MANAGING ENVIRONMENTAL RISKS IN DEVELOPMENT BANKS AND DEVELOPMENT FINANCE INSTITUTIONS - WHAT ROLE FOR DONOR SHAREHOLDERS?

Naeeda Crishna Morgado and Özlem Taşkın
Abstract

How and where infrastructure is built – and how environmental and social risks related to infrastructure are managed – will have a direct influence on whether developing countries pursue more sustainable development pathways or not. Development banks and development finance institutions (DFIs) serve as important channels for infrastructure finance, have adopted safeguards systems to minimise and manage the environmental and social risks associated with their projects. This paper provides an overview of these systems and discusses the role of members of the OECD Development Assistance Committee (DAC) in influencing these, in their capacity as shareholders of these institutions. It shows that donor governments influence the policies and activities of development banks, but that the level of engagement varies between bilateral and multilateral development banks and is often determined by internal capacity. The paper argues that donor shareholder governments must continue to play an important role in encouraging development banks to strengthen the implementation of safeguards, which will require continued collaboration within governments, across countries and between development banks and DFIs. Efforts to build the evidence base on the impacts of safeguards in projects will further support this agenda.

Keywords: development banks, environment and social safeguards, green investment, development co-operation, development finance

JEL Classification: O13, O19, O44, Q56
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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AFD</td>
<td>Agence Française de Développement</td>
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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>AIIB</td>
<td>Asian Infrastructure Investment Bank</td>
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<tr>
<td>AsDB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>BNDES</td>
<td>Banco Nacional de Desenvolvimento Econômico e Social</td>
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<tr>
<td>BRICS</td>
<td>Brazil, Russian Federation, India, China and South Africa</td>
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<td>CAF</td>
<td>Corporación Andina de Fomento</td>
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<tr>
<td>CDB</td>
<td>China Development Bank</td>
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<td>CSO</td>
<td>Civil society organisation</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>DBSA</td>
<td>Development Bank of Southern Africa</td>
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<td>DFI</td>
<td>Development finance institution</td>
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<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<tr>
<td>EDFI</td>
<td>Association of European Development Finance Institutions</td>
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<tr>
<td>EIA</td>
<td>Environmental impact assessment</td>
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<tr>
<td>EIB</td>
<td>European Investment Bank</td>
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<td>ED</td>
<td>Executive Director</td>
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<td>ESF</td>
<td>Environment and Social Framework</td>
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<tr>
<td>IADB</td>
<td>Inter-American Development Bank</td>
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<tr>
<td>IBRD</td>
<td>International Bank of Reconstruction and Development</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>IREDA</td>
<td>Indian Renewable Energy Development Agency</td>
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<tr>
<td>ISDB</td>
<td>Islamic Development Bank</td>
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<tr>
<td>JICA</td>
<td>Japan International Cooperation Agency</td>
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<tr>
<td>MDB</td>
<td>Multilateral development bank</td>
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<tr>
<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
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<tr>
<td>NDB</td>
<td>National development bank</td>
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<tr>
<td>ODA</td>
<td>Official development assistance</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>SDGs</td>
<td>Sustainable Development Goals</td>
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Executive summary

Promoting environmentally sustainable infrastructure in developing countries will require actions to promote investments that are environmentally friendly as well as actions to ensure that all investments – green or not – have minimal adverse environmental impacts during their construction and operation. Recognising this, development banks and development finance institutions (DFIs), encouraged by government shareholders, have instated frameworks to minimise and manage environmental and social risks associated with development projects. Despite progress, the implementation of these frameworks faces several challenges, both within development banks and DFIs, and as a function of policy and capacity realities in developing countries.

This paper provides an overview of how donor governments – with a focus on members of the OECD Development Assistance Committee (DAC) – engage with issues related to the environmental and social safeguard systems in development banks and DFIs, in their capacity as shareholders or owners of the institutions. In doing so, the paper describes the context and rationale for managing environmental risks in development finance, provides an overview of safeguards systems, and describes the main approaches as well as entry points used by donor shareholders to engage on environmental issues. Lastly, the paper outlines key issues and opportunities for members to promote environmental risk management in development banks and DFIs.

Key findings

The last decades have seen the world achieve unprecedented development gains – halving of poverty rates, increased per capita incomes and improved human development overall. At the same time, economic growth in developing countries has gone hand in hand with extensive degradation of natural resources and other environmental impacts, which in turn affect livelihoods as well as the health and well-being of people everywhere.

**Development banks and DFIs continue to serve as important channels for development co-operation and green investment**, including for infrastructure. They design and finance infrastructure projects in partner countries, and can also play a role in supporting policy reform for green growth. Development banks and DFIs have adopted environmental and social safeguards systems to minimise and manage the environmental and social risks associated with their projects. These systems are an important element of development finance that delivers sustainable development outcomes. By assessing environmental and social impacts at the start of a project, development banks and DFIs can minimise and manage risks, which in turn can support the development impact of a project.

**At the same time, the implementation of safeguards systems face several challenges.** While bilateral and multilateral development banks have improved their safeguards policies with respect to monitoring, reporting and disclosure, safeguards are also perceived to cause delays in project processing (Humphrey, 2015[1]). There is increasing emphasis on the need to better use partner country systems – national policies and regulations – rather than the standards of international financing institutions when assessing environmental and social impacts. Concurrently, it is well recognised that gaps in enabling policy and regulatory environments in developing countries, compounded with lack of capacity in implementing
agencies, hinders the ex-ante assessment of risks at pre-approval stage as well as the ex-post implementation and monitoring of risk mitigation measures.

**Donor governments influence the policies and activities of development banks.** A survey of DAC members shows that donor governments usually engage with bilateral and multilateral development banks on environmental issues at a strategic level (on policy) and at an operational level (on projects). However, this engagement differs for multilateral development banks (MDBs) and bilateral institutions. As shareholders of MDBs, 17 out of 20 donor governments responding to the survey stated that they engage in the review of environment-related policies and strategies of the banks. Donor shareholder governments also review individual MDB projects for potential negative impacts – mostly through Executive Director’s offices. But the level of engagement varies significantly, often determined by available staff resources. Only four countries reported that they conduct independent field missions to review MDB projects. For bilateral development banks and DFIs, donor shareholder governments engage by influencing policies, and usually delegate safeguards implementation and review to the banks themselves. Fourteen donor governments who responded to the survey have bilateral development banks. Of those, eight reported conducting individual project reviews of their bilateral institutions.

