

Recommendations for the Japan Bank for International Cooperation's Environmental Guidelines

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The Study Group on
Environmental Guidelines for the
Japan Bank for International Cooperation (JBIC)

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Recommendations for the Environmental Guidelines for Japan Bank for International Cooperation (JBIC)

The Study Group on Environmental Guidelines for Japan Bank for International Cooperation (JBIC)

1. Preface

1.1 Background of Study Group Discussions

The Study Group on Environmental Guidelines for Japan Bank for International Cooperation (henceforth, “the Study Group”) was established according to “the Principles for the Establishment of the Study Group on Environmental Guidelines for Japan Bank for International Cooperation (See Appendix 1).” The first meeting of the Study Group was held on October 6, 2000 and the 16th and last meeting on July 25, 2001. The Group discussed a wide range of topics. The minutes of the meetings are available on the Study Group web site (See <http://www.sg-egl-jbic.org/>).

1.2 Nature of the Report

This report is based on the discussions at the Study Group meetings and has been compiled as a summary of the Group’s recommendations on the integrated Environmental Guidelines for Japan Bank for International Corporation (JBIC)¹. As the Group’s discussions have been made public through the meeting minutes, this report will focus on specific recommendations for structure and wordings of the Environmental Guidelines. However, additional explanations are provided for portions where members’ opinions differed greatly and/or clarifications are in order.

1.3 Incorporation of the Recommendations

These recommendations are a result of constructive discussions among diverse members of the Study Group, including experts, NGOs, a Diet member, relevant government officials and JBIC staff, who made efforts to build mutual understanding and achieve consensus as much as possible. This process has been unique and can thus become an important model, according to which JBIC can increase its transparency, as well as make accountable assessments and policy decisions by incorporating diverse views, including those of experts.

¹ At present, JBIC has two different environmental guidelines, one for international finance operations (formerly the operations of the Japan Export Import Bank) and the other for overseas economic cooperation operations (formerly the operations of the Overseas Economic Cooperation Fund). It has been committed

The Study Group sincerely hopes that the recommendations described here will be utilized to the maximum extent in order to establish integrated Environmental Guidelines for JBIC.

1.4 Relation to the Work of the OECD Working Party on Export Credits and Credit Guarantees (ECG)

The Working Party on Export Credits and Credit Guarantees (ECG) at the Organization for Economic Cooperation and Development (OECD) is currently making efforts towards establishing an internationally common approaches on environment and officially supported export credits. The Study Group examined issues independently of the on-going discussions at the ECG. Given that the ECG consists of a variety of organizations of diverse sizes, experiences, and problem-solving capacities regarding environmental considerations, an internationally common approach obtained as a result of their discussions is likely to be much simpler, even when compared to the current environmental and social considerations applied by JBIC. Environmental Guidelines for JBIC should not be confined within an internationally common approach drafted at OECD/ECG. JBIC should establish guidelines of high quality, such as those proposed in this report, and in fact should be expected to play a role in raising the standard of the ECG on this issue.

1.5 Characteristics of the Japan Bank for International Cooperation (JBIC)

The Study Group spent a considerable amount of time examining possibility of incorporating procedures and standards established by the World Bank Group into the Environmental Guidelines. However, the Study Group realized that JBIC grossly differs from organizations in the World Bank Group in the timing of their involvement in projects and the support they extend to project proponents, due to the differences in objectives and functions. More specifically, World Bank Group organizations, as international development assistance agencies, work closely with governments of recipient countries and/or project proponents even at project preparation stages and lend generous support, including grants, such as through technical assistance (TA), in their efforts to incorporate environmental considerations. In contrast, JBIC's operations in international finance begin when project proponents in the private sector prepare and submit loan requests to JBIC. Likewise, for JBIC's operations in overseas economic cooperation, it is difficult for the Bank to involve itself in and lend support to a project at preparatory stages. While the ensuing recommendations are based on the recognition of such differences in characteristics between JBIC and the World Bank Group organizations, they follow international standards as closely as possible.

that JBIC will establish new and integrated environmental guidelines for both operations.

1.6 Further Issues

The Study Group has played an important role in facilitating mutual understanding as well as in exchanges of opinions among those who have serious concerns over JBIC's policies towards environmental considerations. Concerns are not merely in regard to the Bank's establishment of integrated Environmental Guidelines, but also its appropriate compliance and revision of the Guidelines. Therefore, the Study Group suggests that a similar function be carried on by some mechanism, where further exchanges of opinions will be possible.

2. Philosophy behind Environmental Guidelines

The Study Group would like to suggest that integrated Environmental Guidelines be established in the following manner:

- 1) Incorporate social and environmental lessons learned from the accumulated experiences of many different countries;
- 2) While considering differences in the international financial operations and the overseas economic cooperation operations, focus on common concerns in order to integrate the Guidelines as much as possible;
- 3) Clarify policies, procedures, and criteria in concrete terms. If international standards have already been established, they should be referred to, whenever appropriate; and
- 4) Describe clearly as good practice those obligations which should be encouraged but which may be difficult to impose upon borrowers and/or the project proponents.

3. Structure and Content of Environmental Guidelines

In this section, the Study Group would like to present in as concrete terms as possible the structure and content of the integrated Environmental Guidelines, in accordance with the basic principles described in the previous section. While some details still remain unsettled, the Group hopes that JBIC will now take concrete steps towards establishing Guidelines, by taking notice of the significance of the discussions at the Study Group.

3.1 Preface

It is important that JBIC declares in some part of the preface its position on the establishment of the Environmental Guidelines, and to cite standards (e.g., international treaties and other relevant

legal instruments) on environmental and social considerations (henceforth, “environmental considerations”), which are internationally established.

“The preface” should state the following:

Preface

- The Japan Bank for International Cooperation (JBIC) shall undertake its operations, such as loan disbursement, in accordance with the promotion of “sustainable development,” as well as principles, conventions, and agreements both environmental considerations and human rights, which are agreed upon internationally and supported by the government of Japan.
- In order to carry out good environmental practices, JBIC shall establish, make public, make available to loan applicants, and put into effect Environmental Guidelines to clarify concrete measures, procedures, and standards.

JBIC’s operations referred to here include all its funding activities, including export credits, untied loans, yen loans, and overseas investments.

Equity participation should be differentiated from loans, for JBIC’s direct involvement in the management of the former can imply a more significant role as well as greater responsibility to promote environmental considerations. While decision-making processes involving equity participation may differ from loans, information disclosure and environmental review should be carried out in accordance with the Guidelines, and this should also be stated in Guidelines.

Principles, conventions, and agreements on human rights include the Universal Declaration of Human Rights, the Vienna Declaration and Program of Action, International Covenants on Human Rights, various resolutions and recommendations adopted by UN human rights organs, the International Convention on the Elimination of All Forms of Discrimination Against Women, the Beijing Platform of Action, and International Labor Organization (ILO) Conventions.

These treaties and other legal instruments state that it is the obligation of government to protect human rights of both individuals and groups, regardless of sex, race, and ethnicity. While some might claim that human rights can be interpreted in relative terms and that they cannot be imposed upon governments that have not ratified relevant international agreements, international human rights law requires that respecting and promoting human rights is a universal and indisputable obligation, and doing so does not interfere with the sovereignty of the government. It goes without saying that human rights standards, unlike some quantifiable criteria, cannot be defined in clear-cut

terms. However, for that very reason, JBIC is required to pay due regard to these standards through collecting information on overall human rights situations of a recipient country, while making decisions on project funding.

3.2 Principles on Environmental and Social Considerations

Guidelines should make explicit JBIC's principles on environmental and social considerations.

