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Safeguarding Development: Risk Reduction in U.S. Government Foreign Aid and Investment Facilitation Beyond the Current Patchwork

By Naomi Roht-Arriaza*

I. Introduction

Despite the current administration’s professed antipathy to foreign aid, the United States is still the largest bilateral donor of foreign aid in the world, with a number of U.S. government agencies (such as the U.S. Agency for International Development, or “USAID”) working in more than 100 countries abroad. In addition, the U.S. facilitates the investment of U.S.-based private capital in the developing world through institutions (such as the Overseas Private Investment Corporation, or “OPIC”) that promote public-private partnerships or provide export credit or credit guarantees, political risk insurance or direct or indirect financing.

When foreign assistance is administered well, it can save lives, support equality, combat poverty, reduce out-migration and promote more democratic societies that can be partners for the United States. Export promotion activities can create new jobs both at home and abroad, and are particularly useful for U.S. small businesses seeking new markets. However, as things now stand, each of the over 20 U.S. agencies doing foreign aid or export promotion work responds to a varied and uncoordinated set of laws, guidelines and internal directives on how to screen and monitor, and how to ensure beneficiary consultation and participation, in relevant projects. While financial standards, criteria and implementation are relatively standardized and subject to outside oversight, the same is not true of nonfinancial risks. These risks—to the environment, land and property rights, labor, gender and other issues that can make the difference between community support and sabotage—are incorporated into project design in a haphazard fashion due in part to an inadequate and cumbersome patchwork of laws, regulations, and limited oversight. As a result, too often development-related projects and initiatives create unintended negative impacts on the people and environment in

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the places they work. Those who have little economic or political power are often most severely affected, raising issues of environmental justice both within and across communities. And too often, the community buy-in needed for long-term success is lacking, and objections to these impacts make projects fail.

This article maps the laws, regulations, mandatory government-wide and agency-wide policies, guidance and other practices regarding environmental and social safeguards of U.S. agencies concerned with foreign aid and export facilitation (as well as, where appropriate, their component bureaus, offices or programs). Doing so turned out to be harder than it looked. Some federal regulations, Executive Orders, or government-wide policy directives are clearly mandatory, but the language is at a high level of generality, making it difficult to translate into project-specific or programmatic imperatives. Other agency policies are not clearly framed as either mandatory or best practice, but seem to straddle the line. Finally, within a large bureaucracy such as USAID, different bureaus working in different sectors and regions have somewhat different emphases and policies, so that looking at the Agency as a whole only captures part of the picture. On the other hand, some agencies are only peripherally engaged in work outside the United States, typically through interagency initiatives such as Power Africa, and their domestic constraints and policies do not apply to overseas work. There is little written guidance on how these agencies should operate abroad and they tend to work in multiagency coalitions where they defer to others with respect to these issues. And finally, some of the big players in development-related spending, like the Defense and Agriculture departments, have different timelines, budgetary authorities and imperatives, making it difficult to compare across the board. For simplicity, this article focuses on a limited number of core agencies.

The resulting map is a snapshot in time, in a terrain that is shifting. The Trump administration’s antipathy to foreign assistance overall presents new challenges, but also an opportunity. Congress and the agencies themselves can take advantage of debates over the proper scope and goals of such assistance to refine procedures and rethink priorities, including strengthening safeguards and social accountability. Existing authorities may be changed, harmonized or supplemented. Indeed, in February 2018 a bipartisan group of Senators introduced a bill to consolidate OPIC and the USAID’s Development Credit Authority, USAID’s Enterprise Funds, and USAID’s Office of Private Capital and Microenterprise into a single International Development Finance Corporation, as discussed below. Whatever the substance of the policies adopted, they begin from a basis of broadly expressed support for the idea that they should be environmentally and socially sound in order to be fiscally responsible and effective. The current approach runs unnecessary risks of harming the very people our assistance and facilitation are supposed to help.

Part II of this article defines social and environmental safeguards and briefly traces their history and functions. Part III explores a number of recent trends that make safeguards more important and timely in U.S. government overseas activities. Part IV explains the methodology and the lessons and findings on what currently exists, while Part V pinpoints some possible next steps, even in a difficult political environment.
II. What are Social and Environmental Safeguards?

Development banks and bilateral and multilateral foreign assistance agencies share the same goals: Reduce poverty, promote inclusion and advance sustainable development. Other actors, while they lack an explicit development mandate, aim to promote responsible business and enhance the reputation of their governments. Many projects and programs financed by these agencies through grants or loans to governments or private actors actually improve lives.

However, more frequently than they should, ill-conceived, precipitous or inadequately consulted projects and programs can cause unanticipated harms that are antithetical to the expressed goals of the project or initiative, including forced displacement, loss of livelihoods, harm to water or biodiversity, violence against women and children, use of child or forced labor, discrimination against minorities or political opponents, or even security force repression. For example, a project might increase average incomes, yet have devastating effects on the poorest, who tend to be women or minorities. Or despite understanding the environmental, social and human rights risks, a private or public-sector actor might think the potential private benefits, especially the financial returns, outweigh those public risks. Or, even a project with net benefits for communities may be doomed by inadequate consultation, benefit-sharing and access to information. The failure to recognize, address and course-correct for these harms early on can lead, at a minimum, to delays, project cancellations, precipitous withdrawal of funding and ultimately mission failure, and a souring of relationships between funding agencies and civil society when initiatives meant to promote development ultimately create or exacerbate human rights or environmental violations.