**Governments can collaborate to further strengthen safeguards application by development banks and DFIs.** Development banks’ policies and priorities, and the emphasis in their portfolios, are driven by the overarching demands governments place on them. Donor shareholder governments must continue to play an important role in encouraging development banks to strengthen the implementation of safeguards. This will require further collaboration: (i) internally (between different ministries of one country); (ii) externally (across different countries), (iii) between development banks and DFIs. The following five areas for further cooperation were identified during the development of this paper:

- Collaborate internally and externally to support project-level review
- Provide technical assistance to build partner country safeguards systems;
- Encourage harmonisation of environmental safeguards across different development banks and DFIs;
- Build the evidence base on the impacts of safeguards in projects;
- Promote policy dialogues across DAC and non-DAC governments to maintain momentum on environmental safeguards standards.
1. Context and rationale: Managing environmental risks in development finance

1.1. Introduction

How and where infrastructure is built – and how environmental and social risks related to infrastructure are managed – will have a direct influence on whether developing countries pursue more sustainable development pathways or not. Ensuring that infrastructure is sustainable and of quality will require a) developing countries to promote environmentally sustainable infrastructure options; and b) for all new infrastructure to be built with minimal negative impacts on people and on the environment. Development banks and development finance institutions (DFIs) are critical to this agenda as they support developing countries in designing and financing projects, and support policy reform on issues related to environmental and social protection. In October 2017, the High Level Meeting of the OECD Development Assistance Committee (DAC) agreed to enhance efforts to understand how they – ‘as shareholders and investors in these institutions’ – can support operations that further environmental and social sustainability.

This paper provides an overview of how donor government shareholders are working to integrate environmental concerns within the development banks and DFIs they invest in, with a focus on safeguards systems. While it considers environmental and social safeguards as one integrated system within development banks, the focus of this paper is on environmental safeguards. This topic is also the subject of international fora including the G7 and G20. The G7 Ise Shima Principles for Promoting Quality Infrastructure Investment, for example, maintain that infrastructure investment “must consider the social and environmental impacts of infrastructure projects and duly address such impacts”.

The structure of the paper is as follows. This first section introduces the context and rationale for the paper. The second section discusses the environmental and social safeguards systems put in place by development banks and DFIs. The third section highlights how DAC members engage in improving the environmental performance of development banks and DFIs. The last section highlights opportunities and challenges remaining.

1.2. Development banks remain important in a changing development finance landscape

Current investment levels in developing countries are not sufficient to meet the ambition set out in the Sustainable Development Goals (SDGs). The annual investment required for sustainable infrastructure in developing countries is estimated at USD 4 trillion per year (NCE, 2016[2]). Three years on from the Addis Ababa Action Agenda on financing for development, efforts to mobilise financing in the volumes needed in developing countries are yet to materialise (Inter-Agency Task Force on Financing for Development, 2017[3]).

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While many different actors will need to be mobilised to achieve the SDGs, development banks and DFIs remain critical.

The landscape of development finance has changed significantly, both in terms of sources of finance and their relative magnitude. In 2017, official development assistance (ODA) from members of the OECD DAC reached USD 146.6 billion (OECD, 2018[4]). At the same time, when compared with other sources of external finance to developing countries (such as remittances and foreign direct investment) the relative importance of ODA has decreased over time. This is even more prevalent in infrastructure financing: official development finance is estimated to contribute only 6-7% of infrastructure financing in developing countries, with most financing for infrastructure coming from developing country governments and a third from the private sector (Miyamoto and Chiofalo, 2016[5]). Emerging donors also play an increasing role in development finance. Recent analysis estimates that in 2014, non-DAC governments provided 17% of total global development co-operation – around USD 32 billion – and that this amount was seen to increase year on year between 2010 and 2017 (Benn and Luijkx, 2017[6]).

Within this changing context, development banks and DFIs continue to serve as important channels for development co-operation, including for infrastructure. Bilateral and multilateral development banks and DFIs leverage the strong credit ratings of their shareholders to raise capital and provide financing for infrastructure projects in developing countries. They also attract private capital to infrastructure projects in developing countries through credit enhancements and de-risking approaches. Box 1.1 outlines the categories of these institutions included in this paper. These institutions are also continually changing, and in some cases growing, in response to new challenges posed by the global development agenda. The Asian Development Bank, for example, optimised its balance sheet in 2015, resulting in an increase in its overall portfolio from USD 13.3 billion in 2016 to USD 20.1 billion in 2017 (AsDB, 2018[7]). Most recently, a capital increase for the World Bank Group is expected to result in an increase in average annual capacity to “almost USD 100 billion per year between 2019 and 2030” (World Bank, 2018[8]).

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Box 1.1. Framing the analysis – what are development finance institutions?

Development banks and DFIs are publicly owned financial institutions with a development and/or policy mandate. This paper focuses on those institutions that are supported by DAC member countries and finance development projects in an international context. It considers the following two categories:

- **Multilateral development banks** (MDBs) work primarily in developing – ODA-eligible – countries and have multiple shareholders from both developed and developing countries. They include the World Bank Group and regional development banks such as the Asian Development Bank (AsDB), the African Development Bank (AfDB), the Inter-American Development Bank (IADB), the

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3 Emerging development co-operation providers include those countries not currently members of the OECD DAC who provide development co-operation to developing countries. Luijkx and Benn (2017[6]) includes Arab countries, the BRICS (Brazil, Russian Federation, India, People’s Republic of China, South Africa), some member states of the European Union (EU) from central Europe as well as countries in Asia and Latin America in their definition of emerging providers.
European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and the Asian Infrastructure Investment Bank (AIIB).

- **Bilateral development banks and development finance institutions (DFIs)** support the development assistance agenda of their governments, and channel development finance from DAC member countries to developing countries. These include e.g. AFD, JICA and KfW. Bilateral DFIs are specialised in engaging with and leveraging private capital, and include e.g. members of the Association of European Development Finance Institutions (EDFI).

Other publicly owned institutions that support infrastructure development in developing countries but are not included in the focus of this paper include a) MDBs supported largely by non-DAC donors, such as the Islamic Development Bank and Corporación Andina de Fomento (CAF); b) national development banks (NDBs) from developing countries that mostly provide finance in a domestic setting; and c) export credit agencies (from DAC and other countries).

Against a changing development finance architecture, new development banks and DFIs have been set up by non-traditional providers of development support and by developing countries themselves. CAF is supported by and lends to countries in Latin America, and was originally set up by the Plurinational State of Bolivia, Columbia, Ecuador, Peru, and the Bolivarian Republic of Venezuela. More recently, two new banks have emerged – the AIIB, backed by China and India (as well as several DAC members), and the New Development Bank, backed by BRICS. In addition, some BRICS countries’ national development banks, such as the China Development Bank (CDB), the Development Bank of Southern Africa and Brazil’s Banco Nacional de Desenvolvimento Econômico e Social (BNDES), have significant portfolios dedicated to infrastructure and are playing an increasing role in financing outside domestic borders (OECD, 2017[9]).

While financing infrastructure projects in developing countries, development banks are increasingly financing environment-related projects, including projects with climate change objectives. In 2013-15, roughly a third of commitments by major MDBs to infrastructure were climate-related4, based on data reported to the OECD DAC (Figure 1.1) (OECD, 2017[9]). Other development banks are also increasing their environment-related finance. Members of the International Development Finance Club (IDFC), which include national and bilateral development banks based in both OECD and non-OECD countries, contributed USD 173 billion in ‘green’ finance in 2016, including USD 159 billion for climate and USD 14 billion in support of other environmental objectives such as pollution reduction, and environmental protection (IDFC, 2017[10]).