Based on discussions at the Study Group meetings, the following principles are recommended:

- JBIC shall use various measures to prevent or mitigate environmental and social impacts caused by projects it funds, so that they will not bring about unacceptable effects and instead will contribute to sustainable development.
- JBIC shall make clear in its Guidelines the environmental and social considerations which must be fulfilled by projects to receive JBIC support, and when decisions on projects are to be made, environmental reviews will be conducted to ensure that the requirements are duly satisfied.
- JBIC shall make best efforts to ensure that projects to be supported will continue to meet the requirements through such means as loan contracts.
- Even after decisions over funding have been made, JBIC shall, if necessary, monitor or take steps to encourage borrowers and related parties to ensure that sufficient environmental considerations are undertaken.
- JBIC shall encourage borrowers and related parties to promote environmentally good practices, from the earliest stage possible, when JBIC participates in the planning and the preparation of projects.
- To achieve good environmental considerations, JBIC takes note of the importance of transparent and accountable processes, as well as the participation of all stakeholders, in particular, local residents.
- JBIC may support borrowers and related parties' efforts to implement environmental considerations, when such support is recognized as appropriate to promote sustainable development in developing countries.
- JBIC shall consistently strive to improve its organizational structure and operational ability to ensure sufficient and efficient achievement of environmental considerations.

While some Study Group members proposed that Environmental Guidelines should promote proactive efforts to fund environmental projects, the Group could not afford to lead elaborate discussions on such policy-level matters, and thus decided not to include the proposal in this report.

3.3 Objectives of Environmental Guidelines

Objectives of Environmental Guidelines must be clearly stated.

More specifically, the following two objectives should be described:

Objectives of Environmental Guidelines

- 1) To promote the appropriate implementation of environmental and social practices by borrowers and related parties, applicants for JBIC loans, by way of indicating environmental requirements and good practices; and
- 2) To outline procedures for JBIC's environmental considerations (both before and after loan decisions are made) and standards for environmental review.

3.4 Environmental Considerations Required for Projects

Based on the assumption that environmental considerations are primarily the project executor's obligation, the Guidelines should:

- 1) Specify in concrete terms environmental requirements that the Bank wants a project to meet.

It is also desirable to state in the Guidelines that:

- 2) Borrowers and other project proponents who use JBIC funds to carry out a project must demonstrate to the Bank that the project meets the environmental requirements.
- 3) JBIC, upon deciding to fund a project, needs to judge that the project meets the environmental requirements.

Clarifying the requirements should enable applicants for JBIC loans to prepare in advance.

These requirements and ideas to be respected by funded projects are fundamental and thus should be considered as applicable to JBIC's operations, regardless of whether they are international financial operations or overseas economic cooperation operations.

Close examination of international conventions, agreements, JBIC's present Environmental Guidelines, as well as other guidelines established by international organizations has led the Study Group to recommend that the following descriptions be included in the Guidelines. It should be added here that the Guidelines can only make basic statements, so it is necessary to provide a manual or specific criteria for reference upon putting the Guidelines into effect.

Environmental Considerations Required for Projects

- In order to prevent adverse environmental or social impacts of projects, JBIC requires projects to be prepared in an environmentally and socially appropriate manner, in principle, in line with the following requirements appropriate for the nature of the projects.

(Underlying Principles)

- Environmental and social impacts that may be caused by a project should be assessed and examined from the earliest planning stage possible. Alternatives or mitigation measures to avoid or decrease such adverse impacts should be examined and incorporated into the project.
- Such examination should include analysis of environmental and social costs and benefits in as quantitative terms as possible, and be conducted in coherence with economic, financial, institutional, social, and technological analysis of the project.
- Environmental and social analysis shall include alternative and mitigation measures and be recorded as individual documents or as parts of other documents. Detailed Environmental Impact Assessment (EIA) reports shall be produced for projects with potentially large adverse impacts.

(Examination of Measures)

- Multiple project alternatives shall be examined to prevent or minimize adverse impacts and to help choose the environmentally better project options. Among the measures, highest priority shall be to prevent environmental impacts, and when it is not possible, minimization and reduction of impacts should follow. Compensation measures should be examined only when impacts cannot be avoided by either of the aforementioned measures.
- Together with such measures to avoid or mitigate environmental impacts, appropriate follow-up measures, such as monitoring plans or environmental management plans, including organizational structure, implementing costs, and procurement, shall be prepared. Projects with potentially large adverse impacts in particular shall be accompanied by detailed environmental management plans.

(Scope of Impacts to be Examined)

- Environmental and social impacts that should be examined include factors impacting human health and safety as well as the natural environment, such as air, water, soil, waste, accidents, water supply, and ecosystems; social concerns (e.g., involuntary resettlement, indigenous peoples, cultural heritage, landscape, gender, children's rights, and communicable diseases such as HIV/AIDS); and impacts that might lead to trans-boundary and global environmental problems.
- Derivative, secondary, and cumulative impacts shall be examined and investigated within reason, in addition to the direct and immediate impacts of projects. It is also desirable that impacts should be considered throughout project life cycles.

(Compliance with Existing Laws, Ordinances, and Standards)

- Projects should comply with regulations, standards, and environmental and social policies or plans of the host government (at both national and local levels).
- Projects should in principle be undertaken outside protected areas specifically designated by laws and ordinances of the government for the conservation of nature or cultural heritage (this exempts projects whose primary objectives are to promote the protection and the restoration of reserved areas). Projects also should not exert large adverse impacts on such areas.

(Social Consent and Social Impacts)

- Projects shall be carefully prepared so that consents of local communities for projects are acquired in a socially appropriate manner. For projects with potentially large environmental or social impacts in particular, sufficient consultations with stakeholders, including local residents, shall be held from early stages and with prior information disclosure, in order to examine alternative plans. Outcomes of such consultations should be incorporated into the project.
- Special attention should be paid to vulnerable social groups, such as women, children, elderly people, the poor, and ethnic minorities, who are most likely to be affected by social and environmental impacts and may have little access to decision-making processes. Appropriate consideration shall be given to those groups.

(Involuntary Resettlement)

- Efforts must be made to examine all possible ways to avoid involuntary resettlement and loss of means of livelihood. When involuntary resettlement is unavoidable even after such examination, effective measures to minimize impacts and compensate losses shall be agreed upon with the parties concerned.
- Residents who are forced to relocate involuntarily or forfeit their means of livelihood shall be sufficiently compensated and supported by the project proponent for an appropriate duration of

time. Sufficient compensation and support should not stop at preventing the deterioration of the quality of life, but may mean improving it as well. Measures to achieve this purpose may include providing monetary and land compensation (to cover monetary and land losses), as well as support the means for an alternative sustainable livelihood, the expenses necessary for relocations, and the re-establishment of a community at relocation sites.

- Meaningful participation of relevant stakeholders, such as affected people and communities, shall be promoted in planning, implementation, and monitoring of resettlement and rehabilitation plans.

(Indigenous Peoples)

- When a project may have adverse impacts on indigenous peoples, their rights to land and resources shall be respected in accordance with the corresponding international declarations and treaties, and appropriate measures should be taken so that all prior consents are sufficiently well informed.

3.4.2 Human Rights Considerations

Some members of the Study Group believe that human rights issues should be included as part of environmental requirements. Everyone agrees that JBIC-funded projects shall never violate human rights.

At the same time, it must be noted that human rights cover such broad issues and, while in some cases human rights violations are recognizable, in others they might be harder to substantiate.

Concerning human rights protection, a number of laws and criteria have been established to respect life, property, health, and freedoms of individuals, as well as indigenous peoples' rights. Regulations and standards to control environmental pollution have been established to safeguard people's lives, health, and property. Some feel that reinforcement of these regulations and standards will suffice.

