 While InfraCo is clear in its responsibility to ensure appropriate project level due-diligence, there is no evidence to suggest that the environment is being considered at a more strategic level. The size and scale of possible InfraCo investments suggests a missed opportunity; there is clear scope to consider strategic environmental issues in its own policy statements down through to the type of projects it seeks to fund.

3.25 That said, InfraCo are currently involved in a clean energy project in Cape Verde with the development of wind farm projects on the islands of Boa Vista, Sao Vicente, Sal and Santiago. Although encouraging, there is no evidence to suggest that this is part of a more strategic decision-making process.

3.26 It does however offer a model for future InfraCo project engagement and suggests that the issue of climate change could be a key strategic area in which InfraCo could actively engage.

Infrastructure Development Collaboration Partnership Fund (DevCo Advisory)

Table 4. Infrastructure Development Collaboration Partnership Fund (DevCo Advisory) - Overview

<table>
<tr><td>Facility
DevCo</td><td></td></tr>
<tr><td colspan="2">Facility Objectives and Mandate
DevCo aims to support the development and implementation of transactions which bring the private sector into the provision of infrastructure services by funding: technical assistance from specialized consultants to perform due diligence; provide inputs to the development of strategic options and policy choices regarding the structuring of transactions for client governments, and assist in the implementation of transactions.</td></tr>
<tr><td>Intended Facility Outcome
Outcomes depend on type of project pursued; however in broad terms outcomes include:
Mobilisation of private capital in infrastructure services and investments;
Incremental gov't income (concessions, fees etc);
Reduction of gov't subsidies and costs (savings);
Improved quality and/or reduced cost in infrastructure services.</td><td>Project History
By December 2006, DevCo had supported seven successfully completed advisory transactions which are expected to result in approximately US$1.8bn in private sector investment. In addition to these projects, DevCo is currently providing ongoing advisory support to a further eleven projects.</td></tr>
<tr><td colspan="2">Environmental Procedures: Housed within the IFC, DevCo strictly follows IFC environmental and social performance standards. However, little control once mandate is complete.</td></tr>
<tr><td colspan="2">Key Documentation Reviewed: ESSN, DevCo Log-Frame; DevCo Advisory Operating Principles; DFID PM, DevCo Feasibility study; DevCo application form; DevCo 2005 Mid-term review
Interviews with: Bernard Sheahan</td></tr>
</table>

Procedures and Management Control

3.27 IFC's Consultancy and Advisory Services department (CAS) in its role as executing agency provides a CAS Programme Manager whose role is to manage and advise on project identification and eligibility requirements and support project development. The programme manager reports to donors through the PIDG programme management unit.

3.28 Housed within IFC CAS, projects and mandates developed by DevCo are subject to IFC environmental and social performance standards. DevCo also has an explicit commitment to environmental due diligence which is stated in its operating principles; this supports DevCo's stated high level goal of contributing towards the attainment of MDG7.

3.29 In project and mandate development all internal processes must be consistent with IFC policy. The initial DevCo transaction application form includes a check box for environmental expertise required which then feeds into mandate design. Before any agreement is made, the application goes to the Corporate Investment Committee (CIC) environmental department for review and comment.

3.30 After agreement and engagement, a judgement is made on a case-by-case basis as to the level of resource, including environmental, that is required. The development of ToRs and the selection of consultants is a collaborative effort between CAS and the client – again subject to IFC environmental and social performance standards and review by CAS technical experts.

3.31 It is understood that in structuring the deal, IFC guidelines are automatically employed and appropriate clauses inserted into concession documents. There is some evidence of this. The

Moatize Coal Concession in the Zambezi Valley, Mozambique included in its bid design a CAS requirement that bidders had to include a minimum US 2milllion investment in community development in the community of Moatize to be invested over the two year exploration period. In another example, the structure and design of the Kenya – Uganda railway concession included a linked WB funded resettlement action plan for Kibera slum dwellers and the introduction of HIV/AIDS awareness programmes and policies by another IFC department.

3.32 However, the insertion of clauses is where it ends. At financial close DevCo and CAS effectively surrender control. As the May 2005 mid-term report observes, it is then when each of the parties have to perform under their respective agreements and when the transactions can become very fragile. The government continues to have to make numerous judgments and decisions with respect to its relationship with the concessionaire that could impact on the sustainability of the transaction. TAF could have some role here as it has done with InfraCo – the challenge is to consider how to design and coordinate support for this transition period post mandate and to ensure the implementation of the environmental due-diligence process.

Monitoring and Governance Oversight

3.33 IFC are currently developing an organisation-wide monitoring and evaluation framework that includes routine procedures for making available to stakeholders lessons learned. DevCo will tap in to this framework. However, as noted above, there is very little at this stage that can be done to ensure environmental sustainability, despite its high end goal.

Implementation

3.34 Although there is high level policy within DevCo to address strategic environmental issues, there is evidence to suggest that at the transaction level, DevCo are using projects as an entry point to provide value-added services. The examples reviewed as part of this study do not necessarily pertain to the natural environment, but to cross cutting social environmental issues. Both the Moatize Coal Concession Project and the Kenya-Uganda railway project have included social development interventions – a community development programme and HIV/AIDS awareness programme respectively.

3.35 Without a comprehensive review of project documentation it is unclear whether these interventions are a wider response to national priorities or simply a response to local need and context. The point is that there is potential for value added services like this to become mainstream policy statements in DevCo and other investment Facilities. If the project is developed in conjunction with a host government, these types of interventions provide the donor with the leverage to address strategic environmental issues while delivering a bankable transaction.