“Safeguards” is the term used to describe the due diligence and resulting avoidance, minimization, mitigation and monitoring activities that public or private actors set up to avoid these problems. An accountability regime complements safeguards by providing affected populations access to a remedy if, despite best efforts, something goes wrong. A strong safeguard and accountability system can help avoid truly bad projects and programs that should be stopped or thoroughly changed, and can improve those projects that have a net social benefit but also unavoidable harms that need to be mitigated or compensated. From the perspective of affected communities, they can avoid a slide into destitution, social disintegration, out-migration and violence. From the perspective of the financers and donors, they can avoid harms to reputation and wasted resources, and allow for timely course corrections.¹

¹ Safeguards are different from aid conditionalities, which are based on the imposition of the lender’s preferences regarding macroeconomic policy. Conditionality has generally been imposed on a government or program-wide basis; safeguards, in contrast, generally apply more narrowly, to projects or discrete programs. They are moreover based on international human rights, labor or environmental legal commitments that most governments have accepted. Safeguards are also not the same as policies. For example, a gender empowerment policy would support girls’ and women’s health, land rights or education, while a gender empowerment safeguard would ensure that another kind of

The concept of safeguards originated with the multilateral development banks like the World Bank. The World Bank established safeguards because public pressure around problematic projects led to an effort to avoid negative impacts, especially on the environment, forced displacement and the treatment of indigenous peoples.\(^2\) The World Bank’s International Finance Corporation, which focuses on the private sector, developed Performance Standards that turned out to be particularly influential and have been adopted broadly by a number of other entities.\(^3\) The World Bank created an accountability mechanism called the Inspection Panel to investigate and report on violations of the safeguards, and other banks, credit agencies and others added their own accountability mechanisms.\(^4\) The U.S. continues to be a strong supporter of safeguards and accountability at international development banks.

It turned out that not only development banks needed safeguards. Export credit agencies, under the aegis of the Organization for Economic Co-operation and Development’s Common Principles, developed their own versions.\(^5\) Multilateral donors such as the UN Development Program (“UNDP”) did so as

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well\(^6\), as did the German, Dutch and Japanese development cooperation agencies.\(^7\) Brazilian and Chinese development finance, an increasing source of funds for Africa, Asia and Latin America, have found it necessary to develop safeguards in order to work with existing public finance sources.\(^8\) And large corporations investing abroad have been putting their own due diligence protocols into practice. These include the U.N. Principles on Business and Human Rights (“Ruggie Principles”), the Equator Principles for banks, the Organisation for Economic Co-operation and Development (“OECD”) principles on Multinational Enterprises and on Land Acquisition, and many sector- and issue-specific protocols.\(^9\)

6. UNITED NATIONS DEVELOPMENT PROGRAMME, SOCIAL AND ENVIRONMENTAL STANDARDS (2015), http://www.undp.org/content/undp/en/home/librarypage/operations1/undp-social-and-environmental-standards [https://perma.cc/27QA-RXW3]. UNDP has also established a Social and Environmental Compliance Unit (“SECU”), within the Office of Audit and Investigations (“OAI”) that accepts requests by communities to investigate alleged violations of UNDP’s social and environmental commitments. Like other similar accountability mechanisms, alongside the compliance unit is a Stakeholder Response Mechanism that will attempt to facilitate dispute resolution at the country or regional office level for social and environmental issues related to a UNDP Project. See SOCIAL AND ENVIRONMENTAL COMPLIANCE REVIEW AND STAKEHOLDER RESPONSE MECHANISM, http://www.undp.org/content/undp/en/home/operations/accountability/secu-srm.html [https://perma.cc/SE8L-P5FK].


9. The U.N. Guiding Principles were developed in the context of the U.N. Human Rights Council’s special procedures, and constitute widely accepted “soft law.” The U.N. has since created an ongoing Working Group on the implementation of the Principles. UNITED NATIONS OFFICE OF THE HIGH COMMISSIONER, GUIDING PRINCIPLES ON BUSINESS
III. Why Are Safeguards Important Now?

In the United States, the development and implementation of safeguards and accountability mechanisms has been uneven until now. As detailed below, the U.S. leads in some areas, but lags in others. Recognition of the importance of safeguards is growing. The U.S. Congress has stated its support for safeguards and accountability principles at the international financial institutions, and its opposition to any dilution of them,10 in the December 2014 Appropriations Act.11 It would stand to reason that Congress, in its oversight capacity, would want the same type of safeguards with respect to U.S. bilateral investments in development.

The most important reason to seek robust safeguards and accountability is that they lead to better outcomes, or at least avoid truly bad ones. But a number of changes in lending and aid patterns also suggest a need for increased attention to the subject.