Some countries do not have such laws and standards to protect rights of indigenous peoples and other vulnerable social groups. In such cases, international agreements, as well as policies and standards established by international organizations regarding social considerations, including those of indigenous peoples, can be referred to.

These discussions have led the Study Group to propose that human rights be viewed and described in a manner similar to "sustainable development" in "the Preface" and that environmental

considerations required for projects be elaborated upon with specific and concrete standards.

3.5 Environmental and Social Review by JBIC

It is desirable to make clear, in as much detail as possible, JBIC's basic principles regarding its environmental and social consideration reviews.

The term "environmental review" is used here instead of "environmental examination" in order to avoid confusion, for "examination" holds different meanings in JBIC's international financial operations and overseas economic cooperation operations. (In the former, "examination" means a strict risk evaluation of loan proposals forwarded by sections in charge of funding, whereas in the latter, the term refers to decision-making given to loan requests submitted by the borrower in developing countries.)

Specifically, the following descriptions should be included in the Guidelines:

Environmental Review by JBIC

(Underlying Principles)

- JBIC shall review environmental and social considerations of projects (henceforth "environmental review"), which the Bank will fund, and incorporate the results of the review into decision-making processes concerning loan rendering.
- JBIC's environmental review is to ensure: 1) whether environmental and social issues have been appropriately considered in project preparation stages in accordance with the Guidelines; and 2) whether appropriate environmental considerations can be expected even after the Bank's decision to fund, taking into account such conditions as the preparations, experiences, operational abilities, and the procurement of environmental costs by project proponents and host governments, as well as external causes for instability.
- JBIC shall carry out environmental reviews in strict conjunction with financial, economic, and technical reviews of projects.
- JBIC may not render loans when the results of environmental reviews show that environmental considerations have not been sufficiently observed.

(Information Required for Environmental Review)

- Information necessary for environmental reviews should in principle be supplied by the borrower/project sponsor.
- JBIC may request additional information from the borrower and related parties, when necessary.

- JBIC shall recognize the importance of information received not only from the borrower/project sponsor but also from third parties, and utilize this information in undertaking environmental reviews. Third parties include the governments and organs of host countries, co-financiers, stakeholders such as local community residents, and NGOs.
- As for Category A projects, JBIC shall review the environmental assessment systems of host countries with regard to degrees of information disclosure and public participation of stakeholders such as local residents.
- JBIC may conduct project site visits, when necessary, to acquire environmental information. For projects with potentially large adverse impacts, on-site environmental review may be conducted, when necessary, by specialists on environmental and social issues.
- JBIC may seek opinions from outside specialists, if necessary.
- Committees that consist of experts may be established and their opinions may be sought, in order to improve the quality and the accountability of review, especially for projects with large potential environmental impacts.

As for such committees, some Study Group members regarded it as necessary to state in the Guidelines that they are in principle open to the public; others felt it inappropriate to make them open. The Study Group did not reach a conclusion. It was pointed out that in the Netherlands an EIA expert committee conducts public reviews both on domestic projects and development assistance projects (excluding export credit projects) and has made some achievements.

3.6 Standards for Environmental Review

It is necessary to establish clear criteria for environmental reviews conducted by JBIC.

If environmental criteria based on legislation exist in recipient countries, projects will of course observe those criteria. In cases where no such legislation exists, or existing legislation is insufficient, JBIC should refer to criteria and principles established by developed countries, including Japan, as well as international and regional organizations for each project that it funds. Such an approach is indeed adopted in the present guidelines.

While the World Bank in principle uses such an approach, it also suggests standards and levels of solutions that the World Bank itself considers as desirable, and makes them public through a number of handbooks, manuals, and good practices.

It would be more effective for JBIC to utilize existing criteria rather than establish new standards of its own.

It would be useful to list good practices and criteria of international organizations, so that borrowers and related parties can refer to them in order to promote appropriate responses to environmental considerations. It would also be appropriate to make such a list separately from the Guidelines, so that the list can be revised and updated according to the latest advancements.

Issues on governance, such as corruption and democratization in recipient countries, do not directly fall within environmental considerations. However, it is appropriate to state in the Guidelines that information on such issues is also relevant and important, and thus deserves due attention.

More concretely, the following descriptions can be included in the Guidelines:

Standards for Environmental Review

- JBIC shall conduct environmental reviews to confirm that projects meet the requirements in the Guidelines in the following ways:
- JBIC shall ascertain whether a project respects environmental regulations and standards, as well as whether it complies with environmental and social policies and plans established by the host governments and/or regions.
- JBIC shall also refer to standards and/or good practices established by international and regional organizations, as well as developed countries, including Japan.
- Furthermore, JBIC shall take note of the importance of good governance with regard to projects, in order for appropriate environmental and social practices to be undertaken.

It is beyond the scope of the Study Group to examine and list the various international standards that JBIC should refer to for each item in environmental reviews. It is JBIC that should make such a proposal when it publicizes the draft Guidelines.

3.7 Procedures of Environmental Review

It is necessary to explain as clearly as possible the following items regarding procedures for environmental reviews conducted by JBIC:

- 1) Screening;
- 2) Environmental review for each category;
- 3) Requirements for EIA reports needed for category A projects; and

4) Environmental review for special projects.

3.7.1 Screening

Screening is a process to decide on procedures for an environmental review of each project, as well as on the extent to which it should be conducted. Screening is based on estimated environmental and social impacts, which in turn are inferred from:

- 1) The magnitude of environmental and social effects as determined by the type and scale of a project;
- 2) The environmental and social characteristics of the location of a project (i.e., vulnerability and sensitivity of the location); and
- 3) The degree of difficulty and uncertainty in predicting and responding to impacts.

These criteria are project-specific and should cut across the division between the international finance and the overseas economic cooperation operations. They can thus become common standards in the Guidelines.

It is necessary to indicate, in a table in an appendix of the Guidelines, which factors (e.g., vulnerable sites and sensitive project types) should be taken into account in the category classification, as well as which projects can typically be classified into which categories. Such a table should be completed in reference to the present Guidelines, OECD recommendation and ECG discussions, and ideas and cases of the World Bank.

It would be appropriate, based on experiences encountered by various institutions, to define screening in the following ways:

Screening

- Before conducting an environmental review of each project, JBIC will classify a project in accordance with the extent to which the environmental review is required. After this, environmental reviews should comply with procedures in accordance with the categorization.
- JBIC shall request the borrower/project sponsor to submit information necessary for screening. Screening will be completed as quickly as possible upon receipt of the information.
- During screening processes, JBIC shall examine each project in terms of possible environmental and social impacts, taking into account such factors as the type and scale of the project, nature and substance of possible environmental impacts, environmental and social situations of the

project site and of the surrounding areas, and the extent to which prediction and mitigation measures are uncertain.

- JBIC may revise the categorization when necessary, e.g., in cases where considerable environmental impacts are discovered after screening.

Category A: A project is classified as Category A if it has the potential to produce significant adverse environmental impacts. A project with complex impacts or impacts that are difficult to assess due to the lack of previous examples is classified as Category A. These impacts may affect an area broader than the sites or the facilities subject to physical construction. Category A, in principle, should include projects in sensitive sectors or those located in or near sensitive area. An illustrative list of sensitive sectors and sensitive areas is given in the Appendix.

Category B: A project is classified as Category B if its potential environmental impacts are less adverse than those of Category A projects. Typically, these impacts are site-specific; few if any of them are irreversible; and mitigation measures are more readily available.

