

# Safeguards and Sustainability Policies in a Changing World

An Independent Evaluation of World Bank Group Experience

IEG Study Series



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**Cover image:** Women in India displaced by a development project. Photo courtesy of Reidar Kvam.

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# Abbreviations

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ADB	Asian Development Bank
AFR	Africa Region
AMR	Annual Monitoring Report
BP	Bank Procedures
CAO	Compliance Advisor and Ombudsman
CES	Environment and Social Department (IFC)
CESI	CES Investment Support Group
CODE	Committee on Development Effectiveness
DPL	Development policy loans
EA	Environmental assessment
EAP	East Asia and Pacific Region
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia Region
EHS	Environmental health and safety
EIA	Environmental Impact Assessment
EMP	Environmental Management Plan
EPI	Enhancing positive impacts
ESE	Environmental and Social Effects
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESRD	Environmental and Social Review Document
ESRP	Environmental and Social Review Procedure
ESRS	Environmental and Social Review Summary
ESSD	Environmentally and Socially Sustainable Development
FI	Financial intermediary
FY	Fiscal year(s)
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International financial institution
IPN	Inspection Panel
IPP	Indigenous Peoples Plan
ISR	Implementation Status and Results
LCR	Latin America and the Caribbean Region
M&E	Monitoring and evaluation
MDB	Multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
MNA	Middle East and North Africa Region
MNI	Mitigating negative impacts

NGO	Nongovernmental organization
OD	Operational Directive
OP	Operational Policy
OPCS	Operations Policy and Country Services
PPSSES	Policy and Performance Standards on Social and Environmental Sustainability
QACU	Quality Assurance and Compliance Unit
RAP	Resettlement Action Plan
SAR	South Asia Region
SCC	Strengthening client capacity
SDR	Safeguards Diagnostic Reviews
SEMS	Social and environmental management system
UCS	Use of country systems
WBG	World Bank Group
XPSR	Expanded Project Supervision Report

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A social specialist discusses resettlement issues with villagers affected by a project in Ethiopia.  
Photo courtesy of Jouni Martti Eerikainen.

# Foreword

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The global financial crisis and the BP oil spill illustrate dramatically the vital role regulatory regimes must play in enabling sustainable development. The World Bank Group's (WBG's) safeguards and sustainability policies were enacted to prevent or mitigate adverse impacts of its projects on people and the environment. The effectiveness of the regulatory regime depends not only on its targets but also the checks and balances provided by monitoring and evaluation, disclosure of findings, and objective verification of results. This evaluation seeks to enhance the effectiveness of the WBG's policies in this context for achieving social and environmental results.

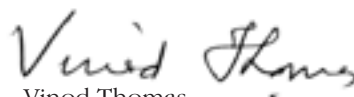
The evaluation finds that the safeguards and sustainability policies have helped to avoid or mitigate large-scale social and environmental risks in the projects financed by the WBG during the past decade. The quality of design and appraisal has improved significantly since the mid-1990s. However, the implementation of the safeguard policies has meant enforcing compliance with mandatory policies and procedures, without engendering strong client ownership. And the quality of environmental and social supervision has been deficient, particularly, but not only, in World Bank-financed projects. Projects with high corporate risks have received adequate attention, but there is insufficient differentiation of the other projects by environmental and social risks. Results can be improved by targeting supervision resources toward the relatively riskier projects.

Adopting a systems approach—linking policy regulations to project design, supervision, monitoring, evaluation, and disclosure—is essential for the effectiveness of safeguards and sustainability policies. For stronger environmental and social results, consistency in coverage of social and environmental impacts across the WBG is essential. Implementation and monitoring of environmental and social outcomes needs urgent

improvement. Better coordination of supervision resources by the social and environmental units in the regions can enable more strategic, risk-based supervision. While assigning responsibility for environmental and social monitoring to clients can improve ownership, greater disclosure of monitoring findings accompanied by third-party verification are vital for accountability.

Safeguards and sustainability policies were designed to address environmental and social impacts of projects at the micro level. An unintended consequence has been a growing separation between the work on safeguards and that on environmental and social sustainability. The importance of macro-level sustainability is highlighted by the growing significance of global public goods, especially biodiversity and climate change, and the growing portfolio of sectorwide, programmatic lending, such as Development Policy Loans and Sectorwide Approaches, whose environmental and social effects also need to be addressed. These micro-macro linkages between project safeguards and macro sustainability will need to be better handled.

The WBG is a crucial player in promoting better environmental and social outcomes worldwide. This evaluation's assessment is that there is a need to improve thematic coverage of the Bank's safeguard policies and to enhance disclosure and independent verification of IFC monitoring and supervision reports to ensure accountability. The evaluation makes recommendations to maintain the objectives of safeguards and sustainability policies; strengthen compliance, implementation, and accountability; and help ensure better environmental and social results.



Vinod Thomas  
Director-General, Evaluation



Resettlement planning in Jamaica. Photo courtesy of Reidar Kvam.

# Executive Summary

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The World Bank Group’s safeguards and sustainability policies were put in place to prevent or mitigate adverse impacts of its projects on people and the environment. These goals remain critical given current environmental and social trends. Recent global experience in the financial and environmental arenas demonstrates clearly the need to put in place and enforce regulatory frameworks that balance costs and benefits, both private and social. This evaluation looks, for the first time, at the full set of safeguards and sustainability policies used in the World Bank Group (WBG)—including the World Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The findings are intended to inform ongoing reviews of policies and strategies across the WBG, with an eye toward greater effectiveness in achieving environmental and social outcomes.

Overall, the evaluation finds that the safeguards and sustainability policies have helped to avoid or mitigate large-scale social and environmental risks in the projects financed by the WBG during the review period, fiscal years 1999–2008. Categorization of risks has not been consistent across the WBG, however, and supervision or monitoring of results has not been thorough. Implementation, particularly in World Bank projects, has meant enforcing compliance with mandatory policies and procedures, which has not engendered strong client ownership. The Bank’s compliance-based approach is becoming less effective as its portfolio moves beyond traditional investment projects (which now constitute less than half of new lending across the WBG). Greater emphasis on developing client ownership and systems is needed going forward. Ownership among private sector clients and business partners has improved with the introduction of a new Performance Standards approach at IFC and MIGA, but verification, disclosure, and community ownership have

been lacking, and impacts on environmental and social outcomes are not yet known.

The evaluation makes recommendations in five areas: (1) policy frameworks to harmonize thematic coverage across the WBG and enhance their relevance to client needs; (2) client capacity, responsibility, and ownership; (3) guidelines, instruments, and incentives to strengthen supervision; (4) monitoring, evaluation, completion reporting, verification, and disclosure; and (5) systems and instruments for accountability and grievance redress.

Although the policies that are the foundation of today’s safeguards were promulgated in the 1980s, they gained more prominence after the Morse Commission’s 1992 report on the Sardar Sarovar Dam highlighted significant failures in enforcing social and environmental policies. To ensure that such errors were not repeated, the World Bank established the Inspection Panel, a permanent body reporting to the Board of



Directors to investigate complaints, and created a separate Quality Assurance and Compliance Unit in 1999 to provide additional oversight of safeguards quality in Bank projects. For IFC and MIGA an accountability mechanism—the Compliance Advisor and Ombudsman (CAO)—was created in 1998. The CAO, which reports to the WBG president, acts as a mechanism for grievance redress and, if cases are not resolved, then investigates projects to verify if they are in compliance with relevant policies.

World Bank safeguards consist, today, of 10 separate policies—6 environmental, 2 social, and 2 legal. IFC replaced the safeguards in 2006 with a single policy on social and environmental sustainability and eight Performance Standards divided equally among social and environmental standards; MIGA followed suit in 2007. The new policy has clarified roles and responsibilities for the private sector clients of IFC and MIGA and is accompanied by a range of advisory services intended to strengthen their clients' institutions and capacities. Environmental and social skills among WBG staff have been enhanced in varying degrees and, as evidenced by findings from the Quality Assurance Group, the quality of safeguards design and appraisal has improved significantly since the mid-1990s. However, substantial challenges in supervision, monitoring, and follow-up remain.

### **The Scope of the Evaluation**

This is the first comprehensive evaluation of all the safeguard policies and Performance Standards of the World Bank Group. IEG previously evaluated individual safeguard policies, including involuntary resettlement (1998) and indigenous peoples (2003a). More recently, IEG undertook an evaluation of environmental sustainability (2008b) that covered the whole of the WBG.

This evaluation aims to inform ongoing reviews of the environmental strategy of the World Bank and Performance Standards of IFC to enhance the effectiveness of future support. The evaluation also aims to inform the ongoing reform of World Bank investment lending. It covers the period fiscal years 1999 to 2008 and is based on desk

reviews of the portfolio, background studies, field studies, staff and nongovernmental organization surveys and focus group discussions, and interviews with WBG clients and managers.

Development policy lending is excluded from the analysis because it is not subject to the same environmental and social requirements. Considering the sizable share of development policy lending, the nature and quality of its environmental and social impacts need to be looked at separately from the current evaluation.

This evaluation focuses on the relevance of the safeguards and Performance Standards, the effectiveness of the implementation process during preparation and supervision, and the environmental and social performance at the project level. It applies a model to rank safeguards risks and estimate benefits. The model also provides a means to assess the robustness of the WBG's project categorization system and the efficiency of resource use by comparing the benefits and costs of applying the safeguards and Performance Standards. This analysis is constrained by data limitations but provides some useful insights in addition to serving as a guide for further work.

### **Context**

The context in which the WBG operates has seen several significant shifts over the past two decades. First, the WBG's borrowers have diversified and now range from middle-income countries, with well-developed institutions and capacities, to countries with weak institutions, as well as fragile and conflict states. Second, the private sector has become an important development partner of the WBG, as business clients and financiers of development projects, thereby increasing the importance of IFC and MIGA in the WBG's overall portfolios. Third, the WBG's lending portfolio has steadily evolved from heavy reliance on stand-alone investment projects toward greater use of other financial instruments. Fourth, the services offered by the WBG now include a wide range of analytical and advisory services to build client institutions and capacities, such as Bank-supported Country



Environmental Analyses and technical assistance and IFC Advisory Services. The safeguards and sustainability frameworks need to evolve to stay relevant to this changing context.

The volume of infrastructure and agricultural lending—the sectors with the most significant environmental and social risks—fell significantly in the 1990s. Infrastructure and agricultural lending started growing again at the World Bank and IFC after 2003, and has increased even more rapidly during the recent crises, resulting in renewed demand for safeguards expertise. The World Bank’s portfolio has seen an even more rapid increase in types of lending to which safeguards and Performance Standards are not well suited. Development policy lending for institutional and policy reforms, programmatic or sectorwide lending, and lending through financial intermediaries now comprise more than half the portfolio. Managing environmental and social effects is more challenging in financial intermediary and decentralized projects and in sectorwide and community-driven development programs, where use of proceeds are not fully identifiable at appraisal. IFC’s business has also evolved in recent years from project finance toward a growing portfolio of trade finance and equity investments. IFC’s corporate or equity investments in companies with several production facilities and various activities pose a substantial challenge for environmental and social appraisal, supervision, and evaluation. MIGA’s portfolio composition has also shifted over time, with a significant increase in the share of guarantees for financial sector projects whose environmental and social effects are more difficult to assess and supervise. These shifts in all three portfolios present a challenge for the WBG to ensure continued relevance and effectiveness of the safeguards and sustainability policies.

### **Private Sector Ownership of Social and Environmental Sustainability**

The consistency of IFC’s Performance Standards with the Equator Principles, which IFC helped create for private banks, appears to have increased their acceptance among the private sector clients and business partners of IFC and MIGA. The

Equator Principles are voluntary standards for determining, assessing, and managing social and environmental risk in project financing. They were developed by private sector financial institutions and launched in 2003. Those institutions chose to model the Equator Principles on the safeguard policies of IFC. As of October 2009, 67 financial institutions had adopted the principles, which have become the de facto standard for banks and investors on how to assess major investment projects around the world. In July 2006 the principles were revised after IFC’s new sustainability policy was approved, increasing their scope and strengthening their processes to match those of the Performance Standards.

IFC’s Performance Standards were adopted by the European Bank for Reconstruction and Development (EBRD) in 2008, with some changes, the most significant being the replacement of aspirational standards with performance requirements and the addition of a requirement for financial intermediaries. The growing share of support for the financial sector at IFC and MIGA suggests that more explicit guidance for financial intermediaries would benefit them too.

### **Effectiveness of World Bank Group Support of Safeguards and Sustainability Policies**

The WBG’s ability to mitigate social and environmental risks has improved significantly in the eyes of the public. About three-fourths of the nongovernmental organizations responding to an IEG survey rated WBG performance better than in the 1990s, compared with 10 percent that rated it worse. WBG clients interviewed by IEG also acknowledged the contribution of WBG environmental and social policies.

World Bank staff and management broadly support the objectives of the safeguards and sustainability policies but, like clients, contest some policy prescriptions more than others. The current social safeguard policies appear to be more problematic than environmental policies because of the limited coverage of the social safeguards (Involuntary Resettlement Policy, Indigenous Peoples Policy). Current

World Bank social safeguards do not provide adequate coverage of community impacts, labor and working conditions, and health, safety, and security issues at the project level, provisions that are integral to IFC and MIGA Performance Standards. The absence of an integrated approach to social risks, combined with perceived rigidities in the application of the social safeguard policies and continuing differences between the social safeguards and national policies, impede broader dialogue with borrowers on a comprehensive social policy.

### Appraisal

Attention to safeguards and Performance Standards is reasonably good during appraisal. The aggregate quality of preparation and appraisal was found to be 85 percent satisfactory in World Bank projects approved in fiscal years 1999–2008. The quality of Environmental Assessments, Environment Management Plans, Resettlement Action Plans, and Social Assessments was satisfactory in over 90 percent of the projects reviewed.

The scale of involuntary resettlement induced by World Bank projects is quite substantial. The total number of persons affected in the 10-year portfolio sample was about 418,000, of which 41 percent were physically displaced, with the rest facing impacts on livelihoods. Extrapolating to the full Bank portfolio, the resettlement induced each year by new projects affects an average of 166,500 additional persons. Since the resettlement process lasts several years, IEG estimates that at any given time involuntary resettlement affects over 1 million people, two-fifths of which are likely to be physically displaced and three-fifths economically affected by active Bank-financed projects.

In IFC projects, the appraisal process has been strengthened under the Performance Standards framework by the improved Environmental and Social Review Document and a structured approach to monitoring performance indicators, as recommended earlier by IEG. The quality of due diligence on safeguards and Performance Standards during appraisal in IFC-supported projects has generally been satisfactory. But

disclosure, particularly to affected communities, has not been adequate. The reliance on self-assessment by business clients is a point of vulnerability in the absence of full disclosure and independent verification. Due diligence by IFC for trade finance and projects with supply chains to agribusiness—a highly sensitive area in terms of environmental outcomes—was found to be inadequate.

The implementation of the Performance Standards needs a robust approach for identifying and addressing environmental and social risks along the supply chain, particularly related to suppliers' areas of influence on biodiversity, forestry, and other environmental and social issues. IFC is following Environmental Health and Safety (EHS) guidelines in appraising projects, but EHS indicators have not been well integrated in monitoring and supervision instruments by IFC. Documentation on public disclosure and consultation emerged as one of the weaker areas in IFC's due diligence.

Underwriting of MIGA guarantees subject to the Performance Standards has improved, as compared with projects underwritten subject to the safeguards policies—in particular with respect to community consultations and the assessment of clients' social and environmental management systems (including, for the first time, for financial sector projects) and labor and working conditions. However, MIGA's review of projects with high or substantial risks is based on site visits by specialists in only a quarter of cases. In addition, due diligence of financial sector projects focuses on the social and environmental management systems at the level of corporate policy of the parent banks, rather than at the subsidiaries supported by MIGA's guarantee.

IEG also found that MIGA's 2007 Policy on Disclosure of Information exempts projects under the Small Investment Program (guarantees under \$10 million) from disclosure requirements. Since guarantees under this program are a large proportion of MIGA's post-2007 projects, this weakness in its environmental and social assessment framework must be addressed.

Categorization of projects based on environmental and social risks differs across WBG and is not based on use of objective criteria to assess social and environmental risks. Unclear guidance on categorization is reflected in IEG's finding that several IFC and MIGA high-risk, category-B cases (substantial impact) would have been classified as category A (very high impact) projects using the World Bank's screening system. Data from the portfolio review show that the World Bank has rightly moved from an environmentally driven classification system toward one based on social and environmental risks.

Within the World Bank, 9 percent of projects were classified as category A. During the review period, the proportion of category-A projects, on an annual basis, increased from 5 to 11 percent, in keeping with the increase in the volume and scale of infrastructure lending. Category-B projects increased from 37 to 51 percent, while category-C projects (low or no impact) dropped from 40 to 18 percent. While this indicates greater caution during project preparation, the wide band of risks now subsumed under category B indicates lack of sufficient differentiation among projects with substantial and more modest impacts.

### Supervision

More than a third of World Bank projects had inadequate environmental and social supervision, manifested mainly in unrealistic safeguards ratings and poor or absent monitoring and evaluation. Results varied significantly by region, with East Asia and Pacific having the best and Sub-Saharan Africa having the worst record. Supervision quality was better in category-A projects, four-fifths of which were well supervised. Staff incentives and unpredictability of resources for supervision constrain effectiveness.

The increasing reliance in World Bank projects on policy frameworks is a cause for concern because these projects include multiple subprojects and are less well supervised than projects with project-specific risk assessments and mitigation plans. Effective supervision would require greater reliance on disclosure of supervision

and monitoring reports, third-party review, and community monitoring instruments.

There is no significant difference in the supervision quality of IFC projects prepared under Performance Standards from those prepared under the previous safeguards policies—more than a quarter having inadequate supervision. The quality of IFC's supervision of financial intermediary projects approved before the introduction of Performance Standards has improved in recent years, though it remains significantly below appraisal quality. IFC's supervision under Performance Standards is affected by the timeliness and quality of Annual Monitoring Reports prepared by clients.

MIGA has monitored category-A projects but only a third of category-B projects. The issues identified through this limited monitoring suggest that category-B projects need to be more frequently monitored to provide credible assurance that the Performance Standards are being met.

### Performance on Safeguards and Sustainability

Environmental and social outcomes are a consequence of the risks assessed, the mitigation plans designed, and the quality of compliance and implementation by the client in partnership with the WBG.

Supervision and monitoring deficiencies constrain the World Bank's ability to evaluate safeguards results. The World Bank does not have a clear framework to assess the performance and impacts of its safeguard policies. Performance indicators are rarely specified and integrated in projects' results frameworks, and data for monitoring and evaluation are not routinely collected or used. Completion reports for one-fifth of category-A and half of category-B projects lacked information on safeguards performance. This deficiency is more evident for environmental safeguards, whose impacts are more diverse and not as well tracked as for social safeguards. IEG was able to substantiate mitigation of negative impacts in only two-thirds of the portfolio review sample. Other IEG studies

also reveal vital gaps in managing environmental risks induced by Bank-financed projects, in that implementation and follow-up were deficient even in projects for which the environmental assessment had identified serious risks to nearby natural habitats and biodiversity.

Environmental and social effects is one of four dimensions used to evaluate project development outcomes of IFC and MIGA projects and an integral part of the Development Outcome Tracking System adopted by IFC. IFC has streamlined monitoring for its projects, which enables more systematic assessment of environmental and social performance, though the Performance Standards are too recent to evaluate their environmental and social outcomes.

Investing in client capacity can lead to high payoffs over the long term. Efforts to strengthen social and environmental institutions in client countries lag behind mitigation of immediate risks within Bank-financed projects. IFC's Performance Standards have provided a platform to balance their focus on mitigation with that on sustainability by requiring an assessment of the client's social and environmental management system. While maintaining the focus on mitigating negative impacts, increased attention is being paid to enhancing positive impacts and strengthening client capacity under the Performance Standards. However, there is a need for greater disclosure and verification of monitoring reports by third parties and communities to ensure that desired environmental and social outcomes are achieved.

The Performance Standards have led to greater focus on MIGA clients' social and environmental management systems. To address client capacity challenges, MIGA has established the Trust Fund to Address Environmental and Social Challenges in MIGA-guaranteed projects in Africa; this is not currently available to clients in other regions. Although there have been notable improvements, there is still a substantial gap in MIGA's ability to monitor implementation performance and provide assurance that the objectives of the Performance Standards are being met.

Quality-at-entry and careful supervision are the WBG's main mechanisms to ensure successful outcomes. The Inspection Panel found the majority of policy violations related to safeguard policies in World Bank projects originated in unresolved design issues, stemming from inadequate assessment of environmental or community impacts and inadequate consultation with affected people. One-fifth of the instances of noncompliance arose from inadequate attention to other implementation issues. Supervision provides an opportunity to deal with unanticipated risks that arise during implementation. Careful attention to complaints and resolution of genuine grievances can increase accountability.

### **Benefits and Costs**

The assessment of benefits and costs shows that the WBG's safeguards framework generates significant benefits for the mitigation of environmental and social risks of projects, even as these benefits need to be systematically measured or quantified. This study estimated benefits by extrapolating from the assessment of environmental and social risks and comparing the results against available costs to analyze the efficiency of resource use. IFC's spending on its sustainability framework is being efficiently allocated toward projects with higher risks and benefits, but allocative efficiency is less evident in World Bank spending on safeguards, particularly among category-B projects. The delegation of responsibility for safeguards supervision to sector management units has contributed to supervision deficiencies.

Costs incurred by World Bank clients on safeguards are estimated at about 5 percent of World Bank financing and 3 percent of total project cost. World Bank clients tend to allocate resources efficiently in meeting safeguards requirements, but results cannot be established for IFC clients because IFC does not collect client cost data.

Benefit-cost analysis can provide useful insights into environmental and social performance. Benefit-cost analysis of two stylized models of World Bank and IFC projects illustrates that, on

their own, the benefits of safeguards outweigh the costs. However, the benefits of World Bank projects are more muted due to the narrow scope of the current social safeguards. The potential of IFC projects is enhanced by the additional benefits from attention to labor conditions and community impacts. Better monitoring, documentation, and reporting of environmental and social impacts are needed to improve the quality of benefit-cost analysis.

### **Paradigms for Achieving Environmental and Social Results**

The WBG is using two paradigms to address environmental and social risks: the safeguards paradigm of the World Bank, largely for the public sector, and the Performance Standards paradigm of IFC and MIGA for the private sector. The two share similar objectives and have different strengths and weaknesses. The Bank seeks “to avoid, mitigate, or minimize adverse environmental and social impacts of projects supported by the Bank” and to ensure that they are “environmentally sound and sustainable.” IFC applies the Performance Standards “to manage social and environmental risks and impacts and to enhance development opportunities in its private sector financing.”

The safeguards paradigm contains mandatory requirements, with specific mitigation measures designed before project approval, just as traditional projects are fully designed at appraisal. If national regulations differ from the Bank’s safeguard policies, clients need to accept the higher standards of the Bank’s policies. In practice, supervision has focused largely on compliance with the mitigation plan rather than on monitoring outcomes. In high-risk projects, responsibility for clearance and oversight lies with the safeguards advisors and environmental and social units in the regions. Responsibility for processing and supervision of other projects is delegated to sector units managing the projects. Rules have been modified for financial intermediary and other decentralized projects, which are now allowed to replace risk assessments with policy frameworks. However, the performance of delegated projects and projects

using policy frameworks has been worse than other projects due to weak follow-up during implementation.

The Performance Standards paradigm is based on a commitment by the private sector client or partner to the principles of the policy and the Performance Standards to be achieved, with covenanted remedies if the standards are not met. IFC places greater responsibility for implementation and monitoring of performance indicators specified by IFC on the business client, and envisages supporting this with supervision and documentation of performance. By the same token, the implementation and reporting on environmental and social effects are the responsibility of the private sector client. The crucial question is whether this self-assessment by the private sector captures public concerns, which in the final analysis can only be judged by the environmental and social results achieved. Greater disclosure of environmental and social information, including to local communities, and verification of results are needed to capture these public good concerns.

The introduction of the Performance Standards is too recent to compare their results with those under the safeguard policies. However, in certain respects there is evidence that the instruments and practices introduced by IFC, along with the Performance Standards, have advantages over those of the World Bank. IFC’s systems include balanced thematic coverage of social and environmental risks, including more relevant Performance Standards on labor conditions and community impacts. Compliance with standards is covenanted by IFC in most legal agreements, while for World Bank safeguards this is more prevalent among category-A projects. Annual monitoring reports with performance indicators are required from clients. However, this self-assessment by the client is not currently verified independently to ensure compliance and results. IFC undertakes supervision and performance reviews. And IFC and IEG evaluate environmental and social effects as one of four dimensions of the project’s development objectives.



The World Bank's systems are front-loaded and have more specific requirements. They emphasize screening, risk assessment, and appraisal of the proposed mitigation plans to ensure compliance with the requirements. These elements have served well in safeguarding high-risk (category-A) projects. Supervision and monitoring receive far less attention, especially in category-B projects, affecting implementation quality and leading to highly uneven results.

The coverage of the environmental policies across the WBG is similar in scope, but the World Bank's social safeguards are more limited than those of IFC and MIGA. The frequency with which the safeguard policies and Performance Standards are triggered is an indication of their relevance to the portfolio. About two-thirds of World Bank investment projects approved since 1999 triggered environmental assessment. One-fourth triggered the involuntary resettlement policy; other safeguards occurred more rarely. IFC's suite of Performance Standards was found to be more relevant to the portfolio: four of them—including the standards on labor and working conditions, and on community health, safety, and security—applied to half of IFC's total portfolio and to 90 percent of all projects with high or substantial risk.

A paradigm that is based on more relevant thematic coverage, procedural flexibility (but without compromising on the integrity of standards), and client responsibility and capacity for monitoring seems to lead to more client ownership. However, the quality of implementation and monitoring, which depends on client capacity and commitment, needs to be adequate, and checks and balances must be in place to ensure that intended social and environmental outcomes are achieved. The prior existence of the safeguard policies provided a critical benchmark for Performance Standards. In this context, four elements that build on the strengths of both are vital: investment in the clients' social and environmental management system; integration of adequate environmental and social performance indicators in the project's results framework; effective instruments for monitoring by the client; and regular supervision, performance review,

verification, and disclosure. Without investing in these elements in the right sequence, that is, ensuring enhanced supervision and monitoring with client capacity, disclosure, and verification systems in place, the Performance Standards approach would be a riskier option with respect to environmental and social outcomes.

### **Country-Level Work**

The limitations of the safeguards paradigm become visible in the World Bank pilots on the use of country systems. The country systems pilots were an attempt to adapt to the changing context, but the requirements spelled out in the operational policy (OP 4.00) governing the pilots were overly prescriptive and excessively focused at the project level. The design constraints governing the pilots have prevented their application at the country level. The only large-scale successes have been with parastatals that agreed to adopt the Bank's safeguard policies, but these are not country systems. The pilots have not yet been effective in integrating social safeguards at the country level, and the piecemeal approach to safeguards in the pilots has reduced the likelihood that any borrower will be able to adopt the entire suite of safeguard policies or that the country systems approach can be scaled up. In contrast, the uptake of environmental development policy loans, which is always underpinned by country analytic work, suggests that the parallel work on country-level assessments and environmental development policy lending has been well received, particularly in the Latin America and Caribbean and the South Asia Regions.

At the country level, the broad nature of the environmental assessment policy has provided the Bank with a vehicle to engage in country-level policy dialogue to help countries put in place economywide policies and institutions for environmental sustainability. This alternate modality of client engagement has created a parallel stream of work, with greater ownership among clients and environmental specialists than the work on safeguards. There is a need to bridge this divide between the Bank's work on safeguards and environmental sustainability.

Neither the environmental dialogue at the country level nor the country systems pilots have included social safeguards. Though the social safeguards for resettlement and indigenous peoples help the World Bank mitigate risks of impoverishment arising from unintended consequences of Bank-financed projects, the restrictive and prescriptive nature of the current social safeguard policies limit the prospects for systemic dialogue at the country level. With the exception of the country dialogue on indigenous peoples in some Latin American countries and a few attempts to broaden the scope of resettlement, as in the incomplete effort on resettlement in India, social safeguards have focused primarily at the project level, resulting in missed development opportunities for the very people who need it most. IFC and EBRD have overcome local resistance by assessing impacts on indigenous peoples as an integral part of community impacts, but this alternative does not exist under the Bank's current framework.

## Recommendations

The WBG's safeguards and Performance Standards play a critical role in ensuring adequate attention to environmental and social outcomes. Given the changing nature of its clients and portfolios, the challenge is to ensure the continued relevance and effectiveness of the WBG's environmental and social policies while complementing the emphasis on compliance with effective implementation. The evaluation points to the need for a systems approach, balancing up-front risk assessment with implementation support to increase effectiveness; policy consolidation with more comprehensive, balanced thematic coverage to ensure adequate up-front regulations while providing for better supervision, monitoring and evaluation, verification, and disclosure; and partnership with clients, third parties, and local communities to enhance ownership and results, integrating elements of the Bank's safeguards with some of the practices under IFC's Performance Standards.

The following recommendations to the World Bank, IFC, and MIGA are made to help maintain the objectives of safeguards and sustainability

policies; strengthen compliance, implementation and accountability; and improve clients' and the WBG's ability to promote positive social and environmental results:

### **1. Revise the policy frameworks to harmonize thematic coverage and guidance across the WBG and enhance the relevance of those frameworks to client needs.**

- IFC, MIGA, and the World Bank should jointly adopt and use a shared set of objective criteria to assess social and environmental risks to ensure adequacy and consistency in project categorization across the WBG, using the more inclusive criteria for category A, and refining the categorization system to address the bunching of higher- and lower-risk projects within the current category B.

The World Bank should:

- Ensure adequate coverage of social effects—integrating community and gender impacts, labor and working conditions, and health, safety, and security issues not currently covered by its safeguard policies—by consolidating existing social safeguards with other WBG policies on social risks as requirements under one umbrella policy on social sustainability.
- Consolidate the environmental policies as requirements under one umbrella policy on environmental sustainability.
- Revise the current approach to safeguards pilots on use of country systems to focus on strengthening country institutions and systems to manage environmental and social risks.

IFC should:

- Strengthen the provisions on sustainability to address emerging issues, notably climate change and supply chains and their commodity certification.
- Develop more robust approaches to the implementation of the Performance Standards in financial intermediary projects, listed equities, and trade finance.

- Strengthen policies and practices on disclosure, including at the local levels.

MIGA should:

- Increase the capacity of the Environmental and Social Unit to the level needed to provide credible assurance on performance against the standards for every project. Should MIGA be unable to increase its resources devoted to implementation of Performance Standards, it should revise its Policy on Social and Environmental Sustainability to disclaim any responsibility for monitoring the projects' social and environmental performance and ensuring that they comply with the standards. Under this option, MIGA's role would be limited to reviewing the client's assessment of the project's environmental and social risks against the standards, identifying corrective actions as needed, and securing the client's commitment to implement these actions.
- Require that category-B, Small Investment Program projects follow the same disclosure requirements as for regular category-B projects.

## **2. Enhance client capacity, responsibility, and ownership.**

The World Bank should:

- Increase the synergies between safeguards work and broader Bank engagement on environmental and social sustainability by investing in upstream analytical work, technical assistance, and lending to strengthen country and sector institutions and capacities in client countries.
- Require regular reporting by the borrower on implementation and outcomes of safeguards in Bank-supported projects, and work with clients to develop instruments and indicators to help in such monitoring.

IFC should:

- Develop incentives for investment officers to share ownership of the Performance Standards and mainstream their implementation.

- Use advisory services to build social and environmental management systems and implementation capacity, especially among small and medium enterprises, financial intermediaries, and clients in countries and sectors with weak environmental and social management.
- Mobilize resources at appraisal for energy and clean production audits, using auditors with relevant sector knowledge.
- Define areas of influence and requirements to better address supply chain risks and opportunities, particularly ones related to biodiversity and forestry, and expanding the application of material biodiversity along the supply chain for suppliers.

MIGA should:

- Focus the due diligence reviews of financial sector projects on the Social and Environmental Management Systems of developing-country subsidiaries the project supports, rather than the corporate policies of the parent banks.
- Expand the size and eligibility of the Trust Fund for Addressing Environmental and Social Challenges to all low-capacity clients on the basis of need.

## **3. Revise guidelines, instruments, and incentives to strengthen supervision arrangements.**

The World Bank should:

- Assign responsibility and budget for safeguards oversight and reporting to environmental and social units in each operational Region—in line with IFC practice—in place of the delegation of safeguards processing and supervision to sector management units.
- Introduce a certification program to expand the pool of staff qualified to undertake social and environmental preparation and supervision while ensuring quality and consistency, and provide orientation training on environmental and social sustainability to all task team leaders.
- Develop and implement an action plan to ensure regular supervision of financial intermediaries.



ary projects and investment projects that use social and environmental policy frameworks through third-party or community monitoring for higher-risk projects, and disclosure of monitoring and supervision reports.

