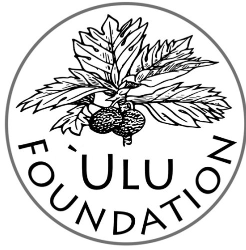

From Volkswagen to Infrastructure Finance,
You Get What You Inspect, Not What You Expect:

The Risks of Client Self-Assessment, Self-Monitoring, and Self-Regulation at the World Bank and the Asian Infrastructure Investment Bank

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The world has been rocked by the recent admissions by Volkswagen, one of the world's leading automotive manufacturers, of massive global emissions assessment fraud, using rigged monitoring devices and affecting over 11 million vehicles which reportedly have been spewing pollutants into the environment at up to 40 times the allowable standards. This as well as other mega-scandals of recent years, including the actions of Enron, British Petroleum in the Gulf of Mexico, not to mention the banking sector, all point to the fundamental need to have firm mandatory rules in place and to protect the public by transparent monitoring of the adherence to these rules. This should certainly apply to all industries and activities that have the potential to create massive social and environmental harm – such as mining, mega-hydropower developments, forest industries and large-scale industrial plantations

This is why it is utterly unacceptable that public financial institutions designed to reduce poverty and build infrastructure seem to be heading in exactly the opposite direction. Instead of insisting on mandatory rules and robust and independent monitoring of projects, investments, and operations likely to have enormous social and environmental impacts, they propose new policies designed to be "flexible" so as to be convenient to their private and public sector clients and to rely primarily on borrower information for most of their decision-making.

The new draft environmental and social frameworks at both the World Bank and the Asian Infrastructure Investment Bank (the latter is scheduled to become operational in early 2016) now feature an overreliance on client self-regulation, self-assessment, self-monitoring and self-reporting.

This does not work, in general, and will be especially problematic in the sectors that these financial institutions will be focused on, including mining, mega-hydropower, industrial logging, road construction, and large-scale power plants. The problems will multiply as multilateral banks increasingly rely on opaque "financial intermediaries" to channel their loans for these high risk investments.

Existing World Bank safeguards require proof of up-front environmental and social protection measures, including mandatory and transparent environmental and social impact assessments prior to any decision on the funding of an investment. This also includes a commitment to Bank oversight, clear requirements for the content of impact assessments, including meaningful and timely public consultations, and the right to make public input during the period prior to appraisal (approximately 120 days prior to a Board decision to fund a project) on projects with significant impacts on lives and

livelihoods. In addition, there is a clear role for the relatively independent Bank Inspection Panel to investigate violations of the Bank's unambiguous and mandatory safeguards.

Current World Bank policies also require that, in cases where national systems of environmental and social safeguards are to be applied, there is a prior evaluation of these systems to ensure that they are at least equivalent to the environmental and social protections enshrined in the World Bank's Safeguard Policies. If national systems prove to provide equivalent environmental and social protections, they may be used in place of Bank safeguards, subject to Bank oversight and monitoring.

This does not mean that all is well with the existing systems, especially when it comes to fast-disbursing policy lending which is exempt from environmental and social rules. Disturbingly, World Bank policy loans have encouraged the weakening of a country's existing rules to protect land rights, public access to information and environmental assessment.

However, instead of promoting much improved implementation of these environmental and social protections, the World Bank is proposing the evisceration of these protections, including the elimination of clear and mandatory equivalence testing prior to the use of national systems and the initiation of an overreliance on borrower self-assessment and self-regulation. This represents a **dangerous and unprecedented dilution of existing protections, likely to result in significant harm to local communities and the environment**.

The World Bank's new proposal also represents the opposite of the approach used (at least on paper) by the Asian Development Bank which -- after an exhaustive five year review, and massive participation and input from communities and civil society across the Asia Pacific region - concluded, rightfully, that not only was it crucial for the provider of funds to ensure reliable and independent assessment, monitoring, and reporting on the use of funds by clients, but that it was actually necessary to increase the amount of oversight, given environmental and social harms to project-affected communities.

As a result, the ADB -- among other things -- increased its oversight requirements for opaque financial intermediaries engaging in projects with significant risk and requires communities to be allowed a 120 day comment period on operations which may substantially affect their lives and livelihoods. The ADB developed a greater focus on gender concerns and bans investments which destroy critical habitat or support nuclear power. The ADB fully supports efforts by borrowers to improve their national systems so that they reach the same level of environmental and social protections provided by the ADB. The ADB has a clear and mandatory method of testing the equivalence of national safeguards with those of the ADB in order to ensure maximum use of country systems without any loss of environmental or social protections. Its labor protections, though, are not as strong as those of other institutions.

Instead of following the example of the ADB or drawing upon existing World Bank safeguards, the newest player in the global financial architecture, the AIIB, plans to adopt the toxic gospel of client self-regulation for infrastructure, a sector well known for significant environmental, social, and corruption risks.

In the global competition for business and investment opportunities, both the World Bank and the AIIB seek to replace their own responsibility for environmental and social outcomes with an overreliance on borrower/client self-regulation. This flies in the face of experience in developed and developing countries, alike.

As the fraud perpetuated by Volkswagen -- rigged monitoring devices representing a massive threat to human health - -- and the many cases brought before the World Bank Inspection Panel and the IFC Compliance Advisor Ombudsman demonstrate**, you get what you inspect, not what you expect**.

This absolutely applies to multilateral development bank support for infrastructure development, a field with high environmental and social risks, by its very nature.