Category C: A project is classified as Category C, if it is likely to have minimal or no adverse environmental impacts.

Category FI: A project is classified as Category FI (Financial Intermediary), if other financial institutions mediate JBIC's loan to the project and, after the loan disbursement, substantially undertake selections and examinations of sub-projects that are expected to have potential environmental and social impacts. Category FI excludes projects for which JBIC gives approval to individual sub-projects according to the Guidelines, before they are funded by financial intermediaries.

(Projects Mediated by Financial Intermediaries)

Even in cases where JBIC funds financial intermediaries and they in turn fund sub-projects, sub-projects often assume the Bank's favorable decision on funding. For such projects, environmental reviews shall be conducted based on the categorization, i.e., Categories A to C, of the sub-projects. There might also be cases where a project with potentially high environmental and social impacts, i.e., a project that would be classified into Category A according to the Bank's criteria, is chosen and considered by financial intermediaries as a sub-project. In these cases, too, if JBIC makes it a condition that such a sub-project must be approved by JBIC before it is funded by the intermediaries, then JBIC should apply the Guidelines and conduct an environmental review on the sub-project upon its approval.

(Projects in Which JBIC's Involvement is Minor)

For a project in which JBIC's involvement is minor and for which conducting an environmental review in the same way as other projects is neither practical nor effective, environmental reviews may not be required beyond screening. This is the case with the present Guidelines for JBIC's international finance operations.

If such an approach or a standard is to be established, JBIC must also be able to explain with sufficient evidence that it is effective and justifiable in reference to the fundamental principles of environmental considerations. Some room should also be left to revise the categorization, whenever it is necessary, during environmental review processes.

While some might think that a project, in which JBIC's involvement is minor, should be exempt from the application of the Environmental Guidelines, such a project can still bring about significant environmental impacts. As JBIC must conduct appropriate environment reviews for such projects, the aforementioned view is untenable.

If JBIC does not proceed with environmental reviews beyond screening for projects in which its involvement is minor, another category can be set up with the following definition:

Category N: A project is classified as Category N, if JBIC's involvement with the project is slim and it is reasonable to consider an environmental review as practically meaningless.

(Information Required for Screening)

It is desirable to list in the Guidelines the type and format of information that JBIC requires the borrower/project sponsor to submit for screening, based on specific principles and criteria for screening.

3.7.2 Category-based Environmental Reviews

In accordance with the current international trends, category-based environmental reviews, as described in the Environmental Guidelines, should be conducted in the following manner:

Category-based Environmental Reviews

After screening, JBIC will undertake environmental reviews according to the following categorization.

- Category A:** Environmental reviews for Category A projects concern all possible environmental and social impacts, both positive and negative, but should in particular evaluate measures to avoid, minimize, and mitigate the potential adverse impacts caused by the projects, as well as consider measures to improve environmental performances. The borrowers/project sponsors must submit EIA reports fulfilling the requirements in the Guidelines. It is the obligation of the borrowers/project sponsor to prepare EIA reports. JBIC will undertake environmental reviews based on the reports.
- Category B:** The extent of the environmental reviews for Category B projects is different for each project. Just as environmental reviews for Category A projects, environmental reviews for this category concern all possible environmental and social impacts, both positive and negative. However, measures to avoid, minimize, and mitigate the potential adverse impacts of projects, as well as other means to improve environmental performance, should also be evaluated. Environmental reviews will be undertaken based on information provided by borrowers/project sponsors. When an EIA has been conducted, the EIA report may be referred to. However, this is not a requirement.
- Category C:** For projects in this category, environmental review does not proceed beyond screening.
- Category FI:** Because a project funded by financial intermediaries cannot be specified in concrete terms at the time of JBIC's environmental review, the financial intermediaries must review the project when they fund it and guarantee that the project complies with the requirements of the environmentally and socially good practices established by JBIC. JBIC will ensure that the financial intermediaries have satisfactory procedures, abilities, and structure.

There may be cases in which JBIC needs to reach agreements on appropriate measures, e.g., requiring its approval on each project funded by financial intermediaries, if the financial intermediaries are responsible for projects with large environmental impacts.

If a Category N needs to be set up, it can be defined as follows:

Category N: Environmental review does not proceed beyond screening.

3.7.3 Requirements for EIA Reports for Category A Projects

It has been pointed out that requirements to be fulfilled by EIA reports for Category A

projects are not sufficiently clear in the present Guidelines.

Such requirements should be established in the Guidelines in reference to the practices at the World Bank. It should also be clearly stated in the Guidelines that such requirements should be confirmed by environmental reviews. However, not all the requirements should be made into binding conditions that project proponents must follow. Some can be made into good practices, depending upon how feasible they are.

At the Study Group meetings, a suggestion was made that public consultations be required, once at the scoping stage and the other at the drafting stage of EIA reports for Category A projects. This is practiced in the EIA system in Japan and that of the World Bank. Another suggestion was that the JBIC's requirements should be made equivalent to those of the World Bank, by including, for example, environmental management plans.

On the other hand, it was noted that international financial institutions, such as the World Bank, have close working relationships with recipient countries even at the project preparation stages and support their efforts to conduct environmental assessments through technical assistance (TA), whereas JBIC's involvement with projects often starts after environmental assessments have been completed in accordance with the existing systems in recipient countries. The amount of technical assistance offered by JBIC is also extremely limited. Therefore, some members argued, it is not realistic for all projects to meet requirements more rigorous than those specified by the systems of recipient countries.

These discussions have led the Study Group to recommend that whereby public consultations should be required, having these consultations at both the scoping and the drafting stages is desirable.

It was also emphasized that consideration should be given to allow recipient countries sufficient time to become familiar with the conditions required for EIA reports.

Such conditions can be described in the following manner:

Requirements for EIA Reports for Category A Projects

- When assessment procedures already exist in host countries, and projects are within the scope of the regulations, EIA reports, (which might be referred to differently in a particular system) should be officially completed and approved by authorities of the host country's government.

- EIA reports should be written in the official language of the host country. Summaries should be prepared in a written form that people of host communities can comprehend.
- EIA reports must be made public in host countries, particularly for affected communities. Stakeholders of projects, such as local residents, should be guaranteed access to the reports at any time.
- In preparing EIA reports, public consultation with stakeholders, such as local residents, must take place, and prior to that, sufficient information must be released. JBIC shall examine records of consultation meetings or other documents, during environmental review processes, to confirm that sufficient consultations and agreements have taken place.
- Consultations with relevant stakeholders, such as local residents, should take place whenever necessary throughout the preparation and implementation stages of a project. Having public consultations is highly desirable, especially when scoping is being undertaken, as well as when draft EIA reports are being prepared.
- EIA reports for Category A projects must be subject to JBIC's disclosure policies.
- It is recommended that EIA reports cover items enumerated in the Appendix.

Items which must be described in EIA reports can, for example, be similar to those listed by the World Bank (See Appendix 2). It is important to compile and make public such a document based on experiences at OECD and/or the World Bank.

3.7.4 Status of Existing EIA Reports

Status of Existing EIA Reports

As has already been mentioned, because of the nature of its operations, JBIC most often involves projects only after funding requests have been made, and rarely takes the initiative in planning projects. Thus, it is expected that some form of EIA report has already been completed when JBIC's involvement in a project starts.

If that is the case, it is more efficient to utilize such reports. However, they may not meet the requirements specified in JBIC's Guidelines. In this case JBIC may need to respond flexibly, for example, by allowing additional documents to be submitted to supplement the existing reports.

3.7.5 Environmental Review for Special Projects

Regarding this topic, the Study Group discussed the following issues:

- Projects with multiple phases;
- Projects co-financed with other financial institutions; and
- Loans for engineering services.