IFC should:

- Enhance the supervision of financial intermediaries at the subproject level by developing clear guidelines for applying the Performance Standards at the subproject level and by adopting a systematic approach to environmental and social specialists' site visits to selected subprojects.
- Use loan covenants, including Conditions of Disbursement to enforce compliance with environmental and social requirements and reporting if the clients lack commitment and are continuously out of compliance.

#### **4. Strengthen safeguards monitoring, evaluation, and completion reporting.**

The World Bank should:

- Include performance indicators on environmental and social outcomes in project results frameworks and ensure systematic collection of data to monitor and evaluate safeguards performance.
- Ensure that Implementation Completion Reports and IEG reviews of those reports rate and report effectively on the outcomes of safeguards and, for all projects with significant environmental and social effects, ensure the results are incorporated as an essential dimen-

sion when assessing achievement of the project's development objective, as has already been done for IFC and MIGA.

IFC should:

- Disclose project-level environmental and social information from monitoring and supervision reports.
- Make use of independent, third-party, or community monitoring and evaluation for its projects, particularly for projects with involuntary resettlement and higher-risk financial intermediary and agribusiness projects.

MIGA should:

- Disclose project-level environmental and social information from supervision reports.
- Develop a credible mechanism to ensure that Performance Standards are adhered to by financial sector projects.

#### **5. Improve systems and instruments for accountability and grievance redress.**

IFC, MIGA, and the World Bank should:

- Seek greater symmetry in the structure of WBG accountability and grievance redress mechanisms. For the World Bank this would entail creation of a grievance redress and conflict resolution mechanism to complement the Inspection Panel. For IFC and MIGA this would entail a more independent compliance review process, ensuring that the CAO submits its audits directly to the Board.



Construction of a pipeline in Peru. Photo courtesy of Jouni Martti Eerikainen.

# Management Response

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## Introduction

Management welcomes this evaluation of the World Bank Group's (WBG) environmental and social safeguard frameworks, covering the period fiscal years 1999–2008, by the Independent Evaluation Group (IEG). This evaluation is timely as the WBG moves to completion of an updated Environment Strategy, and as the International Finance Corporation (IFC) undertakes a review and update of its Sustainability Framework. It also is relevant as the Bank has begun an exercise in Investment Lending Reform, and the WBG faces emerging circumstances in the post-2008 financial crisis that require new and innovative financial instruments to meet client needs and restore economic growth at a global as well as national level.

Management welcomes the overall positive findings of the evaluation. IEG's findings show that the WBG has made significant progress during the evaluation period in improving its efforts to safeguard the environment and vulnerable communities from unintended consequences of the development process. It also confirms the importance of linking sustainable development with safeguard policies and performance standards to promote the broad objectives of the WBG. Among the many important findings of this evaluation is the recognition by many stakeholders that the WBG's performance on environmental and social impacts has improved during the evaluation period, especially with respect to high-risk projects. Management also notes IEG's finding on the clear benefits of developing and implementing a more holistic approach to environmental and social impact assessment and risk management that is appropriately aligned with internationally recognized good practice relevant for the work of each of the WBG units.

Management's specific responses to IEG's recommendations, with which it broadly agrees, are noted in the attached Management Action Record.

## Management Observations – IBRD/IDA Overview

Bank Management agrees broadly with many of the key findings and recommendations of the IEG regarding the need for: greater emphasis on the use of safeguard policies to support environmentally and socially sustainable development; greater emphasis on assessment of a wider range of potential social impacts and risks; improvements in supervision; staff certification/accreditation; more efficient and effective approaches to monitoring, evaluation, and completion reporting, including the enhanced use of indicators and the value of creating a grievance redress mechanism. Bank Management particularly sees value in considering further and pursuing more consistently its role in encouraging borrowers and project implementing entities to report to local communities and stakeholders on how they are managing environmental and social impacts and risks as part of Bank-financed projects. At the same time, Bank Management agrees broadly that it should take into consideration risk factors arising from project design objectives, with greater attention to both the project's context and impact and risk assessment. Bank Management also notes that the IEG found that the significant investments during the 1990s led to success in developing legislative frameworks and client capacity, which provide in many countries the foundation for country ownership as endorsed in the Paris Declaration<sup>1</sup> and the Accra Agenda for Action.<sup>2</sup> It also appreciates the IEG's finding that the current approach to Use of Country Systems (UCS) in the pilot program has been rigorous in its approach, which leads Bank Management to

propose that it may soon be time to scale-up and broaden the approach as suggested by the Board discussion of the Pilot Program in January 2008.

### ***Updating and Consolidation of Safeguard Policies***

Bank Management recognizes, as does IEG, the importance of undertaking a comprehensive updating and consolidation of the safeguard policies. This should include a rigorous consideration of those aspects of the IFC Performance Standards (PS) for the private sector that represent a modernization in approach toward environmental and social standards possibly lacking in parts of the World Bank's current suite of safeguard policies. In this context, Bank Management plans to use a joint team led by the Sustainable Development Network (SDN), Operations Policy and Country Services Network (OPCS) and the Legal Vice Presidency (LEG), to engage during the next 24 months in a learning and consultative process with a diversity of shareholders and stakeholders on global good practice and integrate this dialogue into an update of the Bank's approach to safeguard policies in its projects. At the conclusion of this process, Bank Management will report to CODE and the Board how it intends to further strengthen environmental and social sustainability in its projects, including presentation, for their consideration, of a policy paper setting out its updated and consolidated approach.

The review process will focus on developments that allow the Bank to achieve outcomes with greater environmental and social sustainability, and on helping clients build institutions that can effectively pursue such outcomes. The IEG evaluation will be used as a reference point for the consideration of various issues and options. A period of 24 months has been proposed to provide adequate time to undertake an interactive review process, develop a draft umbrella safeguard policy, prepare translations, and conduct consultations within and outside the WBG. Periodic briefings are planned to be held on a regular basis with representatives of CODE and the Board to keep them apprised of developments and to seek their guidance to the joint team as needed. This process

will support Bank Management's commitment to reinforcing and enhancing the effectiveness of current policies and increasing the emphasis on activities that lead to beneficial and sustainable outcomes. We believe an updated policy, complemented by support for institution and capacity building, will help manage environmental and social impacts and risks in Bank-supported investment projects, especially in low-capacity and fragile countries. Alternatives will, of course, be subject to cost estimates.

The joint team will be tasked with defining the specific objectives of the review, outlining the process (including consultation and engagement with internal and external stakeholders), developing a timeline, and preparing recommendations to enhance the development effectiveness of the Bank's safeguard policies. This review of global good practices will provide the opportunity for a discussion of current and emerging practices in both Part I and Part II countries at the national and subnational level. Consultations would be undertaken with governments at various levels, private sector representatives, academic and applied research institutions, professional associations, civil society organizations, nongovernmental organizations and other stakeholders. The Bank will explore, as part of this process, policy and regulatory instruments that can be used in addition to environmental and social impact assessments, to both mitigate adverse impacts and also enhance support for broader environmental and social sustainability in projects.

### ***Use of Country Systems***

Bank Management agrees that the approach to UCS for Environmental and Social Safeguards to date has been relatively narrow, particularly with regard to the provisions of Operational Policy (OP) 4.00 concerning the determination of equivalency as approved by the Board in March 2005. Bank Management also notes that if a change in the approach toward UCS is to occur, the Bank needs to endorse a more flexible application of OP 4.00. Bank Management believes that although the current approach has been appropriate for a pilot-stage program, a more robust approach is warranted for broader

application of UCS in the future. At the same time, Bank Management fully supports increased emphasis on strengthening country institutions and systems to manage environmental and social impacts and risks especially in low-capacity and fragile countries.

Bank Management believes that, based on the results of the pilot program, there is now sufficient experience to begin a mainstreamed program with a revised version of OP 4.00 that moves beyond the pilot stage and takes Bank practice closer to the vision of the Accra Agenda for Action, in which UCS increasingly becomes the default approach. Bank Management is currently reviewing the implementation of OP 4.00 and plans to expand this work in the context of the global good-practice review in order to develop proposed revisions to the policy that scale up, broaden, and mainstream its use. As part of this review, consideration will be given to several options, including the default use of country systems for European Union and advanced European Union-accession countries, as well as countries whose environmental systems and performance are conditioned by international trade agreements. At the end of the global good-practice review period, Bank Management plans to recommend revisions to OP 4.00 to the Board as part of its overall approach.

### **Selected Areas for Action**

Bank Management would like to highlight several areas for action in response to the findings of the IEG report:

- **Coverage of Social Issues.** Bank Management agrees with the recommendation that a more comprehensive and balanced approach to social issues would be useful in supporting the broad development objectives of the Bank and bring greater consistency between the Bank and IFC, while recognizing the difference between public and private sector clients. A more balanced coverage of those social issues relevant in the public sector context would allow a stronger emphasis on social opportunities, impacts and risks not currently specifically covered by safeguard policies and guidance.

While the review on global good practice is under way, Bank Management will address this concern on an interim basis by having SDN, OPCS, and LEG prepare and issue guidance by the third quarter of fiscal 2011 on the scope and coverage of social issues in the context of the preparation and implementation of environmental assessments. This guidance will ensure a more balanced approach between environmental and social risks and impacts, as well as the identification of actions to support more sustainable social benefits from Bank-supported projects.

- **Occupational Health and Safety.** Occupational health and safety, working conditions, and security are recognized as issues that deserve more explicit recognition in the Bank's safeguard work. SDN, OPCS, and LEG will expand their work with the Regions to ensure a heightened awareness of the need to address these concerns in the context of project preparation, appraisal, and supervision. OPCS has already incorporated these topics more explicitly in its safeguard training program, which entails a rotating series of courses on various safeguard topics on a weekly basis. These topics have been incorporated in three of the courses offered by the OPCS-sponsored training program: (a) Overview of Safeguards; OP 4.01, (b) Environmental Assessment; and (c) Guidance to Staff Working on Joint Bank-IFC projects. In the past year, OPCS has also developed and offered a new course on the WBG Environmental, Health, and Safety Guidelines, which includes many aspects of occupational health and safety and working conditions. Priority is also being given to providing selected staff in the Regions with more intensive specialized training on these issues from external sources. Bank Management will undertake an outreach and training program on these issues during fiscal 2011 and will more broadly disseminate the WBG Guidelines to both staff and borrowers as part of this process.
- **Monitoring, Evaluation and Use of Indicators.** Bank Management agrees with the need to strengthen monitoring and evaluation arrangements. To address this issue, SDN,



OPCS and LEG will collaborate on developing guidelines on monitoring and evaluating safeguard performance for selected types of projects by the third quarter of fiscal 2011. These guidelines will focus on more systematically measuring outcomes, including through the use of core environmental and social performance monitoring indicators, and on evaluating impacts. Reporting will be integrated in the Implementation Status and Results Report (ISR), building on the new Operational Risk Assessment Framework under the Investment Lending Reform which is already enhancing the monitoring of environmental and social risk mitigation measures in ISRs. The proposed guidelines on monitoring and evaluation will further emphasize the need for the Implementation Completion Report (ICR) to evaluate the achievement of the safeguard objectives and identify lessons for future projects.

#### ***Inclusion of Safeguards in Legal Agreements***

Bank Management notes that the IEG found that inclusion of safeguard-related provisions in IFC legal agreements under the IFC Performance Standards is more prevalent than in Bank projects, other than for World Bank Category-A projects. Bank Management notes that this finding was limited in scope to the Category-B projects in the sample survey and is not conclusive as to the percentage of World Bank projects that use safeguard covenants. However, Bank Management takes this finding seriously, and will undertake a review to evaluate the matter further to determine whether there is any gap in coverage in Category-B safeguard-related covenants. As part of the review, Bank Management will discuss with IFC counterparts IEG's approach toward covenants, including differences that might be related to private sector versus public sector projects. In addition, the Bank's Legal Vice Presidency has already set up a program for training for all LEG lawyers to become better versed in safeguard application.

#### ***Supervision***

IEG found that the Bank has done well in addressing environmental and social issues in the most risky projects, especially those involving large

numbers of people requiring resettlement or who are at risk for potential impacts on their livelihoods. Bank Management recognizes that this may have been at the expense of applying staff time and budget resources to supervising those projects considered less risky. Bank Management agrees with IEG that there is a need to strengthen supervision for medium- and low-risk projects. How this will be done may need to differ from region to region, depending on country capacity and project type and mix. As of July 1, 2010, enhanced implementation support has been launched as one of the key pillars of Investment Lending Reform, including the launch of the new ISR template. A major component of the reform is improved monitoring and reporting on risk and on measuring progress in the implementation of risk mitigation measures, including those related to social and environmental risks. The information will be used to better align implementation support budgets with risk. Bank Management plans to undertake a review by the second quarter of fiscal 2011 concerning current practices with respect to responsibility, accountability, incentives, staffing, and budgeting for safeguard processing and supervision. Based on this review, practices will be updated with the objective of enhancing effectiveness and efficiency and maximizing the synergies between safeguard work and broader Bank engagement on environmental and social sustainability.

#### ***Projects Using Frameworks and Third Party Monitoring***

Bank Management recognizes that the use of various safeguard framework instruments (Environmental and Social Management Framework, Resettlement Policy Framework, Indigenous Peoples Plan Framework), initially designed to be used as an appropriate instrument as part of Financial Intermediary (FI) lending, has become more widespread as the nature of Bank lending moves increasingly to projects that use a programmatic approach and support the use of subprojects. Bank Management agrees that improvements are needed in supervision of projects that rely on frameworks as the appropriate safeguard instrument for such projects. Bank Management is currently engaged in a Bank-wide

review of the use of frameworks that will examine these types of projects and identify good practices. The review will include an examination of a variety of means to strengthen monitoring of such projects including, in appropriate situations, the use of third-party or community monitoring for selected projects. The review is expected to be completed by the third quarter of fiscal 2011 and will provide the basis for guidance to be issued by SDN, OPCS, and LEG for use by Bank staff and borrowers by the fourth quarter of fiscal 2011.

### ***Grievance Redress and Conflict Resolution Mechanism***

Bank Management agrees with IEG that there is value in creating a grievance redress mechanism for which Bank Management will take responsibility and which is complementary to, but separate from, the Inspection Panel. Because this mechanism would seek to resolve grievances without examining the issue of compliance with Bank policies, use of this mechanism would not be a precondition to review of requests by the Inspection Panel. Management takes note that similar complementary systems are now in place at the IFC, and at other multilateral financial institutions, such as the Asian Development Bank. A grievance mechanism can also help to complement the Bank's current accountability system by promptly responding to concerns, including through the use of local mediators and facilitators. Management wishes to underscore that establishing this mechanism would not alter the responsibility of borrowers and recipients for implementing projects, and that in many cases, the grievances are not necessarily with the Bank, but between our clients and project-affected people. Nevertheless, these grievances are often brought for resolution to the Bank.

Therefore, by the end of the third quarter of fiscal 2011, Bank Management intends to complete a survey and review of a wide range of potentially analogous existing grievance-redress mechanisms as a basis for designing one for the Bank. The study will include a review of the cost implications and potential cost savings that could be engendered by using a system similar

to the IFC Compliance Advisor/Ombudsman (CAO) or other multilateral financial institutions. Bank Management will present the results of this study to the Board to ensure that any decisions emerging from the study will be consistent with the Board Resolution and related Board decisions concerning the Inspection Panel, and in a manner that takes fully into account the current requirements and experiences with project-based grievance mechanisms (including as required under OP 4.12, Involuntary Resettlement, and OP 4.10, Indigenous Peoples). This study will be coordinated among Bank units with considerable experience in this field to ensure institutional coherence and efficiency. Based on this study and the aforementioned consultations with the Board, subject to cost considerations, Bank Management will establish a grievance mechanism by the first quarter of fiscal 2012, and provide to the Board a detailed report on the initial operation of the grievance mechanism by the end of fiscal 2012.

### **Management Observations – IFC Overview**

IFC Management welcomes the evaluation by the IEG and appreciates IEG's endorsement of the policy and implementation direction IFC has set in recent years. All IEG recommendations and suggestions will be considered in the ongoing review and update of IFC's Sustainability Framework, consisting of the Sustainability Policy, Performance Standards and Disclosure Policy, as well as in the context of IFC's ongoing supervision of its portfolio projects. IFC Management concurs with many of the aspects of IEG's findings and recommendations, such as the recommendation to harmonize thematic coverage and guidance across the WBG, including categorization. IFC Management has also identified a number of implementation challenges, which are described below. Specific action-based responses to IEG's recommendations are provided in the attached MAR.

### ***Observations concerning Recommended Actions***

In a limited set of cases the recommended actions proposed by IEG need to be adapted to the IFC business model. This applies particularly to the areas listed below:

- **Supply Chains.** IFC’s approach to supply chains has been to focus client actions on the most immediate and serious risks in their supply chains—such as child labor, forced labor, and potential clearing of critical habitats. In addition, IFC proposes to: (i) strengthen its supply chain assessment methodology as part of appraisal; (ii) make changes to the Performance Standards by adding significant safety issues as a new risk factor to be considered in the supply chain assessment; and (iii) continue supporting certification schemes, both through investment projects and advisory services, including engagement in a number of global commodity roundtables. However, IFC Management notes that the number of credible certification schemes is still limited, and that these schemes could disadvantage small-scale producers and suppliers, particularly those in emerging markets. In addition, IFC clients have varying degrees of control of or influence over their supply chains.
- **Financial Intermediaries, Listed Equities, and Trade Finance.** IFC welcomes IEG’s finding that the quality of Performance Standards implementation in FI projects has improved considerably, with a high quality of appraisal (IEG nonetheless noted that the quality of supervision is still lower than that of appraisal), and that this is starting to translate into outcomes. There are unique challenges associated with financial intermediaries. IFC’s development impact is achieved through the emergence of robust FIs, able to manage financial and nonfinancial risks well. IFC has no contractual relationships with the FI’s subprojects. IFC’s due diligence process therefore involves a risk-based approach, taking into account the nature of IFC’s exposure to environmental or social risks in the FIs’ portfolio, and focusing on their capacity and effectiveness in developing and implementing a Social and Environmental Management System (SEMS). In the case of FIs with higher-risk portfolios, IFC ensures a right to review select subprojects before they are approved. In the proposed revisions to the Sustainability Policy, IFC is further refining its risk-based approach with the introduction of a three-tiered risk categorization for FIs: high, medium, and low, with risk-appropriate due diligence requirements. With regard to listed equities, IFC considers legal and regulatory frameworks in the development of options that are tailored to the respective framework in which the investee companies operate. This informs the way that IFC can include Performance Standards—either in Shareholders Agreements, Policy Agreements directly with the Company, or adopted by the Company’s Board of Directors (and/or incorporated into the Company’s Charter) before IFC invests. The approach used by IFC for the existing trade finance programs (e.g., Global Trade Finance Program, Global Trade Liquidity Program) is to apply the exclusion list and undertake regular reviews of this application. IFC will review this approach from a corporate risk perspective and as additional trade finance products are developed and launched.
- **Local Disclosure.** IEG recommends IFC to improve its disclosure practices, including local disclosure to ensure access to information by affected communities and other key stakeholder groups. IFC Management agrees with this recommendation. The existing IFC Disclosure Policy takes a hybrid approach, specifying the types of information IFC will disclose, subject to a list of exceptions (which is a standard approach among private sector financial institutions). The Policy emphasizes disclosure of information up to the point of Board approval. Management is currently considering a number of revisions to its Disclosure Policy in order to enable more disclosure of information throughout the IFC investment lifecycle, including disclosure of development impact during project implementation. However, this will not include disclosure of all environmental and social reporting from clients since there has to be a balance between client confidentiality and disclosure. IFC will continue its practice of holding its clients responsible for reporting to the local community. IFC understands that not all communities have access to the information that it discloses, and will be reviewing translation requirements in line with the WBG Translation Framework.



### **Supervision**

The IEG report points out that the quality of supervision has improved. Many of the challenges to implementation and supervision specified by IEG are consistent with those identified through IFC's ongoing review and update of its Sustainability Framework. IFC Management agrees with IEG's identification of the key challenges, and has the following observations on the recommendations:

- **Capacity of Clients.** The capacity of clients, especially in higher-risk country contexts or industries, can present obstacles to implementation of Performance Standards. IFC's environmental and social specialists routinely provide support to its clients during appraisal and supervision. However, there are situations where clients would benefit from additional or more targeted support, and use of advisory services is an option that IFC can use for this purpose, especially for low-capacity clients in high-risk environments. IFC is currently working to define how best to target and prioritize this type of support.
- **Third Party Monitoring.** IFC Management agrees with some aspects of IEG recommendations on third-party monitoring. IFC proposes to selectively make greater use of third-party monitoring, including participatory monitoring where practical, particularly in higher-risk situations. A key priority for IFC is to strengthen client capacity and ownership for environmental and social issues, and third-party monitoring should be viewed in that context, not just in terms of independent verification. IFC Management agrees that there should be independent grievance mechanisms where possible, and this should be combined with regular engagement and outreach conducted by the client.
- **Subproject Level Supervision.** IFC Management agrees that supervision of financial intermediaries should focus on the overall environmental and social management system of the financial intermediary and include some level of subproject oversight consistent with a risk-based approach. Monitoring of all subprojects is not appropriate or required under

a risk-based approach, and IFC will conduct its supervision of subprojects on a selective basis. The methodology and selection criteria for this will be developed as part of the review and update of the Sustainability Framework.

### **Accountability and Grievance Redress**

IFC Management recognizes that as a private sector development institution it is key to have an independent office with effective compliance and mediation functions. IFC Management notes that the recommendation with respect to the CAO will not require any management action. At the same time, IFC Management has not noted any concerns with the effectiveness of the current grievance and mediation function. IFC Management is awaiting with interest the outcome of the Board's ongoing reviews of oversight and accountability mechanisms.

### **Management Observations – MIGA Overview**

The Multilateral Investment Guarantee Agency (MIGA) management thanks the IEG for its evaluation, and would like to comment on several points raised that specifically address MIGA's capacity and performance.

- **Improved Performance.** MIGA Management welcomes the IEG finding that MIGA's social and environmental preparation and appraisal under the Performance Standards have improved compared with projects prepared under previous safeguard policies; and that all the projects approved under the Performance Standards were found to be satisfactory by IEG in terms of identification and screening, disclosure and consultation, and preparation and social and environmental appraisal.
- **Environmental and Social Trust Fund.** MIGA Management appreciates and agrees with the recommendation that the Japan-supported Environmental and Social Trust Fund for Africa should be expanded in terms of size and eligibility, to allow projects in other regions to be eligible for Trust Fund support as well. MIGA believes that the first three pilot years showed that the Trust Fund has been valuable and the evaluation notes that MIGA's

follow-up client surveys indicate that client satisfaction with these activities has ranged from very good to excellent. MIGA has started taking steps to extend the Trust Fund, including initiating contact with several potential donors. MIGA Management sees considerable value in maintaining and extending this facility, but at the same time notes that the ability to comply with this recommendation will largely be driven by the willingness and capacity of external donors to be involved.

- **Small Investment Program.** MIGA Management partially agrees with IEG's recommendation that Category-B Small Investment Program (SIP) projects follow the same disclosure requirements as regular Category-B projects. MIGA will review its Disclosure Policy after IFC completes its own review in fiscal 2011 and will make changes as warranted at that time. In the meantime, MIGA will continue to post the Summary of Proposed Guarantee (SPG) for all SIP projects, which may include a more detailed explanation of environmental and social issues, and will attach the project Environment and Social Impact Assessment (ESIA) if warranted by the nature of the project. MIGA will still require its clients to disclose the project's social and environmental impacts to local communities.
- **Capacity of the Environmental and Social Unit.** The evaluation recommends increasing the capacity of the Environmental and Social Unit to the level needed to provide credible assurance on performance against the standards for every project guaranteed by MIGA, and should MIGA be unable to increase its resources devoted to implementation of the Performance Standards, it should revise its Policy on Social and Environmental Sustainability to disclaim any responsibility for monitoring the project's social and environmental performance. While past performance in this area may have left room for improvement, the situation today is different and improving. MIGA has taken a number of important steps that squarely address this issue, including the strengthening of MIGA's Environmental and Social Team, which has increased significantly in terms of staff size since fiscal 2006. While

keeping its current risk-based approach, MIGA Management will consider whether more resources can and should be allocated to project monitoring to allow for more frequent visits to complex projects. The IEG alternative of MIGA declaring it will not monitor projects' environmental and social performance is not consistent with MIGA's mandate as a development institution, and MIGA Management would like to know the rationale for this alternative. MIGA Management instead recommends continuing with its risk-based approach, but increasing the number of site visits for those projects where issues are most likely. At the same time, MIGA would maintain routine contact with those projects where the risks are viewed to be less.

- **Financial Sector Guarantees.** Finally, in the case of financial sector guarantees, IEG recommends MIGA focus on the SEMS specifically of the project enterprises, rather than the corporate policies of the parent banks. MIGA Management appreciates this comment, but wishes to add a clarification. In the case of guarantees provided in support of shareholder loans from a parent bank to a subsidiary, MIGA looks to the SEMS that the parent company imposes as a matter of corporate policy on itself and its subsidiaries (at local project enterprise level), which the subsidiaries are expected to follow. These are normally part of the company's credit policies and standards, and the parent company provides guidance, training, and enforcement of these policies. MIGA Management plans to start examining how the client (i.e., corporate parent) implements its policies at the local project enterprise level during the guarantee period, but will conduct this monitoring exercise on a selective basis.

## Management Observations – World Bank Group

### Project Categorization

Management recognizes that two key challenges exist in establishing consistent approaches to categorization between the Bank, IFC, and MIGA. The first challenge is in the definition: the current definitions of Category A and C are relatively clear to most project teams when

projects occur at the far “ends” of the bell curve that characterizes the distribution of projects at various levels of project risks and impacts. The definition of Category-A has been particularly useful in focusing attention on the relatively small number of high-risk projects. The current definition, and interpretation, of Category B covers a wide spectrum of risk levels, however, with no clear distinction regarding the location or width of the “threshold” between Category A and B or Category B and C. A second challenge is in the significant difference in business models with respect to the client’s project cycle: whereas the Bank frequently engages in a very early stage of project concept and makes initial determinations of categorization based on “potential” impacts for a project that is still at a conceptual level, the IFC and MIGA most frequently find themselves becoming involved with a potential client either in a clearly defined project or an existing operation, where risks and impacts may be well defined and mitigation measures already built into project design or operations.

During the first half of fiscal 2011, Management will convene a small group of senior-level environ-

mental and social specialists from the World Bank, IFC, and MIGA to discuss how their respective units’ policies on categorization can be improved in practice and what approaches to a shared set of objective criteria are possible. There is ongoing work in this regard. IFC is proposing changes to its approach to environmental and social categorization as part of the review and update of its Sustainability Framework. The proposed changes, if endorsed by the Board, will bring IFC categorization more in line with the World Bank approach, while allowing for adaptations that are important for IFC, such as a three-tiered risk approach for Category FI. IFC will consider these recommendations in its revised Sustainability Framework, which will be presented to the Board. IFC Management will provide internal guidance to staff regarding categorization as part of the update of Environmental and Social Review Procedures, which will be finalized at the completion of the ongoing process of updating the Sustainability Framework. The recommendations of this review will be factored into Management’s review of global good practice, which will be carried out in preparation of an update of Bank safeguards.

## Management Action Record

### RECOMMENDATION

### MANAGEMENT RESPONSE

#### 1. Revise the policy frameworks to harmonize thematic coverage and guidance across the Bank Group and enhance the relevance of those frameworks to client needs

**IFC, MIGA,** and the **World Bank** should jointly adopt and use a shared set of objective criteria to assess social and environmental risks to ensure adequacy and consistency in project categorization across the WBG, using the more inclusive criteria for category A, and refining the categorization system to address the bunching of higher- and lower-risk projects within the current category B.

**World Bank, IFC, and MIGA: Agreed.** Bank, IFC, and MIGA Management will convene within the first half of fiscal 2011 a small group of senior-level environmental and social specialists to discuss approaches to either a shared set of objective criteria or alternative approaches to categorization that are more refined in scope and clearer to teams. The recommendations of this review will be factored into Bank Management's review of global good practice, which will be carried out in preparation of an overall update of Bank policies on project safeguards. IFC will consider these recommendations in its revised Sustainability Framework, which will be presented to the Board. IFC Management will provide internal guidance to staff regarding categorization as part of the update of its Environmental and Social Review Procedures, which will be finalized at the completion of the ongoing process of updating IFC's Sustainability Framework. MIGA will review its Policy on Social and Environmental Sustainability to make necessary changes and bring its categorization more in line with IFC and the Bank, after IFC revises its Sustainability Policy and proposed changes are endorsed by the Board.

*Timeline: In parallel with the update of Bank safeguards (see below) and following Board approval of the updated IFC Sustainability Policy and Performance Standards.*

The **World Bank** should: Ensure adequate coverage of social effects—integrating community and gender impacts, labor and working conditions, and health, safety, and security issues not currently covered by its safeguard policies—by consolidating existing social safeguards with other World Bank Group policies on social risks as requirements under one umbrella policy on social sustainability.

Consolidate the environmental policies as requirements under one umbrella policy on environmental sustainability.

Revise the current approach to safeguards pilots on use of country systems to focus on strengthening country institutions and systems to manage environmental and social risks.

**Disagreed.** While Bank Management recognizes, as does IEG, the importance of undertaking a comprehensive updating and consolidation of its safeguard policies, it is not yet ready to agree in this detail on the final outcome of that process. Instead, taking into account IEG's analysis and consideration of IFC's Performance Standards for its private sector support in the context of the Bank's public sector support, Bank Management plans to engage in a learning and consultative process with a diversity of shareholders and stakeholders on global good practice (in developing countries as well as industrial countries). Bank Management plans to complete this process in the next 24 months and then report to CODE and the Board on how it intends to further strengthen environmental and social sustainability in its projects, including presentation, for their consideration, of a policy paper setting out its updated and consolidated approach.

A period of 24 months has been proposed to provide adequate time to undertake an interactive review process, develop a draft umbrella safeguard policy, prepare translations, and conduct consultations within and outside the WBG. Periodic briefings are planned to be held on a regular basis with representatives of CODE and the Board to keep them apprised of developments and to seek their guidance to the joint team as needed.

*Timeline: 24 months.*

During this process, on an interim basis, Bank Management will address concerns related to the balance between environmental and social issues by preparing and issuing guidance on the scope and coverage of social issues in the context of the preparation and implementation of environmental assessments.

*Timeline: Guidance issued by the end of the third quarter of fiscal 2011.*

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## Management Action Record

### RECOMMENDATION

**IFC** should:

Strengthen the provisions on sustainability to address emerging issues, notably climate change and supply chains and their commodity certification.

Develop more robust approaches to the implementation of the Performance Standards in financial intermediary projects, listed equities, and trade finance.

Strengthen policies and practices on disclosure, including at the local levels.

### MANAGEMENT RESPONSE

**Agreed.** IFC has proposed changes through the ongoing review and update of its Sustainability Policy and Performance Standards, which will address climate change, supply chains, and biodiversity, among others. Management feels that the proposals put forward with regard to climate change—including the consideration of low-carbon technology options and resource efficiency, and to strengthen reporting on greenhouse gas emissions—are consistent with good business, and with good international industry practice.

*Timeline: Following Board approval of the updated Sustainability Policy and Performance Standards.*

Proposed changes to the Performance Standards include extending supply chain considerations to significant safety issues. Regarding certification, IFC is generally supportive of these schemes and has an active and ongoing engagement in a number of global commodity roundtables. *Timeline: Following Board approval of the updated Sustainability Policy and Performance Standards.*

**Disagreed.** Management notes that the number of credible certification schemes is still limited, and that these schemes could disadvantage small-scale producers and suppliers, particularly those in developing countries. In addition, IFC clients have varying degrees of control of or influence over their supply chains.

**Agreed/Ongoing.** With regard to FIs, IFC has been implementing a number of measures to strengthen its environmental and social risk management approach and implementation of the Performance Standards. A risk-based approach was developed and adopted as the basis for managing risk in FI operations, supported by a global team of staff and consultants that are specialized in this line of business. This approach has led IFC to review select due diligence work undertaken by FIs as a standard approach to supervision. In the proposed revisions to the Sustainability Policy, IFC is further refining its risk-based approach with the introduction of a three-tiered risk categorization for FIs: high, medium, and low, with risk-appropriate due diligence requirements. For higher-risk operations, IFC has established the practice of a right to review before investments are made (Funds), in accordance with the provisions set out in the legal agreement.

The approach used by IFC for the existing trade finance programs (e.g., Global Trade Finance Program, Global Trade Liquidity Program) is to apply the exclusion list and undertake regular reviews of this application. IFC will review this approach from a corporate risk perspective and as additional trade finance products are developed and launched.

**Agreed.** IFC's current Disclosure Policy is a hybrid approach, specifying what information it will disclose, subject to a list of exceptions, which is the standard approach among private sector financial institutions. IFC is currently reviewing proposals that will move disclosure to a process that spans the investment lifecycle. IFC is proposing revisions to the Disclosure Policy to provide stakeholders with updated information regarding development impact during project implementation.