Global Partnership for Output Based Aid (GPOBA)

Table 5. Global Partnership for Output Based Aid (GPOBA) - Overview

<table>
<tr><td colspan="2">Facility
GPOBA</td></tr>
<tr><td colspan="2">Facility Objectives and Mandate
Run and housed in the World Bank, GPOBA is designed to pilot OBA approaches, learn lessons and disseminate best practice. Managed by a small PMU based in the Sustainability network in Washington. Three main aspects: 1. Technical assistance to design projects (window 1) 2. Disseminate lessons learnt in output based aid (win 2) 3. Provides subsidies to pilot its own OBA (win 3)</td></tr>
<tr><td>Intended Facility Outcomes
Improved access and improved service delivery to the poor.</td><td>Project History
55 projects and contributing finance from the IFC, DGIS, AusAid and SIDA.</td></tr>
<tr><td colspan="2">Environmental Procedures: All GPOBA projects must comply with World Bank environmental and social safeguard policies.</td></tr>
<tr><td colspan="2">Key Documentation Reviewed:
GPOBA 2007 Independent Review, ESSN, GPOBA Concept Note, GPOBA Application for Support, GPOBA Operating Principles and Annexes; GPOBA CF PM; GPOBA revised log-frame.

Interviews with: Yogita Mumssen</td></tr>
</table>

Procedures and Management Control

3.36 Established by DFID, The Global Partnership for Output-Based Aid (GPOBA) is administered by the World Bank (WB) through the GPOBA Programme Management Office (PMO).

3.37 The GPOBA is strictly governed by standard WB reporting and procedures including the application of WB environmental and social safeguard policies on both Window 1 (TA) and 2 (Lessons Learnt) and Window 3 (Subsidies) projects. These principles are set out clearly in the GPOBA operating principles.

3.38 These principles filter down to project documentation and project screening and are clearly evident in the GPOBA application form which must be completed for all proposal requests for GPOBA assistance.

3.39 Interviews with GPOBA staff demonstrate this commitment to the enforcement of Bank policy. In addition to this screening process, applications for Window 3 funding are subject to additional due-diligence which is undertaken by GPOBA.

3.40 With over 55 projects implemented there is a substantial body of available evidence to indicate that WB environmental safeguards are being followed. The 2007 GPOBA review cites the example of the Naandi Water Project in Andhra Pradesh, India. As part of the project preparation for this innovative water supply project, environmental and social studies were undertaken by WB to WB standards. The environmental studies are undertaken by the borrower and then reviewed by WB environmental and social specialists.

Monitoring and Governance Oversight

3.41 As all projects are subject to WB safeguard policies environmental and social compliance studies form part of the on-going monitoring process. Each grant is the responsibility of a WB task manager. If it is a non Bank project this will be GPOBA staff (who are also WB staff). The task manager must ensure that the usual Bank policies of follow-up, including supervision missions are incorporated in mid-term reviews and implementation completion reports.

Implementation

3.42 In addition to making explicit reference to the environmental assessment, the GPOBA application form also requires a demonstrated commitment to, and consistency with, host government policies, including details of a named government sponsor.

3.43 Social and environmental compliance measures are an integral part of the project and are therefore included in upfront project costs. However, there has been some criticism that, by introducing such stringent safeguards and processes using WB staff, the overall process of application and approval is simply taking too long. The process of application to approval on the Naandi Water Project took over a year, prompting the recipient to comment that the use of WB technical staff had delayed the process.

3.44 In addition the recipient also suggested that 1) certain requirements needed for much bigger projects might be dispensed with for smaller projects, such as detailed environment & social compliance reports and 2) the conditions to be met for approval should be graded for different types of projects, depending on size and nature, and not be applied universally.

3.45 Window 2 funding, which is designed to disseminate best practice lessons, offers clear potential for GPOBA to explicitly address the positive environmental impacts of its work. The nature of much OBA work is an implicitly positive impact on the environment and an upfront policy statement of intent could mainstream environment its future work.

Other PIDG Funds

Technical Assistance Facility (TAF)

3.46 TAF supports PIDG initiatives via a technical assistance challenge fund with a spend of around US $3million per year that targets the development side of transactions and builds private sector capacity outside of the deal. TAF simply provides grants to the other PIDG Facilities to enable them to undertake TAF funded inputs. All these Facilities in turn are required to apply World Bank Social and Environmental safeguard policies in appraising projects in which they invest. This project level due diligence is out-sourced by the relevant PIDG Facility to specialist social and environmental consultants.

3.47 In addition to the necessary due diligence mentioned above, at the time of evaluating a proposal for TAF funding, the TAF Technical Advisor also plays a key role in terms of advising the relevant PIDG Facility manager on potential developmental aspects (including environment) that could be built into the project design.

3.48 To date, there is no specialist expertise within the PMU to follow up on these developmental aspects of projects and they have relied on the Facilities themselves to do this. However, TAF has recently appointed a Development Adviser who is now starting to work with all the Facilities from the time of project inception to help maximise developmental benefits across the board. The Development Adviser will also in future take a lead on completing annual reports on progress in meeting these benefits.

3.49 The key role TAF can play in resolving environmental issues on projects funded by other Facilities should be noted. In some cases there is evidence that for InfraCo and DevCo, environmental issues have been a major concern and possible deal breaker. Drawing on TAF has enabled innovative solutions to environmental issues.

3.50 InfraCo are currently in the final stages of project preparation for the Kalangala Infrastructure Services Project. The project implementation will be undertaken by local contractors with limited experience and skill of handling such large-scale works and of implementing environmental safeguards. TAF will provide grant aid for training and capacity building in environmental aspects of project delivery.

GuarantCo

3.51 GuarantCo is a local currency guarantee vehicle designed to mitigate credit risks for local currency financing of infrastructure by local institutional lenders. The dual objectives of GuarantCo are to encourage domestic financing of efficient infrastructure services and to promote the development of local capital markets – both of which are conducive to PIDG's ultimate goal of reducing poverty through economic growth.