These issues deserve some special mention and thus can be incorporated in the Guidelines under the heading Environmental Review for Special Projects in the following manner:

Environmental Review for Special Projects

- When a project is divided into multiple phases, it is desirable that cumulative impacts are considered, and environmental impacts of the entire project are presumed upon environmental review for the first phase. Environmental reviews should be undertaken for every following phase, while utilizing information obtained from the first phase.
- For projects that JBIC co-finances with other financial institutions, the Bank may exchange information with such co-lenders and use this information for reference.
- Projects funded through Engineering Service Loans (ES Loans), i.e., yen loans given for research and design will be classified as Category B for reviewing purposes. However, impacts of projects based on plans that are made as a result of ES Loans should also be reviewed, to the extent feasible. Moreover, when projects based on plans resulting from ES Loans need sufficient environmental considerations, they must be integrated into the research and design for which ES Loans are sought.

3.8 Information Disclosure and Public Consultation

3.8.1 Basic Principles on Information Disclosure and Public Consultation

It is important that JBIC makes public its basic principles regarding information disclosure and public consultation.

In accordance with the Information Disclosure Act, JBIC expects to establish procedures to respond to disclosure requests in the near future. Also for yen loans, disclosure of “a long list,” which in a sense is equivalent to a project outline, is in progress for some countries. Furthermore, an outline of funded projects can now be made public after the signing of a loan agreement, as part of information needed for ex-ante evaluation.

Having taken such factors taken into account, JBIC will still need procedures, independent of procedures for information disclosure in response to requests, with which to make information

public in both a proactive and timely manner in order to promote environmental considerations in environmental review and project management processes.

This not merely ensures JBIC's accountability but enables it to guarantee full environmental and social considerations, by making appropriate decisions on loans, while seeking useful information from outside sources and obtaining a wide range of opinions. Such procedures can also help build a social consensus, because they can create opportunities for a grievance to be filed, when opinions differ among project proponents, governments of recipient countries, and local communities.

Consideration is needed to allow sufficient time before developing countries can become thoroughly familiar with JBIC's information disclosure policies.

The following principles should be stated in the Guidelines:

Basic Principles on Information Disclosure and Public Consultation

- JBIC welcomes information provided by concerned institutions, NGOs, local residents, and other parties, in order to consider diverse opinions and information while reviewing and managing projects.
- In order to encourage such third parties to contact JBIC at early stages, as well as to ensure its accountability and transparency in environmental review processes, JBIC shall make public important information through appropriate means and on appropriate occasions, while environmental reviews are in progress.
- JBIC may seek opinions from relevant institutions, NGOs, and local residents, when necessary.
- Aside from the aforementioned policies, JBIC will supply third parties with information regarding environmental considerations within its capacities.

3.8.2 Timing of Disclosure and Content of Disclosed Information

It is appropriate to specify in the Guidelines the timing of information disclosure and the contents of disclosed information, so that JBIC can encourage third parties to provide information.

In order to be useful for environmental reviews, 1) it is necessary to set up opportunities to publicize a summary of projects under review to obtain information from outside at the earliest stage possible; and 2) it is necessary to set up opportunities to publicize information in as much detail as possible on environmental and social considerations.

Furthermore, it is appropriate to have opportunities to present how environmental and social considerations are reflected in JBIC's decision-making processes, in order to solicit information after a project has been being implemented. Such opportunities can also provide feedback on the information obtained from external sources.

The Study Group recommends that the timing of information disclosure be after screening, for if it is set too early, information on projects that have not been examined will have to be disclosed. In addition, information at early stages may not be specific enough. This is not practical. The following provisions are recommended, haven taken into account such factors as JBIC's current operations, possibilities of third parties providing information, and effectiveness of the Bank's operations.

Regarding consultation on provided information, details such as deadlines and procedures have not been discussed or decided, with the understanding that JBIC can take ad-hoc measures. It goes without saying that JBIC takes such consultations very seriously.

Timing of Disclosure and Content of Disclosed Information

- JBIC shall disclose information in a manner that allows the Bank enough time to decide on funding. The timing of disclosure and content of disclosed information are specified as follows:
 - Upon completion of the category classification of projects, JBIC shall disclose information as soon as possible, including project outlines (the name, the place, the project proponent(s), funding scale, expected fund type, and basis for the project classification, e.g., major environmental impacts) as well as the project category.
 - As for Category A projects, EIA reports submitted by the borrower/project sponsors, as well as any government environment approval certificates, should immediately be disclosed.
 - As for Category B projects, major documents on environmental considerations submitted by the borrower/project sponsors should immediately be disclosed.
- JBIC shall disclose documents indicating that results from environmental reviews are reflected in JBIC's decision-making processes (e.g., ex-ante evaluation reports on yen loans or their equivalents) after signing loan contracts.

In order for JBIC to foster information provision from third parties and secure enough time to examine such information, it is important that JBIC discloses EIA reports and other fundamental documents regarding environmental and social considerations sufficiently in advance to its board meetings where decisions are made on funding. Considering the conditions established by other

institutions (i.e., EIA disclosure and consultation are carried out 120 days prior to decision-making at the board in the cases of IBRD and IDA, and at least 60 days before for IFC. Canadian EDC and Australian EFIC require EIA disclosure and consultation at least 45 days prior to signing of a loan contract), the Study Group recommends that JBIC's Guidelines should specify the timing of information disclosure, e.g., at least 45 days prior to decision-making (at the board level).

Due to sensitivities in business transactions, some information required from borrowers and related parties may be classified information. However, this is not justification for failing to disclose all information. As some cases at the US Export-Import Bank show, borrowers/project sponsors can be requested to delete classified parts and submit information, with the assumption that documents regarding environment must in principle be disclosed.

3.9 Incorporating Environmental Reviews in Decision-making and Loan Contracts

3.9.1 Basic Principles for Incorporating Environmental Reviews in Decision-making and Loan Contracts

It is important that JBIC make clear basic principles on how environmental reviews can be reflected in the Bank's decision making and drafting of loan contracts. As will be mentioned in a section on monitoring, it is desirable to state in concrete terms such fundamental principles in the guidelines, because loan contracts play an extremely important role in fostering borrowers and related parties' environmental and social considerations, by imposing upon them specific conditions, as well as defining the Bank's commitments to environmental and social considerations as the lender's right.

It should be noted here that the Guidelines cannot pre-determine the contents of a loan contract, for the content is decided only as a result of negotiations between the Bank and borrowers.

The following provisions should be included in the Guidelines.

Incorporating Environmental Reviews into Decision-making and Loan Contracts

- JBIC will incorporate the results of environmental reviews into its decision-making on funding and other operations. When projects are likely to have negative impacts on the environment and society, JBIC may decide not to finance a project due to its inappropriate environmental considerations.
- JBIC will clearly state environmental conditions in loan contracts or documents attached to

contracts, when doing so is necessary to ensure environmental considerations by borrowers and other project proponents.

- These conditions may include:
 - Environmental/social measures and monitoring plans, as well as reporting methods to JBIC regarding the results, to be undertaken by borrowers and related parties; and mechanisms for resolution among JBIC, borrowers and related parties, local residents, and other parties, when problems arise.
 - Reporting to JBIC any potential failures to achieve environmental considerations due to unforeseeable causes.
 - When parties other than borrowers are playing an important role in addressing environmental concerns, they may be included in agreements.
 - In cases where these conditions have clearly not been met, or JBIC confirms that borrowers or other project proponents have failed to fulfill the requirements in these Guidelines, or other project proponents have not submitted correct information for environmental reviews, JBIC may suspend or cancel the loan even after it has gone into effect.