*Timeline: Following Board approval of the updated IFC Disclosure Policy.*

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## Management Action Record

### RECOMMENDATION

**MIGA** should:  
Increase the capacity of the Environmental and Social Unit to the level needed to provide credible assurance on performance against the standards for every project. Should MIGA be unable to increase its resources devoted to implementation of Performance Standards, it should revise its Policy on Social and Environmental Sustainability to disclaim any responsibility for monitoring the projects' social and environmental performance and ensuring that they comply with the standards. Under this option, MIGA's role would be limited to reviewing the client's assessment of the project's environmental and social risks against the standards, identifying corrective actions as needed, and securing the client's commitment to implement these actions.

Require that category-B Small Investment Program projects follow the same disclosure requirements as for regular category-B projects.

### MANAGEMENT RESPONSE

**Agreed/Ongoing (Improvement of Monitoring).** While MIGA Management agrees that past performance in this area may have left room for improvement, the situation today is different and still improving. MIGA has taken a number of important steps that squarely address this issue, including the strengthening of MIGA's Environmental and Social Team, which has increased significantly in terms of staff size since fiscal 2006, and the introduction of new safeguard (Performance Standards) and disclosure policies. While keeping its current risk-based approach, MIGA Management will review whether more resources should be allocated to monitoring, and recommends continuing with its risk-based approach, but increasing the number of site visits for those projects where issues are most likely, and regular monitoring reports are received from investors, while maintaining routine contact with those projects where the risks are viewed to be less. MIGA's Environmental and Social Team has begun development of a monitoring strategy to this end.

**Agreed/Completed (Increasing Department Capacity).** MIGA's Environmental and Social Team has increased significantly since the early years of the review period. Over the last two fiscal years MIGA Management has doubled this department, bringing it to its current size of six staff members. The department is now operating with sufficient capacity.

**Disagreed (Disclaiming Responsibility for Monitoring).** The IEG alternative of MIGA declaring it will not monitor projects' environmental and social performance is not consistent with MIGA's mandate as a development institution.

*Timeline: MIGA's Environmental and Social Team has started developing a monitoring strategy, and plans to start implementation in the second quarter of fiscal 2011, after the program has been reviewed by the MIGA Senior Management Team.*

**Disagreed.** At this stage this recommendation is too early to be acted on. MIGA Management will review its Disclosure Policy after IFC completes its own review. MIGA will still post its SPG for all SIP projects, which may include a more detailed explanation of environmental and social issues, and will attach the project ESIA if warranted by the nature of the project. It should be noted that SIPs are subject to all requirements of PS1, which require MIGA clients to undertake local disclosure (including any ESIA) and community consultations as warranted by the nature of the project.

*Timeline: More detailed environmental and social information in SPGs of SIPs and ESIA disclosure (if warranted): Work is ongoing.*

## 2. Enhance client capacity, responsibility, and ownership

The **World Bank** should:  
Increase the synergies between safeguards work and broader Bank engagement on environmental and social sustainability by investing in upstream analytical work, technical assistance, and lending to strengthen country and sector institutions and capacities in client countries.

**Agreed.** Bank Management agrees and will work among SDN, OPCS, LEG, and the Regions to promote this approach. This issue will also be an element of the global good practice review discussed above. For example, as part of the updated Environment Strategy process, SDN is developing guidelines on how to incentivize analytical work, technical assistance, and lending that strengthens environmental governance, institutions, and capacity in client countries.

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## Management Action Record

RECOMMENDATION	MANAGEMENT RESPONSE
<p>Require regular reporting by the borrower on implementation and outcomes of safeguards in Bank-supported projects, and work with clients to develop instruments and indicators to help in such monitoring.</p>	<p>While Bank Management agrees, it suggests that it not be included in future Management Action Records for monitoring because there is no clear way of demonstrating its implementation.</p> <p><b>Not Agreed.</b> Instead, this issue will be included in the process outlined above in response to Recommendation 1.</p>
<p><b>IFC</b> should: Develop incentives for investment officers to share ownership of the Performance Standards and mainstream their implementation.</p>	<p><b>Agreed/Ongoing.</b> With regard to staff incentives, these are constantly evolving and incentives related to environmental and social issues have become more prominent in recent times, especially in areas where environmental and social performance is a core aspect of project sustainability. IFC Management has reinforced environmental and social issues as a shared and core agenda and will hold staff accountable for this. Environmental and social due diligence is required for success in approval of investments. IFC will consider opportunities to include environmental and social aspects in the performance management process.</p>
<p>Use advisory services to build social and environmental management systems and implementation capacity, especially among small and medium enterprises, financial intermediaries, and clients in countries and sectors with weak environmental and social management.</p>	<p><b>Agreed.</b> With regard to advisory services, IFC will work to strengthen the capacity of select clients to develop and manage their environmental and social management systems through a mix of tools and approaches, including the selective and strategic use of advisory services. IFC will also use other approaches, as appropriate, including the use of environmental and social specialists who engage with clients in developing action plans and use supervision to verify and support implementation of environmental and social standards; and country-based expertise, especially in middle-income countries. <i>Timeline: Work with advisory services has been initiated and a strategic approach is expected before the end of fiscal 2011.</i></p>
<p>Mobilize resources at appraisal for energy and clean production audits, using auditors with relevant sector knowledge.</p>	<p><b>Agreed/Ongoing (energy and cleaner production audits).</b> IFC includes energy/cleaner production audits as part of appraisal or ongoing improvement of clients' operations when deemed useful and appropriate.</p> <p><b>Disagreed (resource mobilization approach).</b> IFC disagrees with the proposed resource mobilization approach. Resources are mobilized through different avenues not linked to timing of appraisal and may include funding of audits directly by clients.</p>
<p>Define areas of influence and requirements to better address supply chain risks and opportunities, particularly related to biodiversity and forestry, expanding the application of material biodiversity along the supply chain for suppliers.</p>	<p><b>Agreed.</b> IFC requirements on supply chains apply to all sectors with a focus on the highest risks, such as child labor, forced labor, and clearing of critical habitats. The proposed changes to the Performance Standards expand this to include significant safety issues. IFC has included provisions under PS1, PS2, and PS6 to ensure an adequate assessment of supply chains is undertaken as part of appraisal. <i>Timeline: Following Board approval of the updated Sustainability Policy and Performance Standards.</i></p>

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## Management Action Record

### RECOMMENDATION

**MIGA** should:

Focus the due diligence reviews of financial sector projects on the Social and Environmental Management Systems of developing-country subsidiaries the project supports, rather than the corporate policies of the parent banks.

Expand the size and eligibility of the Trust Fund for Addressing Environmental and Social Challenges to all low-capacity clients on the basis of need.

### MANAGEMENT RESPONSE

**Agreed.** MIGA Management wishes to clarify that in the case of guarantees provided in support of shareholder loans from a parent bank to a subsidiary, it looks to the SEMS that the parent company imposes as a matter of corporate policy on itself and its subsidiaries (at local project enterprise level), which the subsidiaries are expected to follow. MIGA Management plans to start examining how the client (i.e., corporate parent) implements its policies at the local project enterprise level during the guarantee period, but will conduct this monitoring exercise on a selective basis.

*Timeline: Will start in second quarter of fiscal 2011.*

**Agreed/Ongoing.** MIGA Management has started taking steps to extend the Trust Fund, including initiating contact with several potential donors. The first three pilot years showed that the Trust fund is a very valuable tool and resource for MIGA. MIGA Management sees considerable value in maintaining and extending this facility, but at the same time notes that the ability to comply with this recommendation will largely be driven by the willingness and capacity of external donors to be involved.

### 3. Revise guidelines, instruments, and incentives to strengthen supervision arrangements

The **World Bank** should:

Assign responsibility and budget for safeguards oversight and reporting to environmental and social units in each operational Region—in line with IFC practice—in place of the delegation of safeguards processing and supervision to sector management units.

**Disagreed.** Bank Management agrees with IEG that there is a need to strengthen supervision of medium- and low-risk projects. How this will be done may need to differ from region to region, depending on country capacity and project type and mix.

Bank Management does not agree with the specific recommendation on giving the responsibility and budget for safeguard oversight and reporting to environmental and social units in each operational Region and this will need to be dropped from further monitoring by IEG. Bank Management plans to undertake a review by the second quarter of fiscal 2011 concerning current practices with respect to responsibility, accountability, incentives, staffing, and budgeting for safeguard processing and supervision. This review will also cover the issue of financial intermediary projects and projects that use environmental and social policy frameworks (see below). Based on this review, practices will be updated with the objective of enhancing effectiveness and efficiency and maximizing the synergies between safeguard work and broader Bank engagement on environmental and social sustainability.

*Timeline: Bank Management action, based on the review, by the third quarter of fiscal 2011.*

Bank Management notes that, as part of Investment Lending Reform process, it has actions ongoing to enhance the effectiveness and efficiency of implementation support. These include: (a) the assignment of staff and budget in line with the level of risk associated with an operation, using the new risk assessment and management procedures; and (b) the embedding of grievance redress mechanisms more broadly into projects.

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## Management Action Record

RECOMMENDATION	MANAGEMENT RESPONSE
<p>Introduce a certification program to expand the pool of staff qualified to undertake social and environmental preparation and supervision while ensuring quality and consistency, and provide orientation training on environmental and social sustainability to all task team leaders.</p>	<p><b>Agreed/Ongoing.</b> OPCS is developing, in coordination with SDN and LEG, a mandatory Operational Core Course for task team leaders which includes modules on safeguard policies and their implementation. Bank Management also has several ongoing and planned initiatives to expand the pool of qualified environmental and social staff that can provide support on safeguards and sustainability issues. Bank Management supports the initiation of a certification/ accreditation program for environmental and social staff working on sustainability and safeguard issues starting in fiscal 2011. SDN is working on the design of a core environmental and social sustainability and safeguards course, which will act as a mentoring and certification/ accreditation program for environmental and social staff, selected staff of other sectors, and safeguard consultants. The certification/ accreditation program will commence by the end of fiscal 2011. SDN also has launched several complementary initiatives to improve the staffing and skills mix for sustainability and safeguards, and to align incentives with the mainstreaming of environmental and social sustainability throughout the portfolio. These include: (a) a Bank-wide analysis of staffing for environmental and social sustainability and safeguards; (b) the development of competencies that emphasize skills in sustainability and safeguards, on both the environment and social issues; (c) consistent management signaling regarding the importance of working on sustainability and safeguards; and (d) the organization of field-based training sessions on sustainability and safeguards. <i>Timeline: Processes in place (subject to cost considerations) by the beginning of fiscal 2012.</i></p>
<p>Develop and implement an action plan to ensure regular supervision of financial intermediary projects and investment projects that use social and environmental policy frameworks through third-party or community monitoring for higher-risk projects, and disclosure of monitoring and supervision reports.</p>	<p><b>Agreed/Ongoing.</b> Bank Management is currently engaged in a Bank-wide review of the use of frameworks that will examine these types of projects and identify good practices. The review will include an examination of a variety of means to strengthen monitoring of such projects, including, in appropriate situations, the use of third-party or community monitoring for selected higher-risk projects. The review is expected to be completed by the third quarter of fiscal 2011 and will provide the basis for guidance to be issued for use by Bank staff and borrowers by the fourth quarter of fiscal 2011.</p> <p><b>Disagreed.</b> See above on supervision. To be clear, Bank Management does not agree and will not be held accountable in future Management Action Records for asking clients to implement third-party or community monitoring. <i>Timeline: Action completed by the end of fiscal 2011.</i></p>
<p><b>IFC</b> should: Enhance the supervision of financial intermediaries at the subproject level by developing clear guidelines for applying the Performance Standards at the subproject level and by adopting a systematic approach to environmental and social specialists' site visits to selected subprojects.</p>	<p><b>Agreed/Ongoing.</b> IFC has been strengthening the oversight of its investments in and through financial intermediaries at the portfolio, company, and subproject levels. This approach has been developed and is being implemented in accordance with a risk-based approach, which is intended to deploy resources efficiently where the risk is highest and/or performance is poorest. IFC provides guidance on the application of Performance Standards at the subproject level through its ongoing engagement with clients.</p>

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<b>Management Action Record</b>	
<b>RECOMMENDATION</b>	<b>MANAGEMENT RESPONSE</b>
<p>Use loan covenants, including Conditions of Disbursement to enforce compliance with environmental and social requirements and reporting if the clients lack commitment and are continuously out of compliance.</p>	<p>There is an ongoing multiyear effort to ensure that IFC's approach continues to be suitable. The approach to the subproject level supervision will be codified in IFC's Environmental and Social Review Procedure.</p> <p><b>Agreed/Ongoing.</b> The use of loan covenants to support compliance with environmental and social requirements is a standing practice. IFC has several instruments to support client compliance. These include specific provisions in the loan agreement or legal documentation and action items linked to disbursement and specific deadlines. There are covenants in legal documentation through which IFC monitors compliance, including a "policy put" in some cases, whereby noncompliance of policy provisions would trigger the option for IFC to sell its shares.</p>
<b>4. Strengthen safeguards monitoring, evaluation, and completion reporting</b>	
<p>The <b>World Bank</b> should: Include performance indicators on environmental and social outcomes in project results frameworks and ensure systematic collection of data to monitor and evaluate safeguards performance.</p> <p>Ensure that Implementation Completion Reports and IEG reviews of those reports rate and report effectively on the outcomes of safeguards and, for all projects with significant environmental and social effects, ensure the results are incorporated as an essential dimension when assessing achievement of the project's development objective, as has already been done for IFC and MIGA.</p>	<p><b>Partially Agreed/Ongoing.</b> Bank Management agrees with the need to strengthen monitoring and evaluation arrangements. To address this issue, the Bank will collaborate on developing guidelines on monitoring and evaluating safeguard performance by the third quarter of fiscal 2011. These guidelines will focus on more systematically measuring outcomes, including through the use of core environmental and social performance monitoring indicators, and on evaluating impacts. Reporting will be integrated in the ISR, building on the new risk framework under the Investment Lending Reform, which is already enhancing the monitoring of environmental and social risk mitigation measures in ISRs. The proposed guidelines on monitoring and evaluation will further emphasize the need for the ICR to evaluate the achievement of the safeguard-related objectives and identify lessons for future projects.</p> <p><i>Timeline: Guidelines issued by the end of the third quarter of fiscal 2011.</i></p> <p><b>Not Agreed.</b> Bank Management does not agree and will not be held accountable in future Management Action Records for asking clients to use performance indicators on environmental and social outcomes in all project results frameworks.</p>
<p><b>IFC</b> should: Disclose project-level environmental and social information from monitoring and supervision reports.</p>	<p><b>Agreed (disclosure of some project-level information).</b> IFC is reviewing its Disclosure Policy to determine where it is most appropriate to make modifications to the policy and to practices throughout the project life cycle.</p> <p><b>Disagreed</b> (disclosure of all information). However, this will not include disclosure of all environmental and social reporting from clients since there has to be a balance between client confidentiality and disclosure. IFC will continue its practice of holding its clients responsible for reporting to the local community.</p> <p><i>Timeline: Following Board approval of the updated Disclosure Policy.</i></p>

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## Management Action Record

RECOMMENDATION	MANAGEMENT RESPONSE
<p>Make use of independent/third-party or community monitoring and evaluation for its projects, particularly for projects with involuntary resettlement and higher-risk financial intermediary and agribusiness projects.</p>	<p><b>Agreed (community and select independent/third-party monitoring and evaluation).</b> IFC Management will explore how to strengthen community engagement, participatory monitoring and how, in selected high-risk cases, third party monitoring or advice can be incorporated.</p> <p><i>Timeline: Following Board approval of the updated Sustainability Policy and Performance Standard.</i></p> <p><b>Disagreed (independent/third party monitoring across the board).</b> IFC Management does not see third-party monitoring as an approach that should be appropriate for all projects, but rather one that may be considered in selected higher-risk situations. Since a key priority is to strengthen client capacity and ownership, third-party monitoring should be seen in that context, not just in terms of independent verification.</p>
<p><b>MIGA</b> should: Disclose project-level environmental and social information from supervision reports.</p>	<p><b>Disagreed.</b> At this stage this recommendation is too early to be acted on. MIGA Management will review its Disclosure Policy after IFC completes its own review and any modifications are endorsed by its Board. MIGA will continue its practice of it being the client's responsibility to report to the local community.</p> <p><i>Timeline: fiscal 2012, following Board approval of IFC's disclosure policy.</i></p>
<p>Develop a credible mechanism to ensure that Performance Standards are adhered to by financial sector projects.</p>	<p><b>Agreed/Ongoing (Project Enterprise SEMS).</b> The term "credible mechanism" is not entirely clear to MIGA Management. If this means that MIGA should ensure that for financial sector projects the project enterprise has a Social and Environmental Management System (SEMS) consistent with MIGA's Policy and Performance Standards, then MIGA Management agrees, notes that this is ongoing, and wishes to echo the clarification made above. In the case of guarantees provided in support of shareholder loans from a parent bank to a subsidiary, MIGA looks to the SEMS that the parent company imposes as a matter of corporate policy on itself and its subsidiaries (at the local project enterprise level), which the subsidiaries are expected to follow. MIGA Management plans to start examining how the client (i.e., corporate parent) implements its policies at the local project enterprise level during the guarantee period, but will conduct this monitoring exercise on a selective basis.</p> <p><b>Disagreed (Third Party Monitoring).</b> If "credible mechanism" means third-party monitoring, as with IFC, then MIGA Management disagrees that third-party monitoring is needed or cost effective for all projects. MIGA Management suggests that this be prioritized to focus on high-risk situations. It should be noted that it is MIGA's current practice to require independent (third-party) assessments as warranted by the nature of the project.</p>

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## Management Action Record

### RECOMMENDATION

### MANAGEMENT RESPONSE

#### 5. Improve systems and instruments for accountability and grievance redress

**IFC, MIGA, and the World Bank** should: Seek greater symmetry in the structure of Bank Group accountability and grievance redress mechanisms. For the World Bank this would entail creation of a grievance redress and conflict resolution mechanism to complement the Inspection Panel. For IFC and MIGA this would entail a more independent compliance review process, ensuring that the CAO submits its audits directly to the Board.

**IFC:** IFC management recognizes that as a private sector development institution it is key to have an independent office with effective compliance and mediation functions. IFC Management notes that the recommendation with respect to the CAO will not require any management action. At the same time, IFC Management has not noted any concerns with the effectiveness of the current grievance and mediation function. IFC Management is awaiting with interest the outcome of the Board's ongoing reviews of oversight and accountability mechanisms.

**MIGA:** Like IFC, MIGA Management recognizes that having an independent office with effective compliance and mediation functions is key to a private sector development institution. MIGA Management notes that the recommendation with respect to the CAO will not require any management action. At the same time, MIGA Management has not noted any concerns with the effectiveness of the current grievance and mediation function. MIGA Management is awaiting with interest the outcome of the Board's ongoing reviews of oversight and accountability mechanisms.

**World Bank: Agreed/Ongoing.** Bank Management agrees with IEG that there is value in creating a grievance redress mechanism for which Bank Management will take responsibility that is complementary to, but separate from, the Inspection Panel. Bank Management wishes to underscore that establishing this mechanism would not alter the responsibility of borrowers and recipients for implementing projects, and that in many cases, the grievances are not necessarily with the Bank, but between our clients and project-related stakeholders. Nevertheless, these grievances are often brought for resolution to the Bank.

Therefore, by the end of the third quarter of fiscal 2011, Bank Management intends to complete a survey and review of a wide range of potentially analogous existing grievance redress mechanisms as a basis for designing one for the Bank. The study will include a review of the cost implications and potential cost savings that could be engendered by using a system similar to the IFC CAO or other multilateral financial institutions. Bank Management will present the results of this study to the Board to ensure that any decisions emerging from the study will be consistent with the Board Resolution and related Board decisions concerning the Inspection Panel, and in a manner which takes fully into account the current requirements and experiences with project-based grievance mechanisms (including as required under OP 4.12, Involuntary Resettlement, and OP 4.10, Indigenous Peoples). This study will be coordinated among Bank units with considerable experience in this field to ensure institutional coherence and efficiency.

*Timeline: Bank Management will (subject to cost considerations) establish a grievance mechanism by the first quarter of fiscal 2012, and provide to the Board a detailed report on the initial operation of the grievance mechanism by the end of fiscal 2012.*

# Chairperson's Summary: Committee on Development Effectiveness (CODE)

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On July 28, 2010, the Committee on Development Effectiveness (CODE) considered the report *Safeguards and Sustainability Policies in a Changing World: An Independent Evaluation of World Bank Group Experience*, prepared by the Independent Evaluation Group (IEG), and the *Draft Management Response*.

The Committee commended IEG for its first comprehensive evaluation of the full set of safeguards and sustainability policies used by the World Bank Group (WBG). It welcomed the timely discussion as the WBG is completing its new Environment Strategy; IFC is reviewing and updating its sustainability framework; and the Bank is working on the Investment Lending (IL) Reform. The Committee noted one of IEG's main findings regarding the benefits of environmental and social (E&S) safeguards and performance standards for sustainable development and the overall positive impact in client countries and for the private sector, although challenges remain in effective supervision and monitoring of E&S outcomes.

Members stressed the importance of carrying out a comprehensive update of Bank safeguard policies, and harmonizing the categorization of projects across the WBG. Some members remarked that a common policy framework could promote a better understanding by external stakeholders of the WBG approach, although others observed the need for some differentiation by each WBG institution given their specific business nature

and clients. The need to give Bank Management sufficient time for the review of global good practice to update the Bank's safeguard policies was raised, although some speakers suggested shortening the proposed timeline. Members emphasized the importance of engaging client countries in the review of E&S safeguards.

Members agreed with IEG on the importance of effective implementation of safeguard policies and strengthened supervision; and on the checks and balances provided by monitoring and evaluation, disclosure of findings, and verification of results. They also concurred on the need to strengthen client capacity and enhance responsibility and ownership. Members commented on the challenges of expanding the Bank's pilot use of country systems, addressing safeguard concerns at the subproject level, particularly at the IFC, and budget and incentives issues. Greater symmetry in the structure of WBG accountability was encouraged, and many members agreed with Bank Management on the importance of considering the creation of a grievance redress and conflict resolution mechanism.

## Recommendations and Next Steps

Management will revise its draft response, taking into account the main issues raised at the meeting, including to further clarify sections in which it expressed “partial” agreement/ disagreement with IEG. The Committee recommended a full Board discussion of the IEG report and a revised Management Response given the relevance of safeguards and performance standards for the WBG activities.

The Bank, IFC, and MIGA Management will convene within the first half of FY11 a small group of senior-level environmental and social development specialists to discuss approaches to adopt and use a shared set of objective criteria to assess E&S impacts and risks to ensure adequacy and consistency in project categorization across the WBG.

Bank Management committed to a review of global good practice that will integrate the update of safeguard policies. A team led by OPCS, with participation by SDN and Legal, will be formed to engage in a learning and consultative process with diverse shareholders and stakeholders at the national and subnational level during the next 24 months. At the conclusion of this process, Bank Management will report to CODE/Board on how the Bank intends to strengthen E&S sustainability in projects, including the possibility of a more consolidated policy framework.

IFC Management will take into account IEG recommendations and CODE comments in the ongoing review of IFC’s Sustainability Framework. It also indicated that Phase 2 of the consultation process on the proposed draft changes to the Sustainability Framework will be extended to 90 days (initially proposed for 60 days at the CODE meeting on May 5, 2010).

## Main Issues Discussed

### *Updating the Safeguard Policies*

Some members encouraged Bank Management to review the current policies in the context of the ongoing work on IL Reform. A few members, while welcoming efforts to consolidate policy frameworks and harmonize thematic coverage

across the WBG, and noting the need to balance safeguards (do not harm) and performance standard management (management of risks), cautioned against unified safeguard standards. They noted the need for differentiated approaches for the specific nature of each WBG institution. Other interventions focused on the need to prioritize clients’ capacity building, distinguishing between countries and private clients, and considering the different stages of development.

Speakers raised questions about the impact of implementing IEG’s recommendations on the cost of doing business for clients and for the WBG; how to prioritize these recommendations; and the main purpose of the consultation process planned by the Bank team led by OPCS. A recommendation was made to include field-based managers in the proposed Bank team. A member underlined that the WBG is one of many development players, and that it should consider the following: (i) be invited to support and do business in a developing or transition country and provide support that adds value and is consistent with the country’s strategy; (ii) staff should be encouraged to deal with risks and with complex projects; and (iii) “perfect” safeguards and performance standards are difficult to apply. Another member welcomed IEG cost-benefit analysis of safeguards. A few members encouraged Management to enhance communication, including on the benefits of managing and mitigating impacts and risks in spite of the initial costly and time-consuming steps. Responding to a few speakers’ interest in a review of safeguards for development policy lending (DPL), Bank Management noted the different nature of DPLs and that these requirements and practices will be reviewed in the context of DPL retrospective.

### *Environmental and Social Safeguards*

Speakers noted IEG’s recommendation that a more comprehensive and balanced approach to social issues would be useful in supporting the Bank’s broad development objectives and bringing greater consistency between the Bank and IFC. A member preferred having separate E&S “umbrella policies” to give them equal



visibility, while two speakers cautioned against a stark division between environmental and social safeguards because they are interrelated in many instances. Some members suggested that the WBG should consider an integrated approach to social impacts and risks that takes into account specific national realities.

### **Human Rights**

A few members felt the WBG institutions must avoid adverse human rights impacts and ensure that a project does not infringe on government's obligations under international and national human rights law. For this purpose, they stressed the need to identify and fill the existing gaps within the WBG, which may differ for public and private sector projects. Two members expressed the view that there should be a clear distinction between the Bank's involvement, limited to its project interventions and associated fiduciary responsibilities, and the country's institutions including domestic regulations and the judicial system. They also noted the need for the Bank to keep to its mandate.

### **Implementation and Supervision**

Speakers supported further investment to strengthen E&S management systems including supervision, performance indicators, and data collection; and encouraged the Bank to include E&S outcomes in the Implementation Completion Report. Moreover, a member noted that strengthening and using country institutions to monitor implementation of performance standards should be linked to the use of country systems initiative.

Noting the Bank Management's disagreement with IEG's recommendation to shift responsibility and budget to monitor the implementation of E&S safeguards from Sector Management Units to Environment and Social Units, a member asked about this different approach from that for procurement which is the responsibility of Procurement Managers. Another member felt Bank Management should be more flexible and suggested the shift may be consistent with the IL Reform. Others encouraged the Bank to require systematic reporting by its clients on their E&S

performance. A member, however, cautioned that the Bank should not request additional reports that may not be in line with what the country needs or what is being prepared for internal reporting.

As noted in its response, Bank Management committed to (i) review in Q2:FY11 on current practices with respect to responsibility, accountability, incentives, staffing and budgeting for safeguard processing and supervision, which will serve to update the current practices and enhance effectiveness; (ii) review by Q3:FY11, ways to strengthen monitoring of projects through financial intermediaries lending and projects that use a programmatic approach and support the use of subprojects; and (iii) develop guidelines for M&E safeguard performance by Q3:FY11.

### **Use of Country Systems (UCS)**

Members noted IEG's findings that the current approach to pilot UCS has been rigid, and asked Bank Management to further explore the reason for limited progress, and whether client's capacity has been inadequate. In this context, some speakers emphasized support to strengthen country institutions and systems, and integrate technical assistance to lending instruments. Bank Management indicated that if a change in approach is to occur, a more flexible application of the existing OP 4.00 will be needed. A few speakers cautioned that country standards and capacity needs should precede the UCS, and necessary changes should happen not only at the project level but also in the broader system.

### **Grievance Mechanism**

Some members endorsed Bank Management's proposal to complete a survey and review grievance mechanisms in IFC and other international institutions by end-FY11, and to establish a mechanism by FY12. A few speakers recommended that Bank Management consult the Inspection Panel, given its broad experience with safeguard issues. Bank Management agreed with IEG on the value of establishing a grievance mechanism that complements, but is separate from the Inspection Panel. A few members

proposed that the issue of grievance mechanism be addressed in the context of the “5 Is” discussion by COGAM. Two speakers favored expanding the mandate of the Inspection Panel, although a member felt that this was unnecessary given that the grievance mechanism would formalize what already exists.

***IFC and MIGA Sustainability Policy***

Some speakers agreed with IEG that IFC and MIGA should adopt third-party verification more broadly in its oversight practice. They also encouraged the full and timely disclosure of monitoring reports on E&S performance, as well as more effective disclosure of project sponsors to local stakeholders. Some comments were

made on the need for IFC to review supply chain issues, and the challenges of doing business through financial intermediaries lending, and listed equities. A member felt that IEG could have compared IFC performance standards with those applied by other MDB institutions focused on private sector. Regarding MIGA, a member felt it should not revise its policy to disclaim responsibility for monitoring a project’s E&S performance, and it should increase its capacity to ensure compliance with the Performance Standards.

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*Carolina Renteria*, Acting Chairperson

# Statement of the External Advisory Panel

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The external Advisory Panel welcomes this report on the World Bank Group's (WBG) safeguard and sustainability policies. We concur with the findings of the evaluation and strongly endorse the five recommendations presented in the report. The Advisory Panel provided IEG's evaluation team with preliminary comments based on a reading of an earlier draft of this report in Washington, DC, on April 22–23, 2010. Noting that most of that advice has been incorporated into this final version of the report, this final Panel Statement is brief.

After more than 10 years of operation of the WBG's safeguard policies, and with the subsequent introduction of the Policy and Performance Standards in IFC and MIGA, it clearly was time for a thorough review of their effectiveness and ongoing appropriateness. We note that the report finds that the safeguards and sustainability policies have helped to avoid or mitigate large-scale social and environmental risks in WBG-financed projects. More importantly, however, the report identifies a number of issues relating to the implementation of the safeguard policies that potentially has reduced their effectiveness, especially in terms of contributing to development. We note the concerns about the appropriateness of the Bank's compliance-based focus as its portfolio moves away from traditional investment lending, toward a much wider array of lending instruments. We note the need for greater emphasis on developing client ownership and country systems. While the report indicates that it is too early to compare the results of IFC's Performance Standards against the Bank's safeguard policies, the Advisory Panel has no doubt that there is much merit in this approach taken by IFC and MIGA. We would encourage the adoption of the latter approach throughout the whole WBG.

It is the Advisory Panel's view that while the Bank's safeguard policies have been an appropriate mechanism "to prevent or mitigate adverse impacts of its projects on people and the environment" in the past, an approach based solely on "do no harm" is no longer good enough. The world has changed in the corresponding time period. Local communities and international stakeholders now expect more from development projects. Communities expect positive benefits to flow from projects and they expect opportunities to be provided to them within projects to ensure that they are beneficiaries. Around the world, a Corporate Social Responsibility culture has been developing partly due to consumer and community pressures, as well as the activities of the World Business Council for Sustainable Development and industry-led initiatives. The use of continuous improvement standards like ISO (International Standards Organization) 14001 for Environmental Management Systems is increasing in the commercial sector, in parallel with the use of Strategic Environmental Assessment at government and sector levels. Over 5,000 businesses have signed up to the UN Global Compact and many others are signing up to similar industry-level initiatives. While the existing safeguards approach has also

helped to encourage such developments, the WBG now needs to move forward, to encourage further movement toward social and environmental sustainability.

One of the most obvious things wrong with the current safeguards approach in the Bank is the lack of consideration of the full range of social issues. There is a wide range of social issues that should be considered, many of which are not adequately addressed in the Bank's safeguard policies. Based on our personal knowledge of the Bank as well as our review of the evaluation report, the Panel considers that the operationalization of the safeguard policies in the Bank, especially the associated compliance culture that has developed, is detrimental to the achievement of key development objectives.

It could be argued that the safeguards (do no harm) approach is basically focused on protecting the reputation of the Bank. The Advisory Panel suggests that it is time to change the emphasis to one based on risk management and sustainability. The Fourth Assessment Report of the Intergovernmental Panel on Climate Change strongly made this point in 2007. It stressed that the most effective way to address the climate issue is to integrate climate change policies into an overall, proactive sustainable development, risk management strategy, rather than implementing piecemeal (safeguard-type) approaches—that is, isolated, reactive adaptation and mitigation measures. As noted in IEG's report, one of the consequences of the safeguards approach is a heavy investment up front in ensuring sign-off of projects, but this is at the expense of ongoing supervision and adaptive management. The changing blend in the categorization of Bank-funded projects (screening) is evidence of the way project staff respond to the operation of the safeguard policies. A shift in focus away from a legalistic safeguards-based approach to a process that relies on ongoing risk management is likely to enhance development outcomes. Potentially the categorization of projects should depend not only on environmental risks, but also on a wider range of social issues, as well as the local capacity to address those issues.

The Advisory Panel feels that a comprehensive and well-balanced Performance Standards approach, as implemented by the IFC and MIGA, has considerable merit and is superior to the current safeguards approach. We therefore recommend that there be a monitoring of the results of the Performance Standards over time. The Panel notes the advantages of the Performance Standards in giving attention to the full range of social issues. We therefore recommend, as is implicit in the report's first recommendation, that there be a harmonization of thematic coverage across the WBG and a major revision of the way the social and environmental issues are addressed, especially in the World Bank. While we endorse the recommendations as presented in the last chapter of the report, we would like to give particular emphasis to some aspects of them.