A. Changing patterns of investment and emerging standards regimes

First, aid flows are increasing in sectors such as infrastructure and energy that are particularly vulnerable to unintended negative consequences. The percentage of U.S. assistance funds going to finance infrastructure, natural resources-related, and energy-related projects has increased, and is expected to continue growing, although the mix of energy sources or conservation programs


10. U.S. Consolidated Appropriations Bill 2016, Sec. 7029, reads: “(e) The Secretary of the Treasury shall instruct the United States executive director of each international financial institution to seek to ensure that each such institution responds to the findings and recommendations of its accountability mechanisms by providing just compensation or other appropriate redress to individuals and communities that suffer violations of human rights, including forced displacement, resulting from any loan, grant, strategy or policy of such institution.” Congress also expressed concern regarding deficient safeguards, instructed the U.S. Treasury Department to require that MDBs conduct “rigorous human rights due diligence and risk management, as appropriate, in connection with any loan, grant, policy or strategy,” Id. at 1254–56; and prohibited spending on extractive activities, including logging, in primary tropical forests (Id. at 1407).

11. There is no indication in subsequent Appropriations Acts that Congress has changed its mind.
may change. Among all OECD countries, foreign aid for the energy sector almost doubled from 2008 to 2014.12 Agriculture, forests and fisheries spending grew approximately 50% during the same period.13 In the U.S. foreign aid budget, both agriculture and natural resources or environment-related spending have increased significantly in the last decade.14 These sectors tend to be among the most problematic with respect to unintended negative consequences in both the environmental and social arenas, and require more intensive consultation and work with affected groups.

Second, more foreign assistance initiatives are carried out through multi-donor or multiagency collaborations. Much of our foreign assistance in these new focus sectors will be channeled through multi-donor or multiagency collaborations, including an increasing number that require safeguards policies of their partners. This may include intra-US government collaborations, partnerships with other bilateral agencies, with multilateral organizations or with the private sector. A good example is the U.S. Power Africa initiative, which involves twelve federal agencies, working in conjunction with other states, multilateral banks and private partners. While in the short term the U.S. may pull back from some of these collaborations, over a longer period this is increasingly the shape of foreign assistance from OECD countries. As development cooperation agencies in other donor states create and implement their own safeguard and accountability mechanisms, the U.S. risks looking like a laggard, despite the fact that some U.S. agencies have been early adopters of a safeguards regime (for example, Ex-Im Bank was the first export credit agency to develop an environmental safeguards protocol). The uneven nature of U.S. government safeguards creates increasing reputational risk as well as policy incoherence and confusion regarding which standards apply for interagency collaborations.


13. Id.

14. According to a recent CRS study, “Agriculture programs saw significant decreases from the 1970s and 1980s, when they represented the bulk of U.S. development assistance. In FY1984, agriculture and rural development received an appropriation of $725 million from the development assistance account, compared to $315 million in FY1998 and $474 million in FY2008 from all USAID/State accounts. Agriculture-related programs were expected to receive about $1.6 billion in FY2015 ... According to a recent CRS study, “Agriculture programs saw significant decreases from the 1970s and 1980s, when they represented the bulk of U.S. development assistance. In FY1984, agriculture and rural development received an appropriation of $725 million from the development assistance account, compared to $315 million in FY1998 and $474 million in FY2008 from all USAID/State accounts. Agriculture-related programs were expected to receive about $1.6 billion in FY2015. Programs managing natural resources and protecting the global environment fell from $504 million in FY2002 to $324 million in FY2008. Environmental programs received $733 million in FY2010, more than doubling in just two years. In FY2014, they were expected to receive about $820 million.” Curt Tarnoff & Marian L. Lawson, Congressional Research Service, Foreign Aid: An Introduction to US Programs and Policy 12–13 (2016).
Similarly, on the private sector side, business partners or implementers of U.S. agencies involved in overseas assistance are increasingly implementing their own due diligence procedures, as discussed above. U.S. development cooperation is increasingly incorporating public-private partnerships of various sorts, with private partners implementing their own due diligence procedures or participating in industry or sector-specific codes. How those mesh with public agency obligations is unclear and confusing for all concerned. Examples include USAID’s work with Power Africa, and the New Alliance for Food Security and Nutrition.

B. Power Africa: wave of the future?

The Power Africa Initiative exemplifies many of these trends. The initiative aims to double the number of people in Sub-Saharan Africa who have access to electricity. It involves USAID, Millennium Challenge Corporation (“MCC”), OPIC, Ex-Im, and six other U.S. government agencies along with the World Bank, the European Union, other bilateral donors and private investors. The agencies provide transaction support, financing, advice on legal and regulatory reform, legal assistance, capacity building and convening power to create partnerships around specific electrification projects to be built with private money. Inadequate community support and lack of clarity around land rights and local participation have hobbled or killed some projects, while others have had to be revamped to improve local buy-in, adding to the time and expenses involved. While many Power Africa-supported projects have financing from multilateral or bilateral donors with (better or worse) safeguards, some of the privately financed projects do not, creating a gap. There is also an assumption by Power Africa’s implementer that where another donor with an existing safeguards protocol exists, there is no need for independent analysis and the other donor will do a good job—an assumption not always borne out, especially in the case of multilateral donors. Power Africa is also different because the agencies involved largely facilitate and accelerate private investment, rather than funding or building facilities.