3.52 GuarantCo contract FMO to carry out social and environmental due-diligence on every proposed transaction in accordance with IFC Performance Standards and the Equator Principles – as with the EAIF.

3.53 GurantCo transactions are unlikely to have environmental risks and the Project Memorandum commits to compliance

Asian Private Sector Infrastructure Financing Facility (AsPIFF)

3.54 AsPIFF is a new Facility, the latest to join the PIDG family of Facilities. AsPIFF will be a privately operated, developer of and investor in smaller scale (£2.7m - £41m) new infrastructure projects in the poorer regions of South and Southeast Asia.

3.55 The AsPIFF PM does state that its operational policies and guidelines will require a thorough assessment and monitoring of the environmental impacts for all project activities (through an EIA). It is understood that this will follow environmental best practice as set out in the Equator Principles and, taking this one step further, commits to evolving best practice with on climate change and mitigation.

3.56 Investment in infrastructure will have some direct environmental impact, however, AsPIFF also commits to support Clean Development Mechanism projects, a first among Facilities in the portfolio.

3.57 Actual AsPIFF policies and procedures have not yet been reviewed as part of this study, however, DFID observe in the supporting environmental screening note for AsPIFF that "AsPIFF's investment policies and procedures will set out strict guidelines to follow in relation to environmental impact and sustainability. It will be the responsibility of the AsPIFF Board to ensure that the AsPIFF team follow these guidelines throughout their activities."

3.58 It is not yet clear how or who will undertake project level environmental assessment and monitoring; however, AsPIFF does represent an excellent opportunity to implement lessons learnt elsewhere.

Non-PIDG Facilities

The Public-Private Infrastructure Advisory Facility (PPIAF)

Table 6. The Public-Private Infrastructure Advisory Facility (PPIAF) - Overview

<table>
<tr><td colspan="2">Facility
PPIAF</td></tr>
<tr><td colspan="2">Facility Objective and Mandate
Multi-donor Facility that provides TA to governments to improve the enabling environment for private sector investment. PPIAF mandate covers each of the main stages of the PPI process including defining Infrastructure Development Strategies; policy advice, drafting laws, designing and strengthening regulatory institutions, consensus building, capacity building, transaction structuring and best practice guidance. Managed by WB on behalf of participating donors</td></tr>
<tr><td>Intended Outcomes
PPI policies improved
Institutions created
Transactions Closed
Officials trained</td><td>Project History
Over 400 activities approved valued at over $93m.</td></tr>
<tr><td colspan="2">Environmental Procedures: PPIAF Mission and Charter commit to Environmental and Social Responsibility; follow WB environmental and social safeguards which are implemented at the transaction level if appropriate.</td></tr>
<tr><td colspan="2">Key Documentation Reviewed: PPIAF Programme Charter; ESSN, PPIAF financing application form; PPIAF 2006 Annual Review; PPIAF Terms of Reference; PPIAF PM; PPIAF

Interviews with: Jyoti Shukla</td></tr>
</table>

Procedures and Management Control

3.59 The PPIAF mission and charter provide a clear and coherent functional focus and an explicit emphasis on the environment. The PPIAF Mission which alongside poverty reduction also includes a commitment to sustainable development and provides the context for PPIAFs charter which states:

"Where a project to be supported by PPIAF is anticipated to have significant potential adverse environmental or social consequences, appropriate measures must be adopted to ensure an objective and transparent assessment of the same. When required, PPIAF can finance such assessments"

3.60 This statement is an integral part of PPIAF's evaluation and approval procedures and is reproduced on the PPIAF application form.

3.61 As a WB managed Facility, each PPIAF project is managed by a WB Task Manager who also takes responsibility for ensuring WB environmental and social safeguard policies are implemented as appropriate.

3.62 In addition, all in-country activities must be approved in writing by the host government as part of a mechanism to ensure that infrastructure is not imposed, but is consistent with national development plans. As the requests for funding come from line ministries, there is an assumption within PPIAF that these are in compliance with internal government policy. This is not subject to any verification.

3.63 The majority of PPIAF funding does not, however, fund physical projects. In 2005 over 60% of PPIAF funds went into infrastructure development strategies or into policy and institutional reform. An additional 20% involved capacity building and training. Despites its commitment to environmental good practice, virtually none of this upstream work directly supports investments and is, therefore, not covered by World Bank environmental safeguard policies.

Monitoring and Governance Oversight

3.64 The Technical Advisory Panel, under the PPIAF charter, carries out an independent evaluation each year of the prior year's activities and presents its findings to the programme council. The panel reviews a sample of project activities and provide guidance for the future direction of work. There is no evidence to suggest that the TAP monitor specific environmental indicators or criteria.

3.65 The task of supervising monitoring activities and for providing governance oversight falls to the WB task manager who takes responsibility for ensuring WB procedures are adopted.

3.66 The PPIAF policy statement on the environment is, however, notable for its focus on adverse environmental and social conditions. Much of the upstream work that makes up the PPIAF portfolio deals implicitly with environmental benefit. This is particularly the case in the tool kit type approach taken to the dissemination of best practice. There is, however, no formal policy for mainstreaming environmental benefit in its policy approaches and no-one taking responsibility for this aspect of work.

Implementation

3.67 PPIAF has possibly the broadest mandate of any of the Facilities under review. It extends from "upstream" assistance in designing infrastructure development strategies to "midstream" policy and institutional reforms to "downstream" support for pioneering transactions as well as assistance in overarching consensus and capacity building. In these types of deals and transactions, the challenge is how to integrate environmental considerations into the privatisation of infrastructure.