- We consider that expansion of the scope of social policies to harmonize thematic coverage across the WBG is essential.
- We believe that consolidation of the social and environmental policies at the World Bank under one overarching and internally consistent policy is likely to have considerable benefit providing a better balance between environmental and social components, and we urge the Bank to give due consideration to this suggestion, perhaps by undertaking a feasibility study or options analysis. In any case, some strengthening of effort in relation to social issues is absolutely necessary. We note that given many governments are weaker on addressing social risks, this will have resource implications for the Bank in terms of building human capacity among clients to implement the new safeguard policies.
- We argue that the integration of environmental and social dimensions is important to a project's development outcome, and this should be built into project reporting, as it is in IFC within their Development Outcome Tracking System.
- We believe that increased transparency and a greater use of independent, third-party monitoring and/or community monitoring and evaluation (as appropriate) would assist in shifting the focus from compliance to outcomes.

As mentioned in chapter 5 of the report, the Bank was innovative and a leader in the 1990s when the safeguard policies were being formulated. However, the world has changed since then and expectations are now higher, partly because the Bank has succeeded in contributing to raising

the bar around the world. The Bank must now correspondingly update its approach, and this IEG report is an important first step in that process. We look forward to seeing action by the Bank in response to the recommendations in the report.

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*Luiz Gabriel Todt de Azevedo*, Sustainability Director, Odebrecht Energy, Brazil

*Moban Munasinghe*, Chairman of the Munasinghe Institute for Development, Sri Lanka, and  
Professor of Sustainable Development, University of Manchester, United Kingdom

*Frank Vanclay*, Professor in the Department of Cultural Geography, University of Groningen,  
The Netherlands; former Leader of the Rural Social Research Group, University of Tasmania, Australia





# Chapter 1

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## Evaluation Essentials

- This is the first comprehensive evaluation of the WBG's safeguard policies since they were formulated in 1989.
- The evaluation examines how effective the WBG's safeguards and sustainability frameworks have been in preventing and mitigating adverse environmental and social impacts.
- It covers WBG safeguard policies and IFC and MIGA Performance Standards in projects approved from fiscal year 1999 to 2008.



A community consultation in Paraguay. Photo courtesy of Reidar Kvam.

# Evaluation Context

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## Introduction

Environmental and social safeguard policies and Performance Standards are a cornerstone of the World Bank Group's (WBG)<sup>1</sup> support for sustainable development and poverty reduction.<sup>2</sup> The objectives of these policies, to which it has committed and is publicly accountable, are to improve the quality of investments and guarantee operations and to prevent or mitigate undue harm to people and the environment in the development process. Over time the focus has shifted from mandatory compliance with do-no-harm policies and procedures toward doing good through greater focus on sustainability and the management of associated risks. Similar policies are now widely used internationally as a fundamental aspect of sound business management practice and development effectiveness.<sup>3</sup> They have been adopted in various forms by most major financial institutions lending to the public and private sectors.

The context in which the WBG operates has changed in many ways since the introduction of the safeguard policies, particularly in the nature of WBG clients and in the nature of the lending portfolio. WBG clients have diversified with greater differentiation among countries and the growing significance of private sector and subnational clients. The World Bank's public sector clients now range from middle-income countries, many with well-developed regulations and institutions, to rapidly reforming low-income

countries with growing institutional capacity, to fragile and conflict states. In reform-minded middle-income and low-income countries, the nature of Bank lending has evolved from investment projects dominated by infrastructure and agriculture toward a growing portfolio of development policy loans (DPLs) for institutional and policy reforms, and programmatic lending for social sector, financial sector, and governance operations. DPLs are governed by a different set of environmental and social requirements from those of the safeguard policies. Safeguard policies apply to all investment projects but are more difficult to implement in sectorwide investment programs, financial intermediary (FI) projects, community-driven development projects, and other forms of decentralized projects. Traditional investment lending is not well suited to these portfolio trends. The Bank is responding to this changing context by reforming its investment lending policies and instruments promoting use of risk-based approaches and placing greater emphasis on implementation support. Safeguard policies will consequently require significant adaptation to ensure their continued relevance.

The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) support private sector clients whose role in development continues to grow

***The context in which the WBG operates has changed significantly since the introduction of the safeguard policies, particularly in the nature of WBG clients and in the nature of the lending portfolio.***

and whose portfolio continues to diversify. IFC and MIGA recognized the need to better distinguish clients' responsibilities from their own, and manage private sector environmental and social aspects that were not covered in the safeguards framework, by transforming the WBG's safeguards policies into a new policy framework with Performance Standards for their clients. This transformation shifted the emphasis from prescriptive procedures to a more explicit focus on the client's social and environmental management systems (SEMS). Further evolution of the two agencies' portfolios in recent years continues to pose challenges: IFC's business has evolved from project finance toward corporate finance, trade finance, and equity investments, and MIGA's portfolio has seen a substantial increase in guarantees for the financial sector.

Before considering the evaluation findings it is essential to understand the context within which the WBG's safeguard and sustainability policies are operating. This chapter describes the rationale, approach, and methodology of the evaluation and then presents three aspects of the context: (i) the WBG's safeguard policies and the newer Policy and Performance Standards on Social and Environmental Sustainability (PPSSES) adopted more recently by IFC and MIGA; (ii) the relevance of these policies to the previous portfolio; and (iii) the evolution of the lending portfolio to understand the emerging challenges faced by the safeguard and sustainability policies.

## Evaluation Design

### *Evaluation rationale*

There has not been a comprehensive evaluation of the WBG's safeguard policies<sup>4</sup> since they were first formulated in 1989.<sup>5</sup> Previous IEG evaluations assessed the effectiveness of individual safeguard policies and included the 1998 report "Recent Experience with Involuntary Resettlement"<sup>6</sup> (IEG 1998) and "Implementa-

tion of Operational Directive 4.20 on Indigenous Peoples: An Evaluation of Results" (IEG 2003a). The recent IEG evaluation *Environmental Sustainability: An Evaluation of World Bank Group Support* (2008b) examined

WBG assistance for the environment over 15 years, but it was not intended to evaluate the Bank's safeguard policies. For IFC and MIGA, the environmental sustainability review did consider early results of the environmental Performance Standards, but it was conducted a year after they were introduced and, in any case, did not cover the social Standards. The main purpose of the current evaluation, therefore, is to address this gap taking into account the rapidly changing business environment, new lending modalities and financing instruments, as well as evolving best practices and client needs.<sup>7</sup>

Discussions between IEG and WBG operational staff, including the World Bank's Sustainable Development Network Council, at the concept stage of this evaluation revealed an interest in examining whether the current Operational Policies remain fully relevant to today's issues and challenges, given that client interests and capacities as well as the lending portfolio have altered substantially from the time when these policies were first developed.

The Bank recently initiated a process to reform investment lending.<sup>8</sup> The current model uses the project cycle concept in which technical and financial viability and feasibility of detailed engineering plans developed during preparation are carefully assessed during appraisal, and supervision monitors performance against the original plan, budget, and implementation targets. The portfolio changes described above have led to a rethinking of the conventional project model. In programmatic lending, the country, policy, and reputational risks matter as much or more than technical and economic risks. Good project design needs to be complemented by adjustments during implementation. Reform is aimed at consolidating existing investment lending policies into a more concise, integrated policy and operational framework that differentiates projects by risk to adjust project processing. This is expected to increase flexibility according to the risks and needs of different operations and complement the emphasis of intensive effort at appraisal-tailored implementation support (see "Moving Ahead on Investment Lending Reform: Risk Framework and

*There has not been a comprehensive evaluation of the WBG's safeguard policies since they were formulated.*

Implementation Support,” World Bank 2009d). A relevant question for this evaluation is the extent to which this retooling of the project model will necessitate rethinking of the model currently in place for the safeguard policies.

The IFC’s and MIGA’s adoption of Performance Standards (in 2006 and 2007, respectively) and their adoption by private financial institutions<sup>9</sup> and the European Bank for Reconstruction and Development (EBRD) provide an opportunity to compare the strengths and weaknesses of alternative policy and implementation modalities for addressing environmental and social effects of operations. The impact of this new direction is evaluated to the extent possible, taking into account ongoing efforts to develop common approaches by other leading international financial institutions (IFIs).<sup>10</sup>

In the past, nongovernmental organizations (NGOs) have been vocal about their views on safeguard policies and have expressed misgivings about the interpretation, application, and effectiveness of safeguard and sustainability policies.<sup>11</sup> Each policy revision or innovation leads to concern about a potential watering down of such policies. On the other hand, WBG clients have called for greater flexibility to suit local conditions and capacity.<sup>12</sup> The Bank is currently implementing a pilot program<sup>13</sup> to test the feasibility of relying on client country systems for implementation of safeguard policies. The pilots on use of country systems (UCS) for safeguards are governed by the provisions of a new policy (Operational Policy 4.00) approved by the Board of Directors in 2004. This evaluation will also assess the UCS experience on safeguards and its potential for replication.

### **Evaluation questions**

The evaluation’s overarching purpose is to assess: How effective have the WBG’s safeguards and sustainability frameworks<sup>14</sup> been in preventing and mitigating adverse environmental and social impacts?

Bearing in mind the evolving context since the safeguard policies were introduced in the 1980s,

this report goes beyond the core question to explore some underlying questions: To what extent have the safeguards and sustainability policies led to improved environmental and social performance and impacts at the project and sector level? How successful is the WBG in helping clients build sufficient capacity to implement these environmental and social policy frameworks? Has the introduction of the new Policy and Performance Standards led to improved environmental and social appraisal and supervision at IFC and MIGA compared with their previous approach? What are the benefits and costs of safeguards and Performance Standards? How can the WBG improve the efficiency and the development effectiveness of safeguard policy frameworks? A corollary, which emerged from the portfolio challenges found by IEG, is how the safeguards and sustainability frameworks can be adapted to maintain their relevance to the WBG’s operational portfolio.

### **Scope of the evaluation**

This evaluation covers safeguards and environmental and social Performance Standards in the WBG for projects approved in fiscal years 1999 through 2008.<sup>15</sup> Since safeguard policies do not apply to DPLs financed by the World Bank, which are governed by the Operational Policy/Bank Procedure (OP/BP) 8.60, DPLs are excluded from this evaluation. Evaluation of IFC’s and MIGA’s performance distinguishes projects prepared before and after introduction of the Performance Standards. IFC projects approved after April 2006 (and MIGA projects after October 2007) use the new Performance Standards, but such projects are not yet sufficiently mature for a robust ex-post evaluation of environmental and social results. Consequently, this evaluation puts more emphasis on comparing their differences at appraisal and during implementation.

As part of the discussion on WBG performance during appraisal and supervision, the report also discusses findings and lessons related to the WBG’s accountability mechanisms—the Inspection Panel (IPN) for the World Bank, and the Compliance Advisor and Ombudsman (CAO) for IFC and MIGA. This evaluation does not have a mandate and is not designed to assess

the performance of the IPN and CAO. However, given the impact of these mechanisms on the WBG, the evaluation includes a brief review of their activities and explores how their efficiency and effectiveness can be enhanced.

The discourse on safeguards and Performance Standards in the WBG has been devoid of considerations of costs and benefits, with the notable exception of a review of the cost of doing business conducted in 2001, which sought ways of increasing the efficiency of fiduciary and safeguards work. The evaluation seeks to fill this gap by analyzing available data and by presenting alternative ways of assessing risks, benefits, costs, and cost-effectiveness. Given the absence of relevant data for much of the portfolio, this is mainly an analytical contribution with a prototype of benefit-cost analysis.

### Evaluation methodology

In addition to a literature review and commissioned background papers, evidence for this evaluation comes from desk reviews of a representative sample of the portfolio and field visits to purposively selected projects from all three WBG entities; semistructured interviews with clients and WBG managers; staff surveys of WBG task team leaders and investment officers

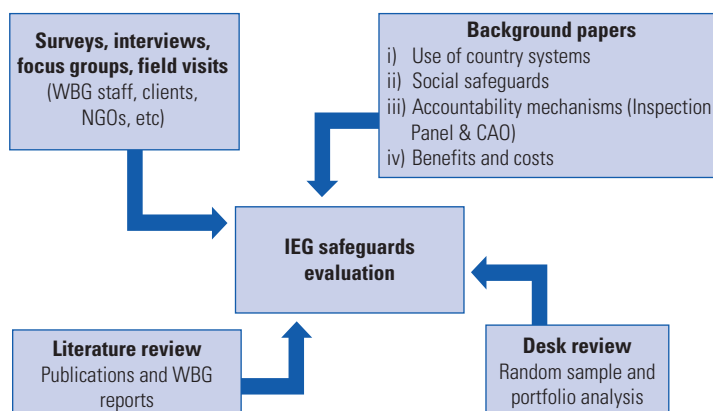
and environmental and social specialists; focus group discussions with WBG staff; and consultation with NGOs (figure 1.1). Detailed results and examples of some of the instruments used are shown in appendix C, while projects sampled for this evaluation are listed in annex 4. (Annexes are available on the website for this report at <http://worldbank.org/ieg>)

For the portfolio review, a random sample of 252 category A, B, and FI projects<sup>16</sup> (18 percent) was selected from the IEG-World Bank universe<sup>17</sup> of all 2,495 operations approved in fiscal 1999–2008, giving a confidence interval of  $\pm 5.6$  percent Bank-wide<sup>18</sup> at 95 percent confidence level (see sampling details in appendix table B1).

For IFC, a sample of 63 projects, including category A, B, and FI projects (39 non-FI and 24 FI projects, including 23 from before and 40 after the Performance Standards) was selected from the population of 403 pre-Performance Standard projects and 220 post-Performance Standard projects for the portfolio review, yielding a confidence interval of  $\pm 11.7$  percent at 95 percent confidence level. The sample was stratified to mimic the population based on region, industry sector, and environmental category (A, B, FI).<sup>19</sup> The stratified sample of 23 pre-Performance Standard projects was drawn from the randomly sampled Expanded Project Supervision Reports (XPSRs),<sup>20</sup> and additional performance indicators were sourced from additional IEG reviews of the XPSRs. In addition, for IFC, results from IEG's evaluation database on 394 XPSRs and Environmental and Social Review Reports up to 2009 were used when appropriate. The confidence interval for this expanded dataset was 3.3 percent from the population of 700 projects.

IEG-MIGA undertook a portfolio review of a stratified sample of 35 MIGA projects approved during fiscal 2000–09.<sup>21</sup> The sample included all 14 projects (which account for 40 percent of the portfolio review sample)<sup>22</sup> underwritten subject to the 2007 Policy and Performance Standards up to the third quarter of fiscal 2009 to facilitate findings of MIGA's current implementation of its policies and standards.

**Figure 1.1: IEG Safeguards Evaluation Building Blocks**



Source: IEG.



## Environmental and Social Policies at the World Bank Group

### World Bank safeguard policies

In 1989 the World Bank introduced Operational Policies and Bank Procedures for environmental assessment of Bank-financed projects, which were updated as Operational Directive 4.01 in 1991. The Bank adopted an involuntary resettlement policy as an Operational Manual Statement in 1980, which was revised as OD 4.30 in 1990. Other environmental and social policies were added over time to address individual environmental and social risks.

In 1997 the Bank identified 10 policies as its suite of safeguard policies, labeled them “do no harm” policies, and started a process of policy conversions for individual policies. The safeguard policies (see table 1.1) consist of six environmental, two social, and two legal policies. Many other multilateral development banks (MDBs) initially based their own safeguard policies for public sector lending on those of the International Bank

for Reconstruction and Development (IBRD) and International Development Association (IDA), although, as will be discussed in chapter 5, some have since customized and expanded these policies.<sup>23</sup>

Policy conversion involved minor revisions, from Operational Directives (OD) and Operational Manual Statements (OMS) into Operational Policies (OP) and Bank Procedures (BP). The first OP on Pest Management was approved in 1998. The Environmental Assessment OD was replaced by OP and BP 4.01 in 1999. The Involuntary Resettlement policy was converted to OP/BP format in December 2001.<sup>24</sup> The conversion process continued until 2006. Each policy had a different set of stakeholders, so the policy conversion was piecemeal and, according to the staff involved in this process, involved protracted discussions with a wide range of stakeholders, leading to a lengthy process which for the Indigenous Peoples Policy lasted seven years. The policy on International Waterways

**Table 1.1: Comparison of WBG Safeguards and Performance Standards**

Bank Safeguard Operational Policies <sup>a</sup>		IFC/MIGA Policy and Performance Standards on Social and Environmental Sustainability (2006/2007)
<b>Environmental and social</b>		PS 1: Social and Environmental Assessment and Management System
<b>Environmental</b>	4.01 Environmental Assessment (1999) 4.04 Natural Habitats (2001) 4.36 Forests (2002) 4.09 Pest Management (1998) 4.11 Physical Cultural Resources (2006) 4.37 Safety of Dams (2001)	PS 6: Biodiversity Conservation and Sustainable Natural Resource Management PS 3: Pollution Prevention and Abatement PS 8: Cultural Heritage
<b>Social</b>	4.12 Involuntary Resettlement (2001) 4.10 Indigenous Peoples (2005)	PS 5: Land Acquisition and Involuntary Resettlement PS 7: Indigenous Peoples PS 2: Labor and Working Conditions PS 4: Community Health, Safety and Security
<b>Legal</b>	7.50 International Waterways (2001) 7.60 Disputed Areas (2001)	

Source: World Bank Group.

Note: PS = Performance Standard.

a. Except for pest management, all World Bank Operational Policies (OP) have accompanying Bank Procedures (BP). Consultation and disclosure processes are integral to the WBG safeguard and sustainability policies.

is currently being revised, a process now in its second year. The procedure for policy revisions, even small ones, has proved to be so cumbersome and time consuming that there is great reluctance to revise and improve the policies even when the lessons of experience suggest that this would be beneficial.

*Policy revision has proved to be so cumbersome and time-consuming that there is great reluctance to revise and improve the policies even when this would be beneficial.*

When the safeguard policies were labeled “do no harm” policies, the Bank’s senior management made public commitments to enforce compliance with these mandatory requirements, leading to significant improvement in environmental and social performance compared with the 1990s. However, the Bank’s list of safeguard policies was restricted to existing policies designed to mitigate adverse environmental and social impacts, effectively freezing policy development in the state that existed at that time. Existing policies on Sociological Appraisal, which is a part of the Bank’s policy on Project Appraisal (OMS 2.20), and Gender and Development (OP 4.20) were excluded from the safeguards suite.

The existence of an umbrella policy for Environmental Assessment provided an open-ended mandate for engaging with borrowers and clients on the environmental agenda. By contrast, the restriction of social safeguards at the Bank to two prescriptive policies focused attention on these two effects but narrowed their relevance to a much smaller segment of the portfolio. Social risks subsequently addressed by IFC and MIGA have also not been integrated into the Bank’s safeguard policies.

**IFC and MIGA Performance Standards**

The role of policy innovator within the WBG has shifted from the Bank to IFC, whose Policy and Performance Standards on Social and Environmental Sustainability, approved in 2006, has since been emulated by others (see table 1.1).<sup>25</sup> The PPSSSES framework involves:<sup>26</sup>

- Clearer roles and responsibilities for IFC and MIGA and the client in project preparation and implementation

- Better balance in thematic coverage of environmental and social issues with the addition of new issues relevant to the private sector
- Complementing procedural compliance with accountability for environmental and social performance, but with gaps in verification and disclosure.

The PPSSSES is an integrated policy framework with an umbrella policy on environmental and social sustainability and relatively well-balanced treatment of environmental and social effects. IFC added Performance Standards on Labor and Working Conditions (Performance Standard 2), and Community Health, Safety, and Security (Performance Standard 4) to the two Performance Standards derived from the Bank’s social safeguards. IFC does not have Performance Standards on dam safety or on gender. However, the guidance notes for Performance Standard 1 describe a Gender Impact Assessment that should include measures to ensure that one gender is not disadvantaged relative to the other in the context of the project. Some IFC projects integrate gender impacts within their community impact study for Performance Standard 4, and the assessment of impacts on indigenous peoples can also be combined with the community impact assessment. The WBG revised its environmental, health, and safety (EHS) guidelines in the *Pollution Prevention and Abatement Handbook 1998* with a new set of industry-specific EHS guidelines, and EHS general guidelines (April 2007). IFC has used applicable EHS guidelines, earlier safeguard policies, and present Performance Standards, together with project-specific environmental and social requirements and Environmental and Social Action Plans, as covenants in its investment projects.

IFC’s PPSSSES have been emulated by other financing organizations. MIGA adopted the PPSSSES in 2007, and in a somewhat modified form the European Bank for Reconstruction and Development adopted a similar policy in 2008. Over 60 private sector banks have voluntarily adopted a set of Equator Principles, which now include the Performance Standards approach, as

a framework to address environmental and social issues in project finance. Both private sector lenders and clients thus appear to be buying into the Performance Standards approach, although the short time since their introduction has prevented robust evaluation of outcomes and impacts. Global evidence also suggests that voluntary adoption of safeguards by private sector clients is often inadequate for mitigating social risks. It is, however, feasible to compare the relevance of the Performance Standards to that of the safeguard policies.

## Roles and Responsibilities

### World Bank

Since 1999 the Quality Assurance and Compliance Unit (QACU) and the Environmental and International Law Unit of the Legal Department have provided central guidance on all matters relating to safeguards. All investment lending operations follow a set of regular safeguard procedures throughout the project life cycle.<sup>27</sup> (See appendix A for details of each safeguard.)

In 2006 the Bank consolidated two key networks—the Environmentally and Socially Sustainable Development (ESSD) Network and the Infrastructure Network—into the Sustainable Development Network under one vice president, bringing the environmental and social staffs and their internal clients from the infrastructure and agricultural sectors under one umbrella. At the time of that merger, QACU and its counterparts—the Regional Safeguards Advisors—in the Regions were transferred from ESSD to the Operations Services group, to ensure that project clearances were not unduly influenced by being housed within the same Network, to offset the perception of conflict of interest.

Bank safeguards specialists provide guidance to task teams on applicability of safeguard policies, on the assessments and consultations to be undertaken and mitigation plans prepared by the client, and on the appraisal and disclosure requirements to be met prior to project approval.<sup>28</sup> The Regional Safeguard Advisor retains oversight responsibility for all category-A projects and category-B and -FI projects with potentially high

reputational and social safeguard risks. However, responsibility for project processing and supervision of lower-risk projects is delegated to the appropriate sector management unit.

Project *implementation* is the responsibility of the borrower, while the Bank is responsible for *supervision*. Requirements vary depending on the number and nature of safeguards policies triggered by the project.

### International Finance Corporation (IFC)

IFC's business model and project cycle are adapted to private sector clients and differ from those of the Bank. After IFC's business development officers have identified an investment opportunity, an investment officer prepares a project description in the Project Data Sheet—Early Review<sup>29</sup> for IFC senior management authorization of project appraisal, if warranted. The investment team (which includes an environmental and social specialist), during the appraisal (or due diligence) phase, assesses in detail the business potential and risks, including environmental risks, and determines the final categorization and action plans needed to comply with IFC's detailed environmental and social, disclosure, and consultation requirements.<sup>30</sup> With the client's approval, the Environmental and Social Review Summary (ESRS) and the Environmental and Social Action Plans are posted on the IFC website before being submitted for Board approval.<sup>31</sup> After adoption of the Performance Standards in 2006, IFC developed an internal online Environmental and Social Review Document (ESRD) system to identify, rate, and monitor performance indicators. As with Bank projects, *project implementation* is the client's responsibility, while IFC is responsible for *supervision*.

The building blocks of IFC's new sustainability framework consist of IFC's 2006 PPSSSES, the Guidance Notes and Policy on Disclosure of Information, and the newly revised EHS Guidelines, and Environmental and Social Review Procedure (ESRP). Implementation success depends equally on relevance and coverage of the sustainability framework,

proper IFC staffing, capacity, and resources, as well as client commitment, skills, and capacity, and available funds for environmental and social investments. Real sector clients of category-A and -B projects are obligated to provide an Annual Monitoring Report (AMR), and FI clients an Annual Environmental Performance Report. The environmental and social specialist reviews the annual report and prepares a formal Review Report, which provides information on data quality, compliance status, feedback to the client, and the Environmental and Social Risk Rating.<sup>32</sup> IEG has evaluated IFC project's Environmental and Social Effects since 1996 as a part of the validation of the XPSRs prepared by the project teams.<sup>33</sup>

### **Multilateral Investment Guarantee Agency (MIGA)**

MIGA's mandate, since it was established in 1988, has been to encourage the flow of private investment to WBG clients by offering political risk guarantees. MIGA policy requires all projects it supports to comply with applicable MIGA environmental policies and guidelines. Its work with clients focuses on environmental assessment and monitoring of project compliance with environmental and social guidelines and safeguards. MIGA followed applicable Bank policies and used IFC staff for the environmental and social review of its operations during much of the 1990s but established its own environmental office in 1998. Since then, the role and composition of MIGA's environmental and social unit has evolved and expanded to include two social specialists. MIGA's Environmental Assessment and Disclosure Policies were approved by the Board in 1999, and its issue-specific safeguard policies were approved on an interim basis in 2002. Following IFC, MIGA adopted the PPSSES in October 2007.

In tandem with new PPSSES, MIGA proposed and adopted four related initiatives:<sup>34</sup>

- **Preparation and disclosure of ESRS** for all category-A and -B projects, together with a summary of proposed guarantee similar to the IFC process. Previously, MIGA had only

disclosed the Environmental and Social Impact Assessment (ESIA) for category-A projects, which would continue to be disclosed.

- **Examination of social and environmental management systems of financial intermediaries** to verify that the FIS' systems are sound and appropriate for the specific cases, given the nature of their business. This includes an examination of the SEMS of the parent banks and of how it is applied to their subsidiaries, including an initial assessment of local capacity and social and environmental risks in the portfolio.
- **Technical assistance to clients to meet the Performance Standards.** MIGA has, in the past, not been able to provide technical expertise or financial support to its clients to help ensure that they meet its environmental and social standards. This changed in a limited way with the establishment of the Trust Fund to Address Environmental and Social Challenges in MIGA-guaranteed projects in Africa. With the support of the government of Japan, this initiative launched a three-year test of whether such technical assistance can be provided and will be helpful, in the context of an insurance provider rather than a lender or equity investor.
- **Local Community Development Effectiveness Reporting.** This initiative was designed to address concerns about the possible impact of certain projects on the local community, in particular when these impacts might be negative. MIGA therefore proposed that it would regularly report on the local community impacts of a small number of projects where such impacts may be significant.

### **Portfolio Trends**

The safeguards and sustainability policies were originally conceived for investment projects. They are more difficult to apply to other forms of lending, including programmatic lending, sectorwide lending, and decentralized projects at the World Bank; trade finance and equity investments at IFC; and financial sector lending at MIGA. All three portfolios appear to be growing in precisely those segments where these policies face their greatest challenges.

### Portfolio trends at the World Bank

The proportion of projects classified as category B increased by a third, while those classified as category C decreased by half during the period reviewed, reflecting greater caution during project preparation. At the World Bank a total of 2,495 lending operations were approved during fiscal 1999–2008, of which 1,133 (45 percent) had been completed; the rest were still active. The distribution of projects by safeguard category is depicted in figure 1.2. Over the 10-year period, 9 percent of the universe was classified as category A (very high impact), 44 percent as category B (substantial impact), 29 percent as category C (low impact), and 4 percent as category FI, but the distribution has changed substantially over time. During the review period, the proportion of category A increased from 5 to 11 percent, with the increase in the volume and scale of infrastructure lending. Category B increased from 37 to 51 percent, while category C dropped from 40 to 18 percent. IEG was unable to detect any substantial change in the portfolio to explain the substantial increase in category-B projects.

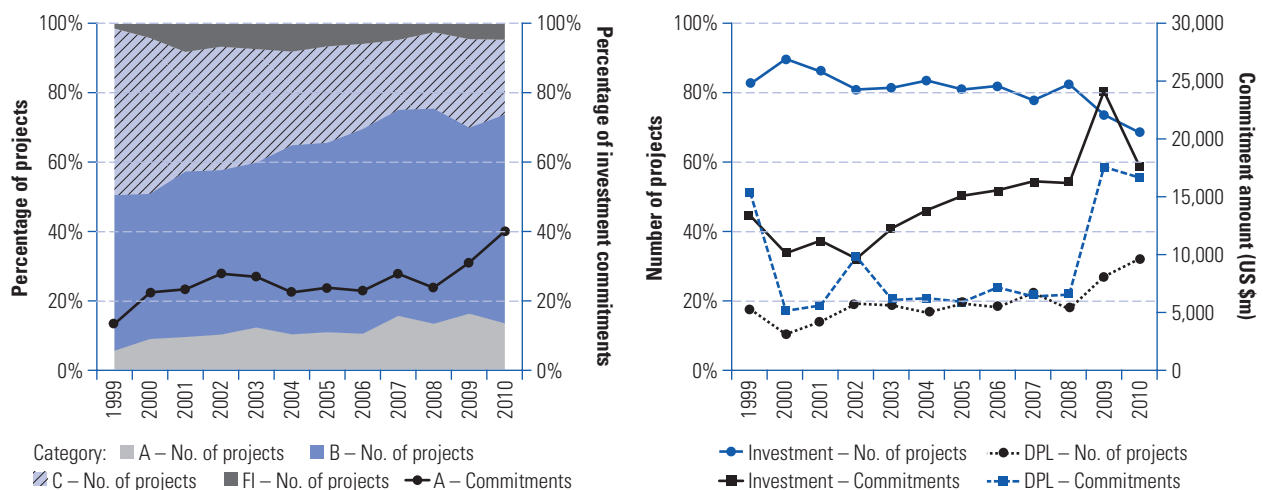
Variations in environmental and social risk within the portfolio are affected by the nature of project lending. Among the regions, East Asia and Pacific (EAP) has the highest proportion (23 percent) of category-A projects, driven by infrastructure projects, while Latin America and the Caribbean (LCR) has the lowest (4 percent). Europe and Central Asia (ECA) relies the most (13 percent) on FI lending and has relatively fewer category-A and -B projects. The proportion of category-A projects increases with lending size while category-C projects are most prevalent among smaller projects. FI projects are evenly distributed across different loan sizes.

*The proportion of Bank projects classified as category B increased by a third while category C decreased by half, reflecting greater caution during project preparation.*

### Portfolio trends at IFC

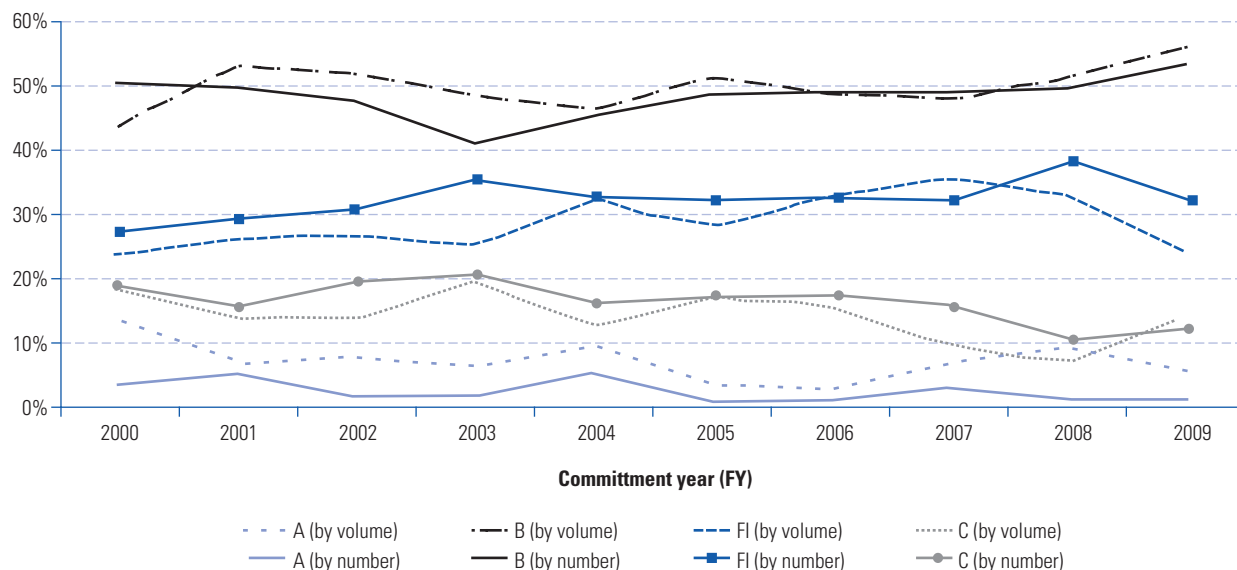
Trends in IFC's portfolio are depicted in figure 1.3. The share of category-A projects in numbers has declined since introduction of the PPSSes but remains at the same level as earlier in commitment amount. Financial intermediary projects are about 32 percent by number of projects and slightly less by commitment amount.

**Figure 1.2: Bank Lending by Safeguard Category, Number, and Commitment (FY1999–2010)**



Source: World Bank database (as of April 12, 2010).