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4 This is based on figures reported to the OECD DAC by the MDBs. Climate-related components of projects are those that target mitigation, adaptation, or both mitigation and adaptation, based on the joint MDB Climate Finance Tracking Methodology.
Figure 1.1. Share of climate-related commitments for infrastructure sectors by MDBs, as reported to OECD DAC, 2013-15 average

<table>
<thead>
<tr>
<th>Institution</th>
<th>Commitment Share</th>
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<tbody>
<tr>
<td>EIB</td>
<td>51.8%</td>
</tr>
<tr>
<td>EBRD</td>
<td>50.3%</td>
</tr>
<tr>
<td>WBG</td>
<td>31.9%</td>
</tr>
<tr>
<td>IADB</td>
<td>31.1%</td>
</tr>
<tr>
<td>Average</td>
<td>29.4%</td>
</tr>
<tr>
<td>AfDB</td>
<td>22.3%</td>
</tr>
<tr>
<td>AsDB</td>
<td>20.7%</td>
</tr>
<tr>
<td>IsDB</td>
<td>6.7%</td>
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*Note:* This graph is based on data reported to the OECD Development Assistance Committee by the following MDBs: the African Development Bank (AfDB), the Asian Development Bank (AsDB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank (IDB), the Islamic Development Bank (IsDB) and the World Bank Group (WBG), which also includes the International Finance Corporation. Climate-related components of projects are those that target mitigation, adaptation, or both mitigation and adaptation, based on the joint MDB Climate Finance Tracking Methodology (with the exception of IsDB which reports according to the Rio Marker methodology). MDB commitments include concessional and non-concessional support. Infrastructure sectors include transport, energy, water supply and sanitation, and communications. *Source:* (OECD, 2017[11]).

1.3. Infrastructure projects continue to have significant environmental and social impacts in developing countries

The last decades have seen the world achieve unprecedented development gains – halving of poverty rates, increased per capita incomes and improved human development overall. At the same time, despite efforts by governments and development partners, economic growth in developing countries has gone at times hand in hand with extensive degradation of natural resources and other environmental impacts, which have in turn affected people’s livelihoods as well as the health and well-being. Whereas infrastructure needs are central to meeting SDGs across the board, many large-scale infrastructure development projects continue to be associated with significant negative environmental and social impacts, such as the degradation of natural capital and biodiversity, air and water pollution, greenhouse gas emissions, and involuntary resettlement of communities. Road development in the Amazon, for example, is a driver of deforestation: development of roads provide access to previously inaccessible areas of forest, which can in turn lead to the conversion of forest area to agricultural land and often also illegal logging (Ritter et al., 2017[12]) (Fearnside, 2015[13]). The surge of support for renewable energy promotion is central to climate change mitigation efforts, but at the same time, such efforts have also been associated with social impacts as illustrated in Box 1.2.
Box 1.2. Addressing the human rights dimensions of renewable energy promotion

Development banks and DFIs are ramping up clean energy investments as part of their efforts to combat climate change. The downward trend of renewable power generation costs is continuing (IRENA, 2017[14]), and 2016 witnessed the largest annual increase in renewable power generation capacity (REN21, 2017[15]). Most new renewable energy capacity is installed in developing countries (BNEF, 2017[16]). In addition to reducing greenhouse gas emissions and providing basic and quality energy access, wind farms can – in principle – provide employment opportunities in the construction phase and additional income opportunities through tenure of rural lands, and the operation and maintenance of turbines, in the operation phase. New installations in e.g. the Mexican states of Oaxaca and Chiapas indicate however that wind energy projects, as other infrastructure projects, are not immune to the risk of human rights violations, including infringements of indigenous peoples’ rights, land rights and lack of adequate consultation (Martín et al., 2014[17]) (Equitable Origin, 2016[18]) (Gouritin, 2018[19]).

The Mexican energy reform of 2013-14 specifies potential social risks of energy projects for local communities (Rousseau, 2017[20]). While the normative framework is quite strong, e.g. requiring the assessment of socio-economic and environmental risks of projects and the consultation with indigenous communities, compliance with laws, regulation and safeguards leaves room for improvement. Chile, among the top RE markets in the world (OECD/IEA, 2018[21]) and with a longer renewable energy deployment trajectory than Mexico, issued a guide of participatory standards for energy projects in 2016 (Ministerio de Energía, 2016[22]).

Recognising the potential risks associated with infrastructure, development banks and DFIs have put in place environmental and social safeguards systems to ensure minimise risks towards the environment and manage residual risks. Safeguards systems have evolved over time with greater emphasis on monitoring, reporting and disclosure (Horberry, 2015[23]), however, these systems are also perceived to cause delays in project processing and to increase the ‘hassle’ associated with projects, especially within the context of the MDBs (Humphrey, 2015[1]). A review of challenges and opportunities for MDBs in financing infrastructure, for example, highlighted some of the challenges associated with projects, including “multiple, lengthy levels of internal review, rigorous safeguards on environmental and social issues, and stringent rules on how resources can be spent by the borrower” (Humphrey, 2015[1]). Differing levels of safeguards are also applied by different development banks. This is demonstrated in a recent review of safeguards applied by ‘international development banks’* in Latin America which illustrates that a range of financing institutions with varying safeguards requirements and standards finance development projects in the region (Gallagher and Yuan, 2017[24]).

1.4. Donor shareholders influence the policy agenda of development banks and DFIs

Donor shareholder governments, i.e. those that provide finance to, but are not eligible for financing themselves continue to guide the activities and operations of development banks. For DAC members with bilateral development banks, development/foreign affairs and

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* In Gallagher and Yuan (2017[24]) the international development banks reviewed included multilateral, bilateral and national development banks and DFIs as well as export credit agencies.
finance ministries usually provide policy oversight and guidance to the banks, including on the integration of environmental and social standards in their practices. As shareholders of MDBs, DAC members contribute to the steering of MDB policies and operations, including on the implementation and effectiveness of safeguards practice. Figure 1.2 shows the voting power of DAC member countries in selected MDBs.

Figure 1.2. Voting power for selected MDBs, DAC and non-DAC countries

- AsDB – Asian Development Bank
- AFDB – African Development Bank
- IADB – Inter-American Development Bank
- IBRD – International Bank of Reconstruction and Development
- IFC – International Finance Corporation
- MIGA – Multilateral Investment Guarantee Agency


Source: Based on annual reports and MDB websites

MDBs’ boards of executive directors usually host between 12 and 25 shareholder members that serve in this role on a full-time basis and have authority over operational policy and lending, including loan and policy proposals. They can serve as guardians of standards and guidelines, and providers of strategic oversight and foresight, especially on environmental and social safeguards (Martinez-Diaz, 2008). Safeguards processes provide a platform that aims to improve the sustainability of projects. The application of environmental assessment procedures is also important to promote policy coherence. For some donor shareholder governments, the same assessments and standards on environmental and social issues apply in development assistance as they do in a domestic setting. Canada, for example, requires strategic environmental assessments across all federal departments, including those responsible for development co-operation and for working with MDBs.

Some experts also highlight that the topic of environmental and social safeguards has been the cause of tension between donor and borrower countries in the context of MDB governance, with some shareholders pushing for more stringent safeguards and others arguing for lower costs and avoiding delays associated with processing (Ahluwalia et al., 2016) (Humphrey, 2015). At the same time, a range of development financing institutions with less stringent safeguards requirements – including those supported by BRICS countries – are taking on a much stronger role in financing infrastructure in developing countries. In the face of the changing development finance landscape, the question is how the international community can maintain momentum on ensuring all projects minimise harm to the environment and manage residual risks, while balancing against the associated costs and time required.