3.68 The integration of strategic environmental issues into front end PPIAF policy is something the Facility is currently examining. One current suggestion is to look at a possible non-core window within PPIAF to promote public-private partnerships specifically focused on the interface of climate change and infrastructure.

3.69 At the transaction level, although much of PPIAF's work is upstream, the potential does exist for PPIAF to mainstream environmental issues into all its work, from top-down strategic issues to the dissemination of local lessons learnt.

3.70 The Water and Sanitation Toolkit, "Approaches to Private Sector Participation in Water Services" provides an example of how both could come together to contribute towards the wider PPIAF mandate.

Community –Led Infrastructure Finance Facility (CLIFF)

Table 7. Community–Led Infrastructure Finance Facility (CLIFF) - Overview

Facility CLIFF	
Facility Objective and Mandate CLIFF is a Facility that has been designed to provide loan finance for slum development projects that are implemented by the urban poor, and which have the potential to influence policy and practice that in turn can lead to a scaling-up in the provision of suitable housing and related infrastructure for the urban poor.	
Intended Outcomes To empower local CBO/NGOs to deliver technical and financial services; To enhance and expand local technical assistance expertise for future sustainability; To provide a mechanism for 'public sector funding to complement commercial funding to achieve pro-poor infrastructure/housing investment.	**Project History** £5.6 million has been lent to a total of 18 projects in India and Kenya Loan guarantees have secured £4.3 million in bank loans CLIFF has helped projects access a further £3 million in government subsidies and contract payments. Housing projects are expected to benefit 5,332 families while sanitation projects will benefit more than 254,000 families.
Environmental Procedures:. Unclear if there is any systematic process.	
Key Documentation Reviewed: ESSN; Cliff 2006 Evaluation; CLIFF PM; CLIFF concept note; CLIFF 2006 India Monitoring Report; CLIFF M&E Framework; **Interviews with: Ian Morris**	

Procedures and Management Controls

3.71 CLIFF is co-ordinated internationally by Homeless International (HI) and is currently implemented at the local level by two indigenous CBO-NGO alliances – the Indian Alliance and the Kenyan Alliance. A consultative group within the Cities Alliance is responsible for overseeing CLIFF with Facility monitoring undertaken by the Cities Alliance Secretariat (CAS), which functions as the supervisor of the CLIFF grant to Homeless International. The CAS also provides secretariat support to the Board and has primary responsibility for reporting to the Cities Alliance Consultative Group.

3.72 Although DFID documentation including the ESN and PM suggest that environmental assessment or review of individual projects should be required to ensure environmental opportunities are realised and negatives impacts avoided there is no evidence to suggest that the environment is an explicit consideration in project development or implementation. There is no stated due diligence policy or environmental safeguard procedure in place, a fact confirmed by the most recent 2006 CLIFF evaluation. In addition there is no-one within either CLIFF or HI looking at environmental issues.

3.73 CLIFF is somewhat different to the large infrastructure investment funds and the feeling within the HI management team is that scaling up urban slum upgrading demonstration projects should be considered as one continuous environmental benefit, even if there is no mechanism for mainstreaming these benefits.

Monitoring and Governance Oversight

3.74 Overall project monitoring is overseen by the CLIFF Advisory Group which includes the World Bank, DFID, the Cities Alliance Secretariat and the management agent - Homeless International. The Advisory Group deal mainly by electronic communications and meet at key stages to review experience and to consider future development. The Group meet once a year with the possibility of in informal meeting every six months. However, the environment per se, does not form part of this monitoring process and there is no explicit upward monitoring of environmental issues.

3.75 However, if the argument that the Facility is itself one environmental benefit, then formal indicators that form part of the annual review, such as number of families upgraded by building and type, are of great value. The problem lies in the fact that CLIFF funding comes from two donors, DFID and SIDA. Both donors report against their own log-frames, thus forcing CLIFF to report twice against different criteria.

Implementation

3.76 With no environmental procedure in place, CLIFF projects are governed by the regulations of the host country or municipality. For example in Mumbai, slum upgrading projects must be in receipt of local approvals from the local building inspectorate. The nature of this Facility also makes mainstreaming of strategic environmental issues problematic.

Water and Sanitation Programme (WSP)

Table 8. Water and Sanitation Programme (WSP) - Overview

Facility WSP	
Facility Objective and Mandate Provides advice to help countries adopt improved policies and strategies and undertake institutional reform and provides advice to strengthen the investment programs and projects of its clients and partners; and generates, validates, and communicates innovative water supply and sanitation solutions. However, focus is on poverty-targeted, community-based solutions for rural areas, small towns, and the urban poor, and key issues that constrain service expansion to these areas, such as financing.	
Intended Facility Outcomes Develop innovative solutions to the obstacles faced by poor communities in obtaining sustained access to water supply and sanitation services, and strives to be a valued source of advice to achieve widespread adoption of these solutions.	**Project History** The WSP began in 1979 as a collaboration between the WB and UNDP. 17 project ongoing
Environmental Procedures:. Housed in the World Bank, DFID documentation suggests WSP is subject to WB safeguard policies. However, upstream nature of work, means this may not be the case [*N] clarify this issue with WSP*.	
Key Documentation Reviewed: ESSN, WSP Charter; DFID PM; **Interviews with:** Ede Ijjasz – not yet responded	

Procedures and Management Controls

3.77 The Water and Sanitation Program is a multi-donor program built on the principle of partnerships. It is directed by its participating partners and administered by and within the World Bank on behalf of its donors. The WSP manager and staff report through the Director, Energy and Water, to the Vice President, Private Sector Development and Infrastructure Vice Presidency.