**Figure 1.3: Trends in IFC's Portfolio**

Source: IFC database.

In the past decade, IFC's business has shifted away from project finance toward financial intermediary, corporate, equity, and trade finance projects. Though IFC's environmental procedures were created for a project finance institution, by fiscal 2006 only 28 percent of IFC business was in project finance. With IFC's move to wider portfolio risk management, the environmental and social risks have extended beyond the project's area of influence to the client's business and environmental management as a whole. This development makes it all the more imperative to develop the client's social and environmental management system, and ensure adequacy of its implementation.

IFC's corporate or equity investments in companies with several production facilities and various activities pose a substantial challenge for environmental and social appraisal, supervision, and evaluation. In corporate finance, use of proceeds is not limited to specific assets, but are intended for corporate activities (restructuring, long-term strategic support, corporatewide invest-

ment) as well as IFC's subscription for shares in a company. IFC's leverage from a minority equity investment in a company that includes a wide range of operations is more restricted compared with traditional project finance, but the scope of IFC's environmental and social review is limited to the countries or facilities where IFC financing is directed. IEG interviews with 21 managers and local environmental and social specialists revealed that IFC staff regard the Performance Standard framework as fully feasible for project finance and corporate loans with identified use of proceeds, but much less feasible for trade finance and equity investments in listed companies, which are not obligated to report annually to individual shareholders without compromising the legal rights of other shareholders. This may be mitigated by the fact that large internationally listed companies often possess a sound social and environmental management system with good reporting practices and publicly available Corporate Sustainability Reports, which, if transparent and complete, may serve as an adequate reporting platform.



### Portfolio Trends at MIGA

MIGA's Convention and Operational Regulations, requiring MIGA to support projects that are consistent with host-country laws, regulations, and development objectives, provide the institutional basis for the agencies sustainability framework. Its policies and guidelines require that each project for which MIGA issues a guarantee is carried out in an environmentally responsible manner in accordance with its sustainability policy (PPSSES) and new policy on Disclosure of Information. Its sustainability framework also includes ensuring compliance with IFC's Environmental, Health, and Safety Guidelines and relevant IFC industry and sector guidelines.

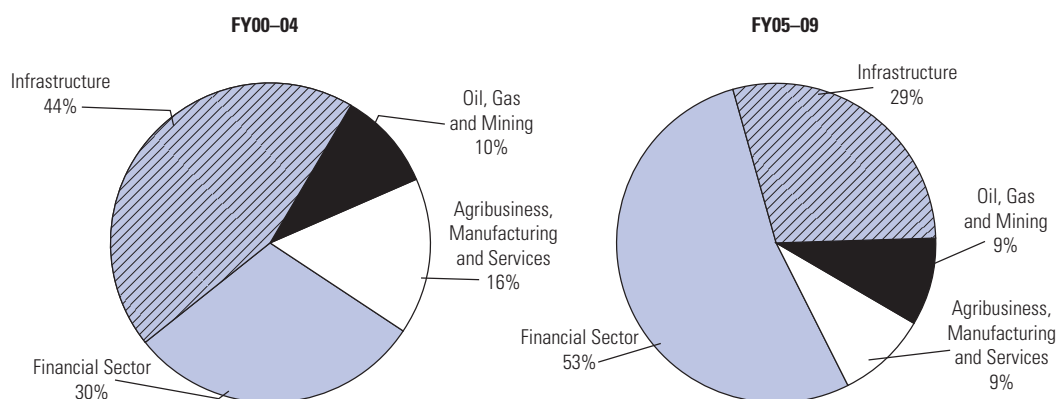
MIGA's portfolio composition has shifted over time: the share of guarantees for financial sector projects increased significantly during the past decade. The amount of MIGA guarantees issued averaged \$1.5 billion annually between fiscal 2000 and 2009, with considerable variation from year to year. The financial sector now represents the largest business segment in MIGA's portfolio. At the same time, the importance of the infrastructure and agribusiness, manufacturing, and services sectors has shrunk significantly (figure

1.4). In addition, MIGA has experienced a decline in the number of new projects supported each year, which decreased from 33 (fiscal 2005) to 20 (fiscal 2009). The increasing concentration on financial sector projects has implications for the implementation of MIGA's sustainability framework.

### Organization of the Report

The report is organized into six chapters. Chapter 1 provides the evaluation context, objectives, and rationale, an introduction to the safeguard and sustainability policies (see details in appendixes A and E), the scope of the evaluation, and an outline of the methodology (detailed in appendix B). Chapter 2 examines the effectiveness of the WBG in complying with policy requirements, including the quality of preparation and appraisal, supervision, and monitoring, and includes the IPN and CAO findings. For IFC and MIGA it also compares the findings for projects prepared before introduction of the PPSSES (pre-Performance Standards) with projects appraised since their introduction (post-Performance Standards). Chapter 3 evaluates environmental and social performance of the sample portfolio against the objectives mapped out in the respective assessments of relevant risks. The chapter assesses the quality of client implementa-

**Figure 1.4: Changes in MIGA's Portfolio Composition (share of MIGA guarantee volume issued per sector)**



Source: IFC database.

tion and the effectiveness of the safeguards and sustainability frameworks in mitigating adverse impacts, strengthening client capacity, and enhancing positive impacts to promote development effectiveness. Chapter 4 examines the robustness of the categorization system in use to classify projects by comparing results with those obtained from application of a risk model to the portfolio. The risk model is also used to estimate benefits, which are then compared with available data on costs to assess the efficiency of resource allocation by the Bank, IFC, and country clients. Chapter 5

draws on the findings from the previous chapters to reconsider the relevance of the safeguards and sustainability policies, summarizes the main findings on the Bank country systems pilots, and examines how the WBG can improve efficiency of safeguards policy frameworks and strengthen their benefits. It also compares the WBG safeguards frameworks with those of major IFIs and evaluates the Bank's experience with adoption of country systems for safeguard policies. Chapter 6 summarizes the conclusions and puts forward recommendations for the WBG.

# Chapter 2

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## Evaluation Essentials

- The World Bank Group (WBG) gives much better attention to safeguards and Performance Standards in project preparation and appraisal than during supervision.
- The criteria for categorization of projects based on environmental and social risks differs across the WBG, with IFC and MIGA using a different approach than the Bank.
- Several high-risk, category B cases in IFC would have likely been categorized as category A projects using the Bank's screening system.
- Bank supervision varies considerably by region, particularly between high and low performers.
- Performance indicators for safeguards are rarely specified and integrated in the results framework, and data for monitoring and evaluation are not routinely collected or used by the Bank and MIGA.
- IFC has improved monitoring with explicit client responsibility for annual monitoring using specified performance indicators.
- IFC supervision quality is affected by the timeliness and quality of Annual Monitoring Reports prepared by clients.



Construction workers excavating a canal-bed beneath a Hanoi bridge. Photo by Tran Thi Hoa, courtesy of the World Bank Photo Library.

# Process Implementation by the World Bank Group

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## Introduction

This chapter examines the quality of preparation and appraisal, supervision, and monitoring of safeguards and Performance Standards in WBG-financed operations. The specific questions evaluated are:

- How effective was WBG due diligence during project preparation and appraisal, and quality of WBG supervision, monitoring and evaluation?
- Has the introduction of the Policy and Performance Standards led to improved environmental and social appraisal and supervision at IFC/MIGA compared with their previous approach?

The data for the assessment come from portfolio reviews of a sample of category-A, -B, and -FI projects approved during fiscal 1999–2008 by the Bank, IFC, and MIGA. Portfolio review results<sup>1</sup> were triangulated with data from other instruments, including surveys of all task team leaders at the Bank and investment officers at IFC, and environmental and social staff at both organizations,<sup>2</sup> client surveys for Bank and IFC projects, interviews with managers,<sup>3</sup> a survey of NGOs,<sup>4</sup> and focus group discussions with environmental and social specialists at the Bank, IFC, and MIGA. The analysis also includes information obtained from papers commissioned for the study on social safeguards and Performance Standards at the Bank and IFC and

on lessons from the IPN and CAO on process implementation.

The findings from multiple sources of data indicate much better attention to safeguards and Performance Standards in project preparation and appraisal than during supervision. This is partly a function of the front-loaded nature of the policy frameworks, which have more detailed instructions and explicit standards for compliance during project preparation than during supervision. As a result, Bank and MIGA management earmarks funds for safeguards work with designated teams of specialists to ensure compliance during project preparation but not during supervision. Deficiencies in supervision are more acute in the Bank and MIGA but are also found in IFC.

## Evaluation of Process Implementation: World Bank

### *Preparation and appraisal*

The aggregate quality of due diligence during preparation and appraisal was found to be 85 percent satisfactory (table 2.1). The evaluation of environmental and social due diligence covers the safeguard identification and screening process based on significance of environmental and social risks, the quality of due diligence evident from appraisal documentation, and compliance with disclosure and consultation requirements. Screening for environmental and social risks is followed by

preparation of environmental assessments (EA) and assessments of social risks arising from involuntary resettlement or impacts on indigenous peoples. Projects with significant environmental and social risks are expected to consult with relevant stakeholders and disclose the assessments and action plans before project approval. Performance under each of the three elements—screening, risk assessment, and consultation—was better than 90 percent, but

*The aggregate quality of due diligence during preparation and appraisal was found to be 85 percent satisfactory.*

15 percent of projects had deficiencies in one or more of these elements, and relevant environmental or social expertise was lacking in 11 percent of projects during preparation (see annex 1, table X1.2).

#### Identification and screening

IEG found identification and screening for environmental and social risks fully satisfactory in 87 percent of the projects reviewed. Twenty-four percent of the sample had been classified as category A, 70 percent as category B, and 6 percent as category FI. Screening determines the scope and depth of environmental assessment and/or the social assess-

ments<sup>5</sup> to be undertaken by the client during project preparation. Category-A projects with high environmental risks require preparation of an Environmental Impact Assessment (EIA) and an Environmental Management Plan (EMP). Category-A projects with high social risks require the preparation of a Resettlement Action Plan (RAP) or an Indigenous Peoples Plan (IPP), as appropriate. Assessments for category-B projects with limited, site-specific environmental and social risks that can be addressed more easily can have a narrower scope. For projects with multiple subprojects and limited impacts, where the exact nature of impact is not known at appraisal, projects can also prepare a Resettlement Policy Framework or an Indigenous Peoples Framework that spells out the requirements and procedures for the client to follow during implementation, when subprojects are identified. Although not reflected in the environmental policy, in practice projects under similar circumstances also prepare Environmental Management Frameworks (EMF) or Environmental and Social Management Frameworks (ESMF).<sup>6</sup> FI projects also normally require preparation of similar policy frameworks, which

**Table 2.1: Safeguards Preparation and Appraisal in Bank Projects (percent satisfactory)**

Region	Identification and screening		Environmental and social impact assessment at appraisal		Disclosure and consultation		Overall preparation and appraisal	
	# Rated	% Satisfactory	# Rated	% Satisfactory	# Rated	% Satisfactory	# Rated	% Satisfactory
Africa	60	85	58	86	57	91	60	78
East Asia & Pacific	49	92	48	96	46	100	49	94
Europe & Central Asia	49	82	47	87	45	93	49	84
Latin Amer. & Caribbean	44	82	41	78	34	91	44	75
Middle East & N. Africa	19	89	19	100	15	87	19	89
South Asia	31	100	31	100	30	93	31	94
<b>TOTAL</b>	<b>252</b>	<b>87</b>	<b>244</b>	<b>90</b>	<b>227</b>	<b>93</b>	<b>252</b>	<b>85</b>

Note: "Satisfactory" refers to portfolio review ratings of satisfactory (S) or excellent (E) on a four-point scale by IEG reviewers.



have to be endorsed by the client before project approval.

The portfolio review confirmed a tendency of risk avoidance through overcategorization, which seemed to be emerging from the analysis of categorization in the entire fiscal 1999–2008 universe (table 2.2). The proportion of category-B projects increased steadily by a third, while category C dropped to less than half its fiscal 1999 figure in the same interval. When assessed against current norms, 15 projects were found by IEG to be overcategorized, having overestimated the safeguards category—11 from C to B and 4 from B to A. One project in Africa had underestimated a category-A project as B. Projects miscategorized as A had relatively limited, site-specific impacts that were not sensitive or irreversible, or no impacts in this phase of the project. Overcategorization results in additional preparation costs to the Bank and clients. Five other projects had contradictions between policies triggered at appraisal and those reported on subsequently in the Implementation Status and Results reports (ISRs), indicating improper, often overly cautious triggering of safeguard policies when impacts were not known.

A tendency toward overcategorization in the Bank was also identified by IEG’s staff survey. Eleven percent of task team leaders and 8 percent of safeguards specialists reported that their projects were misclassified, mostly but not

exclusively due to overcategorization. In part, the increase in category B is due to additional guidance issued by QACU on classification of technical assistance and land administration projects, based on the realization that some technical assistance projects had supported project preparation activities, and some land administration projects were leading to changes in land use with potential environmental impacts. However, there is a fairly widespread perception among task team leaders that the upward classification is driven by risk aversion rather than an empirical assessment of environmental and social risks. Among the B projects with category deficiencies, task team leaders felt that 15 percent should have been category A, while 77 percent should have been category C, because they had no, or low, environmental and social impact.

The review also found some lack of clarity in use of the FI category. Five projects were affected by this—4 out of 16 projects in category FI were not being administered by financial intermediaries and should have been classified as category-B projects, while 1 project that was reported as category B was in fact being administered by a financial intermediary and should have been category FI.

### ***Quality of environmental and social impact assessment at appraisal***

The evaluation found the quality of EA/EMPs and RAP/Social Assessments satisfactory in over

***The portfolio review confirmed a tendency of risk avoidance through overcategorization.***

**Table 2.2: Safeguards Category by Approval Year (percentage of projects)**

Category	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	Average
A	5	8	8	8	10	9	9	9	12	11	9
B	38	38	42	39	40	47	45	48	46	51	44
C	45	43	33	33	30	29	26	21	16	19	29
F	1	4	7	6	6	7	5	5	4	2	4
U	11	7	9	14	14	9	15	18	22	18	14
<b>All projects</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Note: Category U includes projects uncategorized for safeguards category.

90 percent of the projects reviewed. Of the 24 projects found deficient in environmental due diligence, EA/EMPs could not be located for 5; the EAs for 8 were generic, with insufficient assessment of the risks relevant to the project; 5 were health or education projects lacking specific measures for medical waste management or sanitation; 3 lacked clarity on mitigation actions leading to weak client implementation; and 2 had details not needed by the project.

*The quality of EA/EMPs and RAP/Social Assessments was satisfactory in over 90 percent of the projects reviewed.*

Of the 10 projects found deficient in RAP/SA preparation, 6 should have prepared detailed plans instead of policy frameworks before appraisal since the alignments were known and microimpacts of these infrastructure projects could have been assessed,

while the other 4 had weak RAPs that did not fully identify the social impacts arising from involuntary resettlement (box 2.1).

**Consultation and disclosure**

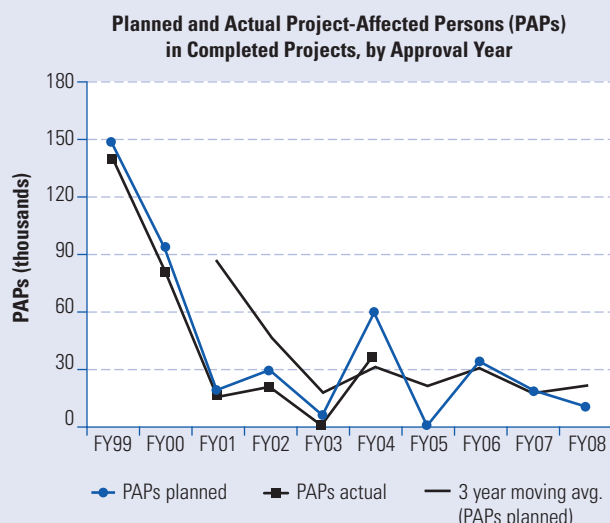
Overall, 93 percent of the projects had adequate consultation and disclosure. Deficiencies were largely related to timeliness of disclosure and availability of the EAs or RAPs in the Bank’s public document database. The major deficiency was the absence or inadequacy of any description of consultations conducted during project preparation, or missing EAs and Integrated Safeguards Data Sheet in the the Bank’s internal document database. Task teams are obliged to ensure that project documentation is in the public information domain and

**Box 2.1: Magnitude of Involuntary Resettlement in Bank Operations**

IEG was unable to obtain the magnitude of project-induced involuntary resettlement in the portfolio from Bank sources and made a special effort to estimate this magnitude from the review sample. Half of the sample triggered involuntary resettlement. The total number of project-affected persons in the sample was 418,049, of which 41 percent were physically displaced; the rest faced impacts on livelihoods. Excluding fiscal 1999 as an outlier (which had 148,263 new project-affected persons), the magnitude of resettlement in each approval year averaged 29,976 new project-affected persons per year within the portfolio sample. The sample is 18 percent of the universe of projects affected by safeguards. Extrapolating to the universe this gives an average of 166,535 new project-affected persons per year. With an average project life of 6–7 years, the total number of persons subjected to involuntary resettlement in the Bank’s active portfolio falls within the range 999,207–1,165,742. IEG estimates that at any given point in time over 1 million people, two-fifths of them likely to be physically displaced, are affected by involuntary resettlement in active Bank-financed projects. This is half of the 2 million estimated in 1994, when hydropower dams constituted a much larger share of the Bank’s portfolio.

Compared with the 339,519 project-affected persons identified in RAPs of 20 completed projects, the Implementation Comple-

tion Reports showed 298,415 were actually affected (88 percent of the original estimate), indicating that during implementation it is possible to reduce impacts. Nonetheless, the resettlement impact of Bank-financed activities is nontrivial and merits careful monitoring to ensure that it does not lead to impoverishment of affected persons.



Note: Actual numbers of project-affected persons are not available for recent years.

Source: IEG portfolio review.

a. Michael Cernea undertook a review of resettlement in the 1990s and estimated that “Projects currently in the Bank’s active portfolio are expected to involve the resettlement of 2 million people over an eight-year period.” World Bank 1994.

accessible to all to ensure that stakeholder feedback is based on adequate access to project information. Documents that cannot even be retrieved inside the Bank cannot be expected to be accessible to in-country stakeholders.

Of the 122 projects that triggered involuntary resettlement, 94 percent were found to have adequate consultation and disclosure. Deficiencies were noted in 7 projects, only 2 of which involved insufficient disclosure of documents or resettlement entitlements to people affected by the project. Two projects were due to resettlement needs identified during implementation whose documents had not yet been placed in the public domain, and 3 were projects whose resettlement documentation had not been filed in the Bank's internal or external document databases.

The lack of access to information can needlessly generate suspicion and criticism about Bank operations. Meaningful stakeholder consultation, transparency, and timely disclosure of relevant project documentation in an easily accessible manner by interested parties are

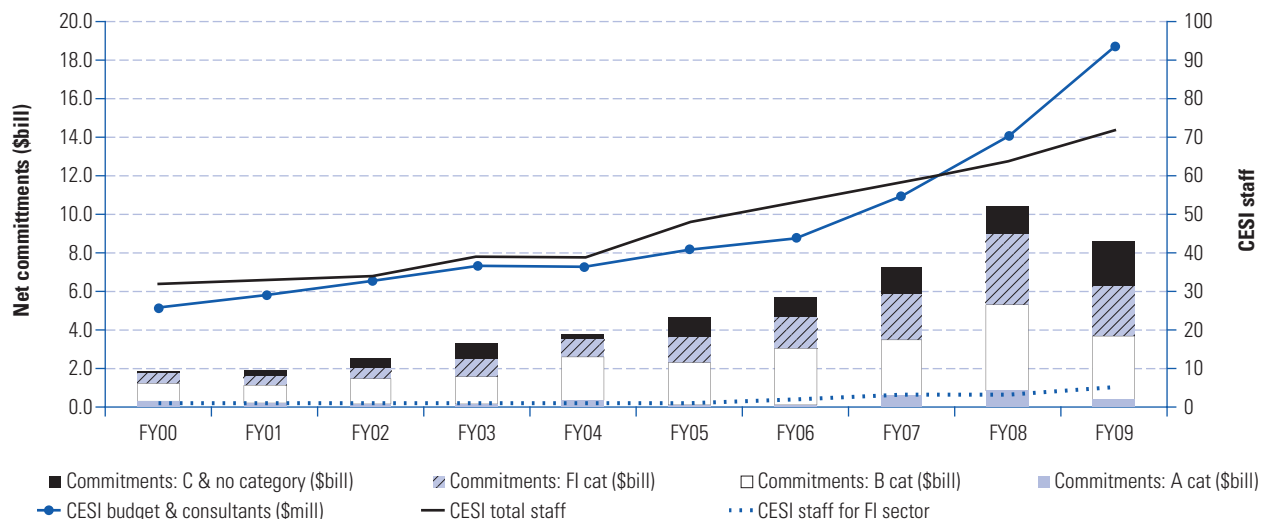
relatively low-cost investments to ensure country ownership for Bank operations. During the period reviewed, the East Asia and Pacific region was the most diligent in terms of disclosure and consultation regarding safeguard impacts.

*Of the 122 projects that triggered involuntary resettlement, 94 percent had adequate consultation and disclosure.*

**Evaluation of Process Implementation: IFC**

The staff and budget at IFC's Environmental and Social Investment Support Group (CESI) have increased as IFC commitments increased. Until recently there was only one full-time environmental and social specialist for FI projects, despite growing FI investments. In 2009 CESI had 50 environmental and social specialists, including 13 specialists for social appraisal and supervision, and 5 specialists devoted to FI projects, out of a total staff of 72. Trends of IFC net commitments (excluding dropped projects) by categories (A, B, FI, C) and the environmental and social budget and staff for real sector (non-FI) and FI sector projects' appraisal and supervision are shown in figure 2.1. The global financial crisis and increase of trade finance (mainly category-C projects) is

**Figure 2.1: IFC Net Commitments by Category and CESI Resources**



Source: IFC's MIS database and Environment and Social Department database.

clearly visible in fiscal 2008–09 figures in overall declining volume and increasing category-C volume.

### Quality of IFC appraisal

IEG found strong correlation between environmental and social appraisal and supervision quality and the Environmental and Social Effects (ESE) indicator.<sup>7</sup> The ESE rating is based on the project’s environmental performance in meeting IFC’s requirements as well as the project’s environmental impacts. Out of nearly 300 evaluated XPSRs, a high rating (excellent and satisfactory) for environmental and social appraisal quality resulted in high ESE ratings in 65 percent of the projects. For environmental and social supervision, this resulted in high ESE ratings in 58 percent of projects (table 2.3).

The overall quality of IFC’s work at preparation and appraisal has been high for both real sector and FI projects on all measures except disclosure and consultation, where IFC lacked information on a substantial proportion of

projects, and shows no difference between projects prepared before<sup>8</sup> and after the introduction of the Performance Standards (pre- and post-Performance Standard), despite increasing environmental and social requirements (table 2.4).

*Guidance on project categorization has been weak in both pre- and post-Performance Standard frameworks.*

### Identification and screening

Although most of the sampled projects (97 percent) were correctly categorized based on the significance of environmental and social impacts, IEG found that the guidance on project categorization has been weak in both pre- and post-Performance Standard frameworks, leading to different approaches between the Bank and IFC, and to incorrect categorization and reputational risks in some projects with supply chain risks. Project categorization affects the depth of environmental studies, public consultations, reporting, and frequency of supervision, and signals the urgency and associated environmental and social risks to the public. For example, EBRD<sup>9</sup> has clearer industry sector guidance for categorization. The share of category-A projects by number of projects has dropped by half, from 6.2 percent before the Performance Standards to 3.6 percent after. But by net commitment volume, the share has remained at 12 percent level after fiscal 2006, as the average size of category-A projects has increased more than that of B and FI projects (table 2.5, also see figure 1.3). Interviews and focus group discussions with IFC staff revealed selection bias and pressure from investment departments to prefer category B instead of category A in order to speed up appraisal and implementation.

Several high-risk, category-B cases would have likely been categorized as category-A projects using the Bank’s screening system. In the evaluation’s judgment, this difference affects 27 percent (10/37) of the category-B projects in the sample. In 5 cases that involved the construction of new infrastructure or greenfield facilities, the scale of the impacts would have led IBRD to classify them as category A. In six additional cases, the sensitive nature of the impacts—associated as they were with hazardous waste, indigenous peoples, natural habitats, or cultural resources—would have likely led IBRD to classify them as category A. Categorization, in principle, would be a major determinant of the eventual environmental and social outcomes. While the categorization of these projects appears to have been in compliance with IFC’s procedures, IBRD would

**Table 2.3: Correlation of Environmental and Social Appraisal and Supervision Ratings with ESE Ratings in IFC Projects**

n = 298 p = 0.005%			n = 293 p = 0.000%		
Environmental and social appraisal			Environmental and social supervision		
ESE	Low	High	ESE	Low	High
High	4%	65%	High	10%	58%
Low	7%	24%	Low	15%	17%

Source: IEG’s Environmental and Social Reviews for XPSR projects, appraised fiscal 1999–2004.

**Table 2.4: IFC's Quality at Preparation and Appraisal**

	Pre-Performance Standard		Post-Performance Standard	
	Number	Satisfactory	Number	Satisfactory
All projects	347	88%	35	89%
Real sector (non-FI) overall	208	90%	23	87%
Safeguards identification and screening	15	93%	24	92%
Environmental and social impact assessment and appraisal	15	80%	22	95%
Disclosure and consultation	14	57%	21	71%
FI sector overall	139	86%	12	92%

Source: Pre-Performance Standard; IEG's Environmental and Social Reviews fiscal 2004–09 (209 non-FI and 139 FI projects) and study portfolio (15 real sector projects). Post-Performance Standard; study portfolio of 24 real sector and 17 FI projects.

Note: The differences in pre- and post-Performance Standard ratings are not statistically significant.

likely have classified them otherwise, pointing to a lack of consistency of safeguards implementation across the WBG.

Due diligence for two trade finance projects with supply chains to agribusiness was found inadequate. Trade finance projects have grown rapidly and represented 23 percent of IFC commitments in fiscal 2009.<sup>10</sup> These projects are categorized as category C under the Performance Standard framework<sup>11</sup> and are only required to comply with the trade finance exclusion list.<sup>12</sup> A complaint was filed by NGOs, smallholders, and indigenous people's organizations in 2007 against two IFC agribusiness commodity projects in Southeast Asia, which had been labeled category C because the projects were defined as trading facilities in spite of direct supply chains to client-owned agribusiness operations. After examining the complaint, the CAO concluded that commercial pressures dominated IFC's assessment process. Environmental and social due diligence reviews did not occur as required, and IFC did not meet the intent or requirements of its policy for assessment of trade facility investments and each project's supply chain. IFC management accepted CAO findings on project categorization, strategic sector framework, and supply chain due diligence, and the president

issued a statement that the WBG would not make public investments in this specific commodity sector until a common approach in the industry sector was established. IFC is currently developing a new approach to address supply chain and biodiversity issues in similar agribusiness commodity projects.

The appraisal process has been systematized in the post-Performance Standard framework with the improved ESRD and a

*Several high-risk, category-B cases (in IFC) would have likely been categorized as category A using the Bank's screening system.*

*Due diligence for trade finance projects with supply chains to agribusiness was found inadequate.*

**Table 2.5: Average Project Size at IFC by Category**

Category	\$ million/project		
	2000–05	2006–09	Increase %
A	34.7	105.4	204%
B	17.9	29.4	64%
FI	13.9	32.3	132%
<b>Total</b>	<b>17.1</b>	<b>32.2</b>	<b>89%</b>

Source: IFC database.



*The quality of due diligence on social safeguards and Performance Standards during appraisal in IFC-supported projects has generally been satisfactory.*

structured approach to monitoring performance indicators, as earlier recommended by IEG. Still, some important and sensitive environmental and social aspects, such as environmental legacies or social liabilities, have been occasionally overlooked due to reliance on client reporting. Although overall appraisal quality is similar in pre-Performance Standard projects (table 2.4), the evaluation found that IFC's ESIA was satisfactory in the majority of real sector projects in both the pre- and post-Performance Standard random sample for which an evaluative opinion was possible. While in most cases, IFC found gaps between the client's initial environmental management provisions, national requirements, and IFC's Performance Standards, these had been usually appropriately identified in the Corrective Action Plans or Environmental and Social Action Plans that the client agreed to undertake as a condition of IFC support.

EHS guidelines and indicators have not been adequately integrated with ESRD's section on Performance Standard 3 (Pollution Abatement and Control), and the annual monitoring templates for the client lack production-specific indicators. The introduction of Performance Standard 3 and guidance on emission control and industry best practices in the updates of EHS guidelines have the

*IFC due diligence was satisfactory in half of the category-B projects that the World Bank would have categorized as A.*

potential to improve environmental appraisal in projects for processing and manufacturing industries, which form the majority of IFC's real sector investments. But the online ESRD system lacks performance indicators for industrial pollution control, and the AMR templates given to clients at appraisal for future annual reporting do not include important production-specific indicators<sup>13</sup> on air emissions, effluent discharges, water and energy conservation, and waste management. The AMR templates are not well tailored to the project; they should focus on

essential outcome indicators that both IFC and the client can benchmark against IFC requirements and industry best practices. Global issues received better attention in the 2006 Performance Standard framework, but recycling and energy efficiency are not fully mainstreamed.

The quality of due diligence on social safeguards and Performance Standards during appraisal in IFC-supported projects has generally been satisfactory. There has been a learning curve in IFC's appraisal of the new requirements on Labor and Working Conditions (Performance Standard 2) and Community Health, Safety, and Security (Performance Standard 4), particularly for environmental specialists, which constitute four-fifths of CESI staff (the rest are social specialists). Social due diligence was especially strong in category-A projects that IEG visited for this evaluation; IEG found that labor procedures conformed with relevant requirements of Performance Standard 2, including establishing, maintaining, and improving employee-management relations; formation of workers' organizations if desired by employees; promoting fair treatment, nondiscrimination, and equal opportunities for workers; and ensuring compliance with national labor and employment laws. However, there is a need to strengthen the templates given to the clients at appraisal for annual monitoring by including essential outcome indicators on health and safety.<sup>14</sup>

Due diligence was also high on involuntary resettlement (Performance Standard 5), indigenous peoples (Performance Standard 7), and cultural property (Performance Standard 8), which occur less frequently in IFC's portfolio. Regarding land acquisition and involuntary resettlement, 92 percent of the 12 projects in the random sample for which an opinion was possible were rated satisfactory in terms of the identification of people to be displaced by the project and those eligible for compensation and assistance through a baseline census with appropriate socioeconomic data. The single unsatisfactory project was due to the absence of a Resettlement Action Plan.

*Clearer definition is needed on the environmental and social review process and environmental and social monitoring system requirements for financial intermediaries.*



The quality of due diligence was rated as satisfactory for the two category-A15 projects in the sample, but only for half (3/6) of the category-B projects that the IBRD would have categorized as A on the basis of the sensitive nature of their impacts. Where IFC's due diligence was evaluated as partly unsatisfactory, the shortcomings relate to the inadequate coverage of risks associated with the projects.

Clearer definition is needed on the environmental and social review process and ESMS requirements for FIs. IEG had earlier found performance gaps, especially in FI projects appraised before the 2006 framework.<sup>16</sup> Previously, for projects that received IFC corporate finance without direct IFC-financed subprojects, IFC focused on the process of environmental and social management in the institution rather than on specific subprojects. Under the post-Performance Standard framework (ESRP 2009), where the portfolio review indicates that the FI's investments could have potentially significant environmental and social impact,<sup>17</sup> the FI is obligated to ensure that its subprojects meet the relevant elements of the Performance Standard in addition to applicable national environmental and social laws and regulations and exclusion lists.

Thirty-three percent of 231 post-Performance Standard FI projects were requested to apply Performance Standard requirements for their subprojects. In comparison, of 139 past XPSR projects validated by IEG, 46 percent were requested to apply Safeguard Policies and 29 percent EHS guidelines. The level of these strict environmental and social requirements therefore remained about the same after introduction of Performance Standards. Based on IEG evaluation of 42 post-Performance Standard projects, IFC's decision to apply Performance Standards for subprojects has broadly followed the rules set forth in the ERSP 2006–09, but these rules leave much room for interpretation.

Documentation on public disclosure and consultation emerged as one of the weaker areas in IFC's due diligence. IEG found that information was available on local disclosure in only 61

percent (24/39) of the real sector projects in the random sample. For the remaining 39 percent, either the only disclosure documented was in the WBG's external document database (InfoShop) or no information on disclosure was found in the project documents.

## Evaluation of Process Implementation: MIGA

### *Preparation and appraisal*

**Identification and screening.** The *Documentation on public disclosure and consultation in IFC projects is relatively weak.* The evaluation of MIGA's environmental and social screening and review process focused on the classification of projects, the quality of the ESIA, and the extent of public consultation. The first step is the classification of projects based on the significance of their expected environmental and social impacts. In the evaluated sample, 11 percent (4/35) of the projects had been classified as category A, 60 percent (21/35) as category B, 14 percent (5/35) as category C, and 14 percent (5/35) as category FI.