Within Power Africa, recent complaints and setbacks have led to an effort to focus on improving community engagement on a case-by-case basis, using NGO


16. First there was the US$148 million Kinangop wind project in Kenya that was supposed to create the area’s first private wind farm, with Norwegian investors and General Electric turbines and financial facilitation by USAID and the U.S. Overseas Private Investment Corporation. The only problem was that local people did not want to be displaced from their homes and had no idea whether there would be energy benefits for them; no one spent much time talking to them about how the project was going to work or asking about their desires. So they protested and delayed and this eventually raised the costs to the point that the private investors pulled out. Then a team of investigators found that local Masaai tribesmen were similarly unhappy about a geothermal project in the region, also supported by Power Africa. Agencies scrambled to respond to allegations of lack of consultation, land rights and displacement issues, resulting in some changes. USAID, Power Africa 2015 Report. P. 28, http://energyaccess.org/wp-content/uploads/2015/08/Power-Africa-Annual-Report-FULL-REPORT.pdf [https://perma.cc/N8Q7-3Y2S].
or other third party intermediaries. A 2016 report by the Power Africa Transactions and Reforms Program ("PATRP"), a USAID implementer for Power Africa, identified environmental and gender equity objectives that have been put in place to fill in the gap created where no other agency is involved in a project.\(^\text{17}\) According to the report, in initiatives involving late-stage transaction support or small-scale electrification (mini-grid) projects, a desktop review (that is, not including a site visit) of the project must consider environmental and social impacts, including site-specific and country conditions. Among the issues to be considered are displacement and relocation of population, land tenure status, biological and emissions impacts, and social/cultural/political/economic considerations, including the risk of investing in the country at all. As of the date of the report, 26 out of 65 transactions had been subject to screening—the rest either had another agency involved, or were at a preliminary stage. Of those screened, it seems that environmental impact reports are required, but are done according to national standards, which may be less stringent than international best practice. Moreover, several ESIAs are missing, but will be required as the projects move forward. Training and dissemination activities are included in future plans. The implementer also recently hired a Gender Advisor, who has created a strategy and activities for including gender considerations in future Power Africa projects. While these are positive steps, the reactive and late-in-the-game manner of their execution call for doing better in the future.

**IV. Methodology and Initial Findings**

The primary focus of the study mapping US safeguard policies was on the following five thematic areas:

1. Environmental issues, specifically the requirements and scope of environmental impact assessment, with special attention to energy, forests and biodiversity;
2. Land and natural resources as they affect communities, including forced physical and economic displacement as a result of development projects or activities;
3. Non-discrimination and protection of vulnerable groups, particularly specific policies vis-à-vis gender, indigenous peoples, LGBTI people, disabled persons or other disadvantaged groups;
4. Community health and safety, including issues around security and exacerbation of inter- and intra-community conflict; and
5. Labor rights, including freedom of association, working conditions, child and forced labor and wages/hours.

In addition to thematic areas, it also looked where available at three procedural issues:

1. Participation and consultation with affected communities or populations;
2. Transparency and access to information about policies and projects for interested parties, and
3. Access to redress for affected populations in case a problem arises.

The initial subset of agencies includes those that are primarily charged with the development, investment and export promotion activities of the U.S. government. These include USAID, MCC, OPIC, and Ex-Im Bank. They also included a less intensive degree of scrutiny of a number of other agencies, reflected in the narrative but not in the chart. The study used the publicly available documents of each agency, “not for attribution” in person and telephone interviews with staff from various agencies during April, May, and June of 2016, with limited updates in 2017. Some interviewees were gracious enough to provide further internal documents.

From this material came a chart, cowritten with Alexandra Avram and reproduced in Annex I, comparing the mandatory policy and guidelines on a range of environmental and social issues across agencies. In creating the chart, we tried to differentiate between “hard” binding law, internal policies, and guidelines or best practices that are not binding, but inform agency practice. We color coded the chart accordingly: red for statutes, Executive Orders, federal regulations, treaties and other similar legal documents; orange for mandatory agency policies; and green for less clearly mandatory policies and guidance. In practice the line proved blurry and, as our interviewees indicated, the intent and the implementation of a policy did not always coincide. Nonetheless, with those caveats, the color scheme may prove useful in quickly understanding the strength as well as the extent of the existing safeguard obligations within a given agency or bureau. The study produced three overarching observations.