3.78 A relatively new programme for DFID, the DFID Project Memorandum states that:

"the Task Managers are effectively World Bank employees and thus are bound by the requirements of the World Bank Standards. This requires an environmental assessment of all projects undertaken under the Bank's umbrella, leading to a full environmental audit if this is judged to be warranted. These standards are similar to DFID's own requirements and thus we can be assured that environmental considerations will be fully taken into account and remedial action taken as necessary on all work undertaken with direct support under this proposed support to WSP".

3.79 While WSP is subject to World Bank safeguard policies, much of its work is upstream policy and regulatory which is not covered as no World Bank transaction results. WSP argues that the Facility outcomes are by definition positive environmental benefits, with little scope of negative impacts however there does not appear to be any systematic approach to mainstreaming environmental benefit.

Monitoring and Governance Oversight

3.80 The World Bank manages the WSP and is accountable to the WSP Council for the proper management of the program. WSP staff carry out the WSP mandate and activities. As with other Facilities affiliated to the WB, task managers take responsibility for following and implementing environmental safeguard policies.[3]

Implementation

3.81 To guide its operations, the WSP develops longer-term business plans and annual work programs that comprise country, regional and global activities. Country work plans must first respond to local demands and so are designed at the country-level, in collaboration with partners.

3.82 Examples exist within the WSP programme of the mainstreaming of environmental benefits. In 2005, a capacity building programme for journalists from Bangladesh, India and Pakistan was organized in Washington DC in collaboration with the World Bank's Environmental and Socially Sustainable Development Network (ESSD), focusing on environmental issues generally and water supply and sanitation in particular. The programme led to over 20 articles appearing in mainstream English, Bengali and Hindi newspapers and periodicals.

Other Non-PIDG Facilities

Slum Upgrading Facility (SUF)

3.83 The central objective of SUF is to assist developing countries to mobilize domestic capital for their own slum upgrading activities by facilitating links among local actors and by packaging the

[3] It is not entirely clear how or to what extent the environmental oversight takes place.

financial, technical and political elements of development projects to attract such investment. This will entail identifying projects, building local capacities, networking, and providing direct technical assistance and, where appropriate, seek initial credit enhancements to demonstrate the viability of these processes.

3.84 It is too early in the life of the SUF to reach any substantive conclusions; however, environmental considerations have been mainstreamed in the Facility's procedures which state that "the SUF Pilot Team will conduct an environmental, social and gender impact assessment of the pilot projects based on country-specific regulations and generally accepted best principles…it is further anticipated that the SUF Pilot Team will develop cost-effective and workable management plans for environmental, social and gender assessments in association with project partners"

Water and Sanitation for the Urban Poor (WSUP)

3.85 The Water and Sanitation for the Urban Poor (WSUP) Facility is an innovative model that adopts a partnership approach towards the provision of sustainable water and sanitation services in urban areas. At its heart is a commitment to the attainment of the MDGs; to this end, an open membership comprising Private Sector Businesses and Water Companies; NGOs, Academic Institutions and two Independent Observers (UNDP and the International Water Association) will develop projects in partnership with national/local governments/local service providers, the private sector and donor community, specifically targeted towards improved urban water and sanitation. A board of directors comprising member representatives is responsible for the overall management and direction of WSUP. Member organisations provide technical expertise for project design and implementation.

3.86 WSUP is only at the pilot stage – it currently has four projects underway and is undertaking a further six scoping studies.

3.87 Designing for a positive environmental impact is an explicit goal of the WSUP. Although no detailed environmental policy has been available for this assessment, policy documents state that: "Under the leadership of WWF, WSUP will develop a detailed environmental policy based on international best practice and appropriate local, national and international environmental standards, policies and legislation. Criteria will be identified for pre-screening projects, and all projects will be monitored to ensure they comply with the established environmental policy"

3.88 There is evidence that environmental criteria are central tenets of the sustainability strategies being built into project design, with long term environmental management strategies forming part of project formulation.

Energy Sector Management Assistance Programme (ESMAP)

3.89 Environmental issues are embedded in the credo and the procedures of this Facility. The ESMAP guiding mission statement states that the Facility "promotes the role of energy in poverty reduction and economic growth in an environmentally responsible manner." In line with the 2002 DFID publication, Energy and the MDG's, ESMAP documentation (including business plans and PM) places a heavy emphasis on the links between the attainment of the MDGs and sustainable energy including MDG 7. As a WB based Facility, it is subject to WB safeguard policies but only if a formal WB transaction is involved. However, the non-transaction based nature of the Facility makes it very difficult to evaluate actual outputs, except that ESMAP works in tandem with host governments in line with domestic policy in order to build consensus on sustainable energy policy.

3.90 ESMAP provides an interesting example of both the consideration of strategic environmental policy and the mainstreaming of environmental benefit. The Facility has moved on from mitigation of negative impact to actively pursuing positive technology that is sustainable and appropriate. The ESMAP operational framework for ESMAP includes an operational leveraging function to ensure that the results from analytical and knowledge work are integrated into country-level policy dialogues and the scaling-up of investments in energy services by development partners.

4. SUMMARY

Q1. Management Controls

4.1 Although environmental due diligence performance varies according to the type and maturity of the Facility, there is in general, across the PSI portfolio a substantial body of evidence to suggest that Facility procedures and management performance do ensure that environmental issues are addressed and resourced systematically and that World Bank or IFC policies are followed. However, this applies more stringently in the case of formal transactions compared to more upstream activities.

4.2 **Facilities within the PIDG portfolio** are particularly notable for the emphasis placed on minimising environmental risk at each stage of the transaction process:

- EAIF and InfraCo provide two contrasting but successful models. The EAIF subcontract all their environmental due diligence to the FMO, a single organisation which has the resources and experience of dealing with Financial Intermediaries, while InfraCo bring in consultant experts on a case by case basis. Both these Facilities are managed by investment companies with a commercial stake in the due diligence process which provides a further incentive for effective process.
- It should, however, be noted that in the case of EAIF, both the Facility manager and the FMO have reported a slight tension with respect to the possibility (however slight) for conflict of interest, owing to the Dutch Governments role as a funding partner in PIDG. It has been suggested that in future this may be avoided by simply sub-contracting environmental due-diligence to a third party consultant.