Note that the last part of the first provision states, “JBIC may decide not to finance a project...” This is because legally it is the Governor’s authority to make all final decisions and thus the Guidelines cannot straightforwardly state, “JBIC will not finance a project...” It is extremely unlikely that JBIC would finance projects under these circumstances.

3.9.2 Relation with Pledge

The Study Group spent some time discussing JBIC’s decision-making and government pledges, which deserves some mentioning here. For yen loans, the Japanese Government can issue an advance notice (a “pledge”) to recipient countries, independently of JBIC’s decisions on project funding.

A pledge is a political statement, not a legal commitment, expressing the government’s intentions that it will carry out a yen loan if certain conditions are met. However, it would be inappropriate for JBIC to make decisions contradicting the government’s pledge, when as a general rule relations with borrowers as well as recipient countries are taken into account. Therefore, a pledge should be made only after JBIC’s environmental reviews are undertaken to ensure the independence of the review.

3.10 Monitoring and Follow-up

3.10.1 Significance of Monitoring

The primary objectives of monitoring and follow-up are to determine whether consequences which were difficult to predict in advance have occurred or not, and whether previously planned mitigation measures have been effectively implemented, as well as to provide appropriate feedback to the project in order to take further measures (The term “monitoring” will be used below as a comprehensive term for “monitoring and follow-up”).

Moreover, experiences obtained through monitoring are expected to be of much use in increasing the quality of environmental considerations and plans in the future.

3.10.2 Monitoring by Project Proponents

It is important for the project proponents to assume the responsibility to plan the incorporation of monitoring into a project. Therefore, when JBIC recognizes the importance of monitoring by the project proponents, it should confirm it in the environmental review, while making it one of the conditions to fund the project.

3.10.3 Monitoring by JBIC

When necessary, JBIC should also monitor projects, discuss measures to be taken, and actually implement them, in response to the results of the project proponent's monitoring, which show to what extent environmental and social considerations have been achieved and how much effort has been made by the project proponent. Monitoring by the Bank can include a vast range of options, such as requesting special reports from the borrower or other related parties and carrying out independent research by the Bank.

However, it is neither effective nor realistic for JBIC to undertake monitoring of all projects.

Therefore, if environmental reviews indicate the need for JBIC to undertake monitoring of project proponents in order to ensure that they are respecting environmental and social considerations, JBIC should reach an agreement with the borrowers/project sponsors on measures and make them into conditions for funding.

As a general rule, for projects that require monitoring, it would be beneficial to specify the content, structure, and nature of JBIC's involvement in concrete terms and through good practices, for each level of monitoring that is required.

3.10.4 Investigation and Response by JBIC

JBIC may seek cooperation from the borrower and related parties in conducting investigations after examining if environmental considerations are in effect, based on reports submitted by the project proponent and information provided by other parties. It is necessary to state such cases clearly in the Guidelines. It is important to note that the Bank cannot do more than request cooperation, unless agreements have been made in advance.

It must be made clear that JBIC may request the borrower and related parties to apply appropriate measures or that it may take its own actions, such as loan suspension in accordance with the agreed loan contract, if the Bank concludes that environmental considerations should be improved, based on the aforementioned information, the borrower and related parties' responses to the Bank's request for cooperation, and the results of investigation conducted by the Bank.

3.10.5 Response to Conflict

It has been recognized as a serious question of how to respond to cases where, after a project starts, unpredictable impacts emerge, or differences in opinions and confrontations arise among the project proponents, the governments of recipient countries, and local residents, leading to the situations that cannot be settled by the involved parties (henceforth, "conflict").

Among other things, negotiation and resolution mechanisms should be prepared, established, and agreed upon among the concerned parties, especially for cases where conflicts can be anticipated, e.g., projects involving large-scale involuntary resettlement. Cases where such mechanisms have been developed indeed exist.

In unfortunate cases where JBIC's environmental review has not been able to predict a conflict, and cannot be tolerated, the Bank will investigate the matter and communicate concerns to relevant parties.

In order for such actions to work effectively, it should be recognized as JBIC's right, as the lending agency, to conduct such investigations, as well as to take necessary measures, including loan cancellation, based on findings of investigations. Toward this end, as has been mentioned, it is

important that monitoring and follow-up measures, including those by JBIC, should be written into loan conditions, when necessary.

Suspending loans while JBIC's investigations are in progress would be beneficial to ensure the effectiveness of the investigations. It is necessary to consider the loss that the borrower and related parties might incur, as well as who compensates for the loss.

3.10.6 Provisions on Monitoring and Follow-up

Discussions on the aforementioned issues led the Study Group to recommend that the Guidelines should include the following provisions on monitoring and follow-up:

Monitoring and Follow-up

(Monitoring and Follow-up by Project Proponents)

- JBIC recognizes that after a project begins, it is important that the project proponents understand whether unexpected situations have arisen and if mitigation measures prepared in advance have been put into effectively implemented. They should then take appropriate measures (In the following, such processes will be simply referred to as “monitoring,” which covers monitoring and a follow-up).
- In cases where sufficient monitoring by the project proponents is deemed essential for the achievement of appropriate environmental considerations, JBIC shall ensure through its environmental reviews that project plans include monitoring schemes and that the schemes are practical. Such cases include projects for which, while effectiveness is being measured, the implementation of mitigation measures are required.
- If progress and/or completion reports are submitted by the borrower and related parties for projects in Categories A and B, such reports must include items covering environmental considerations (e.g., type and magnitude of environmental impacts encountered, measures prepared in advance and measures actually applied, and evaluation of the effectiveness of the measures taken).
- It is desirable that results of monitoring undertaken by the project proponents be disclosed to relevant stakeholders, including local residents.

(Monitoring by JBIC)

- For projects which JBIC also considers it important to monitor, such as Category A projects, JBIC shall make efforts to reach agreements with the borrowers/project sponsors on measures for monitoring, as well as to translate these agreements into loan conditions, in order to ensure

the project proponents' compliance with environmental considerations. Monitoring by JBIC can mean a variety of actions, including conducting its own investigations and asking the borrower and related parties to submit special reports.

- When third parties point out in concrete terms that environmental considerations are not being fully respected, JBIC shall forward such complaints to the borrower/project sponsor and if necessary, urge them to request the project proponents to take appropriate actions. JBIC recognizes it as important for the project proponents, in taking responsive actions on the complaints, to objectively examine causes of the problem, discuss measures for solutions, and incorporate them into the project plan through transparent and accountable processes. More specifically, it is important, under the condition that sufficient information has been disclosed, to set up opportunities in which all concerned stakeholders, i.e., local communities, NGOs, and the project proponents, participate in discussing and examining problem-solving measures, as well as agreeing upon procedures to solve the problem.
- After a loan has been disbursed, JBIC may call for the borrower and related parties' cooperation to conduct its own investigation into the project's compliance with environmental considerations, if necessary, by taking into account the borrower/project sponsor's reports, results from monitoring by the Bank, and information supplied by third parties.
- When JBIC judges, based on the aforementioned information, the borrower and related parties' reactions to the Bank's request for cooperation, and/or the results of the investigation by the Bank, that the situation needs to be improved to respect environmental considerations, JBIC may require the borrower and related parties to implement further measures, as well as take its own actions, including loan suspension, in accordance with the agreed loan contract.

3.11 Revising Environmental Guidelines

The environmental Guidelines should not be viewed as immune to revisions. It will be necessary to update them based on trends in the international community, as well as cumulative knowledge and experiences resulting from JBIC's operations. At the same time, the Guidelines should be kept intact during a reasonable time span, for those wishing to be funded by the Bank need time and other resources to prepare a loan request.