A major finding of the portfolio review is that the MIGA/IFC and World Bank approaches to project classification differ from each other. In the evaluators' judgment, this difference affects the classification of 17 percent (6/35) of the projects in the MIGA sample and has various origins. For two category-B projects that involved the construction of major new facilities, the magnitude of the impacts would have led IBRD to classify them as category A. This was also the judgment of the EBRD, which cofinanced one of these projects. In three additional category-B projects, the Bank would have classified them as category A, based on the sensitive nature of the impacts, that is, the fact that they raised issues associated with natural habitats, cultural resources, transboundary waters, retrenchment, or tropical forests. In addition, the single pre-PPSSES financial intermediary project in the sample had been classified as a C, in line with MIGA's 1999 Environmental Assessment Policy,<sup>18</sup> but would have been put in the FI category by the Bank. Overall, since only one of the six cases can be attributed to a

*The MIGA/IFC and World Bank approaches to project classification differ from each other.*

*The preparation and appraisal under Performance Standards has improved compared with projects prepared under safeguards policies.*

specific difference in the language of the respective environmental assessment policies, these findings point to a lack of consistency in safeguards implementation across the WBG.

**Quality of environmental and social impact assessment at appraisal.** The preparation and appraisal under Performance Standards has improved compared with projects prepared under safeguards policies (table 2.6). Improvements were found in the appraisal of projects' SEMS, including for FI projects that were previously categorized by MIGA as category C. MIGA also improved in the appraisal of labor and working conditions, following the introduction of the PPSES. Additionally, the Japan-MIGA Trust Fund offered technical assistance to help clients in Africa enhance SEMS.

Across the entire sample, the evaluation found that the quality of the ESIA's has been satisfactory

*The 24 percent of category-B projects that received environmental clearance with unsatisfactory EIAs are of concern.*

for category A, but only partially so for category-B projects both in regard to environmental and social aspects. All four category-A projects in the sample submitted satisfactory ESIA's. Of the category-B projects, 38 percent (8/21) submitted satisfactory EIAs or similar

documents, 38 percent (8/21) did not submit any ESIA, for which an adequate explanation was provided in MIGA's clearance memorandum, and 24 percent (5/21) provided unsatisfactory ESIA's (all of which were from the pre-2007 sample). MIGA's sustainability screening relies primarily on documents and information submitted by the clients, which in turn reflect their corporate procedures and largely respond to the host countries' own requirements. The limited extent to which full ESIA's were required is consistent with the language of Performance Standard 1 that "depending on the type of project and the nature and magnitude of its risks and impacts, the Assessment may comprise a... straight-forward application of environmental siting, pollution standards, design criteria, or construction standards."

The 24 percent of category-B projects that received environmental clearance with unsatisfactory EIAs are of concern. These shortcomings refer to sampled projects underwritten subject to the pre-2007 safeguards system. Three of the cases involve agro-industrial projects for which the submitted EIAs only cover existing plants, with no information on the new facilities as well as the impacts of manifold expansion in crop production supported by the project. In

**Table 2.6: IEG Assessment of Process Implementation in MIGA Guarantees**

Overall results	Identification and screening	Environmental and social appraisal	Disclosure and consultation	Preparation and appraisal	Client implementation	Quality of MIGA monitoring
Number of projects	35	25	22	35	10	8
Satisfactory (%)	88.6	60	81.8	71.4	40	62.5
<b>Projects approved under safeguards</b>						
Number of projects	21	19	17	21	9	7
Satisfactory (%)	81	47.4	76.5	52.4	33.3	57.1
<b>Projects approved under performance standards</b>						
Number of projects	14	6	5	14	1	1
Satisfactory (%)	100	100	100	100	N/A	N/A

Source: IEG.

Note: Interpretation of results for indicators with small sample size should be treated with caution.

another case, a preliminary EIA was submitted, which a subsequent audit found to be inadequate. In a further case, involving a solid waste treatment plant, while a due diligence mission had determined that the plant's SEMS appeared to be satisfactory, no EIA had been submitted for verification and to serve as a basis for future monitoring and evaluation—an important omission in light of the significance of the potential impacts.

**Consultation and disclosure.** Public consultation emerged as one of the weaker areas in MIGA's environmental and social assessment process. This appears to be because MIGA's 1999 EA policy, which applied until 2007, only required the sponsors of category-A projects to consult project-affected groups and local NGOs. There was improvement among post-2007 projects. While all four of the category-A projects in the sample had undertaken at least some minimal consultation with project-affected groups, only 24 percent (5/21) of category-B projects involved any form of public consultation. Two of these were projects that the Bank would have classified as category A, for which consultations were required and/or sponsored by other financiers. The remaining 76 percent (16/21) of category B did not undertake a formal public consultation process and missed out on the important opportunity to consult with affected communities on the projects' environmental and social aspects that could potentially affect them.

**Findings on MIGA preparation and appraisal.** Overall, the implementation of MIGA's environmental and social screening and appraisal has been only partially satisfactory. The portfolio review found that about 17 percent of the environmental assessments and most of the social assessments (relating mostly to projects underwritten by MIGA before 2007) had been unsatisfactory, and only a third had some form of public consultation. MIGA's very limited resources devoted to environmental and social screening and appraisal appears to have been the major factor. Entry-level due diligence of only 27 percent (7/25) of category-A and -B projects in the sample was based on a site visit

by an environmental or social specialist. For the remainder, the entry-level review was limited to information available in documents provided by the client, plus their responses to follow-up questions. The evaluation found that 17 percent (6/35) of the projects had been screened into a different safeguards category than the World Bank would have done, using what are essentially the same criteria. While this is not a quality-at-entry issue per se, it points to the need for improved safeguards coordination across the WBG. Another issue arises from the exception on disclosure given to Small Investment Program projects (box 2.2), resulting in an exemption from public scrutiny of ESRS and EIAs for a majority of category-B projects.

### Quality of WBG Supervision

IEG assessed supervision quality through four indicators—the extent to which environmental and social aspects of the project were addressed by qualified staff or consultants, the accuracy of

*Public consultation emerged as one of the weaker areas in MIGA's environmental and social assessment process.*

#### Box 2.2: Spotlight on the Post-2007 Disclosure of Environmental and Social Review Summaries (ESRS)

Before the 2007 policy reforms, MIGA's disclosure of ESAs had been limited to category-A projects. In its 2007 paper on the Draft PPSSES and Draft Policy on Disclosure of Information, MIGA committed to disclose ESAs, or at least the ESRS for both category-A and -B projects. However, an exception was made for Small Investment Program projects, that is, projects with guarantee amounts of under \$10 million. This is a major loophole, since 67 percent (4/6) of the category-B sample projects approved under the new policy were Small Investment Program projects. As a result, out of six post-Performance Standard category-B projects in the sample, only one ESIA and not a single ESRS had been posted on MIGA's website (as of June 2009). Thus, the language of MIGA's Disclosure Policy exempting the Small Investment Program projects from ESRS disclosure is at cross purposes with the spirit of Performance Standard 1, which expects the client to provide communities that may be affected by risks or adverse impacts from projects with access to information on the purpose, nature, and scale of the project, as well as any risks and potential impacts.

supervision ratings on safeguards/Performance Standards, and the quality of monitoring and evaluation (M&E) of these issues. Candor in ratings and M&E were given more weight than supervision by qualified specialists when determining the overall rating for WBG supervision.

**Findings on quality of bank supervision and monitoring**

Quality of supervision was assessed in terms of the supervision effort invested in following up on the mitigation measures and action plans prepared to address any safeguard policies triggered. Policies could be triggered by individual projects, the composition of the supervision team, especially with reference to the deployment of staff or consultants with relevant skills, and the appropriateness and supporting evidence for the

safeguard ratings in the available ISRs and related aides memoirs. In the final instance, these results were compared with the quality of M&E of safeguards relevant to the project.

*Consolidated results on supervision show considerable variation by region.*

The consolidated results on supervision show considerable variation by region, with signifi-

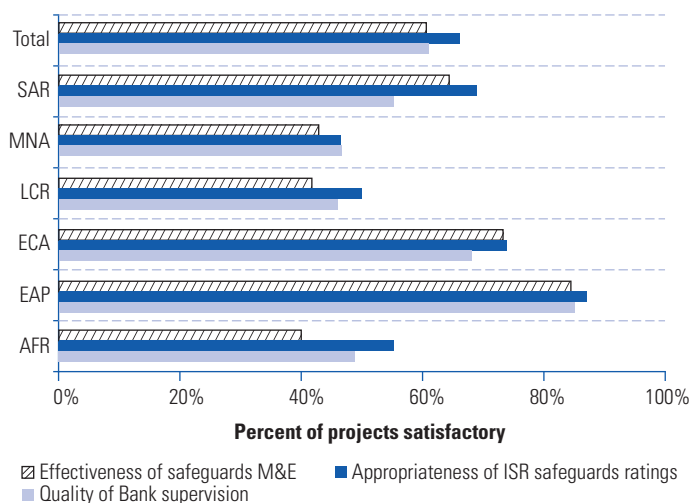
cant differences between high and low performers (figure 2.2).<sup>19</sup> As in project preparation, East Asia and Pacific has been the best performer on supervision quality, with most other regions lagging significantly behind. Latin America and the Caribbean (LCR) and the Middle East and North Africa (MNA) were found to have overly optimistic safeguard ratings compared with the evidence presented in the respective ISRs and aides memoirs. Among the networks with substantial safeguard issues identified within projects, the Human Development Network lagged significantly behind the others, both on supervision quality and on M&E (annex 1, table X1.12).

There is a substantial difference in supervision quality by project classification, category A receiving much more attention on environmental and social safeguards than category B (figure 2.3). While this reflects better attention to high-risk projects, it does not follow that all category-A projects have to follow the safeguards design approved at appraisal. Some projects have done an excellent job of adaptive learning to modify the safeguards design when the project context changed (box 2.3), lowering safeguards costs appropriately.

While this reflects better attention to high-risk projects, IEG findings support the concern expressed by environmental and social staff and management that category-B projects, most of which are delegated to respective sectors, are not being adequately supervised and monitored in one-third to one-half of the projects where safeguards are triggered. Delegation of projects to the sectors is thus having a perverse effect of leaving safeguards aspects of a large number of projects unsupervised, raising the likelihood that the next generation of reputational risks could arise from low-risk projects financed by the Bank.

The increasing reliance in World Bank projects on policy frameworks is a cause for concern because these projects include multiple subprojects and are less well supervised than projects with proper risk assessments and mitigation plans. About one-third of the projects that trigger

**Figure 2.2: Supervision of Safeguards in Bank-Financed Projects, by Region**



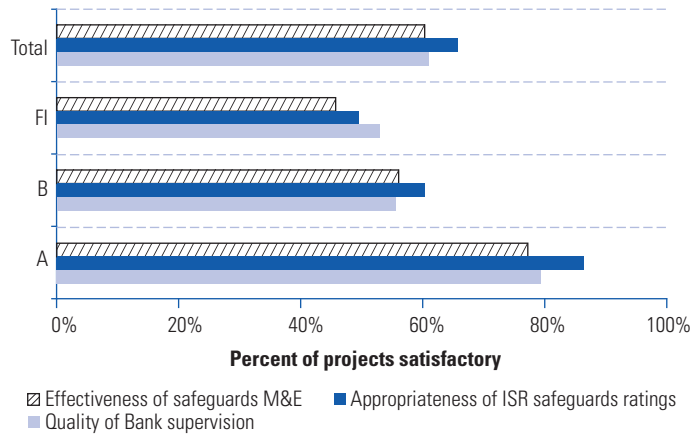
Source: IEG Portfolio Review, fiscal 1999–2008 approvals.

Note: Satisfactory refers to ratings of *satisfactory* or *excellent* from the portfolio review by IEG reviewers.

environmental or social safeguards rely on policy frameworks to address impacts that are not fully known or assessed at appraisal. As mentioned previously regarding resettlement (box 2.1), IEG found projects with policy frameworks in the portfolio review to be less well supervised than those with RAPs, giving rise to potential reputational risks if adverse impacts are not addressed adequately by clients during implementation. IEG found similar differences in performance of projects with ESMFs. Supervision results performance in terms of mitigation are both lower for Bank projects that rely on policy frameworks, whose environmental and social impacts cannot be assessed at appraisal (figure 2.4). If the Bank relies on Resettlement Policy Frameworks during preparation it needs to invest proportionately greater resources in supervising these projects to help the client implement them well.

Policy frameworks can be powerful instruments to empower local communities and involve them in environmental management decisions. Policy frameworks are frequently used by community-driven development projects, which

**Figure 2.3: Supervision of Safeguards in Bank-Financed Projects, by Safeguard Category**



Source: IEG Portfolio Review, fiscal 1999–2008 approvals.

Note: Satisfactory refers to ratings of *satisfactory* or *excellent* from the portfolio review by IEG reviewers.

**Box 2.3: Adaptive Management on Safeguards in Project Restructuring**

A Bank-financed power project in Asia initially adopted a sectorwide approach and triggered eight safeguard policies at appraisal. The project was restructured midway when it became apparent that the largest component—attracting private investments for subprojects in the sector—was no longer viable due to conflict in the country. Project resources that had been intended for the component were reallocated to the remaining two components, which were working successfully. When the largest component was dropped, the Bank and the client also agreed that only three safeguard policies (environment, resettlement, and natural habitats) were applicable, effectively restructuring the safeguards design. This was a good example of adaptive management by Bank staff working with the client in a fluid political and security context.

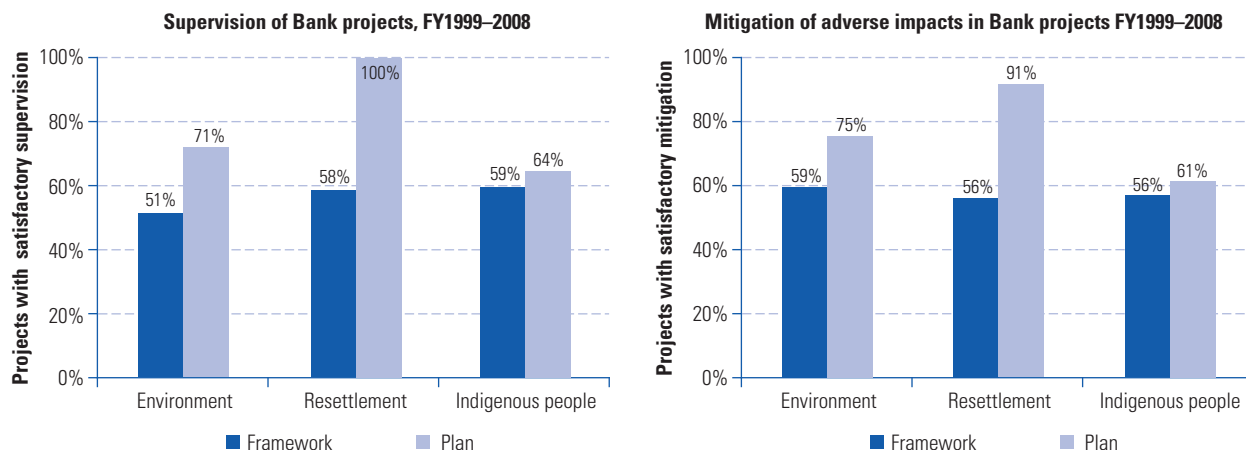
by design have stronger participatory processes for project implementation that can also be mobilized for safeguards implementation (box 2.4). IEG did not find any evidence of use of social audits or participatory M&E to monitor safeguards results. These community monitoring mechanisms are employed to monitor project outputs and outcomes in an increasing number of community-driven development projects from agriculture, human development, and social development sectors, and as key instruments to monitor governance outcomes in a wider range of sectors. The use of these modalities of community monitoring could also strengthen safeguard implementation, particularly for projects whose dispersed nature precludes effective monitoring of all subprojects by the client.

*The increasing reliance on policy frameworks is a cause for concern because these projects are less well supervised than projects with proper risks assessments and mitigation plans.*

*Projects implemented by financial intermediaries are also a cause for concern.*

Projects implemented by financial intermediaries are also a cause for concern, especially because many of these rely on ESMFs during appraisal on the assumption that the financial intermediaries will be undertaking or commissioning environmental and social assessments during implementation.<sup>20</sup> Without adequate



**Figure 2.4: Projects with Policy Frameworks versus Projects with Mitigation Plans**

Source: IEG Portfolio Review.

Note: This chart compares the ratings of projects with an EA/EIA with those that relied on an Environmental Management Framework or Environmental and Social Management Framework. For resettlement it compares ratings of projects with a RAP with those that relied on a Resettlement Policy Framework or an ESMF, and for indigenous peoples it compares ratings of projects with an IPP with those that relied on an Indigenous Peoples Planning Framework or an ESMF.

*IEG found safeguards M&E to be the weakest aspect of Bank supervision.*

supervision of these ESMFs, the Bank cannot be confident about the client's due diligence and safeguard results. Even though the FI sample was small, the fact that only 50 percent of FI operations had safeguard ratings that could be supported by evidence presented in the ISRs

and aides memoirs calls for urgent management attention.

IEG found safeguards M&E the weakest aspect of Bank supervision. Except for resettlement monitoring, which was of high quality in East Asia and Pacific and in South Asia but weaker

**Box 2.4: Local Implementation of an ESMF in a Community-Based Project in Africa**

A community-based rural development program in West Africa (category B), which financed over 14,000 microprojects, applied an Environmental and Social Management Framework (ESMF) to subprojects at the village level. Fifty percent of project investment was directed toward small rural works projects. The ESMF helped the project team classify all subprojects into two categories: those with positive or minor negative environmental impacts (such as forest management), and those likely to have more negative environmental impacts (feeder roads through forests, small-scale dams, and rangeland management, for example). Safeguards were identified and mitigation measures designed in consultation with local village land committees and

beneficiaries, who were included in the program's M&E system.

The guiding principle of the screening system was that effective mitigation of potential negative environmental effects would ensure the long-term sustainability of infrastructure investments since beneficiaries were expected to provide a significant level of in-kind contribution. This required a high level of village awareness and capacity and increased safeguard technical assistance and supervision costs. However, with this assistance, despite a slow start the system was fully deployed and extended into the second phase of project implementation. Site visits confirmed that the system had been used appropriately to mitigate negative environmental effects for almost all subproject types.

Source: IEG Field Study



in other regions, more than one-third of Bank projects suffered from inadequate M&E. The weaknesses lie in lack of specificity of monitoring indicators, underinvestment in client's monitoring capacity and poor follow-up during supervision. Safeguards monitoring will not be effective until safeguards indicators are integrated within the overall results framework of the project. Too often, safeguards activities are considered an add-on, and left to environmental and social specialists who are underresourced and not well integrated into supervision teams. This is not simply a resource constraint. Staff surveys reveal that task team leaders complain about unavailability of environmental and social specialists when they are needed (box 2.5), and environmental and social specialists complain about the lack of predictability of demand for their services. Matching skills to demand cannot be left to the labor market and will require management attention and up-front commitment of staff and resources as an integral part of work program planning, if this constraint is to be overcome.

### **Triangulation of bank findings on preparation and supervision**

The relatively better results for Bank-supported projects during preparation compared with supervision were confirmed by data from other sources. IEG found that the current satisfaction level of Bank managers with the adequacy of environmental safeguards in project preparation is 76 percent, compared with 52 percent during supervision. The same managers rated satisfaction with social safeguards about 10 percent lower: 65 percent during project preparation and 41 percent during supervision. Environmental and social sector managers and regional safeguard advisors were even more critical of the quality of environmental and social supervision than were country directors. Lack of incentives appears to be an even bigger constraint than resources (box 2.6).

The survey of task team leaders indicates that capacity issues within the Bank are more acute in Africa than in other regions. Team leaders from that region were most negative (37 percent inadequate) about the effort and resources for

supervision. But uneven quality of staff, and inconsistencies in interpretation of policy was a more widespread issue (appendix E).

On the other hand, IEG's NGO survey and client survey revealed a positive perception of Bank project performance. Overall, 73 percent of NGOs responding to the IEG survey rated Bank performance better than in the 1990s, compared with 10 percent who rated it lower; and two-thirds of NGO respondents ranked safeguard performance of Bank-financed projects better than projects financed by other donors or by the countries themselves, compared with 15 percent who rated the Bank lower (annex 2, table X2.2). An overwhelming majority of clients rated Bank performance "better than in the 1990s." Fifty-two percent rated Bank performance "much better," while 21 percent rated it "somewhat better" than projects financed by other institutions (annex 2, table X2.3).

*Overall, 73 percent of NGOs responding to the IEG survey rated Bank performance better than in the 1990s, as compared with 10 percent that rated it lower.*

### **Box 2.5: Staff Views on Resources for Safeguards**

Nearly a third of Bank task team leaders and environmental and social staff complain about inadequate resources to address safeguard issues.

- Twenty-two percent of task team leaders report inadequate support from both environmental and social specialists, which increased to 26 percent for social during supervision.
- Task team leader feedback on support from environmental specialists was slightly more positive than feedback on support from social specialists, and support was better during preparation than supervision (74 and 67 percent, respectively, for environment, and 68 and 59 percent, respectively, for social).
- While two-thirds of task team leaders found the task budget to be adequate, 28 percent found the task budget to be low during supervision and 22 percent during preparation. Among the regions, task team leaders from the Africa Region were most negative (37 percent "inadequate") about the adequacy of effort and resources for supervision.
- A third of the environmental and social specialists felt the level of effort and resources during supervision was too low.

Source: IEG Staff Survey

**Box 2.6: Incentives Are a Constraint on Safeguard Effectiveness in Bank Projects***Country directors:*

- “The Bank itself lacks capacity. We were always scrambling for someone to come and complete the safeguards work on time.”
- “Senior social safeguards staff are in short supply and cannot always handle the more complex issues. Some were former NGO liaison staff and haven’t really got the right background and training.”
- “Delegation [of B and C projects] to sector managers means that no attention is being paid to their quality because they lack the skills to deal with safeguards. This is where there are more problems.”
- “The incentives are not there. Nobody wants to work on safeguards.”
- “Fiduciary people (financial management and procurement) are paid off the top and deploy staff as needed by task teams. The same should happen for environmental and social safeguards work.”

- “[Supervision] could and should be done by a third party or the client, with independent monitoring to ensure objectivity.”

*Sector managers:*

- “Safeguards work is being delayed from preparation to implementation through increasing use of policy frameworks. Project preparation is easier for programmatic lending [with] policy frameworks, but following through on the need for greater supervision is more difficult.”
- “How do we transfer capacity? The quickest way is to do it yourself instead of relying on the client or focusing on the long term. With the layering and fear in the World Bank, capacity is not a priority. Reputational risk is the primary concern.”
- “Staff promotions are slanted toward own-managed projects more than toward providing safeguard services.”

Source: IEG Interviews with country directors and sector managers.

***Monitoring and supervision at IFC***

The portfolio review reveals that IFC’s supervision quality has been lower than appraisal quality. IFC’s monitoring of project performance focuses on two aspects: (i) compliance with the safeguard policies and Performance Standards, project-specific environmental and social requirements, and applicable industry guidelines, and (ii) client implementation of the Environmental and Social Action Plans agreed to as a condition of project approval. With increasing resources, FI supervision quality has improved but still lags behind real sector supervision. Supervision of client implementation of actions plans and reporting needs to improve.

*The portfolio review reveals that IFC’s supervision quality has been lower than appraisal quality and lags behind real sector supervision.*

has improved. IEG has evaluated IFC’s environmental and social quality since 2004 as a part of the XPSR validation program. As shown in figure 2.5, IFC’s environmental and social supervision quality for pre-Performance Standard projects has improved since 2007, with an increased number<sup>21</sup> of environmental specialists supervising FI projects, but environmental and social supervision quality is still below the real sector level, due to fewer staff resources devoted to the FI sector (5 environmental and social specialists) compared with non-FI sector (57 environmental and social specialists). However, IFC has developed rules for project supervision and site visit efforts and its overall “knowledge gap”<sup>22</sup> has decreased from 12.5 percent in fiscal 2008 to 5.8 percent in fiscal 2010.

Clients’ annual reporting has been a challenge for IFC’s supervision. The staff survey reveals that about 30 percent of investment officers and environmental and social specialists felt

*Client’s annual reporting has been a challenge for IFC’s supervision.*

Based on IEG’s validation of XPSRs, the quality of environmental and social supervision after fiscal 2007 for pre-Performance Standard projects

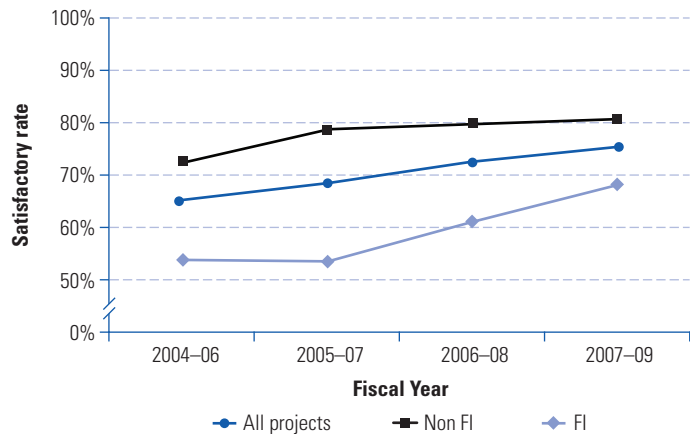
the timeliness and quality of client monitoring was inadequate. Within IFC's sustainability framework, the clients' AMRs and IFC site visits are the main instruments for monitoring the projects' performance. Since clients' first AMR is only due six months following the first year of project approval, the post-Performance Standard portfolio review focused on projects that had been approved at least two years earlier. Of the 28 random sample projects, including all pre-Performance Standard and post-Performance Standard real sector projects older than two years, only 50 percent (14/28) provided IFC with satisfactory AMRs.<sup>23</sup> In most such cases, IFC identified the deficient information in the AMR for correction in the following year, but in many cases the deficiencies continued despite IFC corrective actions, reflecting insufficient communication and frequency of IFC feedback, and poor client intake of corrective requirements.

The portfolio review also found that IFC had not monitored the implementation of the Environmental and Social Action Plans in 21 percent (6/28) of the projects older than two years. Since the Environmental and Social Action Plans are designed to remedy gaps in the client's social and environmental management system identified during appraisal, they represent a major part of value IFC adds to the project. Without IFC monitoring of implementation, it cannot be assumed that this value was added.

Within the overall trends presented in figure 2.5, IEG has not found significant differences in the supervision quality of post-Performance Standard FI projects compared with the pre-Performance Standard ones. Supervision of environmental safeguards and Performance Standards (3, 6, and 8) has been at the same level as social safeguards and Performance Standards (2, 4, 5, 7, and 8); some deficiencies found in addressing the new social standards (2 and 4) are discussed in chapter 3.

IEG interviews with IFC environmental and social specialists confirmed that despite improvements, resource constraints have not been

**Figure 2.5: IFC's Environmental and Social Work Quality at Supervision for Pre-Performance Standard Projects**



Source: IEG's Environmental and Social Reviews for fiscal 2004-09 XPSRs, 209 real sector (non-FI) and 139 FI projects.

Note: Data are based on three-year rolling averages of IEG annual XPSR evaluations. By presenting the rolling average data, IEG; (i) meets the test of less than 5 percent sampling error, with 95 percent confidence level, when a 50+ percent stratified random sample from mature projects is sampled for annual XPSR evaluations, and (ii) sometimes large annual deviations in time series are eliminated.

### Box 2.7: IFC Staff Survey Feedback on Resources for Environmental and Social Work

- Over half of the investment officers and a third of the environmental and social staff felt that the share of resources used for interactions with external community/NGOs was inadequate.
- Investment officers were much more critical than environmental and social specialists of the resources devoted to work on safeguards/Performance Standards: 40 percent reported the task budget to be low during supervision, compared with 29 percent during preparation. Less than 10 percent of environmental and social specialists complained about the task budget.
- More than a quarter of the investment officers complained about the timely availability of environmental and social specialists and the lack of integration of environmental and social specialists into regular supervision missions.
- Two-thirds or more of IFC staff agree that implementation of Performance Standards needs more resources compared with the pre-Performance Standard systems.

Source: IFC staff survey.

*MIGA monitors category-A projects more systematically, but the frequency of issues requiring remedies suggests more supervision of category-B and -FI projects is also warranted.*

overcome (appendix E). Environmental and social specialists also reported difficulties in fully accurate and reliable reporting on social aspects of Performance Standards. IFC has a shortage of social specialists to fully assess and ensure client performance on such sensitive issues as child labor, freedom of association, or discrimination. Generally, IFC relies on the site visits and AMRs, prepared by the client, who are not candid on these issues (also see box 2.8).

#### **Monitoring and supervision at MIGA**

MIGA monitors performance of category-A projects more systematically, but the frequency

of issues requiring remedies suggests more supervision of category-B and -FI projects is also warranted. Under its sustainability policy, MIGA is expected to monitor projects' performance against the applicable Performance Standards after project approval by requesting periodic monitoring reports on the clients' environmental and social performance, conducting site visits of selected projects, working with the clients to address adverse impacts if they occur, and exercising remedies as appropriate. The portfolio review found that MIGA carried out 12 monitoring missions covering all four category-A projects and 33 percent (4/12) of category-B projects in the sample that had been effective for longer than two years. This is consistent with a risk-based approach that allocates greater

#### **Box 2.8: IFC's New Social Performance Standards**

IEG found from the portfolio evaluation that most of the appraisal and supervision indicators regarding the five social Performance Standards (Labor and Working Conditions; Community Health, Safety, and Security; Land Acquisition and Involuntary Resettlement; Indigenous Peoples; and Cultural Heritage) achieved reasonably high scores. IFC's performance in mitigating negative and, especially, enhancing positive social impacts was better, or at least at the same level, compared with the earlier safeguard period. For example, IFC persuaded the client in a large category-A pipeline project in Latin America and the Caribbean to engage with the fishermen near the port facility. Compensation, labor, and health and safety issues, security management plan, and cultural heritage plan were other major improvements that contributed to better project management procedures. Key observations of IEG's site visit included excellent monitoring programs, including locally hired supervisors to monitor environmental and social performance, good health and safety statistics and practices, active community engagement, and careful archaeological rescue of identified artifacts. The client regarded the social Performance Standards as adequate and fair, covering environmental and social aspects that otherwise might have been unnoticed, especially contractor management, resettlement and compensation (Performance Standard 5), security

management (Performance Standard 2), and cultural heritage (Performance Standard 8).

Based on IEG interviews, social Performance Standards are perceived by both clients and IFC staff to support IFC's development dialogue and mission. The two Performance Standards unique to the IFC, numbers 2 and 4, are oriented toward enhancing human welfare, both inside and outside of the borrowing entity.

However, there is still insufficient understanding and depth of knowledge on how some details in social Performance Standards should be incorporated in the dialogue with the clients. While this may be true to some extent for all five social standards, it is particularly relevant for Performance Standard 2, especially regarding freedom of association, discrimination in hiring practices, and child and forced labor. These sensitive cultural issues do not lend themselves to transparency on the part of the borrower. Key IFC staff members have expressed awareness of this issue and are taking steps to remedy it through community surveys and discussions with local worker union organizations. IEG found that it is important to raise staff awareness on social aspects and promote systematic training on sound monitoring techniques, with illustrations from real-life cases, increased resources and staff time for proper social supervision and site visits, and more in-depth, qualitative data collection and monitoring techniques to better understand the social aspects of projects.

Source: IEG portfolio review.

supervision resources to category-A projects and high-risk category-B projects. High-risk issues (mostly related to resettlement) were found in 75 percent of the projects that MIGA visited, including all category-A projects. While reassuring from a cost-effectiveness perspective, the high incidence of issues found in the monitored projects raises question about potential adverse environmental and social impacts that may have been missed. The concern arises because of the large number of category-B and -FI projects that have not been monitored at all through either a systematic review of and follow-up on periodic monitoring reports or field visits.

Active monitoring and follow-up can help address social impact issues even in a high-risk environment. A mining project in a conflict-afflicted country had attracted much controversy because of the host-country armed forces' use of the client's plane, trucks, and drivers to suppress a local uprising. A CAO field audit found that, while MIGA's initial environmental and social screening had been adequate, its follow-through on social aspects had been weak, perhaps because of the absence of in-house social expertise. MIGA had expected the client to adhere to the Voluntary Principles on Security Forces and Human Rights without assessing whether the client had the ability to do so.<sup>24</sup> Following MIGA's hiring of an in-house social scientist who visited the project, the client developed a protocol governing its interactions with the host-country's armed forces and obtained the government's signature. The acceptance and dissemination of the protocol by local communities and officials was assisted by training programs held at three of the client's mining sites, funded by the Japan-MIGA Technical Assistance Trust Fund. MIGA also assisted the project to design and implement a comprehensive community development program. Follow-up monitoring suggests that this protocol has set a good example for other mining investors in the country.