4.3 **Facilities which are managed or administered by the WB** such as GPOBA, PPIAF and WSP are able to provide a degree of confidence associated with the Bank's stringent internal procedures with respect to the environment and management of donor risk. It is interesting to note that the only Facility managed by a third party, CLIFF, is also the only Facility not to have mandated environmental procedures. The argument is that such small scale interventions are generating only local environmental improvements; however, SUF, a similar Facility does have a clear commitment to the environment in its management controls and there is no reason why CLIFF could not do the same.

4.4 **A commitment to maximising the positive impacts would also be an interesting point of departure**. Although benefit enhancement is a key aspect of the good practice that Facilities follow, the evidence base (available to this study) is relatively limited. In addition, all the Facilities in the PSI portfolio are designed to some degree or another to reduce poverty and contribute towards the attainment of the MDGs. However, monitoring of this impact generally does not investigate wider links between Facility and livelihoods and the role of positive environmental impact and livelihoods.

Q2. Quality Control, Monitoring and Oversight

4.5 Examination of the relatively limited evidence available (to this study) demonstrates that the issue of quality control and monitoring oversight undertaken by each Facility of its activities varies considerably by Facility type and output and also by the period of time that the Facility has been established. For example InfraCo has yet to sell a project; SUF has yet to complete a project and others are still at the pilot stage. In these cases there can be little more than comment on the system, rather than on a firm output.

4.6 **There are also clear differences between investment and non-investment Facilities.**

4.7 **Infrastructure investment funds such as EAIF that lead to a concrete transaction can be audited and monitored using standard environmental management procedures** and there is evidence to suggest that in these cases this is happening in line with best practice. On EAIF funded investments, the FMO supervise and enforce project monitoring during the course of the loan and provide overall technical oversight, reporting back to the Facility. There is evidence at the transaction level that this process is effective and operating in a systematic manner.

4.8 **Investment Facilities which work towards a firm deal can also employ best practice in project development, but thereafter have to seek innovative solution to loss of control.** For example, both DevCo and InfraCo surrender control of the oversight process when the deal is done. The challenge for both these Facilities is to develop measures that can be woven into the deal to ensure good environmental practice.

4.9 Both DevCo and InfraCo are displaying innovative techniques in overcoming this problem (though with InfraCo these have yet to be implemented), including environmental clauses in contracts and maintaining some share in the ownership of the project.

4.10 **At the Facility level there is a wide body of evidence to suggest that environmental aspects of a project form an important part of the oversight process**. However, this tends to be for the investment based Facilities. Application forms viewed for GPOBA and DevCo both request upfront details of possible environmental impact while applications to EAIF must also demonstrate their environmental credentials in advance. Oversight in most cases is undertaken by consultant staff/WB technical staff who report back to their management committees.

4.11 **Facilities which support good practice, policy and technical assistance rather than a physical project do not have such systematic procedures;** the WB/IFC policies are often used without any explanation has to how this will actually work when formal loans or credits do not result. It has not been possible in the course of this study to adequately investigate the monitoring and oversight process in these Facilities. This requires more time and a more rigorous and detailed project level study.

4.12 **PIDG Facilities are all subject to Trust M&E policy and the annual completion of project level M&E sheets by transaction managers**. At the present time this form does not have any explicit reference to the environment; environmental data is inserted either in the overall project description or as a "wider development impact". Although not satisfactory, verbal guidance given to Facility managers suggest that the level of environmental awareness in the Facilities themselves will lead to robust reporting of environmental aspects of projects.

4.13 **More information is still required on detailed monitoring indicators and how these feed back into evaluation future Facility development.** These are absent from most Facilities.

Q3. Relationship with Environmental Systems and Priorities

4.14 There are three issues to consider here:

i. Is an investment consistent with national development priorities, which, generally relate back to the attainment of the MDGs;

ii. Can environmental measures be implemented with the resources, capacity and level of motivation in country; and

iii. To what extent do Facilities incorporate strategic environmental decision making in their procedures and credo or the potential leverage they offer to do so (generally in line with national development plans).

4.15 **All Facilities work with partner governments to ensure that projects and transactions are consistent with national priorities and policy.** Although this does not necessarily relate to specific environmental policy nor environmental sustainability there is an explicit link between investment and government commitment.

4.16 **There is also some evidence that appropriate monitoring processes are being built into project design and, therefore, integrated into project costs.** Facilities such as EAIF which lead to a tangible capital investment insist on the application of environmental due diligence to meet IFC performance standards. If a borrower cannot guarantee this, the environmental advisor within FMO notes that the loan could be withdrawn - simple risk management of donor funds. There is, however, no evidence to suggest that this threat has ever been actioned (also no written evidence of this policy), and in general Facilities are sensitive to the local regulatory environment. The PIDG Trust Facilities InfraCo and TAF provide an innovative example:

4.17 On the Kalangala Infrastructure Project InfraCo, GuarantCo and TAF have worked together in order to achieve environmental sustainability. This large scale and complex project will be implemented by a number of small local contractors who have never had exposure to a project of this size and scale, nor experience with the potential environmental implications. Knowing that they will have no control once the project is handed over, TAF will provide capacity building assistance to ensure that contractors are up to speed both in terms of appropriate construction and construction management techniques, but also in terms of mitigating environmental risk.

4.18 **Other Facilities offer significant potential for mainstreaming sector-wide positive environmental benefits** although appropriate technical assistance in regulatory and policy interventions – for example PPIAF and WSP is required. There is no evidence to suggest that this is systematically taking place.