Such a balance taken into account, the Study Group recommends that the Guidelines be regularly scrutinized and revised accordingly. This can be clearly stated in the Guidelines as follows:

Review of the Implementation of Guidelines and Their Revision

JBIC shall examine how the Guidelines are being implemented, and, based on the findings, conduct a comprehensive review of the Guidelines within five years of being put into effect. Revisions will be made accordingly. When making revisions, JBIC shall seek opinions from concerned institutions, experts, and NGOs, while maintaining transparency in the process.

4. Ensuring Sufficient Implementation and Compliance of Environmental Guidelines

4.1 Means to Ensure Sufficient Implementation and Compliance

JBIC needs means to sufficiently carry out the policies and the procedures described in the Environmental Guidelines, thus ensuring its compliance with the Guidelines. It is important that JBIC improves its overall structure and organization, with the basic recognition that checks-and-balances and incorporation of expertise are required. These themes will be addressed in 4.2.

This section summarizes the Study Group's examinations of structural issues that are especially important to ensure JBIC's compliance with the Guidelines.

Establishment of a Special Body to Ensure Compliance

Evaluating JBIC's compliance with and implementation of its Guidelines is closely related to JBIC's operational principles on policy evaluation and compliance throughout all the operations, as well as to the structure and organization that are required to that end. When JBIC considers and prepares such a body or system, it should ensure that expertise, independence, impartiality, and transparency are both objects of and guaranteed by environmental reviews.

External Committee to Ensure Compliance

In cases where a conflict arises over a project after a loan is disbursed, two approaches are needed: One is responding to the problem at a practical level; the other is JBIC's compliance with the Guidelines. As for the former, ways to respond to conflict have been outlined in the section on Monitoring and Follow-up.

Regarding the latter approach, i.e., how to ensure JBIC's compliance with the Guidelines, the Study Group believes that establishing a new organization, such as an external committee, in addition to JBIC's own efforts, would be effective.

More specifically, it would be useful to establish an external body that would respond to grievances filed against the funding agency for non-compliance by undertaking research and then recommending appropriate means, such as investigation, implementation of additional measures, and suspension of the loan. Some international financial institutions have already accumulated experiences in this area.

JBIC should thus establish an organization, such as an outside committee, which performs the following functions:

- 1) Responds to grievances filed regarding compliance issues, applies expertise in undertaking necessary investigations, and makes recommendations to JBIC based on findings from a neutral and impartial position; and
- 2) Publicizes the grievances to which the organization has responded, the results of the investigations, and the recommendations made to JBIC.

In order to raise the credibility of such an organization and make the solutions most effective, transparency should be guaranteed in the selection of members, as well as results of the activities.

4.2 Organization, Structure, and Capacity-building to Implement Environmental Guidelines

4.2.1 Organization and Structure

While it is difficult to make a direct comparison due to the differences in objectives, JBIC's structure, expertise, and staff devoted to environmental considerations are not necessarily sufficient when compared to international aid agencies such as the World Bank. However, discussions are also needed with regard to efficiency within the budgetary and staff constraints.

The World Bank has a network system. Specialists on environmental and social considerations are assigned to both the Regional Department (which implements projects and/or programs) and the Environment Department, putting checks-and-balances into full operation, while enabling the bank to closely encourage and extend support to the borrowers/ project sponsors. Inside the Environment Department is a section to control operational quality, while monitoring the level of environmental considerations in the entire World Bank, thus playing a role in maintaining and improving the standard.

Not only in the section specifically set up for environmental considerations, but also in sections responsible for projects, the staff members are required to have appropriate knowledge

about environmental considerations. It is important to build capacity through such means as seminars and training programs.

These issues taken into account, JBIC will need to build more capacity, while improving its organization and structure, with regard to environmental and social considerations.

In order to make up for the insufficiencies in the structure and organization, and to enhance environmental considerations, JBIC will need to commission experts outside the Bank and consulting firms more often to conduct research, as well as to use findings to promote such activities as reviewing environmental considerations, monitoring, lending support to the borrower and related parties, implementing good practices, and publishing handbooks. A budget needs to be allocated.

Among the issues so far discussed in this section, those regarding basic principles should be clearly stated in the Guidelines.

4.2.2 Role of the Environmental and Social Development Department

At present, the Environment and Social Development Department is part of JBIC. One of its two direct predecessors, the Global Environment Office of the Japan Export and Import Bank, was situated within the Project and Corporate Analysis Department and investigated environmental issues. The other predecessor, the Environment and Social Development Division of the Overseas Economic Cooperation Fund was located within the Project Development Department and was a section mostly to assist project preparation and examination.

Due to this background, the current role of JBIC's Environment and Social Development Department differs considerably depending upon whether a project involves international financial operations or overseas economic cooperation operations. For projects in the former category, the Department conducts environmental reviews when environmental considerations should especially be respected. For the latter group, the Department assists environmental considerations and controls the quality of all the projects examined. Because of these complications, although the Study Group devoted some time discussing roles of the Environment and Social Development Department, it did not go so far as to be able to define them.

In the ensuing part, only fundamental principles are described, based on the Study Group discussions. Further discussions based on these principles are expected within JBIC.

(Basic Principles)

In order for environmental considerations to be effectively carried out, JBIC should build consensus by applying its expertise to environmental considerations, accumulating experiences and know-how, and considering checks-and-balances. JBIC should then establish a suitable organization and/or structure to share the responsibilities for the following functions, while maintaining expertise and independence:

- 1) A function to take charge of environmental and social considerations within the divisions in charge of loan operations: This organization/structure, which is most directly involved in projects, is expected to screen projects in terms of their necessity and relationship with environmental and social considerations, while coordinating with other specialized divisions and departments;
- 2) A function with expertise on environmental considerations to review projects' environmental considerations, as well as to conduct risk evaluation: This organization/structure would conduct rigorous review in terms of appropriate risk evaluation (whereas improving environmental considerations and working with borrowers and related parties fall within the responsibilities of divisions and bureaus in charge of loan operations);
- 3) A function with expertise on environmental considerations to assist the borrowers and related parties, as well as divisions/bureaus in charge of loan operations, in improving environmental considerations; and
- 4) A specialized organization to monitor overall achievement and maintain the quality of environmental considerations: This function would facilitate JBIC's compliance with and reinforcement of the Environmental Guidelines and other standards, as well as procedures regarding environmental considerations. It would also contribute to the Bank's reviewing of environmental considerations, as well as to building and improving capacities to implement environmental considerations. This organization would also regularly examine whether the Guidelines are being observed, as well as the obstacles hindering their implementation, and reports to the Governor and/or Senior Executive Directors in charge.

On top of these, it should be made a rule that JBIC's decision-making on funding and other operations must be approved by the organization responsible for reviewing environmental considerations. A director in charge of environmental considerations should be assigned to this organization.

It is also desirable that results of the project classification conducted by divisions in charge of loan operations are verified by the organization specializing in environmental considerations before being finalized. Through these processes, such an organization can apply the expertise at early stages, and have opportunities to develop ideas about its own involvement, as well as its use of external resources, for the proceeding environmental review.

4.2.3 Accumulating and Sharing Experiences and Improving Good Practices

JBIC should make efforts to accumulate its own experiences regarding environmental considerations and share them both inside and outside the Bank.

JBIC should also make use of experiences already publicized by various international institutions, through case studies, good practices, guidance, and handbooks, which can be referred to when implementing the Guidelines. Furthermore, JBIC should take the initiative to compile similar documents through assistance from experts, publish them, and circulate them both inside and outside the Bank.