#### ***MIGA's quality of monitoring and supervision***

Overall, monitoring and supervision of the environmental and social performance of the projects MIGA guarantees are seriously constrained by the limited capacity and

resources devoted to these functions. While the portfolio review concluded that these functions are managed efficiently, in the sense of focusing on what are expected to be the highest-risk projects, the high incidence of problems identified (and addressed) by the very limited number of monitoring missions points to the likelihood of a large number of environmental, health, safety, and social risks that remain unidentified and unaddressed in the large share of projects that have never been monitored. These hidden risks point to a major gap in MIGA's sustainability framework and represent a missed opportunity to help clients and enhance MIGA's developmental contribution. In IEG's judgment, it is not feasible for MIGA to fully meet the expectations of the Performance Standards under the PPSSES unless its environmental and social capacity is substantially increased.

#### **Accountability Mechanisms**

The Inspection Panel (IPN) and the Compliance Advisor and Ombudsman (CAO) are key accountability mechanisms<sup>25</sup> created for the World Bank and IFC/MIGA, respectively, to assess complaints from affected parties who feel that they are being harmed by the WBG's failure to properly implement its policies. The roles of the IPN and CAO are to hold the WBG accountable for compliance with all WBG Operational Policies. Their roles are not restricted to oversight of the safeguards policies and Performance Standards only. The IPN reports to the Board, while the CAO reports to the president of the WBG. In practice, the CAO has maintained its independence from the line management of the IFC and MIGA.

Since 1995 when it was first established, the IPN has received 64 requests for inspection. IPN procedures require affected people to approach management first before complaints are considered for registration. Fifty-seven of the complaints received by the IPN were registered for review and 31 (48 percent) recommended for investigation. Twenty-six of the requests were received between fiscal

*Monitoring and supervision of the environmental and social performance of MIGA guarantees are seriously constrained by limited capacity and resources.*

*Environmental policies had more complaints and violations but social safeguards appear to be more challenging and contentious.*



**Table 2.7: Inspection Panel Complaints Filed and Policy Violations, 1995–2009**

Bank policy	Number of complaints filed	Number of violations found
<b>Safeguard policies</b>		
(Env) Environmental assessment	40	21
(Soc) Involuntary resettlement	32	17
(Soc) Indigenous peoples	23	10
(Env) Natural habitats	17	7
(Env) Physical cultural property	11	6
(Env) Forestry	9	1
(Env) Pest management	2	1
(Env) Dam safety	3	0
(Legal) International waterways	1	0
(Legal) Disputed areas	0	0
<i>Subtotal</i>	<i>138</i>	<i>63</i>
<b>Other Bank policies</b>		
Project supervision	49	15
Information disclosure	24	10
Poverty reduction	23	8
Economic evaluation of investment ops	12	8
Project appraisal	6	6
Gender and development	1	0
Other (various)	54	0
<i>Subtotal</i>	<i>115</i>	<i>47</i>
<b>Total</b>	<b>307</b>	<b>110</b>

Source: IEG compilation from Inspection Panel cases.

1995 and 2002 and 38 requests in the period fiscal 2003–10. Nearly 85 percent of the requests came from the Africa, Latin America and the Caribbean, and South Asia regions, with requests for inspection received from 34 countries. The highest number of requests among countries was from India (8), and among the sectors from the Energy and Mining sector (16). There has been a flurry of recent requests from Latin America and the Caribbean.

Less than half of the complaints filed with the IPN were about the safeguard policies. According to IPN annual reports these 64 requests contained 307 specific complaints, 138 (45 percent) of which related to the 10 safeguard policies, while the rest were related to the Bank's 25 other policies. Of those relating to safeguards, 60 percent concerned environmental safeguards and 40 percent were about social safeguards. The IPN found 110 policy violations, 63 of which were against safeguard policies: 36 policy violations of environmental and 27 of the social policies. Adjusting for the smaller proportion of projects that trigger the social safeguards, these policies received relatively more complaints and policy violations were more frequent, affirming the relatively greater challenges faced by projects in complying with the current social safeguards.

The majority of safeguards violations in Bank projects were related to design issues stemming from inadequate assessment of environmental or community impacts, and inadequate consultation with affected people, which had still not been resolved. One-fifth of deficiencies arose from inadequate attention to additional implementation issues. Supervision provides an opportunity to deal with unanticipated risks that arise during implementation. Careful attention to complaints and resolution of grievances can decrease the demands on accountability mechanisms and also ensure that grievances are redressed. The IPN also found policy violations in all six complaints filed against OMS 2.20, *Project Appraisal*, which provides guidance on assessing social issues during project appraisal (table 2.7).<sup>26</sup>

After the IPN findings are accepted by the Board, follow-on activities are between the Board and Bank management. The action plans and implementation progress reports that IEG reviewed varied broadly in quality and scope: from precise actions, with definitive schedules, and institutional responsibilities to more qualitative statements of intent, with no clearly defined end and unclear linkages between action plans and implementation progress reports. Progress reporting of IPN



interventions is more open-ended than for CAO interventions. In the latter case, probably because of the CAO's continued involvement in monitoring implementation, there appears to be greater attention to the objective of reaching and reporting closure.

IPN/CAO investigations do not come without costs. The investigative stages of the IPN/CAO work invariably place substantial demands on WBG staff, and the implementation of any agreed actions resulting from their investigation leads to remedial actions, largely paid for by the client. In some instances the IPN complaints also affected relationships with the clients.

However, independent investigations can identify systemic policy gaps. The CAO identified a systemic policy gap regarding the application of Performance Standards to supply chains of primary clients; this issue is now being addressed by IFC management. IPN investigations in two forestry projects surfaced systemic weaknesses in dealing with livelihood interests of forest-dependent communities, leading to lessons learned for future natural resources management projects. Similarly, the IPN identified systemic gaps in appraisal of social issues due to inattention of relevant provisions of OMS 2.20.

Managers acknowledge the benefits of having an accountability mechanism, but believe that the creation of a more transparent grievance redress mechanism or ombudsman through which complainants can seek management intervention is overdue (box 2.9). The biggest concern staff and managers expressed was that the intensive scrutiny involved with IPN cases had huge opportunity costs since prolonged investigations take a toll on project implementation. IEG interviews with managers revealed that additional costs in responding to IPN complaints ranged from \$120,000–\$1,000,000 in management and staff time. Staff costs on projects that go to full investigation are estimated to be over \$500,000, but even the preliminary management response for cases that do not go to a full investigation tend to cost over \$100,000. While these costs are not trivial, it should be noted that

### Box 2.9: Manager Comments on the Inspection Panel

- “The Panel case on a pipeline project led to major benefits because it substantially raised the level of government awareness and political will to resolve any future environmental and social safeguards issues. There is now substantive dialogue around how to build capacity in government.”
- “[The Bank should] be proud of its safeguard work in most cases because it is extremely rare to encounter self-correcting actions in other organizations... But the Panel has resulted in a culture of fear and paralysis at the Bank.”
- “There is always a huge stress factor with an Inspection Panel case, because of the amount of information that has to be assembled and trawled through. There would be merit in some sort of arbitration mechanism as many times the matter could be resolved through negotiation and this would be much cheaper and more effective.”
- “In some ways the Panel has provided some constructive feedback. But they are very legalistic and unrealistic... looking at process, not really at outcomes. [The Bank should] keep the Panel for serious cases, but if you have smaller complaints that need redress, a conflict resolution mechanism would be better.”

Source: IEG interviews with country directors and sector managers.

the IPN has received a total of 64 complaints in 15 years. Distributing estimated costs over the entire portfolio yields an incremental expenditure in the 15-year portfolio of about \$9,000 per project, an expense that serves to demonstrate accountability within a public institution. The costs of the IPN or those incurred by clients in responding to these complaints are additional. Since a significant proportion of the complaints received do not go to full investigation, staff and managers feel that a lower-cost grievance redress mechanism could help resolve some of the complaints of affected people. Although the IPN process requires complainants to first approach management, the Bank does not yet have a system for receiving or resolving such complaints and continues to deal with such issues on an ad hoc basis, or when complaints have already been filed with the IPN.

*The Bank does not have a system for receiving or resolving complaints from affected people.*

Accountability mechanisms have yielded important benefits, some in the form of redress for aggrieved parties, others less quantifiable but no less significant. As always, costs need to be compared with benefits. These include the management of reputational risk—since the WBG is now able to demonstrate that it is publicly accountable—the ability to take corrective action against legitimate complaints, and the ability to identify systemic policy issues that may need additional guidance or clarification. In the opinion of some experts from academia and the NGO sector<sup>27</sup> these accountability mechanisms have helped people to recognize that the costs of noncompliance are actually significantly higher than the costs of compliance. And the existence of a mediation mechanism at CAO enables half of the complaints against IFC to be resolved and benefits transferred to aggrieved parties without the need for eligibility studies or investigations.

The existence of grievance redress mechanisms increases the efficiency of accountability mechanisms. As noted in a recent IPN publication,<sup>28</sup> some of the relatively new or restructured accountability mechanisms established by other IFIs and development agencies following the Bank's example contain features that the IPN lacks, such as mediation or grievance redress mechanisms and the authority to monitor actions following an investigation. Both of these features are present in the CAO structure as well as among the accountability mechanisms in some other multilateral development banks (such as EBRD and the Asian Development Bank). Since its inception in 1999, the CAO has been responsible for 126 complaints and requests for audits. While 40 percent were found ineligible for investigation, 32 percent were settled after the Ombudsman assessment, and another 10 percent were closed after the Ombudsman assessment and compliance appraisal.<sup>29</sup> Since 11 percent are still in the process of an Ombudsman assessment, less than 10 percent of the complaints received went on to a compliance audit.

The CAO experience suggests that the use of an Ombudsman function considerably reduces the proportion of projects that need a full investiga-

tion, and monitoring of follow-up actions ensures achievement of results. Although the CAO appears to have maintained its independence with respect to IFC and MIGA management, it reports to the president of the WBG. Institutional credibility and its external perception would be enhanced through an independent compliance review process, which ensures that the CAO submits its audits directly to the Board.

The Bank does not have a formal grievance redress system or a conflict resolution mechanism, although more recently the IPN has been providing management with opportunities to solve problems brought to their attention by affected persons. In recent IPN cases (for example, on projects in Democratic Republic of Congo, Panama, and Yemen) the IPN deferred investigation on a case-by-case basis to provide management with an opportunity to resolve complaints received before deciding on whether a full investigation was justified. The formalization of a transparent grievance redress and conflict resolution mechanism for affected people to approach management, or the extension of the terms of reference of the Bank's Ombudsman to review complaints from people affected by projects, may increase the efficiency of the accountability process.

## Summary

The focus of this chapter has been on preparation and supervision quality to assess the extent of compliance with safeguard policies. IEG found inconsistency between the categorization of projects at IFC/MIGA and those at the Bank. The quality of preparation in the WBG is much better than the quality of supervision, this difference being more pronounced at the Bank where policies and procedures are heavily front-loaded. M&E of safeguards is the weakest aspect of Bank supervision, followed by lack of candor in supervision reporting. Supervision quality at the IFC has improved since the introduction of an online ESRD system with key environmental and social performance indicators, but client reporting through the AMRs needs to improve. The Bank is constrained by lack of effective instruments and clearly specified indicators,

uneven supervision capacity across the regions, and underinvestment in client systems to collect monitoring data. MIGA's supervision is constrained by limited capacity and resources.

Despite some recent improvements in IFC supervision, IEG found WBG procedures and practice to address environmental and social risks of projects with multiple subprojects to be inadequate. This applies to financial intermediaries across the WBG and, in the Bank, to projects with multiple subprojects using

policy frameworks and to category-B projects, which have mostly been delegated to sector management units which lack the capacity and incentives to supervise them. IFC does not use policy frameworks but agribusiness supply chains have similar vulnerabilities. Given the dispersed nature of most of these projects, the WBG needs to develop alternate mechanisms for third-party monitoring and increased transparency to ensure effective supervision and implementation.

*The existence of grievance redress mechanisms increases the efficiency of accountability mechanisms.*



# Chapter 3

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## Evaluation Essentials

- The WBG does not have a clear framework to assess the impacts of its safeguards and sustainability policies.
- Environmental and Social Effects are one of four dimensions used to evaluate project development outcomes of IFC and MIGA projects but not of Bank projects.
- Implementation of the IFC/MIGA Performance Standards is too recent to evaluate outcomes.
- Strengthening the commitment and capacity of the FI sector clients remains a challenge.



A women's group participating in an environmental project in Kenya. Photo by Curt Carnemark, courtesy of the World Bank Photo Library.



# Environmental and Social Performance

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## Analytical Framework

The main focus of this chapter is the question: “To what extent have safeguards and sustainability policies led to improved environmental and social performance and impacts at the project and sector level?” The chapter goes beyond compliance to look at implementation performance. This task is particularly challenging in the World Bank because the frameworks themselves do not provide clear guidance on how to identify and monitor performance. And in the absence of clear indicators and baseline data, measurement of performance in most projects is limited or nonexistent.

In order to compare implementation performance of safeguards and sustainability policies across the variety of projects found in the WBG’s portfolio, IEG assessed each project in the portfolio sample against three indicators—mitigating negative impacts (MNI), enhancing positive impacts (EPI), and strengthening client capacity (SCC).<sup>1</sup> The WBG’s safeguards and Performance Standards aim to benefit its public and private sector clients through better management of environmental, social, health, and safety risks; improved community and government relations; and access to concessional funding. These benefits arise from the clients’ adoption of the environmental and social standards, the scope and reporting requirements of which are often broader and more stringent than those of national laws and regulations, as well as the

corporate standards that the client would be normally expected to follow in the absence of WBG involvement. Safeguards and Performance Standards, and also EHS guidelines in the case of IFC, are triggered when projects are expected to result in adverse environmental or social effects. Thus all projects are likely to involve some measures to mitigate these negative effects. In addition, the project design may include measures to promote environmental and social sustainability. Typically, these could consist of efforts to strengthen the client’s systems and institutional capacity in a manner that outlasts the project, or environmental and social actions that go beyond the minimum requirements for mitigation specified in the policy.

IEG rated a project’s MNI satisfactory when the environmental and social design was appropriate and when supervision and Implementation Completion Report (ICR)/Expanded Project Supervision Report (XPSR) documentation provided evidence that agreed mitigation actions had been successfully completed and safeguards objectives achieved or, for projects under implementation, were well advanced at the time of the assessment. For the most part, satisfactory ratings were based on IEG’s assessment of effective implementation by the client and satisfactory supervision. In a few cases, implementation weaknesses identified early were overcome during supervision, resulting in satisfactory MNI ratings. Projects that did not contain supporting

evidence in supervision or completion reports were downgraded even if the supervision reports rated safeguards as satisfactory.

IEG rated a project's EPI successful when there was evidence that environmental and social actions had exceeded the minimum requirements of MNI, that is, (a) the environmental and social measures introduced for the project were being applied across the sector more broadly beyond the physical footprint of the project; or (b) institutional arrangements had been made to continue environmental and social measures beyond the life of the project; or (c) the socioeconomic measures introduced included gender programs, or went beyond compensation for adverse impacts and resulted in a sustainable stream of benefits or livelihood standards for local communities that exceeded preproject levels; or (d) the environmental and social measures introduced for the project went beyond compliance with standard requirements, for example, with energy efficiency, greenhouse gas mitigation, or biodiversity conservation.

IEG rated a project's SCC successful when there was evidence that the client's capacity had been assessed, gaps identified, and actions included to build and sustain client capacity. The purpose of this indicator was to separate projects that invested in strengthening client systems and institutions from those that relied heavily on technical assistance or external consultants to ensure satisfactory completion of the project.

### **Factoring Environmental and Social Performance in the Assessment of Project Development Outcomes**

The Bank does not consider environmental and social performance a significant dimension of a project's development outcome. However, environmental and social effects is one of the

four dimensions used by IFC and IEG to assess the development outcomes of IFC projects. The other three dimensions are: business success, economic sustainability, and private sector development. MIGA had not undertaken self-evaluation until fiscal

2009 and therefore had not used these indicators, but IEG evaluates the same four dimensions for MIGA guarantees, each indicator measuring a distinct aspect of the guarantee's performance, with the project development outcome rating being a synthesis of the four.<sup>2</sup> The lack of specification and measurement of safeguards performance indicators as an integral part of the results frameworks of investment projects limits the Bank's ability to track and evaluate social and environmental outcomes at exit. The lack of instruments and performance indicators for systematic client monitoring and supervision reporting (identified in the previous chapter), often compounded by the absence of baseline data on social and environmental conditions, make it impossible to draw conclusions regarding the outcomes and benefits of most of the safeguards policies. On this matter, the resettlement policy is a notable exception. The prescriptive nature of the policy and the requirement to conduct baseline surveys and for third-party monitoring of resettlement outcomes has made it easier to document resettlement results.

However, the absence of provisions for reporting on social and environmental performance in ICRs means that despite the exhortations of some of the safeguards policies, completion reporting remains weak and outcomes are either unreported or hard to verify. If the Bank were to adopt environmental and social outcomes as a dimension of the overall rating for the project's development objective in the ICR and in IEG's ICR Review, that would significantly change the incentive structure and go a long way toward mainstreaming environmental and social outcomes.

### **Self-Assessment of Safeguard and Sustainability Results<sup>3</sup>**

#### ***Self-assessment of performance: World Bank***

About one-fifth of category-A and half of category-B projects do not track or report on safeguard performance. Three of the environmental safeguard policies<sup>4</sup> include provisions for evaluating environmental impacts and reporting on the achievement of environmental objectives and the effectiveness of mitigatory measures in completion reporting. However, there is

*The World Bank does not consider environmental and social performance a significant dimension of a project's development outcome.*

relatively little guidance beyond this statement. The two social safeguard policies<sup>5</sup> contain more explicit guidance on supervision, monitoring, and evaluation of impacts in the ICRs. This may be one reason why the quality of ICR reporting on resettlement and indigenous peoples, in projects where these policies are applicable, is more rigorous (78 percent satisfactory) than on environment (56 percent satisfactory; figure 3.1). None of the five completed FI projects (all triggering OP 4.01) reported on safeguards.

Some regional variations are significant. East Asia and Pacific did relatively better (76 percent) in terms of overall performance on environmental and social reporting in ICRs, while Latin America and the Caribbean (38 percent) and Africa (50 percent) lagged significantly behind. Among the networks, Human Development Network performance was weak (21 percent) in terms of ICR reporting on environmental performance but strong on ICR reporting of relevant social results.<sup>6</sup>

An examination of IEG ICR Reviews and Project Performance Assessment Reports also

points to shortcomings in this area, indicating that IEG needs to revisit its own methodology for assessment of completed projects to ensure more robust assessment in accordance with the provisions of the safeguard policies.

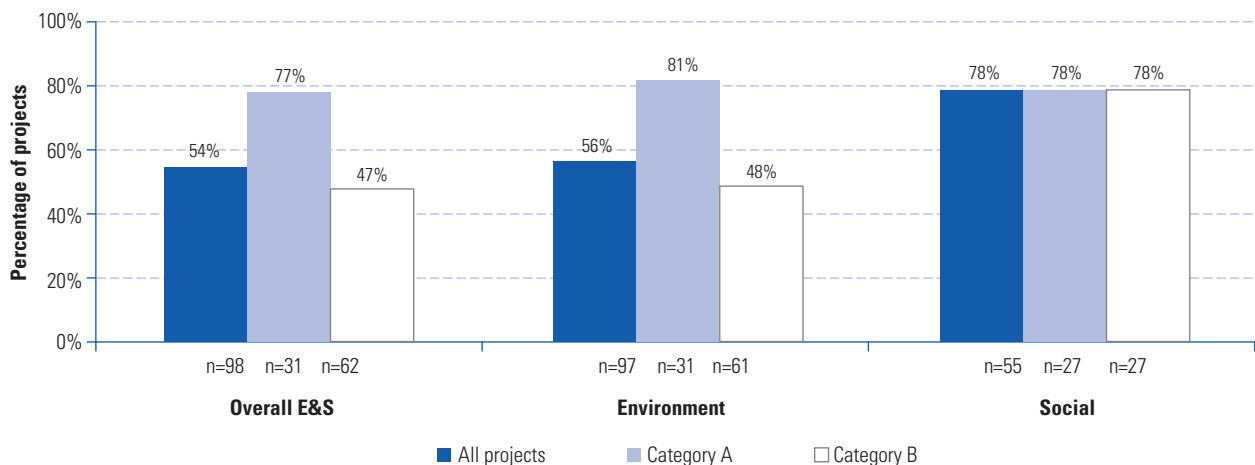
**Self-assessment of results: IFC**

From its evaluation of the XPSRs IEG found some inconsistencies in project teams’ assessments of environmental and social outcomes. The XPSRs are self-evaluations by operations staff. IEG validates these ratings to arrive at an overall assessment of Environmental and Social Effects. The ESE rating is based on the project’s environmental performance in meeting IFC’s requirements and the project’s actual environmental impacts. Self-evaluation of outcomes and performance in regard to requirements at appraisal has been partly insufficient in XPSRs. In fiscal 2009, IEG changed the ESE ratings in XPSR evaluations in 23 percent of the sample (17/88) and downgraded net ratings for some projects as well.

*About one-fifth of category-A and half of category-B projects do not track or report on safeguard performance.*

*There are inconsistencies in the way project teams assess environmental and social outcomes in XPSRs.*

**Figure 3.1: Adequacy of ICR Reporting on Safeguards in Completed Bank Projects, by Safeguard Category**



Source: IEG portfolio review.

Note: Excludes four projects for which ICRs were not available.

IFC has introduced an internal online Environmental and Social Review Document (ESRD) as a more structured platform for self-evaluation. ESRDs include ratings for project-specific performance indicators. Their effectiveness will be assessed after post-Performance Standard projects become mature for XPSR evaluations in 2011.

### Stakeholder Perceptions of Safeguards Performance

Client perceptions, ownership, and implementation have bearing on the ability of the WBG to promote environmental and social sustainability. IEG solicited feedback from clients on the value and effectiveness of WBG safeguards and Performance Standards for all projects that were visited in the field.

IEG also assessed the quality of client implementation as part of the portfolio review through an examination of client capacity and actions taken to implement the environmental and social management plans agreed to during appraisal. Client implementation is affected by ownership and commitment, client capacity, and institutional efficiency. IEG's assessment took into account variations in implementation experience over the life of the project to arrive at a rating for quality of client implementation for each project in the portfolio review sample. When the client demonstrated commitment early during the project life, this resulted in higher ratings on the indicator. When implementation was uneven and results were achieved only through intensive supervision or through external consultants, this was reflected in a lower rating.

#### Stakeholder perceptions of safeguards performance in Bank projects

Feedback from country clients<sup>7</sup> revealed general agreement that safeguard policies result in more robust appraisal of project risks and better environmental and social results; however, clients also expressed concern about the rigidity and cost of the Bank's requirements. Resettlement and compensation for project-affected persons dominated comments received from clients. Implement-

ing agency staff interviewed by IEG felt that the Bank's resettlement policy had led to a greater focus on the poor, especially those lacking legal title to land. Without the Bank's policies the risk assessment and corresponding mitigation plans would have been less comprehensive, would only have benefited titled landowners, would usually be limited to monetary compensation, and would not have aimed to restore livelihoods. As a result, there would have been weaker environmental and social protection. At the same time, the higher standards of the Bank's social safeguards (annex 2, table X2.3) and rigidities in policy application inhibit client ownership. Feedback was also more muted in terms of client capacity building: high or substantial capacity building was reported by 55 percent for environmental and 58 percent for social aspects.

Clients also prominently identified more public participation and disclosure of information as important actions that took place on projects as a result of Bank involvement and the safeguard policies. Implementing agencies felt that the safeguards resulted in better selection of sites and greater participation and consultation with project-affected persons.

Nonetheless, client feedback about the deterrent effect of safeguards was confirmed by the staff survey. Bank-wide, 38 percent of task team leaders, 72 percent of social specialists, and 55 percent of environmental specialists had encountered clients who wanted to avoid all or part of a project because of safeguard policies. The impact of this chilling effect was reported by a majority of team leaders from Latin America and the Caribbean and over 40 percent from East Asia and Pacific and South Asia, which have the most active safeguards portfolios. Almost a fifth of team leaders had encountered a situation where the team revised the scope or design of a project to avoid being classified as category A because this high-risk category leads to higher levels of scrutiny and higher costs.

On the other hand, project beneficiaries, local NGOs, and cofinanciers viewed the safeguard policies much more positively. Over half of the

*Country clients are in general agreement that safeguard policies resulted in more robust appraisal of project risks and better environmental and social results.*

task team leaders surveyed reported that the Bank's safeguards increased acceptability of the project among beneficiaries, and the safeguard policies also increased acceptability among nearly 30 percent of cofinanciers.

Local NGOs felt that the safeguards facilitated greater awareness of social and environmental protection, and public participation, knowledge of, and acceptance of projects.

## Client Implementation

### *Client implementation in Bank-financed projects*

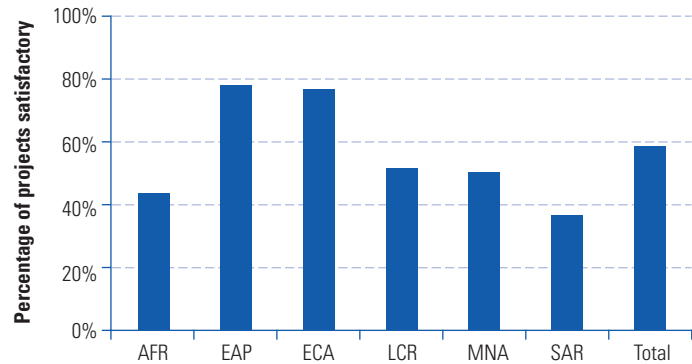
IEG assessment of client implementation of the mitigation plans for projects in the portfolio sample varied considerably across the regions from a high of 78 percent in East Asia and Pacific and 77 percent in Europe and Central Asia, to 37 percent and 41 percent in the South Asia and Africa, respectively,<sup>8</sup> with a Bank-wide average of 58 percent (figure 3.2). Higher scores indicate both ownership and implementation capacity. South Asia scores were affected more by client resistance to safeguards than by capacity constraints, while Africa projects revealed more capacity gaps. Within East Asia and Pacific, results for China were even higher (88 percent), indicating high commitment and ability to implement mitigation measures agreed with the Bank.

Client implementation was somewhat more effective in compensating project-affected persons for resettlement impacts or in mitigating adverse impacts on indigenous peoples, both cases where explicit mitigation plans were easier to identify and monitor, compared with implementation of EHS guidelines, a third of which demonstrated lack of clarity on specific measures to be implemented and monitored by the client. However, client implementation of resettlement was noticeably weaker in Africa compared with East Asia and Pacific.

### *Client implementation in IFC-financed operations*

Overall quality of client implementation of Performance Standards in real sector projects has been reasonably good and about the same

**Figure 3.2: Quality of Client Implementation in Bank Projects, FY 1999–2008 Approvals**



Source: IEG Portfolio Review.

or better than implementation of *Local NGOs felt that the Safeguard Policies in all evaluated aspects.<sup>9</sup> Implementation quality has been good for management of hazardous materials<sup>10</sup> and appears to have improved for provision of replacement and compensation to project-affected persons, but implementation of EHS guidelines and Corrective Action Plans has been successful in only 62 percent of post-Performance Standard projects.<sup>11</sup> Since many of the clients of evaluated post-Performance Standard projects have not yet submitted their AMRs and some IFC requirements have been applied only for very few projects, it is not possible to compare implementation of pre- and post-Performance Standard projects with regard to grievance mechanisms and avoidance of adverse impacts to indigenous people and cultural heritage sites. Likewise, because of insufficient data, it is not possible to compare implementation of Performance Standards with Safeguard Policies in IFC regions and industry sectors. Findings on pre- and post-Performance Standard projects are presented in annex 1, table X1.6.*

As discussed previously, IEG found that about half of the FIs implemented the social and



*About half of the financial intermediaries implemented the ESMS in a satisfactory manner.*

environmental management system in a satisfactory manner.<sup>12</sup> This performance reflects the fact that the FIs do not have any financial incentives or regulatory pressure to make sure that subprojects meet local and IFC environmental and social requirements, contrary to real sector projects, where environmental and social risk management is a part of the corporate risk management process to avoid costs of corrective actions and reputational damage in case of serious environmental and social incidents.

### Environmental and Social Performance in Bank Projects

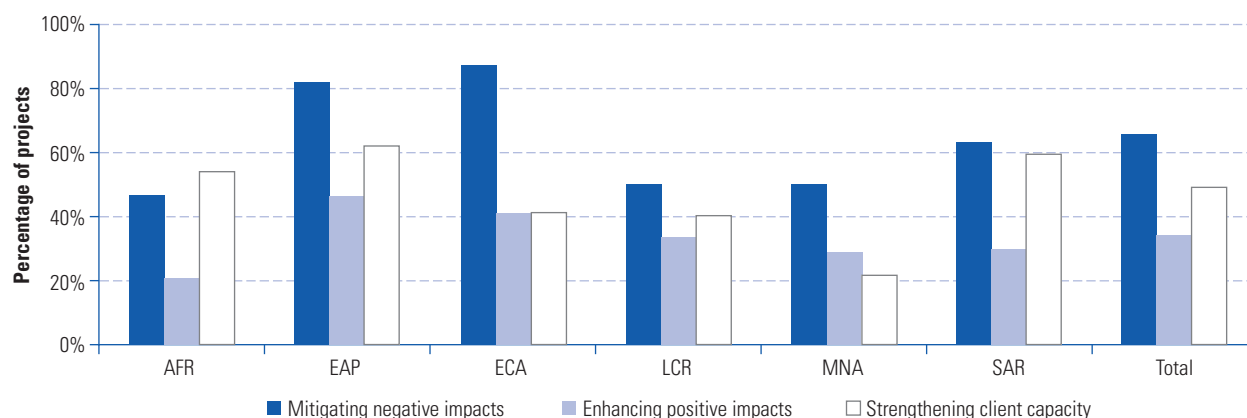
Supervision and monitoring reports suffer from the absence of systematic, structured information on safeguard implementation and outcomes. Documentation for each project in the portfolio review was carefully examined to obtain evidence of performance, as opposed to compliance with safeguard procedures. As highlighted in chapter 2, information on safeguards in ISRs and monitoring reports was found to be miniscule and generic, or absent, compared with the more detailed information found in appraisal documents. For comparability, IEG assessed all projects on their achievement of the three composite performance indicators—MNI, enhancing positive impacts, and strengthening client capacity.

### Bank use of standardized performance metrics

Overall, MNI received much more attention in the portfolio than enhancing positive impacts or strengthening client capacity (figure 3.3). These findings were corroborated by feedback from staff, management, and NGOs. MNI could be substantiated for 66 percent of the projects in IEG's portfolio sample. In addition, a third (34 percent) of these projects went beyond minimum mitigation measures to enhance positive impacts, while half (49 percent) had credible measures to strengthen client capacity. Promotion of environmental and social sustainability within client countries lags behind mitigation of immediate environmental and social risks in Bank-financed projects. While mitigation of adverse impacts has to remain a priority, over time the Bank needs to move beyond protecting Bank-financed projects toward measures that strengthen environmental and social sustainability within borrower countries.

Performance depends largely on the quality of client implementation and Bank supervision. While both were strong in East Asia and Pacific, in Europe and Central Asia, which had considerably lower safeguards challenges, strong client implementation sufficed to overcome the limitations of somewhat weaker supervision. In

**Figure 3.3: Safeguards Performance in Bank Projects**



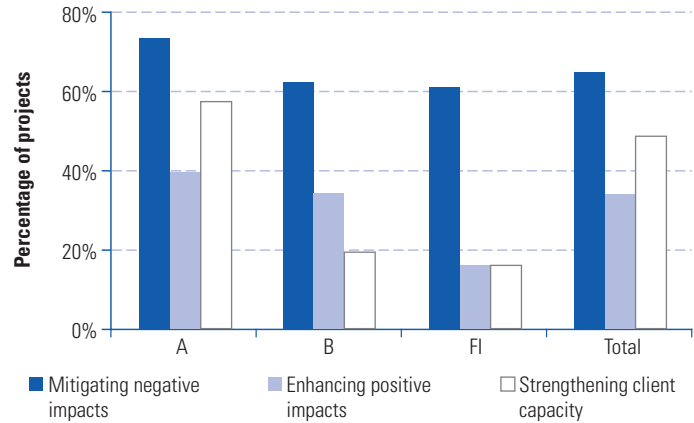


contrast, greater supervision effort and investment in client capacity building in South Asia overcame some of the constraints of weaker client implementation resulting in somewhat better ratings for MNI than would have been otherwise (figure 3.3). Although safeguards performance can also be affected by poor design, this was rarely the case in the portfolio review sample.

In Bank-financed projects attention to sustainability is much greater in category-A projects than in category-B and -FI projects. Data on implementation performance (figure 3.4) indicate that category-A projects, to which the client tends to pay more attention, do a much better job of strengthening client capacity. There are substantial missed opportunities in promoting sustainability in category-B and -FI projects, the last group being of greatest concern because of the heavy dependence on client capacity for implementation.