**Three overarching observations**

1. Inconsistency is the constant.

There is massive inconsistency in terms of the U.S. government safeguard regime at every level—between agencies and departments, between thematic areas and between levels of enforcement and/or implementation. Some have elaborate social and environmental safeguards and accountability systems. Others have only a handful of mandatory policies, supplemented by myriad guidelines and policy documents with little clarity about how they are to be implemented and how implementation is to be assessed. Agencies that do not think of themselves primarily as programmatic or project-focused tend to have limited or undeveloped safeguards or risk management. The Department of State, for example, has elaborate program design and evaluation guidelines, but they are focused on
intended outcomes, not on unanticipated risks.\textsuperscript{18} Agencies with a mostly domestic mandate have few rules about overseas work and tend to rely on State Department guidance. Small foundations like the U.S. Africa Development Foundation are similarly not designed or staffed to have more than minimal environmental guidance, and depend on program officers to evaluate other non-financial risks on a case-by-case basis. Other agencies, for example the MCC, work with a limited subset of countries that meet minimal benchmarks on governance as a way of reducing risks.\textsuperscript{19}

Environmental and gender-related issues are the subject of more detailed requirements and expectations than other issues. Environmental impact assessment is almost universally required, but environmental impacts only extend to social issues like displacement or cultural heritage if tied to effects on the environment. USAID, for instance, is required by federal regulation to implement environmental assessment and has placed environmental officers in missions as well as at headquarters to do so.

Gender analysis is required by USAID’s internal rules (the Automated Directives System or ADS), and over time, through mandatory training and mandatory and suggested guidance, the incorporation of gender-related concerns to programming has improved. The MCC also has a well-developed set of gender analysis rules, while other agencies have very little spelled out. On the other hand, there are several key areas that are less developed across the board: human rights; conflict/atrocities prevention and mitigation; community land, resources, and health/safety; and rules regarding participation and consultation with communities—most notably indigenous peoples. Defining concerns explicitly in human rights terms, rather than the language of social issues, is particularly problematic, and some agencies have relied instead on consultation with the State Department’s Human Rights Bureau. OPIC, alone among the agencies studied, pays close attention to labor rights and impacts of investment on U.S. and overseas workers, including through a formal multiagency review of country eligibility for trade benefits due to concerns on workers’ rights and a consultative review of specific projects.

There is also little uniformity in how the same safeguards language is implemented in practice. For example, Ex-Im Bank, OPIC, and MCC all reference the IFC performance standard on environmental impact assessment (“EIA”). USAID uses its own mandatory regulation.\textsuperscript{20} However, in practice some agencies rely solely on project proponents (governments, implementers, or private investors) to carry out and certify the EIA, while others hire consultants to review the process and the resulting plan, and still others use their own staff to carry out site visits, desk reviews and consultations with local groups on the quality and content of the EIA and the resultant action plan. Some agencies have explicit lists


\textsuperscript{19} Millennium Challenge Act of 2003, as amended, 22 U.S.C. 7701, \textit{et seq.}

\textsuperscript{20} 22 C.F.R. § 216 (2018).
of excluded project types; most have some trigger of extra scrutiny (“category A,” for example) while a few have a much vaguer cost-benefit analysis.

In some cases, U.S. agencies have been able to influence and lead international safeguard development. For example, the early work at Ex-Im Bank on environmental safeguards became the basis for the OECD Common Approaches used by all OECD export credit agencies. A group of basic safeguards have been borrowed by U.S. agencies from other contexts. These include the IFC Performance Standards, the Equator Principles designed for private banks, the World Bank’s Health and Safety standards, and rules regarding private security contractors or construction projects borrowed from private standard-setting groups. This facilitates adoption, cuts down on the time involved, and allows for some cross-agency collaboration and comparisons, but it also means that in some contexts additional tailoring is needed.

Even where agencies use the same externally generated safeguards, like the IFC Performance Standards, they never use them as stand-alones but paired with additional, and varied, supplementary standards. For example, the IFC standards are particularly weak on labor, gender and human rights issues, so OPIC pairs them with labor standards generated from U.S. law (“special consideration” countries) and the Millennium Challenge Corporation supplements with its own gender and women’s empowerment standards. This leads to inconsistencies among U.S. agencies.

2. Creating a holistic, robust U.S. safeguards regime is feasible, but requires significant political will and staff buy-in at headquarters and in the field.

Existing safeguards exist largely because of Congressional directives and Executive Orders that have defined many of the issues that agencies consider in project assessment and planning. While Congress has regularly stepped in to strengthen safeguards, action has come about largely in relation to scandals or to specific member concerns, and thus has been inconsistent and uneven. Further specification and rigor in safeguards development has also come about as a result of General Accountability Organization (“GAO”) or USAID Inspector General investigations, or because of civil society pressure (including media attention) arising from agency support for an egregiously bad project.