The present edition of *Handbook on Social Dimensions for ODA Loans* should be updated as the Bank accumulates more experiences and achievements and should be used for the international finance operations as well.

4.2.4 JBIC Support for Borrowers and Related Parties

In order to expect sufficient environmental considerations from borrowers and related parties in developing countries, whether they are governmental or other organizations, JBIC should proactively offer support so that they can conduct research and/or build problem-solving capacities.

Currently, for development assistance through yen loans, if a certain project is essential but has not been sufficiently examined in terms of environmental considerations, JBIC has a mechanism for supplementary research funded by the Bank in order to assist the borrower and related parties' efforts to improve environmental considerations. This mechanism is called the "Special Assistance for Project Formation (SAPROF)." JBIC also alleviates interest rates for the contracts with consultants carrying out projects that require environmental considerations. Furthermore, the World Bank has developed a mechanism, whereby a grant for "Technical Assistance (TA)" can be used to support the borrower and related parties' efforts to conduct environmental assessments at project preparation stages. Some Study Group members felt that this

mechanism enables the World Bank to demand environmental assessments of high quality from developing countries.

At a Study Group meeting some claimed that such assistance should be expanded considerably in JBIC's operations, even in international finance operations. However, others responded that in many cases JBIC's involvement in a project starts in principle after the project has been formed. The present JBIC Act has also made it difficult for the Bank to lend such support for international finance operations. It was also pointed out that increasing such support considerably is difficult, because the basic philosophy behind development assistance is self-help, and excessive support for environmental considerations might discourage the borrowers/project sponsors' efforts to promote environmental considerations.

Some Study Group members also argued that the Guidelines should specify measures to assist borrowers and related parties in meeting environmental considerations, in order to alleviate concerns that the establishment of environmental consideration requirements might lead to increased burdens on developing countries. However, in addition to the aforementioned reasons, other members thought it more appropriate to publicize such measures in a different form. Thus, regarding this issue, only the importance of such support is emphasized.

Support for borrowers and related parties is an important issue and must be discussed in more detail in the future.

5. Acknowledgements

The Study Group would like to express gratitude to all those who, over the year, have provided the Group with valuable opinions and information, as well as to those who have given logistical support for compiling meeting minutes and other activities.

Appendix 1: Principles for the Establishment of the Study Group on the Environmental Guidelines for the Japan Bank for International Cooperation (JBIC)

1. Purpose

The Study Group aims to provide an arena where concerned NGO members, academics, governmental ministries and agencies, and JBIC staff gather to freely exchange opinions, and by seeking to summarize the discussions, contribute to the making of JBIC's integrated Environmental Guidelines.

2. Membership

The Study Group consists of the following members (in Japanese dictionary order). It must be noted that the members do not represent the organization to which they belong. The Group will not have a representative or a chair, and each member shares equal responsibility.

Yoshiro, Baba, Deputy Director, Development Policy Division, International Bureau, the Ministry of Finance (from July 2001)

Sachihiro Hayashi, Deputy Director, First Economic Cooperation Division, Coordination Bureau, the Economic Planning Agency (until December 2000)

Sachihiko Harashina, Professor, Graduate Program, Department of Environmental Science and Technology, Tokyo Institute of Technology

Takashi Hongo, Director, Environmental Division 1, Environment and Social Development Department, Japan Bank for International Cooperation

Seiji Ikkatai, Director, Planning Division, Global Environment Department, the Ministry of the Environment (until December 2000)

Hidetoshi Irigaki, Director, Operations Strategy Division, Development Assistance Strategy Department, Japan Bank for International Cooperation (until March 2001)

Mizuki Ito, Loan Aid Division, Economic Cooperation Bureau, the Ministry of Foreign Affairs (from January 2001)

Shuichi Kato, Member, the House of Councilors

Takahiro, Kato, Chief, Development Policy Division, International Bureau, the Ministry of Finance (until June 2001)

Ken-ichi Kawasaki, Senior Assistant for Loan Aid, Loan Aid Division, Economic Cooperation Bureau, the Ministry of Foreign Affairs (from January 2001)

Daisuke, Kawasaki, Chief, Development Policy Division, International Bureau, the Ministry of Finance

(from July 2001)

Takashi Kihara, Senior Assistant for Development Issues, International Bureau, the Ministry of Finance

Mitsuru Kitano, Director, Loan Aid Division, Economic Cooperation Bureau, the Ministry of Foreign Affairs (from January 2001)

Kaoru Kobayashi, Deputy Director, Development Policy Division, International Bureau, the Ministry of Finance (until June 2001)

Tadashi Maeda, Director, Planning Division, International Finance Policy Department, Japan Bank for International Cooperation

Ikuko Matsumoto, Director, Public Finance and Environment Program, Friends of the Earth-Japan

Satoru Matsumoto, Secretary General, Mekong Watch-Japan

Daikichi, Monma, Senior Assistant for Development Issues, International Bureau, the Ministry of Finance (from July 2001)

Naoki Mori, Director, Environmental Division 2, Environment and Social Development Department, Japan Bank for International Cooperation

Hisako Motoyama, Public Finance and Environment Program, Friends of Earth-Japan

Izumi Nakato, Director, First Economic Cooperation Division, Coordination Bureau, the Economic Planning Agency (until December 2000)

Akinori Ogawa, Director, Office of Environmental Cooperation, Global Environment Bureau, the Ministry of the Environment (from January 2001)

Taku Omura, Deputy Director, Office of Environmental Cooperation, Global Environment Bureau, the Ministry of the Environment

Naoyuki Sakumoto, Senior Researcher, Economic Cooperation Research Department, Institute of Developing Economies, Japan External Trade Organization

Hiroshi Sato, Senior Researcher, Economic Cooperation Research Department, Institute of Developing Economies, Japan External Trade Organization

Tatsuo Seino, Technical Officer, Office of Environmental Cooperation, Global Environment Bureau, the Ministry of the Environment

Tatsushi Terada, Director, General Affairs Division, Global Environment Bureau, the Ministry of the Environment (from January 2001)

Jun-ichi Yamada, Director, Operations Strategy Division, Development Assistance Strategy Department, Japan Bank for International Cooperation (from April 2001)

Ken-ichiro Yanagi, Professor of Environmental Law, Faculty of Real Estate Science, Meikai University

(The titles and affiliations listed are the most representative for the duration of participation)

3. Activities

The Study Group will base its discussions on the present Environmental Guidelines of JBIC, and while keeping in mind the trends inside Japan and overseas, will examine the actual means of integration and points for improvement.

When necessary, the Study Group may ask its own members, JBIC, and other organizations to present information which will be useful for discussions.

The Study Group will seek to be as specific as possible in its recommendations, and compile the discussion results to make them public. The form through which this will be accomplished is to be determined in the Group meetings.

4. Time Line

The Study Group will aim to present recommendations on the integrated Guidelines for JBIC by the end of March 2001. It will meet approximately twice a month, with details to be determined in accordance with the progress of discussions at the Study Group meetings.

5. Meeting Minutes and Information Disclosure

As a rule, concise and succinct minutes of the discussions, including the speakers' names, will be taken at each meeting. The minutes will be approved by all the speakers before finalization.

The Principles on Establishment and meeting minutes will be disclosed through such means as establishing a web site for the Study Group.

6. Logistics

Administrative support necessary for the Study Group, e.g., sending meeting notices and undertaking information disclosure, will be provided by JBIC with assistance from relevant organizations.

7. Other considerations

Any comments or information useful for discussions at the Study Group will be gathered through electric mail and other appropriate means, and will be shared by the Group members. The comments and information will also be made public on the web site and at other locations.

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