6 Boards of executive directors is usually smaller than MDB membership (with exception of the European Bank for Reconstruction and Development and the European Investment Bank). Many executive director positions operate on a constituency basis, where the director represents several countries, and the position of director rotates among different members of the constituency.
2. Environmental safeguards systems in development banks and DFIs

While the mandates and activities of development banks and DFIs vary, many fund large infrastructure, agriculture or financial sector development programmes which can be associated with negative environmental and social impacts. Recognising this, development banks and DFIs are integrating environment into their activities by implementing safeguard measure to minimise and manage potential negative impacts of their projects on the environment, and by pursuing projects that promote environmental objectives. This section provides an overview of environmental safeguards and outlines some of the challenges in their implementation.

2.1. What are environmental safeguards?

Safeguards are “rules and institutions that help ensure that investments meet minimum social, environmental, and governance standards” (Larsen and Ballesteros, 2014[27]). Within development banks and DFIs, safeguard systems structure responsibilities, procedures and material standards to assess, avoid, minimise, manage and monitor environmental and social impacts of projects and provide for grievance mechanisms in case impacts occur. Safeguards can originate either in the development bank or institution financing the project, or in the country where the project is taking place.

Box 2.1. Safeguards – a focus on minimising negative environmental impacts

Most safeguard systems of development banks and DFIs focus on minimising negative impacts and mitigating against those impacts which cannot be avoided. For example:

- The World Bank aims “to ensure strong protections for people and the environment” through safeguards that “identify, avoid, and minimize harms” (World Bank, 2018[28]).
- IFC Performance Standards are centred on an approach to minimising harm (IFC, 2012[29])
- AFD requires environmental and social impact assessments for its projects and a proposal of measures to avoid, reduce or offset negative impacts (AFD, n.d.[30]).
- KfW’s Sustainability Guideline places a strong emphasis on the ‘do no harm’ aspect of safeguards (KfW, 2016[31]).
- EDFI members apply a “precautionary approach” when providing finance to avoid negative outcomes, and commit to mitigate or compensate for unavoidable environmental and social outcomes (EDFI, 2009[32]).

Some safeguards are moving beyond minimising harm to also generating positive effects for global public goods and communities affected by projects. The World Bank’s new Environmental and Safeguard Framework outlines that additional positive development outcomes identified in the environmental and social assessment are to be included as additional project objectives (World Bank, 2017[33]).
The first generation of safeguards gradually developed from the 1980s onwards as a reaction to controversies over large-scale infrastructure projects (Buntaine, 2016[34]). Pressures from shareholder countries to ensure that investments do no harm the environment and those affected by the project largely contributed to this development. Upon their introduction, World Bank safeguards were the “gold standard” for project finance and were imitated by other development banks and the private sector (Larsen and Ballesteros, 2014[27]) (von Bernstorff and Dann, 2013[35]). Given the incremental development of these norms within development banks and DFIs, safeguards systems are usually updated and reviewed after a number of years in operation to take account of the latest international policy consensus as well to learn from application. Currently, the IFC Performance Standards are considered the industry benchmark for environmental and social standards in lending, especially in private sector operations (Horberry, 2015[23]). Many other financers – including the European DFIs and some commercial banks and private companies – have aligned their own standards with the IFC Performance Standards.

A major step in the evolution of safeguards for public sector projects has been the update of the World Bank’s safeguard policies (see Box 2.1). Two new features of the new Environment and Social Framework (ESF) are of particular relevance for this paper (World Bank, 2017[33]):

- Greater reliance on the use of partner country safeguard systems. Under the ESF, all or part of partner country safeguard systems could be used for a project if the World Bank finds that national laws and procedures will address risks and impacts ‘in a manner coherent to the ESF’ and will lead to similar outcomes;
- Less emphasis on ex ante risk assessment with stronger monitoring and supervision of agreed-upon project commitments on environmental and social issues. This constitutes a reversal from the previous approach of information provision on risks, impacts and mitigation measures at the projects’ front end.

**Box 2.2. Review and update of the World Bank’s safeguard system**

The nearly four year review of the World Bank’s safeguard system was structured into multiple phases of analysis and consultation with a broad range of share- and stakeholders (World Bank, 2012[36]). These included World Bank management and staff, as well as external stakeholders such as client country representatives, multilateral and bilateral development partners, private sector representative and civil society organisations. Additionally, the World Bank invited shareholder governments to provide their input and actively participate in promoting client countries’ institutional capacity.

Several internal and external factors provided impetus for this review (World Bank, 2012[36]), with the most relevant for this paper being the following:

- increasing emphasis on country ownership since the Paris Declaration and the Accra Agenda for Action (OECD, 2009[37]);
- diversification of borrower profiles, including the emergence of client countries with high institutional capacity and stronger standards, with increasing interest in emphasising national standards;
- increasing relevance of the private sector in development finance;
- evaluations of the World Bank’s safeguard system (IEG, 2010[38]).
The new ESF is likely to have wide-ranging impact across sovereign operations of bilateral and multilateral development banks. Many of these – such as KfW, AFD, IADB – align aspects of their own safeguards standards with those of the World Bank (Gallagher and Yuan, 2017[24]). Annex 2 provides an overview of different institutions’ safeguard systems and highlights similarities as well as differences in safeguard systems across different institutions.

2.2. Safeguard systems in bilateral and multilateral development banks and DFIs

Safeguard systems in development banks and DFIs usually consist of a) an overarching policy statement(s), b) environmental and social standards setting out requirements and / or levels of performance, c) internal procedures and guidance indicating responsibilities of different agencies during the project cycle, and d) technical guidance on best practice in conducting environmental and / or social assessments (Horberry, 2015[23]). Specific content varies across banks, but policies generally include reference to e.g. poverty reduction and environmental sustainability as well as a categorisation of projects as per their risks and establishment of grievance mechanisms. In most systems, projects are screened early on in the project cycle to determine their category of risk and corresponding risk assessments. Box 2.3 outlines the different layers in the IFC Performance Standards.

**Box 2.3. IFC Performance Standards**

In developing its safeguards system, IFC’s aim was to make it as easy as possible for private enterprises to effectively manage environmental and social risks. This objective is largely considered to have been achieved. IFC’s safeguard system is integrated as it connects an overarching policy framework with concrete procedural rules in a pyramid:

- The Policy on Environmental and Social Sustainability is the overarching policy framework that defines broad roles and responsibilities, general commitments, principles and objectives with regard to risks. The overarching policy framework is applicable to every project.

- Performance Standards are policies that are more concrete in objectives, procedural rules and operational parameters. They are issue-specific – focusing on e.g. climate change, labour conditions, involuntary resettlement, biodiversity conservation, rights of indigenous groups – and not applicable to all contexts.