Safeguards and standards, to be effective, must be combined with adequate staffing, training, incentives for application, and monitoring and revision. For example, environmental and gender issues in USAID and MCC are incorporated through the use of a Compliance Officer or Point of Contact in each Mission, MCA and/or Bureau, whose job it is to revise and oversee adequate consideration of environmental and gender issues by project proponents (public or private). USAID Environmental Compliance officers have the authority to require changes, or even to stop, a project or program even if it has been approved by Mission leadership. The gender-related rules are implemented in part through mandatory training (including simulations and role-plays) of all new officers. These best practices, however, do not extend to other issues. Even where a stated policy is in place, it is largely programmatic (i.e., we will support work on this issue) rather than aimed
at checking for unanticipated impacts. In USAID, the production of a raft of new policies, aimed at redressing the Agency’s loss of policy autonomy for a period in the early and mid-2000s, led to “policy fatigue” in recent years. This made it more difficult to develop and implement new safeguard policies, and led to a search for alternative mechanisms that might create changes even without a policy. For example, an indigenous peoples’ policy has been drafted and, as of 2017, had been awaiting approval by USAID’s leadership for several years.

In interviews, agency staff members agreed that avoiding environmental and social harm from development projects would be a good thing. However, they worried about adding extra time and complexity to already cumbersome procedures. It is true that good analysis takes time. Indeed, assessments and management plan revisions are meant to take time, to provide a speed bump that counters the natural inclinations of funders and financiers to move money out the door as quickly as possible and allow time for reflection and consultation. In a time of strained budgets and attacks on foreign aid as a luxury item, objections are understandable. However, the whole point of safeguards is to make final projects better, easier to implement and more sustainable, and to minimize the kinds of expensive, harmful boondoggles that give development cooperation a bad name. By spending time and money up front, agencies avoid spending even more down the line.

A subtler, and more cogent, objection is that safeguards in an institutional setting where the incentives are misaligned will simply result in box-checking and lip service, rather than change in institutional culture. For example, contractors are required to check a box stating that, to their knowledge, they do not employ victims of human trafficking. While intended to act as a trigger for internal investigations of labor hiring, they may not do so, providing the appearance of change without the substance. Some critiques of gender analysis in development project assessment similarly argue that project proponents simply “check the box,” for example stating that a road will be used by both men and women, and then calling that their “gender assessment.” Adding further safeguard policies will just exacerbate the existing encouragement of form over substance.

There is merit to this objection if safeguards are considered as a stand-alone. There is an extensive literature on auditing, especially environmental and social auditing in the private sector, that can shed light on the problem of institutional cultures and “buy-in.” While a full discussion is beyond the scope of this article,

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21. All of my interviewees expressed this position.

22. This was especially true of interviewees who saw themselves in competition with other sources of credit or guarantees, or who faced pressure from Congress to “get money out the door quickly.” Interviews, Washington D.C. (May 2016).

23. Story recounted by a USAID employee, interview, (May 2016). All agency employees interviewed for this article were promised nonattribution.

a few lessons from that literature are pertinent. Strong demonstrated support from the top of the organization, both stated, and in promotion and compensation policies is one key. Adequate staffing and budgets for safeguard implementation is another. “Mainstreaming” and practical training for all, along with additional training and authority for the relevant points of contact or compliance officers, is another concomitant of success. Monitoring and oversight, including public access to assessments, plans and complaints and randomized third-party checks, is yet another. But training and other “soft” techniques only work when there is a “hard” mandatory set of rules at the core as well as some mechanism for enforcement. Moreover, effective controls depend on “demand” as well as “supply.” If affected people are unaware of their rights and of safeguard policies, their advocates and defenders are attacked and silenced, and there are few advocates willing or able to navigate complex safeguard regimes, even the best rules will end up as mere paperwork. Rather, closed feedback loops that refer constantly back to impacted populations and use their feedback to improve seem to avoid the box-checking dynamic. Safeguards will work best when integrated into a larger suite of support measures, but that is not a reason to reject them altogether.

3. Very little attention is paid to remedying violations once they occur.

Only OPIC has an Office of Accountability to problem-solve and, if needed, review compliance with standards if adversely affected communities complain. And OPIC has much more developed requirements than other agencies for consultation with “project affected peoples,” although even these fall short of the ongoing monitoring and feedback loops needed for projects once they have been approved. For those agencies that rely on the International Finance Corporation’s Performance Standards, those standards rely on the client to establish project-level grievance procedures but create no obligations on the lending or donor agency. In cases where government mainly facilitates and supports private investment (as in Power Africa), private parties are encouraged to create community engagement approaches that include ongoing monitoring and a local redress mechanism, but as a matter of “best practice” rather than regulatory or contractual obligation.

V. Next Steps

The current administration has proposed drastically reduced budgets and less support for foreign aid and investment promotion.25 No matter what one thinks of this strategy, it increases the need to use whatever funds are available in ways that

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are likely to lead to the most beneficial results and to enhance the reputation of the U.S. That means that, in an environment where less money and support may be available, those projects that do go forward should be fully supported by the intended beneficiaries, and not potentially the subject of adverse publicity, protests, delays or legal challenges. Doing more with less requires that investments be as cost-effective as possible. A robust set of safeguards is designed to ensure exactly that.