4.19 **In general, despite some isolated cases, there is little to suggest that host countries or recipients are having projects or onerous and unwanted environmental due diligence processes imposed upon them.** One possible exception to note is that of the GPOBA Naandi Water Project. The recipient complained that the use of WB staff and standards for environmental due diligence caused the application process to take over a year. Although the direct costs of this delay were absorbed by GPOBA, there was no mechanism for compensating the recipient for the lost time. This does, however, appear to be an isolated case – close working relationships with recipients, clients, borrowers and donor governments appear to militate against this general risk.

4.20 **The integration of strategic environmental issues and decision-making within the portfolio of Facilities currently appears to be a lost opportunity**. The recent addition of AsPIFF to the portfolio of infrastructure funds breaks new ground in its explicit recognition of climate change in so far as it pledges to support Clean Development Mechanism (CDM) projects[4] and emerging best practice with respect to climate change. It falls short, however, of taking a braver stance on wider environmental issues. This principle (which is also currently being explored by PPIAF) may provide some model for future replication and could be applied to both investment and non-investment type Facilities. With the further exception of ESMAP, which is focused on sustainable energy, there is little in the way of systematic strategic environmental policy elsewhere in the portfolio. New IFC guidelines do address climate change, but there are no relevant processes within the Facilities themselves

4.21 DevCo does provide some examples of how wider environmental and social issues can be incorporated into project design and this could provide a model for others to follow, using the lever of donor funds to incorporate strategic environmental issues into a project or process. This applies to both investment and non-investment based Facilities.

4.22 Full understanding of the existing situation and future possibilities will require a much higher level of interaction with the Facilities and an opportunity to closely examine project documentation, particularly with respect to integration of projects with local environmental systems.

[4] It should, however, be noted that CDM in itself does not promote environmental good practice, acting instead a foil for heavily polluting developed countries

5. RECOMMENDATIONS

5.1 All the Facilities have robust environmental due diligence processes in place. Since these conform to international best practice, these do address environmental and reputational risk and also seek the incorporation of benefit enhancement measures at the project level. However, in many cases there is space for greater value added. For example a number of DevCo projects have included supporting cross-cutting social and environmental support measures in project formulation. If DevCo and other investment Facilities were to include statements of positive intent in their operating manuals and policy, value added services and technologies could be more systematically applied.

5.2 Facilities should address strategic environmental considerations, preferably by conforming with national or sub-national environmental policy where this is appropriate. If these considerations have not been assessed or the policies not formulated, then the risks to the project outcomes of the consequent uncertainty must be gauged. In some cases, the extent of this uncertainty may be so great as to undermine the viability of the investment.

5.3 All Facilities should have an explicit statement of environmental policy in their operating manuals. Two contrasting examples include SUF, which has a clear statement of positive environmental intent in its operating handbook with CLIFF, a similar Facility, which has none and does not believe it necessary.

5.4 Facilities should seek to address strategic, long term, national environmental policy and goals, where they are able to do so. A positive example of this is ESMAP, which is already looking at sustainable energy. The PPIAF suggestion for looking at an alternative funding window for projects looking at climate change and infrastructure is an interesting one and one that could be mainstreamed for various different issues.

5.5 Although the Facilities vary in size and scope, there are certain commonalities and there would be benefit in Facility managers meeting each other to discuss best practice and share lessons learned.

5.6 Sub-contracting the environmental due diligence process to a third party provides objective oversight within a set budget. A set policy for commercial Facilities such as EAIF removes all potential for conflict of interest. This may also be relevant to WB housed Facilities such as WSP and ESMAP in which, although lying within the Bank, the safeguards do not apply in practice to activities which are not WB transactions; for example loans and credits.

5.7 Policy, technical assistance and regulatory Facilities offer donors a significant opportunity to engage with host country governments for the undertaking of strategic environmental reviews in relation to key sectors. Further investigation could be undertaken to understand the space in which these Facilities operate and the potential that they have in this area. This is especially relevant for Facilities such as PPIAF or TAF.

6. END NOTE

6.1 The terms of reference for this study are clear: it is a strategic Facility level review. However, in closing, it is interesting to note that, despite the clear emphasis on environment at the Facility level and DFID's corporate environmental policy (See Phase 1 of this PSI evaluation), the DFID Global Funds and Development Finance Institutions Department (GFDD) Business Plan for 2007/08 makes no specific reference to the environment nor to the MDGs.

ANNEX A: REVIEW OF AVAILABLE EVIDENCE FOR INDIVIDUAL FACILITIES RELATING TO SEA

Facility	Activities	Design Phase	ESSN	Funding/Set-up	(Q1) Management	(Q2) Monitoring and Oversight	(Q3) Implementation
PIDG	Umbrella Trust: no actual transactions			PIDG Trust policies: environment	DFID comment on environmental implications of significant energy portfolio within PIDG Facilities – concern about climate change impact	M&E Framework: no environment heading	At the Facility level.
	The PIDG has an overarching environment policy but no specific focus on environment in M&E or Review.						
EAIF	Some investments approved .		Yes	Investment policy covers environment	Environmental and Socio-economic due diligence subcontracted to FMO	FMO Environmental Specialist	Projects must support national priorities.
	EAIF has a sound environmental policy contract with FMO to undertake environmental due diligence.						
InfraCo	Several investments under preparation – none yet sold	DFID PM: Facility will comply with overall PIDG environmental policies. Company policy will commit to WB environmental policies	Yes	Firm commitment to environmental due diligence in Operational Policies and Guidelines.	Environmental and Socio-economic due diligence sub contracted to third party consultant: FMO used as an example of best practice>	Application of environmental clauses in contracts. InfraCo maintains minority equity rights in projects.	No projects sold, but deal must include provision for management of environmental aspects to meet WB safeguard policies.
	InfraCo has a sound environmental policy and there is evidence of it carrying out effective environmental due diligence						