- Practical guidance accompany each performance standard with applicable notes or manuals that describe the ‘how to’ in implementing policies and rules. This includes a description of internal processes through which impacts are to be assessed, mitigated, monitored throughout the project cycle.
The safeguard approach among bilateral, private-sector-oriented DFIs are largely aligned with IFC Performance Standards and harmonised within this group. A collective policy statement on responsible financing applies to all EDFI members for example (EDFI, 2009[32]). This common policy statement is supported by harmonised Environmental and Social Standards, which include definitions of categories of risks, requirements for due diligence and monitoring, and an exclusion list. Harmonisation of these standards across EDFI members facilitates co-financing and creates a level playing field.

Safeguards differ for approaches involving financial institutions (e.g. credit lines) and policy lending, where different financing structures are in place which require different environmental and social standards (Dann and Riegner, 2015[40]). When providing credit lines for on-lending through partner financial institutions, donors usually assess the financial institution’s environmental and social management system alongside its capacity to assess and mitigate impacts from future sub-projects. Individual sub-projects are however usually not reviewed by the multilateral or bilateral development bank issuing the credit line to its partner financial institution. In some cases, donors provide technical assistance to improve the capacity of the partner financial institution. For example, as part of their financial support for renewable energy channelled through the Indian Renewable Energy Development Agency (IREDA), AsDB, AFD, JICA, and KfW have supported institutional capacity building, including the setup of a specific environmental and social safeguards unit (AsDB, 2015[41]). AFD’s Environmental and Social Risk Management Policy specifies that it can provide technical assistance to support financial intermediaries to comply with its requirements (AFD, n.d.[30]).

In the case of policy-based lending the safeguards process described above is not applied, but the potential environmental and social impacts of policy change are assessed (IEG, 2015[42]). Where potential risks are identified, the capacity of the borrower to manage such risks is usually reviewed and capacity building measures are identified.

2.3. Moving towards a country systems approach

Most safeguards policies of bilateral and multilateral development banks recognise the environmental and social standards of borrower countries as the baseline standard against which projects must comply, but also require borrowers to comply with the bank’s
safeguards policies and procedures. However, improved capacities in many middle-income countries and the increasing financial footprint of national development banks from emerging economies is driving an increasing trend in reliance on country safeguards systems. A recent comparison of systems across bilateral, multilateral and emerging economy development banks in Latin America highlights a spectrum of safeguards approaches based on their reliance on country systems (Gallagher and Yuan, 2017[24]).

Banks on one end of the spectrum (e.g. the World Bank under its previous safeguard system7, IADB) require mandatory alignment with international standards. On the other end of the spectrum, development banks from emerging economies (e.g. BNDES, CDB) recommend alignment with country standards but may not monitor or review the system in place. Banks in the middle of the spectrum (e.g. CAF) recognise international standards but may take “a more flexible approach” in integrating environmental and social safeguards in the project cycle (Gallagher and Yuan, 2017[24]). Some banks (e.g. AFD, KfW) can adopt standards of other development banks and DFIs if outcomes are consistent with their own standards (e.g. in the case of co-financing of projects).

References to a country systems approach are included in the safeguards policies and frameworks of most MDBs and bilateral banks. Corresponding to the trend of increased reliance on country systems, banks assess the alignment of in-country standards as well as implementation and enforcement mechanisms with their own standards. In case of sufficient alignment, banks can use the partner country’s system rather than their own (AsDB, 2009[43]). As a first step, many MDBs – including IADB, AfDB and AsDB – have begun to assess and review country safeguards systems against their own systems. However multilateral and bilateral development banks have in practice only relied on country systems in a handful of pilot cases (Larsen and Ballesteros, 2014[27]). Going forward though, this is likely to change. The World Bank’s ESF puts a much greater emphasis on the use of ‘borrower frameworks’ than before, and stipulates that these frameworks can be used instead of the Bank’s environmental and social standards if similar outcomes are assessed to be achieved under both frameworks (World Bank, 2017[44]).

Key to the use of country safeguards systems is the provision of dedicated support for the strengthening of country frameworks. The World Bank’s ESF identifies the need for greater capacity building in this area, as do safeguards policies of other development banks. AsDB, for example, has provided over USD 45 million in technical assistance on safeguards strengthening since 2009 (AsDB, n.d.[45]). Strengthening country systems usually includes analytical and advisory support to identify gaps in the policy framework for environmental protection as well as capacity building to support institutions and individuals in assessing environmental risks of projects and implementing mitigation measures. For example, environmental impact assessment (EIA) guidelines have been developed by the EU-supported African Caribbean and Pacific Group of States Multilateral Environmental Agreements project. Similarly, SIDA supported the government of Lao PDR from 2001 to 2010 through the Strengthening Environmental Management (SEM) programme to develop environmental regulations and strengthen staff capacity to carry out and review EIAs (Slunge, 2010[46]).

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7 The World Bank’s ESF will apply to all new investment projects from October 2018. The current safeguard system will be applied in parallel for seven years to projects approved before this date (World Bank, 2017[44]).
2.4. Implementation of safeguards faces contextual and institutional challenges

The implementation of safeguards faces several challenges, both due to country context as well as within development banks and financing institutions themselves. The following section draws from interviews with experts from development banks and DFIs, donor governments and think tanks.

One of the key bottlenecks are weaknesses in the enabling environments in many developing countries. While some countries lack robust policies and regulations for environmental protection, other countries may exhibit well developed policy frameworks, lack of enforcement and compliance capacity. For example, recent OECD investment policy reviews of Viet Nam and Lao PDR demonstrate that a lack of capacity in agencies responsible for reviewing EIAs is a barrier to environmental protection efforts (OECD, 2017[47]) (OECD, 2018[48]). In interviews conducted as part of the research for this paper, experts in development banks and DFIs highlighted that many implementing agencies lack technical capacity and human resources to adhere to international standards DFIs. Additionally, consultants or experts to conduct environmental assessments, develop strong environmental management plans, and/or implement and monitor actions risk mitigation measures are often missing.

Within development banks and DFIs, the awareness of environmental and social risks in all levels of the organisation often shapes the implementation and practical reality of the way safeguards policies are applied (von Bernstorff and Dann, 2013[35]). Safeguards specialists may only be involved in detail in higher risk projects, whereas sector, regional and country offices are involved in all projects. The latter however often lack the technical capacity and/or awareness regarding environmental and social risks (IEG, 2015[42]). One issue is the monitoring of safeguards actions after the project is underway which is affected by a lack of time and capacity, both within institutions and in implementing agencies in developing countries. According to a review of safeguards implementation at AsDB, insufficient environmental safeguards expertise in resident missions and executing government agencies, meant that there was sometimes ‘a limited appreciation of and follow-up on environmental issues during project review missions’ (AsDB Independent Evaluation Department, 2016[49]).

Interviews conducted as part of the research for this paper illustrated that for non-safeguards specialists, compliance with elaborate safeguards procedures may sometimes be seen as an additional task in an already busy workload. In addition, internal incentives in development banks and DFIs, especially in the case of sovereign operations, can be driven by the need to process projects swiftly, and not necessarily mitigation of environmental and/or social risks (OECD / World Bank / UNEP, 2018[50]). In these cases, a conflict and potential misalignment between the need to implement effective safeguards and minimise environmental risks on the hand and operational objectives related to project processing on the other hand may arise.
3. Mapping donor shareholders’ engagement on environmental issues

The evolution of environmental safeguards illustrates the responsiveness of banks to global policy and other external drivers as well as to the ability of shareholder governments to set the agenda for development banks and DFIs. Development banks and DFIs are an important channel of development finance for members of the DAC. As shareholders and investors in these institutions DAC governments influence their activities and portfolios, and can help enable these banks to improve their environmental footprints while ensuring overall effectiveness and efficiency of their operations. This section presents findings from a survey of DAC member governments and their efforts to integrate environmental considerations into the activities of development banks and development finance institutions.