The current political climate may make safeguard improvements a medium-term endeavor. However, a good portion of foreign assistance (including initiatives like Power Africa, discussed below) aims at bolstering private foreign investment and has bipartisan support. Assuming the current U.S. administration decides to maintain at least some foreign assistance, as is likely, a focus on reducing waste and misspending in both the White House and Congress might well converge with efforts by career officials to upgrade and harmonize environmental and social standards and accountability in foreign assistance and investment promotion. If that happens, there are some practical questions that would need answers.

A. More research is needed

First, more research is required. This article summarizes what agencies say they do, not necessarily what they actually do. Some information exists on the procedures actually followed, for example to see if a consultation was done perfunctorily or seriously. It would be useful to compile those procedures, but beyond that, much more research is needed on how safeguards have helped avoid or terminate bad projects, and improve others. The research agenda also needs to expand to other agencies with large overseas footprints.

One option would be to work first on a set of projects that combine many of the characteristics noted above—a focus on energy and land, multiagency, private-public and large-scale—and use them as a living laboratory. The evolving efforts to better incorporate environmental and social considerations, including gender and human rights, in the Power Africa Initiative will provide important lessons for how to effectively and efficiently “harmonize up” to the highest standards.

B. Imagining options and architectures will be challenging

Beyond more research, the best way to move towards the most protective and robust set of safeguards is complex. Should there be one uniform safeguard and accountability regime applicable to every agency that spends money or provides technical assistance abroad? Or should each agency develop and monitor its own? There are undeniable advantages to a single, uniform standard. It would maximize a “whole of government” approach, and allow the U.S. to play a

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leadership role internationally. It would allow for easier, government-wide training and would reduce the possibility of confusing or contradictory procedures. It would be able to combine the best practices of each agency in the issue areas where they are strongest (for example, the gender policies of USAID or MCC with the involuntary resettlement or labor rights safeguards of OPIC) and to ensure that all U.S. development cooperation or investment assistance complies with a single minimum standard, although agencies could choose to go further. It would also allow for uniform application of a single set of safeguards and thus give some predictability and security for public and private implementers and partners, who would only have to learn a single set of rules no matter where the support came from.

However, countervailing considerations counsel caution. Agencies are very different in size, visibility and complexity, in some cases deliberately so. The MCC, for example, was set up to be small, selective and nimble, unlike its bigger USAID cousin. Some have an explicit development or poverty reduction mandate, while others are limited to export promotion or technical support. Some rely more on implementers than others; the relationship with recipient governments also varies widely. Some spend a small percentage of their budget on overseas projects, while for others that is all they do. Imposing uniformity on this diversity might result in a uniform common denominator that is too much for some and too little for others. For small agencies, the investment in time and energy might not produce the same positive results that it would in a larger, more bureaucratized setting. Moreover, a government-wide set of standards would risk becoming a least-common-denominator mush, satisfying no one.

Given these competing concerns, it might make sense to think about a core set of safeguards supplemented by agency-specific protocols. That would allow for uniform training, materials, and a community of practice to emerge, without the straightjacket of total uniformity. Any core set of safeguards would have to cover similar issue areas (presumably those discussed above), categorization of projects or investments according to the degree of risk, specifics on who carries out initial assessments, creation of management plans for avoidance of impacts and mitigation or compensation for unavoidable ones, monitoring, and review. It would require directives on access to information, participation and consultation with affected communities (including specific rules on dealing with indigenous communities), and some way for those adversely affected to complain about projects or programs and trigger either consultations/mediation or an investigation—the two tasks that would be carried out by a grievance mechanism for U.S. agencies.

Any of these options will require institutional architecture. Should there be a single government safeguards watchdog or should this task be integrated into each existing agency? Placing a safeguards unit within agencies creates tensions between project managers and those seen as delaying or second-guessing their work, potentially leading to weak or ignored safeguards. Yet an outside agency might not have the intimate knowledge of an agency’s culture and procedures needed to be an effective advocate and monitor. Creating new federal offices, moreover, is likely to be a Sisyphean task in the current political climate. A coordinating body of people from the major aid, investment promotion, and trade
agencies, with some support from the Department of State, might be a compromise between these two options. A variant would empower a single individual or office, housed in a single agency, to exercise government-wide primacy in discussions over a given issue. That is the route taken on indigenous peoples’ issues, where a single officer, housed at USAID, promotes policies that apply to all overseas public spending or support.

The accountability function raises an additional set of concerns. OPIC, which has the most developed complaint function (including both a mediation and an investigation arm) has complained that its Office of Accountability has been underused. While better publicity about the Office’s existence and legal support for communities affected by projects would certainly help, the issue of underutilization of resources is real. It would be possible to combine such offices, or to designate a single existing government agency as the appropriate forum, recognizing that issues of disparate agency culture, turf wars, competition for resources and other ills of bureaucratic life would no doubt complicate efforts to designate a “lead agency.” However, if the Dutch and German aid agency accountability functions were successfully combined into a single office, perhaps there is hope for meshing the different cultures of offices within the US government.