Facility	Activities	Design Phase	ESSN	Funding/Set-up	(Q1) Management	(Q2) Monitoring and Oversight	(Q3) Implementation
DevCo	Project preparation activities – which might include environmental assessment	Feasibility Study – anticipates deployment of environmental expertise as part of mandate.	Yes – Phase I & II	Interviews reveal that IFC environmental and social safeguard policies apply – including to advisory services	Transaction application form includes check box for environmental expertise needed. Quarterly reports describe project specific environmental benefits. Contract clauses.	IFC developing M&E framework; otherwise none.	Evidence of value added services but no systematic policy.
	DevCo has a sound environmental policy (under umbrella of IFC performance standards adapted to advisory services) and evidence that it is being applied.						
GuarantCo	Transactions not in themselves likely to have environmental risks	DFID PM commits to compliance with DFIDs environmental policies and consistency with other DFIs.	Yes	Discussion with FMO about EDD role and compliance with updated IFC Performance Standards.	Contracted to FMO	Contacted to FMO	Transactions unlikely to have environmental risks.
	Sound environmental policy contract with FMO to undertake environmental due diligence.						
TAF	Technical assistance activities		Yes	TAF Policies – no environment content	Examples of grant application form indicates funding is to cover EIA	Provides support to other Facilities	n/a
	TAF activities are implemented under other Facilities whose policies apply.						
AsPIFF	New Facility, no investments yet approved	DFID PM commits to EIA, equator principles and the pursuit of CDM.	Yes	Not Reviewed	Not Reviewed	Not Reviewed	Not Reviewed
GPOBA	Usually enhances or extends other service provision projects. Managed by World Bank.		Yes	Subject to WB environmental safeguards	Interview reveals compliance with WB safeguards.	WB Task Manager	Social and Env compliance integral part of the project – application form requires commitment to national policy.
	GPOBA is subject to World Bank environmental safeguards and there is evidence of implementation						

Facility	Activities	Design Phase	ESSN	Funding/Set-up	(Q1) Management	(Q2) Monitoring and Oversight	(Q3) Implementation
SUF	Manager only appointed recently and no transactions yet.	DFID PM focuses on environmental benefits and risks – expects environmental due diligence to comply with “established procedures”	Yes	SUF Handbook covers environmental impact assessment procedure	Not yet clear, but at present pilot team responsible for conducting environmental and social assessments.	Not clear, but pilot team assuming short term responsibility	Responds to local need and demand.
	SUF has adopted sound environmental assessment procedure – yet to be implemented						
CLIFF	Being implemented in India; and Kenya	DFID PM implies use of environmental expertise	Yes	CLIFF loan criteria do not mention environment CA criteria for evaluating proposals includes “positive impact on the environment”	No direct management or consideration of Environmental issues	None	None
	CLIFF does not appear to have a specific environmental due diligence procedure but has a positive focus on MDG 7.						
WSP	DFID support to WSP only started in 2005. Upstream policy and analytical activities. Managed by World Bank.	DFID PM states that WSP is subject to World Bank environmental safeguards	Yes	Task Managers	Subject to WB safeguards, but much of its upstream work is means that WSP largely falls outside coverage of World Bank environmental safeguards	WB Task Managers	Country level work plans are developed with local and development partners to ensure relevance and consistency
	WSP activities do not fall under World Bank environmental safeguards but policy is to “mainstream environmental benefits”.						
WSUP	Only at the pilot project stage.	DFID PM expects WSUP to have DFID compliant environmental policies	Yes	OP Manual covers environmental and social impact assessment	WSUP Board - exact decision making chain not clear.	Unclear, but anticipated that this is undertaken by WSUP members.	Responds to local need and demand.
	Sound environmental policy in place – too early to assess implementation						

Facility	Activities	Design Phase	ESSN	Funding/Set-up	(Q1) Management	(Q2) Monitoring and Oversight	(Q3) Implementation
ESMAP	Decentralised Energy Services – PSI supported. Managed by World Bank	DFID PSI PM states that ESMAP is subject to World Bank environmental safeguards	Yes	Environmental Issues embedded.	Subject to WB safeguards – but only if a formal WB transaction is involved.	Unclear who undertakes this role but operational framework makes provision for lessons learnt to feed back into the system.	Works with host governments in line with domestic policy.
	ESMAP activities do not fall under World Bank environmental safeguards but policy is to "mainstream environmental benefits".						
PPIAF	Outputs are studies, knowledge and technical assistance – although some may address sector strategies or facilitate actual investments. Managed by World Bank		Yes	PPIAF Charter commits to Environmental and Social Responsibility. Policy is to mainstream environmental benefits. Managed by WB Task Manager	Example of PPIAF Financing Proposal indicates section on Environmental and Social Responsibility. DFID PPIAF Monitoring Spreadsheet indicates regular but not consistent referral to environmental adviser Interview reveals that upstream activities not covered by World Bank environmental safeguards	WB Task Managers. Also Technical Advisory Panel carries out annual independent evaluation.	Seeking to integrate strategic environmental issues into deals, but no formal mechanism.
	PPIAF activities do not fall under World Bank environmental safeguards unless attached to a mainstream World bank transaction.						

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

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DFID's work forms part of a global promise to

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- promote sexual equality and give women a stronger voice
- reduce child death rates
- improve the health of mothers
- combat HIV and AIDS, malaria and other diseases
- make sure the environment is protected
- build a global partnership for those working in development.

Together, these form the United Nations' eight 'Millennium Development Goals', with a 2015 deadline. Each of these Goals has its own, measurable, targets.

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