3.1. Why do donors rely on development banks and DFIs?

In principle, the development banking model is an efficient form of mobilising and allocating capital towards development objectives (Austrian Federal Ministry of Finance, 2015). Development banks can leverage the strong credit ratings of their shareholders to raise finance from capital markets and provide these to developing countries at market or preferential terms. Development banks also provide financing to countries or regions who may not have access to finance at all. Annex B maps the major bilateral and multilateral development banks and DFIs supported by DAC members.

Development banks also help to attract private finance for development purposes. The presence of their financing helps create confidence for private investors, and increasingly these institutions play a more direct role in mobilising private finance by mitigating risks at the project level (OECD, 2018). This is particularly true for bilateral DFIs working solely with the private sector. Several donor governments have set up bilateral DFIs to act as ‘pathfinders’ by investing in private companies and projects without access to commercial investment, to ultimately attract commercial capital further down the line (OECD, 2018).

In addition to leveraging and mobilising capital, shareholders and the international community are calling for development banks and DFIs to contribute substantively to promoting global public goods and responses to global crises, such as climate change. A high-level panel on the ‘Future of Multilateral Development Banking’ in 2016 called for a repurposing of the MDB system to deal with new development challenges including climate change alongside the urgent need for sustainable infrastructure (Ahluwalia et al., 2016). More recently, a G20 Eminent Persons Group (EPG) called for MDBs to provide responses to ‘growing threats to global commons’ and to realign themselves to ‘a set of core development principles’ (G20 Eminent Persons Group, 2018).

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8 The survey was circulated to ministries concerned with development, finance and environment in DAC member countries, and joint responses were received from 20 members.
3.2. How do DAC shareholder governments engage with MDBs on environmental issues?

3.2.1. DAC members engage with MDBs at policy and project level to identify potential environmental impacts

Donor shareholder governments usually engage with MDBs at a strategic level (on policy) and at an operational level (on projects) on environmental issues. Most governments review policies and strategies of the banks and provide inputs and comments when these have been evaluated or are being updated. 17 out of 20 members responding to the survey stated they engage on environmental issues at this level (see Figure 3.1). Most recently, the review of the World Bank’s ESF highlighted that shareholders do engage on this issue, including through dialogue facilitation across ministries. Canada, for example, facilitated an internal consultation among departments to provide comments on the review of the ESF.

In addition to reviewing environmental policies and strategies of banks, some DAC shareholder governments of MDBs also systematically push for the integration of environmental issues in general policies (such as procurement, human resources, budget allocations). Additionally, donors use the development of sector and regional policy as entry points to integrate environmental concerns.

Donor shareholder governments also review individual MDB projects. 17 out of 20 members engage in project level review of MDB projects, but the extent of scrutiny expended varies significantly, often depending on available resources. Approaches to country engagement vary across a spectrum. At one end, countries take a reactive approach and review project impacts when concerns are brought to them externally, e.g. by country offices or civil society. In the middle of the spectrum, countries engage proactively above a certain project risk threshold that often applies to large infrastructure projects. At the other end of the spectrum, countries review MDB projects systematically, often bringing in staff from different ministries. Just under half of the survey respondents reported that review teams do not always include staff with environmental expertise. Only four countries conduct independent field missions to review projects, most often through Executive Director’s (EDs) offices.
3.2.2. Executive director’s offices in MDBs play a key role in the engagement on policy issues

Donor shareholders contribute to the core funding of MDBs through ‘callable’ and ‘paid in’ capital, engaging in the replenishment of ‘soft’ windows of the banks. They also support specific trust funds or multi donor facilities focusing on specific geographies or thematic priorities. They engage with MDBs on environmental issues mainly through boards of directors, with the main entry point being the EDs offices. Some countries have their own EDs on the board of selected MDBs and associated staff to support them, others work through constituencies represented by one member on a rotating basis. Project and policy documents tabled at board meetings are usually reviewed by staff in ED’s offices, at times with a focus on policies and strategies, and critical projects. ED’s offices share documents with capitals and embassies, as relevant.

In terms of driving a discussion on particular issues at the board level, many countries take a strategic approach. For example, one DAC member uses the engagement in different banks to push for harmonization and coherent practices across the MDBs. Another focuses on supporting “cross-fertilization and co-ordination across MDBs (and UN agencies and conventions) in environmental strategies and programmes”. Often, countries work together with other members of the board to push for, or oppose, certain issues. Survey responses highlighted that one of the approaches used in driving better environmental integration is to systematically oppose certain investments, such as investment in coal power projects.

3.2.3. Going beyond minimising negative environmental impacts of development projects

Donor shareholder governments also engage in promoting more environmental and / or climate-related activities at MDBs, for example, by urging them to adopt environmental and / or climate targets, and integrating environmental indicators during capital replenishment and trust fund negotiations. Some donor shareholders also use external
policy channels to further the discussion on MDBs’ role in supporting increased environment- and climate-related projects. Italy’s G7 Presidency supported a discussion on the alignment of MDB portfolios with the Paris Agreement, and the Hamburg Climate and Energy Action Plan for Growth under Germany’s G20 Presidency called MDBs to deliver scaled up climate action. Japan’s G7 presidency supported the Ise Shima Principles for Promoting Quality Infrastructure Investment which calls for all stakeholders, including development banks, to align with the principles.

While the aim of safeguards is to ensure that investments exercise minimal harm on the environment and those affected by development projects, increasingly, the integration of environmental and social considerations is moving towards promoting investments that actively contribute to positive social and environmental outcomes.

3.3. Policy dialogues are the main modality for engagement with bilateral development banks and DFIs on environmental issues

DAC members’ engagement with bilateral development banks and DFIs on environmental issues differs from their engagement with MDBs. While ministries do engage in policy level dialogues, fewer countries review project level impacts of bilateral development banks and finance institutions than they do for MDBs. Out of the 16 members responding to the survey who have a bilateral development bank or DFI, eight review project level impact. Amongst DAC members, engagement with bilateral development banks and DFIs also differs from each other due to the nature and position of these institutions in a country’s development co-operation architecture.

For those countries that have bilateral development banks (France, Germany, Japan), the relationship is a close one as these institutions are usually a key channel of development co-operation. In general, ministries are responsible for setting policy direction, while the banks are responsible for implementation. In these cases, environmental standards and safeguards are usually designed and applied by the banks, with limited engagement from the government. In some countries, an expert stakeholder forum is established to facilitate discussions on environmental issues. For example, JICA has established the Advisory Committee for Environmental and Social Considerations which convenes external experts from universities, civil society organisations (CSOs), businesses, government agencies, etc. to intervene on project level EIA discussions during the project decision-making process (Kamijo and Huang, 2017[55]).