Another option might be to expand the purview of the existing Inspector Generals’ Offices. Each major U.S. department or agency has an Inspector General who promotes economy, efficiency, and effectiveness and roots out fraud, waste, and abuse. These auditors follow uniform protocols and are governed by a Council of the Inspectors General on Integrity and Efficiency, an Executive Branch body. The State Department, USAID and the Department of Defense, among others, have Inspector Generals, as do almost 70 other federal agencies. These bodies, or the Council of IGs, could broaden their mandate to consider environmental and social considerations as part of effectiveness and efficiency. Indeed, the Global Fund to Fight AIDS, Tuberculosis, and Malaria houses its


29. OPIC operates on a self-sustaining basis, at no net cost to the taxpayers, so a drain on taxpayer resources is not the concern; best utilization of the agency’s resources is. See, OPIC, WHO ARE WE, FREQUENTLY ASKED QUESTIONS, https://www.opic.gov/who-we-are/faqs [https://perma.cc/L3YN-5GL2] (last visited Mar. 11, 2018).

human rights complaint mechanism within its Inspector General’s Office. The USAID IG, for instance, already issues audit reports on projects that go far beyond waste and fraud to consider the overall achievements and shortcomings of projects, including the environmental and social ones. The IG also has whistle-blowing protections, ability to obtain documents, and security considerations built into its governing legislation. On the other hand, if specific IG offices have a tumultuous or tense history with program staff, it might be best to start anew. It is also unclear whether affected communities would have adequate access to IG offices, which are not set up for such access. In the private sector, asking outside auditing firms to assume environmental and social audits has been a mixed bag. Moreover, housing safeguards in an IG’s office might put too much weight on the “no harm” side of the equation, shortchanging efforts to use safeguards to improve projects rather than simply avoid disasters.

C. The role of congressional reshaping

No matter which path is chosen, Congress will have to play an active role in any reforms. Congress can create problems for aid agencies by setting unrealistic timeframes, by designating specific priorities that are unconnected from—and sometimes contradictory to—overall assistance goals, and by inadequate and at times capricious budgeting practices. But Congress has also expressed a clear interest in having U.S. taxpayer monies be well spent, while avoiding environmental and social harm. It is in a position to require across-the-board guarantees that agencies are adequately scrutinizing their own projects, following best practice, and providing opportunities for redress when things go wrong.

An important potential vehicle for doing so was introduced into the Senate in February 2018. Senate Bill 2463 (the “BUILD Act”) would consolidate the operations of OPIC and the USAID’s Development Credit Authority, USAID’s Enterprise Funds, and USAID’s Office of Private Capital and Microenterprise into a single International Development Finance Corporation (IDFC). The new entity would have a Chief Risk Officer to identify, assess, monitor and limit risks, as well as a risk committee of its Board. It would require an explicit tie of its investments to market-friendly development and to remedying market failures, and the creation


of a performance management system to evaluate outcomes. The current safeguard language is minimal, including a basic commitment to labor rights and environmental protection. It is not clear whether it would transfer the full corpus of OPIC and USAID safeguard and accountability policies to its successor. Any further development of the legislation will need to ensure that current OPIC and USAID safeguard and accountability policies are not only adopted in full, but strengthened. Well done, this could be an opportunity to move towards a more robust set of rules while modernizing. Poorly done, it could be counterproductive.

VI. Conclusion

Many people within and without the U.S. government have realized that the current state of affairs is untenable. The shape of those changes and their speed will in some measure be affected by the priorities of the administration, by the results of revised safeguards at the multilateral development banks and at U.S. allies’ aid agencies, and by the ability of people affected by problematic projects to make common cause with U.S.-based environmental, development and human rights organizations. Especially in light of increasing worries that U.S. policy will favor unbridled resource extraction, these organizations might do well to pay more attention to using and improving safeguards and demanding greater accountability.

More robust and effective safeguard and accountability policies will not, themselves, change the shape of international development, nor ensure environmental sustainability or human rights observance. The continuing checkered history of projects financed by international financial institutions is proof of that. However, improving safeguards and accountability will, above all,
allow people to have a voice and a choice in their own development. It will take an inclusive, imaginative and politically savvy process, with both Congressional and Executive branch buy-in, to move forward, but it can and must be done in order to ensure that our foreign aid dollars are spent effectively, development goals are achieved, and human rights respected.

For the Chart that accompanies this article:
http://journals.uchastings.edu/journals/websites/west-northwest/HELJ_24-2_Safeguarding_Development_Roht-Arriaza_CHART.pdf

en/317401425505124162/iad-draft-report-advisory-review-safeguards-risk-management.pdf [https://perma.cc/NPU6ZY8F] (internal audit of World Bank lending showed the Bank did not flag risky projects, had no way of tracking mitigation or monitoring requirements put in place as a result of safeguards implementation, and did not support or review the work of environmental or social safeguard specialists to make sure they were actually monitoring projects. In response, Bank management pledged to do better. See the websites of Bank Information Center (http://www.bankinformationcenter.org [https://perma.cc/5EAE-E356]), Inclusive Development International (http://www.inclusivedevelopment.net [https://perma.cc/JB7F-GG47]), International Rivers Network (irn.org) [https://perma.cc/W8N6-G8M4]) for examples of problematic projects.