Bilateral DFIs are usually run as commercial state-owned entities, even though they have an explicit development-related mandate. As ‘owners’, DAC members take a more hands-off approach, engaging through the boards to discuss strategic and policy issues, with investment and project decisions delegated to the management of the company. DAC members’ practices in influencing policy and governance of DFIs varies. Some members engage in governance dialogues with their DFI to influence priorities, and many DFIs follow the same policy priorities applicable to other channels of development co-operation. In some cases, ministries also review annual and corporate reports.
3.4. Engaging with development banks and DFIs requires inter-ministerial coordination

The main and supporting ministries involved in the governance of development banks and DFIs vary among members. In some countries, such as Austria, Norway and Switzerland, the same ministry acts as the lead for MDBs and bilateral institutions. This is usually either the ministry of finance or the main ministry in charge of development co-operation (foreign or economic affairs, or a dedicated ministry for development co-operation). In other countries, the engagement with MDBs in particular is shared between ministries, usually finance and foreign / economic affairs, respectively development co-operation. In all cases, the main ministry(s) in charge determines when to bring in other expertise, such as from the ministries of environment or environmental agencies. Some countries, including Austria, Canada, Denmark, Norway, Sweden, Switzerland and the US, systematically engage ministries of environment when reviewing projects or policies of development banks and DFIs. Some countries have established a formal mechanism to engage several ministries in advising on development co-operation that can also be used to review environmental policies and impact of projects by development banks. An example of this is Luxembourg’s Inter-Ministerial Committee for Development Cooperation.
### Table 3.1. DAC member ministries’ engagement with development banks and DFIs

<table>
<thead>
<tr>
<th>Ministries</th>
<th>Austria</th>
<th>Belgium</th>
<th>Canada</th>
<th>Denmark</th>
<th>European Commission</th>
<th>Germany</th>
<th>Ireland</th>
<th>Italy</th>
<th>Japan</th>
<th>Korea</th>
<th>Luxembourg</th>
<th>New Zealand</th>
<th>Norway</th>
<th>Slovenia</th>
<th>Sweden</th>
<th>Switzerland</th>
<th>Netherlands</th>
<th>UK</th>
<th>USA</th>
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<td>MDBs</td>
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<td>Foreign Affairs / economic affairs / development</td>
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<tr>
<td>BILATERAL DEVELOPMENT BANKS AND DFIS</td>
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**Source:** Survey of OECD DAC members (2018)

### 3.4.1. Civil society can support DAC governments’ engagement with development finance institutions

CSOs, based in both donor and partner countries, are an important channel of information for project impacts. CSOs are often closely linked to local communities in developing countries, giving them useful access to information about projects and their impacts. Almost every donor government engages with civil society about projects carried out by development banks and DFIs, but the modes and frequency of engagement varies. At the minimum, most governments respond and act on information and input received from CSOs. In some cases, regular dialogues with CSOs take place to discuss development projects. For example, the US convenes a regular meeting with CSOs to discuss development issues (including concerns about impacts of specific projects) that usually involves several ministries and agencies.
4. Donor shareholder governments support for environmental safeguards: opportunities and challenges

4.1. Safeguards policies remain essential to greening infrastructure investments in developing countries

Promoting green investment in developing countries will require actions to promote investments with an environmental objective (such as the promotion of renewable energy, management of natural capital and reduction of pollution) and ensure that all investments – green or not – have minimal social and environmental impacts during their construction and operation, and manage the residual risks appropriately.

Environmental and social safeguards are an important element of providing development finance that delivers sustainable development outcomes. By assessing environmental and social risks at the start of the project, development banks and DFIs can minimise and manage risks in support of the long-term development impact and overall effectiveness of the project. While application of international standards can be time-consuming for donor and partner country institutions, these standards can demonstrate good environmental and social practice, including in relation to infrastructure projects. A recent analysis of IADB-funded projects found that safeguards were instrumental in increasing project performance (Georgoulias, Arrasate and Georgoulias, 2017[56]). Similarly, a cost-benefit analysis of safeguards applied to an AsDB highway project in Sri Lanka found that safeguards implementation positively impacted the rate of return of the project when considering environmental measures such as biodiversity conservation, reducing local air pollution. (AsDB Independent Evaluation Department, 2016[49])

The implementation of safeguards is however associated with significant challenges, related to the enabling environments in developing countries as well as institution-specific barriers. Table 4.1 provides an overview of challenges remaining.
Table 4.1. Challenges to the implementation of safeguards

<table>
<thead>
<tr>
<th>Weaknesses in the enabling environment in partner countries</th>
<th>Contextual challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weaknesses in the enabling environment in partner countries</td>
<td>• Lack of robust policies and regulations for environmental protection, including weak environmental standards regulating emissions to air and water</td>
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<tr>
<td></td>
<td>• Insufficient enforcement and compliance capacity in partner countries</td>
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<tr>
<td></td>
<td>• Lack of institutional, technical and human resource capacity in partner country implementing agencies</td>
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<table>
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<tr>
<th>Gaps in safeguard standards</th>
<th>Institution challenges</th>
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<tbody>
<tr>
<td>Gaps in standards between lenders and client countries: Continued reliance on safeguards of development banks and DFIs, leading to parallel systems applied in partner countries and foregone opportunities to enhance country safeguard systems</td>
<td>• Safeguard specialists only involved in higher risk projects</td>
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<td></td>
<td>• Sector and regional specialists and country offices involved in all projects: lack of technical capacity or awareness about environmental and social impacts</td>
</tr>
<tr>
<td>(1) Diverging reporting requirements of different multilateral and bilateral development banks and financing institutions leading to additional resource strain in partner country implementing agencies</td>
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<tr>
<td>(2) Risk of diluting the quality of safeguards</td>
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<table>
<thead>
<tr>
<th>Insufficient awareness of environmental and social risks</th>
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<tbody>
<tr>
<td>Incoherent vision</td>
<td>• Compliance with safeguards seen as an additional, non-primary task by non-safeguard specialists involved in compliance and compliance control</td>
</tr>
<tr>
<td></td>
<td>• Perception of banks’ priorities driven by demands of shareholders and governments: project approvals and volumes indicated as more relevant than safeguarding for risks</td>
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<table>
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<tr>
<th>Incentive schemes</th>
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<tr>
<td>Often targeted towards processing projects and initiating implementation efficiently, not necessarily towards the avoidance of environmental and social risks</td>
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</table>

Source: Authors based on interviews, von Bernstorff and Dann (2013[28]), IEG (2015[21]), Larsen and Ballesteros (2014[27])

4.2. Looking forward: How can collaboration among governments support strong safeguards?

Development banks’ policies and priorities, the emphasis in their portfolios, and the incentives they place on their staff, are driven by the overarching demands shareholders and governments place on the institutions. A push for development banks to be efficient, effective and relevant in developing countries, traditionally measured by project approvals and volumes, needs to be reconciled with calls for these institutions to promote global public goods and solve major development challenges. A greater emphasis on projects that deliver all aspects of sustainable development may mean that overall performance of these institutions at the corporate level should be measured equally by their sustainability outcomes, including how well safeguards have been implemented.

Donor governments – as shareholders and investors in development banks and DFIs – must continue to play an important role in encouraging these institutions to strengthen the implementation of safeguards. Governments should continue to collaborate internally (within one country), externally (across different countries), and with development banks and DFIs to support safeguards implementation, through action in the five areas outlined below.
4.2.1. Collaborate internally and externally to support project-level review

While project-level review in sovereign operations can be time-consuming for donor governments, interviews conducted for this paper highlighted that this review process can act as an added layer of accountability and strengthen safeguards recommendations for a project. As shown in Section 3, many DAC governments do not have the capacity and resources available to review projects systematically. Strengthening existing internal and external measures to share information could be useful in these cases. Governments could work across ministries to share information on projects to help focal agencies engaging with development banks and DFIs to better understand, minimise and manage risks associated to given projects. When applicable, governments engaging in field visits could actively share reports with other governments to facilitate the exchange of information, including with respect to safeguards-related issues.

4.2.2. Provide technical assistance to build country safeguards systems

Governments could continue to provide technical assistance to strengthen and build country safeguards systems. One example of this is the Community of Practice on safeguards and principles on joint collaboration, set up by the World Bank, AsDB, JICA, Australia’s Department of Foreign Affairs and Trade and USAID. In many developing countries, policy reform on environmental management, including EIA, is being supported by development co-operation providers. Going forward, this support could further target gaps in country systems identified through diagnostic reviews carried out by development banks and DFIs.

4.2.3. Encourage harmonisation of environmental safeguards across development banks and DFIs

While most multilateral and bilateral development banks’ standards are generally aligned, their requirements in terms of reporting can differ, which increases the work load for partner country implementing agencies who may already lack human resources. Governments could promote a discussion with development banks and DFIs on safeguards harmonisation, keeping in mind different institutional requirements and contexts.

Further, the difference in the stringency of standards applied across multilateral, bilateral and national development banks and DFIs exacerbates the challenges for partner country implementing agencies and risks diluting the quality of safeguards overall. A focussed dialogue between governments on greater alignment in environmental safeguards standards across development banks and DFIs could be useful to highlight potential gaps and opportunities.

4.2.4. Build the evidence base on the impacts of safeguards in projects

More evidence on the impact or effectiveness of safeguard measures in development banks and DFIs would help to establish a clear understanding of their value across all stakeholders. Evaluations of safeguards implementation by development banks provide useful information on lessons learned in their application. However, only few assessments of the costs and benefits associated with safeguards, including how and in what situations they may cause delays, exist (IEG, 2010[57]). One of the issues highlighted is the lack of information on costs related to safeguards compliance at the project level which hampers

9 See https://countrysafeguardsystems.net
application of cost-benefit analysis for safeguards (AsDB Independent Evaluation Department, 2016[49]). While some institutions, such as the IADB, recognise this issue, and are initiating efforts to analyse the overall value of safeguards, further research in this area is needed. A framework to identify and track the impacts of safeguards could be useful to help shareholders understand the importance of safeguards and review their effectiveness.

4.2.5. Promote policy dialogues across DAC and non-DAC governments to maintain momentum on environmental safeguards standards

Policy dialogues between governments and banks, especially between DAC and non-DAC providers of development finance, on the impacts of safeguards and the broader integration of environmental considerations into development projects could be useful to maintain momentum on the management of environmental risks. Pursuing these at an international level through existing multilateral processes, such as the G20, could allow for this.

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10 This was the theme of an IADB lead workshop “Working towards measuring the value of environmental and social safeguards in international development”, held on 20 April 2018.
References


BNEF (2016), *Bloomberg New Energy Finance (BNEF) online asset finance data*.


IEG (2010), *Safeguards and Sustainability Policies in a Changing World*, Independent Evaluation Group, Washington, D.C., [https://openknowledge.worldbank.org/bitstream/handle/10986/2571/638960PUB0Safe00Box0361531B0PUBLIC0.pdf?sequence=1&isAllowed=y](https://openknowledge.worldbank.org/bitstream/handle/10986/2571/638960PUB0Safe00Box0361531B0PUBLIC0.pdf?sequence=1&isAllowed=y) (accessed on 20 April 2018).


Annex A. Comparing environmental safeguards systems across development banks

Table A.1. Overall scope of safeguards systems

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<thead>
<tr>
<th>SUBSTANTIVE / THEMATIC AREAS</th>
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<td>Operational Safeguard 1, Environmental and Social Assessment; Operational Safeguard 4: Pollution Prevention and Control, Hazardous Materials and Resources Efficiency</td>
<td>OP-703, Environment and Safeguards Compliance Policy; OP-704, Disaster Risk Management</td>
<td>Performance Standard 1, Assessment and Management of Environmental and Social Risks and Impacts; Performance Standard 3: Resource Efficiency and Pollution Prevention</td>
<td>ESS 3: Resource Efficiency and Pollution Prevention and Management; ESS 4: Community Health and Safety</td>
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<td>Physical cultural resources and heritage</td>
<td>Safeguard requirement 1.10. Health and Safety Safeguard requirement 11. Physical Cultural Resources</td>
<td>Operational Safeguard 1, Environmental and Social Assessment</td>
<td>OP-703, Environment and Safeguards Compliance Policy</td>
<td>Performance Standard 8: Cultural Heritage</td>
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**PROCEDURES AND PROCESSES**

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| Consultation requirements | Safeguard requirements 1.4. (applicable to the environmental dimension) and 2.6. (applicable to the social dimension), both on Consultation and Participation | Safeguard requirement 3.D.1 Consultation and Participation applicable to IP | Operational Safeguard 1, Environmental and Social Assessment [limited?] | Yes | Yes – throughout, including Performance Standard 1, Assessment and Management of Environmental and Social Risks and Impacts |
| Safeguard requirements 1.4. (applicable to the environmental dimension) and 2.6. (applicable to the social dimension), both on Consultation and Participation | Safeguard requirement 3.D.1 Consultation and Participation applicable to IP | Operational Safeguard 1, Environmental and Social Assessment [limited?] | | |

| Grievance procedure | Safeguard requirements 1.5. (applicable to the environmental dimension) and 2.8. (applicable to the social dimension), both on Grievance Redress Mechanism | Safeguard requirement 3.D.5 Grievance Redress Mechanism applicable to IP. | Operational Safeguard 1, Environmental and Social Assessment [limited?] | Yes | Performance Standard 1, Assessment and Management of Environmental and Social Risks and Impacts |
| Safeguard requirements 1.5. (applicable to the environmental dimension) and 2.8. (applicable to the social dimension), both on Grievance Redress Mechanism | Safeguard requirement 3.D.5 Grievance Redress Mechanism applicable to IP. | Operational Safeguard 1, Environmental and Social Assessment [limited?] | | |

Source: Adapted from (Larsen and Ballesteros, 2014[27]) (Gallagher and Yuan, 2017[24]) (Horberry, 2015[23])

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11 ADB has in place a separate Climate Risk Management process involving screening of climate risks, followed by completion of detailed Climate Risk and Vulnerability Assessment for medium-high risk projects.
## Annex B. Mapping shareholders of bilateral and multilateral development banks and DFIs

### Table B.1. Mapping DAC members support for bilateral and multilateral development banks and DFIs

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*Source:* Survey of DAC members, websites of MDBs