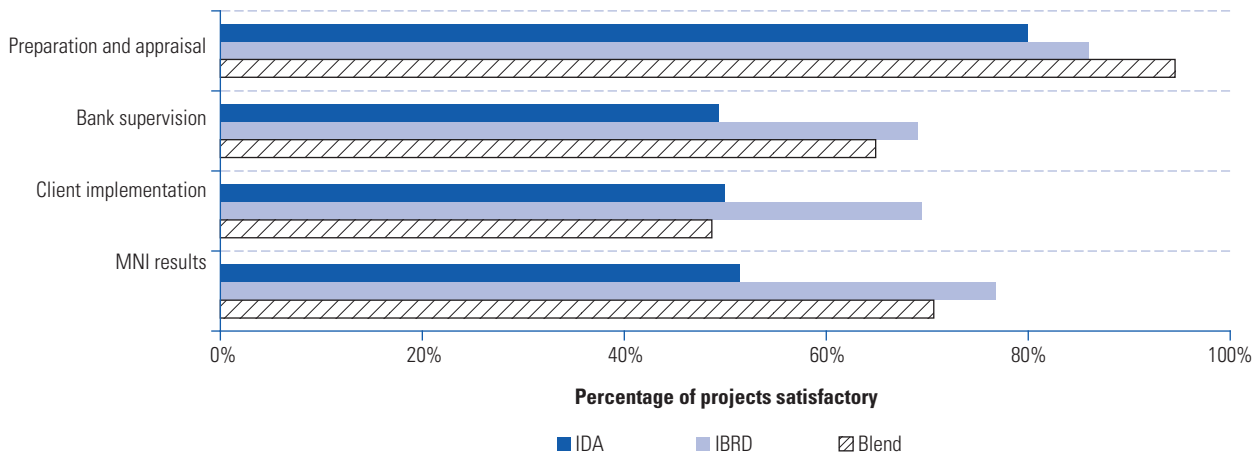
The quality of preparation and Bank supervision can profoundly affect client implementation and project performance. Segmentation of performance for IDA and IBRD projects provides the clearest example of this effect

**Figure 3.4: Bank Safeguards Performance by EA Category**



(figure 3.5). Weaker preparation and much weaker supervision in IDA countries compound the inherent weaknesses in IDA client capacity and lead to a huge difference in the proportion of projects demonstrating satisfactory mitigation of negative impacts. *Attention to sustainability is much greater in category-A projects than in category-B and -FI projects.*

**Figure 3.5: Process Implementation and Performance for IDA/IBRD Projects**



Source: IEG portfolio review.

Investing in client capacity can lead to high positive impacts over the long term. Recognition of the Bank's knowledge and expertise on infrastructure, including on managing its environmental and social risks, induced China to maintain its relationship with the Bank even though their need for financial support had attenuated (box 3.1). The transport sector in China adopted a structured learning process to extend the knowledge gained from the Bank's capacity-building efforts in a few projects to the entire sector.

### **Performance for different safeguard impacts**

Evidence of mitigation of environmental and social impacts was available in about two-thirds of the sampled projects. In addition to the composite performance indicators, the portfolio review also enabled IEG to assess the environmental and social effects of different safeguard policies. Performance for the 102 completed projects was combined with those for another 66 projects with substantial implementation at the time of the assessment. Evidence of satisfactory implementation, summarized in figure 3.6, ranged from 63–86 percent. Satisfactory

implementation performance for Environmental Health & Safety, Involuntary Resettlement, and Control of Hazardous Materials was less evident than in other areas. Among the projects with involuntary resettlement, 40 percent of affected persons were physically displaced, and 60 percent had impacts on their livelihoods. Among the projects in the sample with satisfactory resettlement outcomes, livelihoods were found to be 15–85 percent better than their preproject status. Projects that did not succeed in restoring livelihoods, or did not provide any evidence of having done so, were rated wholly or partially unsatisfactory. IEG's desk-based portfolio review was constrained by the quality of reporting in supervision and completion reports, but the findings are consistent with those from the field case studies. This performance is further compounded by the incomplete thematic coverage of Bank policies, as illustrated by a transport project in Bangladesh (box 3.2).

### **Triangulation of findings on bank safeguards performance**

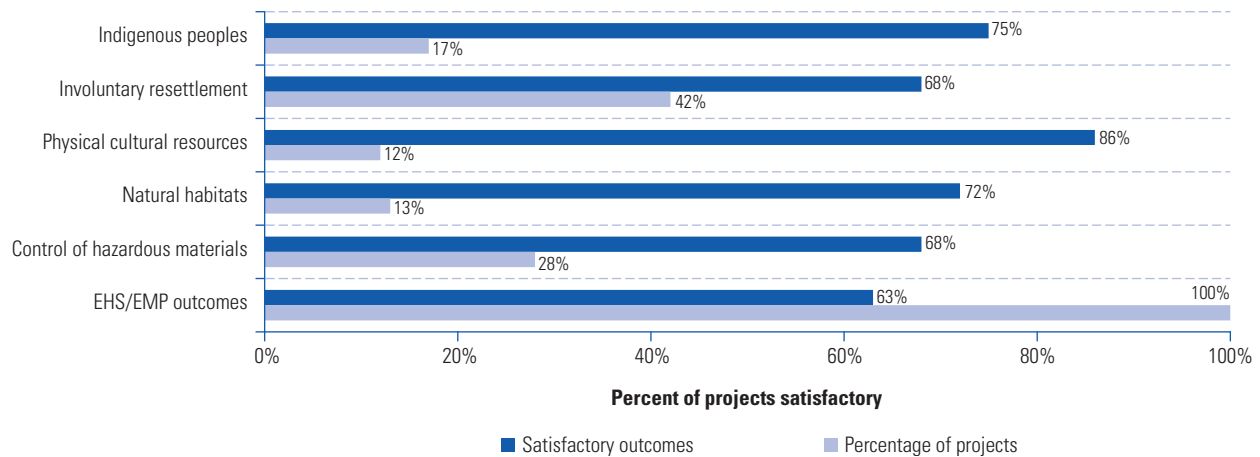
IEG portfolio review findings are consistent with the information obtained from other sources of data. Of the Bank managers interviewed,<sup>13</sup> the vast majority said that safeguards were effective in mitigating adverse impacts in their project portfolio but were less effective in building client capacity than they would have liked (figure 3.7). Based on their project portfolio, two-thirds of managers reported that the Bank's approach to safeguards had been effective in building environmental capacity, but effectiveness in building client capacity for the current social safeguards was reported by less than half.

Staff feedback on safeguards performance has generally been positive, with environmental and social specialists rating performance higher than task team leaders: 57 percent of task team leaders and 69 percent of environmental and social specialists surveyed said the application of Bank's safeguards policies resulted in mitigation of adverse impacts, while 10 percent of task team leaders said there was no mitigation at all.

#### **Box 3.1: Structured Learning Process in the Chinese Transport Sector**

One interesting example consisted of 10 transport sector projects in China. China had approached the WBG not for its financial support, but for its "world-class knowledge and expertise on infrastructure and urban development projects." What is most remarkable about these projects is the extent to which the Chinese consciously and systematically applied lessons learned about social and environmental safeguard policies, extending the knowledge gained on a few projects to the entire sector. Throughout this process, they strengthened their own internal capacities and institutions, thus significantly contributing to better preparation and implementation. The assessment by IEG was reinforced by feedback from staff who reported that "local practices are moving ever closer to the Bank's policies... being constantly strengthened by the government. As a result, in-country capacity is high."

*Source:* IEG interview with regional manager.

**Figure 3.6: IEG Ratings for Implementation Performance in Bank Projects**

Source: IEG portfolio review.

### Box 3.2: Protecting Vulnerable Populations—Do Safeguards Ensure Adequate Coverage of Social Risks?

Dhaka's streets, like those of many cities in developing countries, are shared by cars, buses, nonmotorized vehicles, and pedestrians. They are plagued with gridlock and accidents, caused in part by poorly developed road infrastructure in Dhaka relative to the population and urban area served.

The Dhaka Urban Transport Project (DUTP) aimed to improve transport infrastructure and services to improve traffic flow and overall mobility for the traveling public. The project financed conversion of highly polluting two-stroke auto-rickshaws to cleaner four-stroke engines, 175 kilometers of pedestrian footways, 63 kilometers of arterial roads, traffic signals at 69 junctions, and rehabilitation of three major bus terminals. After a midterm review, several major bus arteries were closed to nonmotorized vehicles.

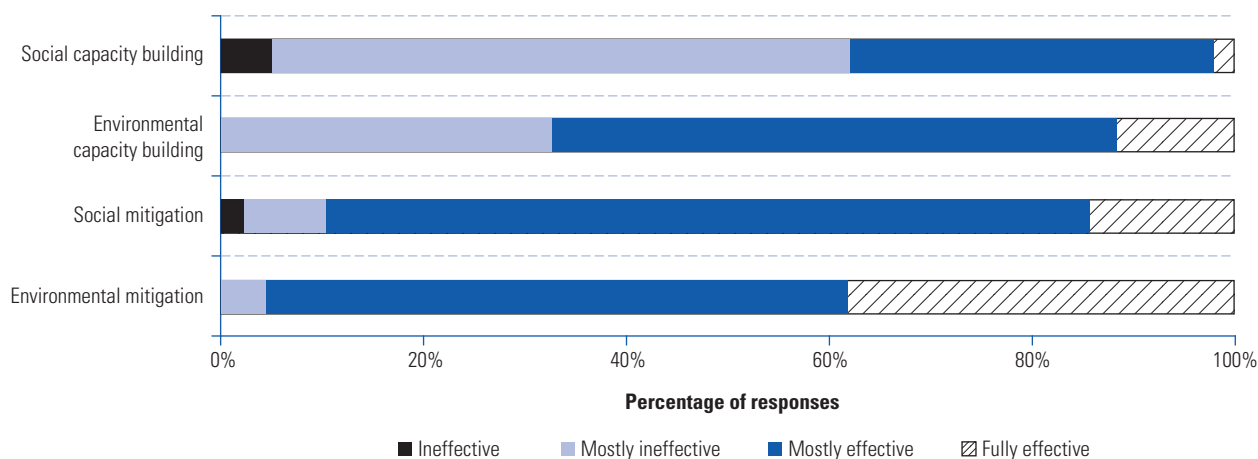
**Positive project outcomes:** Traffic surveys indicated improved traffic flow, reduced traffic accidents (fatal accidents down by 33 percent, injuries down by 85 percent), and average travel time reduced by about 30 percent. The majority of transport users surveyed were positive. The project also brought about significant improvements in urban air quality (lead pollutants down by 30–60 percent).

**Unanticipated project effects:** A year before project close it became evident that a major social risk had been overlooked during appraisal, despite close scrutiny by environmental and social safeguards specialists. The ban on bicycle rickshaws on major arterial roads was causing significant loss of income due to labor impacts on 54,000 affected rickshaw pullers, whose remittances to impoverished rural districts helped keep families out of poverty.

**What the safeguards contributed and what they missed:** Project preparation included substantial up-front work for the environmental and resettlement safeguards (OP 4.01 and OD 4.12), the only safeguards policies triggered. Under the current safeguard policies, no social impact assessment was required, and no comprehensive assessment was made of how the project might affect local communities or vulnerable groups. A comprehensive social assessment of community impacts would have allowed early identification of vulnerable populations and timely introduction of an appropriate mitigation plan as part of the DUTP. As the project was about to close, a mitigation package consisting of technical training and microcredit had to be designed somewhat belatedly, and financed from another IDA credit (Microfinance II) to address these adverse impacts.

Source: Project files.

**Figure 3.7: Manager Feedback on Bank Safeguards Effectiveness**

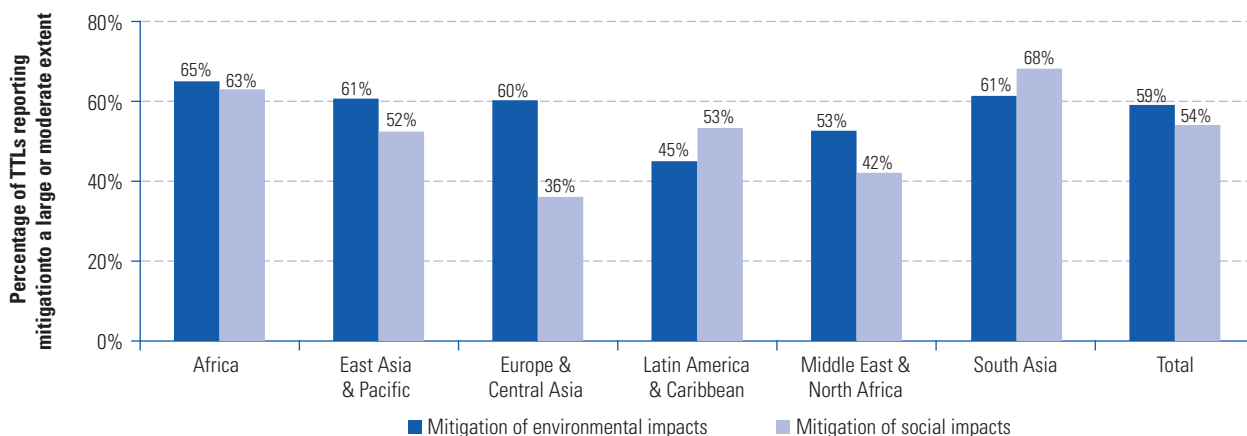


Source: IEG interviews with country directors and sector managers.

Results varied by region, environmental mitigation being better in Africa, East Asia and Pacific, Europe and Central Asia, and Middle East and North Africa, while social mitigation was rated better in Latin America and the Caribbean and South Asia (see figure 3.8). Half of the respondents to the task team leader survey felt that the application of the Bank’s safeguard policies to the project enhanced the likelihood of achiev-

ing the project’s development objectives, thereby contributing to development effectiveness. Environmental and social specialists viewed the impact of safeguards even more positively than task team leaders: about three-quarters of environmental and social specialists felt safeguards impacts in their own area of specialization enhanced the project’s development effectiveness. But country directors are

**Figure 3.8: Task Team Leader Assessment of Mitigation Outcomes of Bank Safeguards, by Region**



Source: IEG staff survey.

less sanguine and would like the rigidities in implementation to give way to a risk management approach with greater focus on development effectiveness (box 3.3).

Nonetheless, IEG surveys indicate that staff are acutely aware of the discouraging effect of safeguards and Performance Standards on clients. Feedback from Bank staff described above is mirrored by findings from the IFC staff survey. Among investment officers, 40 percent reported that Performance Standards had a negative impact on IFC-client relationships. Forty-seven percent of investment officers, and 56 percent of environmental and social specialists, had experienced a situation where the client wanted to avoid dealing with the IFC because they thought it would be too expensive or time-consuming. These numbers are of the same order of magnitude as among Bank staff.

While the majority of NGOs reported that WBG performance on safeguards had improved, less than half were satisfied with the WBG's impact on building client capacity to manage environmental or social impacts. The majority of NGOs agreed that environmental and social performance of WBG-financed projects was better than that of other IFIs and client governments. However, only half of the respondents assessed the effectiveness of the safeguards and sustainability policies as being high or substantial,<sup>14</sup> local NGOs being more positive than international NGOs about WBG effectiveness. NGO perceptions on Bank capacity building are similar to IEG's assessment.

Recent organizational restructuring appears to have contributed to a growing divide between safeguards and nonsafeguard environmental and social work programs. Feedback from focus group discussions with staff revealed that recent institutional restructuring, including the relocation of the Quality Assurance and Compliance Unit (QACU) from ESSD to Operational Policy and Country Services (OPCS)<sup>15</sup> has led to greater attention to the safeguards but has come at the cost of an

### Box 3.3: Concerns of Country Directors about Safeguards

Country directors are most concerned about rigidities in safeguard policies and implementation, as well as weak links with development results.

- "There is no problem with the safeguard standards... It is the performance metrics and procedures that are the constraint. We must judge task teams by their contribution to safeguards, not by identifying what the government has not complied with."
- "According to Bank policies, safeguards compliance is the responsibility of the client and it is the responsibility of the team to supervise compliance. Currently in our region the pendulum has swung the other way with the region expecting the teams to be responsible for compliance... We need to rebalance the distribution of responsibility between the client and the Bank."
- "We need to make sure that a risk management approach is properly designed and implemented in our portfolio in order to manage both reputational risk and our own resources more efficiently. Currently the Bank is risk averse, and this has practical implications for our staffing and resources and for those of our client."
- "[Safeguard policies] are certainly useful for development effectiveness. If you are doing huge infrastructure projects and not taking safeguards seriously you will not have the strong effect you would like. But we should look closely to see to what extent safeguards have contributed to development results."
- "We are trying to do the right thing in paying attention to safeguards, but we can bring a lot of improvement to the policies and how we implement them... The policies have evolved over time in a reactionary manner. This may be the time to look at the policies and their impact on the client."

Source: IEG interviews with country directors.

increasing void between safeguards and the sustainability agenda. There is evidence of more careful screening of projects at entry, greater attention to category-A projects, and more risk aversion reflected in an inflation of projects being classified as category B. Staff have pointed to more centralized control and, in some instances, divergence in interpretation of policies and standards between the regions and centrally based staffs.

The artificial separation of environmental and social staff between those who work on safeguards and those who work on social or environmental sustainability is a cause for concern. The merger of infrastructure sectors with the environmental and social development sectors under one vice presidency has given rise to a surge in demand for safeguards services, but the demand-driven nature of the relationship between infrastructure task team leaders

*Increased attention is being paid by IFC to enhancing positive impacts and strengthening client capacity without significant differences in pre- and post-Performance Standard project performance.*

and environmental and social staff is forcing a division of labor among the social and environmental staff that is unnecessary. A formal examination of the organizational incentives and effectiveness is beyond the scope of this evaluation. However, the separation of QACU from the oversight of the environmental and social Sector Boards appears to have exacerbated this divide. The effect of these

tendencies is that across the Bank, most of the Bank staff who work on safeguards do not work on environmental and social sustainability, while those who work on sustainability no longer work on safeguards. This is not an optimal use of Bank resources, and is in contrast to IFC and MIGA where the mitigation agenda is an integral part of social and environmental sustainability.

## **Sustainability Performance in IFC Projects**

### ***IFC use of standardized performance metrics***

Since the sample was quite small and several post-Performance Standard projects had not yet submitted Annual Monitoring Reports or Annual Environmental Performance Reports, it was possible to obtain information only from 18–28 projects for each indicator. The performance of post-Performance Standard projects will not be available for full evaluation before 2011; therefore, the results presented here are indicative only. A review of Performance Standards implementation based on the portfolio review and projects visited in the field is presented in annex 4.

Preliminary findings indicate that while maintaining the focus on mitigating negative impacts,

increased attention is being paid to enhancing positive impacts and strengthening client capacity without significant differences in pre- and post-Performance Standard project performance. The level of performance regarding mitigation of negative impacts and enhancing positive impacts of Performance Standard projects is similar to that of pre-Performance Standard projects. While increased attention is being paid to developing clients' SEMS under Performance Standard 1, satisfactory project performance remains a challenge, particularly for financial intermediaries.

### ***Real sector projects***

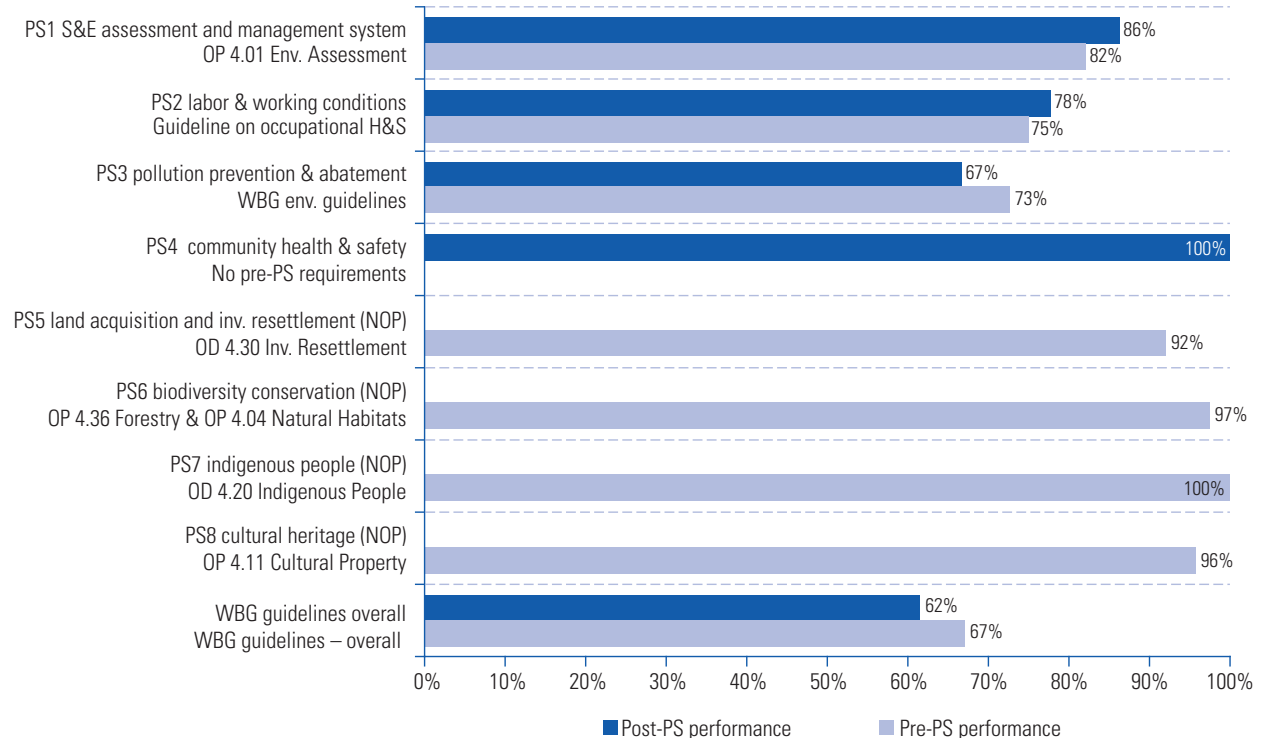
Among real sector projects the share of satisfactory performance of post-Performance Standard projects in applying the first three Performance Standards and EHS guidelines has been at about the same level as for pre-Performance Standard projects covering similar environmental and social aspects (figure 3.9). However, the portfolio review does not permit an assessment of Performance Standards 5–8, which were triggered in too few projects in the portfolio sample to evaluate their performance.

IEG has reviewed clients' annual reports and other environmental and social documents for validation of the ESE section in the XPSRs and collected information on main performance indicators since 2004, covering project appraisal years 1999–2004. The share of satisfactory implementation performance along key environmental and health and safety indicators in 209 pre-Performance Standard projects is presented in figure 3.10. The upper dark bar represents the percentage of satisfactory performance and the lower light bar the percentage of projects showing the respective Performance Standard in the total XPSR sample.

IEG found 71 percent of the real sector, pre-Performance Standard projects have satisfactory environmental and social performance overall. Most projects demonstrated a satisfactory EMS.<sup>16</sup> Project performance has also been good in emergency preparedness and management of solid wastes, hazardous



**Figure 3.9: Implementation Performance of Safeguard Policies and Performance Standards (real sector)**



Source: Pre-Performance Standard real sector results are based on IEG’s fiscal 2004–09 Environmental and Social Reviews for 209 XPSR projects appraised in fiscal 1999–2004, and post-Performance Standard real sector results are based on the portfolio review of 24 projects.

Note: PS = Performance Standard, NOP = No opinion possible. The differences between pre- and post-Performance Standard ratings are not statistically significant.

materials, and fuels, and satisfactory in occupational health and safety, control of air emissions, liquid effluents, and energy efficiency. However, emergency preparedness and energy efficiency aspects were present in only half of the projects. The 139 evaluated pre-Performance Standard FI projects (not depicted in the chart) achieved 65 percent satisfactory rate for their Environmental and Social Effects (the difference was within the sampling error of 3.3 percent).

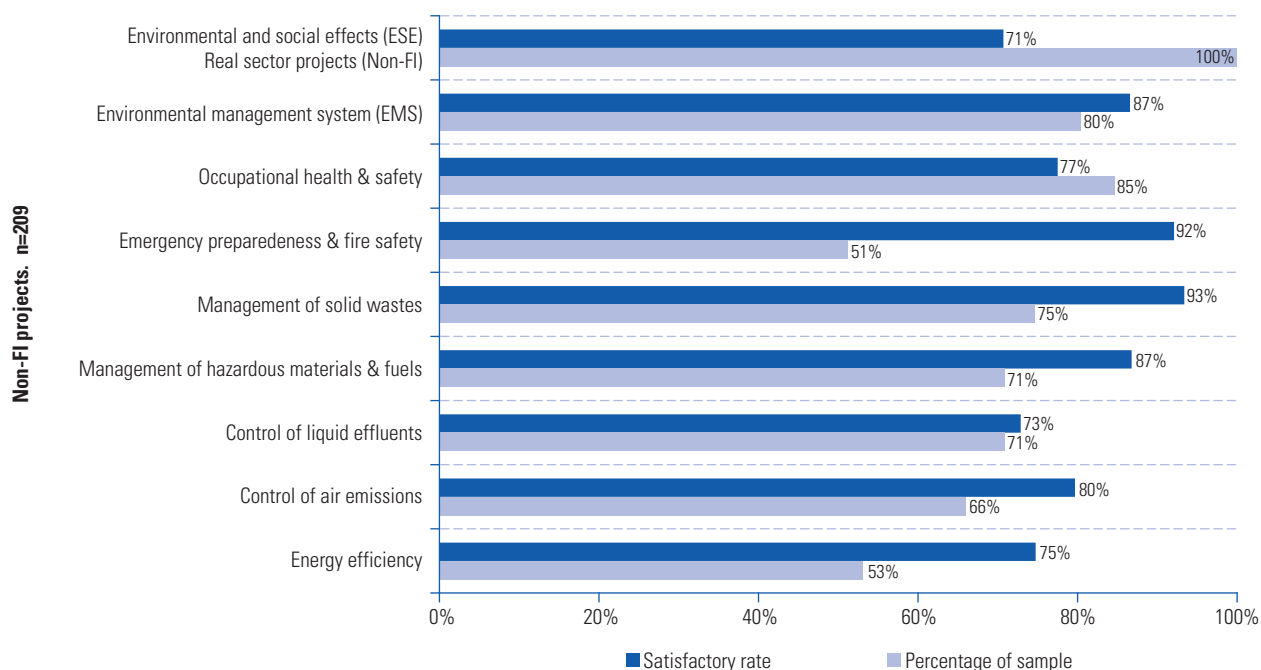
**Financial intermediaries**

Assessment of FI project performance in post-Performance Standard projects is constrained by scarcity of information on subprojects. Since Annual Environmental Performance Reports were available for only 10 projects in the original random sample of 16 post-Perfor-

mance Standard projects in the FI sector, the sample for this evaluation was expanded to 181 investments—139 pre-Performance Standard projects from the XPSR database, which contains compliance information regarding IFC’s standard requirements for FIs, and 42 randomly sampled post-Performance Standard projects with Annual Environmental Performance Reports submitted. Summary performance on quality of the social and environmental management systems at FIs, and their implementation in appraising and supervising subprojects are shown in table 3.1, which reveals no significant difference between pre- and post-Performance Standard projects.

SEMS implementation was satisfactory only in about half of the evaluated pre-Performance Standard and post-Performance Standard FI

**Figure 3.10: Satisfactory Environmental and Social Performance in IFC’s Real Sector, Pre-Performance Standard Projects Appraised, FY 1999–2004**



Source: IEG’s fiscal 2004–09 Environmental and Social Reviews for 209 XPSR projects appraised fiscal 1999–2004.

**Table 3.1: Performance of FI Projects in IFC’s Portfolio**

Indicator	Pre-Performance Standard, n=139 (safeguards)		Post-Performance Standard, n=42 (performance standards)	
	Number	Satisfactory results	Number	Satisfactory results
Social and environmental management: system documentation at entry (policy, procedures, and organization)	112	71%	41	78%
Social and environmental management: implementation (appraisal and supervision and ensuring environmental and social compliance of subprojects)	71	56%	38	50%

Source: Pre-Performance Standard real sector results are based on IEG’s fiscal 2004–09 Environmental and Social Reviews for 139 XPSR projects appraised fiscal 1999–2004, and post-Performance Standard real sector results are based on the expanded study portfolio of 42 projects.

Note: The differences between pre- and post-Performance Standard ratings are not statistically significant.

projects. About three-fourths of the FIs had developed an SEMS document describing the company policy, procedures for screening, appraising, and monitoring subprojects, as well as nominated people to oversee and implement environmental and social appraisal and supervision of subprojects. However, SEMS implementation—proper screening, appraisal, and supervision of subprojects, and ensuring compliance with EHS guidelines, safeguard policies, and Performance Standards as appropriate—was satisfactory only in about half of the evaluated pre- and post-Performance Standard projects. The other half of the FIs seem to have taken only the first easy step to develop a social and environmental management document, but were not willing to implement it.

The FIs often lack guidance on proper categorization, resulting in systematic downgrading of category-B subprojects to category C and insufficient information to IFC on subprojects that should have been in category A. However, a great majority of the FIs reported that they followed the exclusion list and host-country environmental laws and regulations. Legal compliance provides some comfort on mitigating negative impacts at subproject level in countries with strong environmental law enforcement, but as observed during IEG site visits, law enforcement in many countries is weak and subprojects in industries with small and medium enterprises are outside the purview of regulatory authorities.

Although IFC's environmental and social work quality in FI projects has improved substantially in the past three years with increased supervision resources, IEG's ratings for ESE in FI projects is still low (63 percent, fiscal 2007–09 average)<sup>17</sup> compared with real sector projects (71 percent), and SEMS is implemented effectively only in half of the FI projects. There are three reasons for low performance. First, financial intermediaries do not have a legal obligation to the host country to ensure sustainability of their subprojects, which in turn do not have direct contractual obligations with IFC to meet its environmental and social requirements. Second, many financial intermediaries lack environmental management capacity. Third, many are unwilling to hire external consultants

for professional and independent environmental and social audits because of the associated costs in a competitive market situation. As intermediary financiers they do not pose reputational risks to IFC comparable to that of IFC direct investments in category-A or some category-B real sector projects. Therefore, until recently IFC has not paid sufficient attention to poor environmental and social performance of FI projects. CESI staffing, although increased from one to five in the past five years, is still small compared with 57 environmental and social specialists dedicated for real sector projects. Contrary to some real sector projects, IFC has never disinvested a financial intermediary project because of environmental risks—although its finance to one high-risk subproject or numerous SME industry projects may have significant cumulative environmental and social impacts and improvement opportunities.

The financial sector needs more capacity building and incentives to improve subproject performance; IFC's supervision alone cannot improve performance. The IFC's Environment and Social Department discontinued the Competitive Business Advantage sustainability training program for financial intermediaries in 2006 because it was regarded as a one-off event and insufficient to build sustainable client capacity in environmental management. Instead, the Environment and Social Department has started e-learning and partnership programs with local entities in emerging markets to deliver training for financial intermediaries.

Although IEG welcomes such long-term capacity building programs, to date the program has a very narrow regional scope—in Brazil, China, and India only. Many financial intermediary clients have changed their environmental coordinators and managers in the past three years and new staffs in the financial intermediaries do not have sufficient capacity for environmental appraisal and monitoring of subprojects. The discontinuation of IFC's global training program has created a major gap in IFC's ability to build the capacity of financial intermediaries, which urgently needs to be addressed. IFC should make better use of opportunities to build capacity by visiting their subprojects and demonstrating good appraisal and

*The financial sector needs more capacity building and incentives to improve subproject performance.*

supervision practices. Visits to subprojects would also give IFC an opportunity to verify SEMS implementation by the financial intermediaries in subproject appraisal and supervision, as well as mitigation of adverse environmental and social impacts by their clients.

This review of implementation performance identifies the benefits of IFC's new policy framework in terms of the scope of the policies—such as the increased coverage of social aspects—and the focus on the clients' social and environmental management systems. This determines the nature of environmental and social impacts and the client's capacity to undertake mitigation measures being examined. The preceding assessment has looked at the stringency of the targets, the effect of categorization (A versus B), and follow-up by clients in the new system, which together provide proxies for the environmental and social impacts, although direct measurement of the impacts would have been preferable.

*The PPSSSES is leading to greater attention to MIGA clients' SEMS, but there is still a gap in reaching the goals of Performance Standard 1.*

IEG's portfolio review found that the new PPSSSES is leading to greater attention to the clients' SEMS, but there is still a gap in reaching the goals of Performance Standard 1. While every category-A, -B, and -FI project is subject to review-at-entry, MIGA's environmental and social clearance memorandum discusses the adequacy of the clients' SEMS for only 39 percent (7/16) of the pre-PPSSSES projects and 70 percent (7/10) of the post-PPSSSES projects in the sample for which it would have been expected.

### **Sustainability Performance in MIGA Projects**

As stated in the PPSSSES, MIGA expects to achieve its environmental and social objectives through the application of a comprehensive set of Performance Standards to the projects it guarantees. While the Performance Standards have only been in place since October 2007, they are largely carried over from the previous safeguards policies and represent MIGA's most recent and authoritative statement of what its sustainability framework is intended to achieve. However, as a result of MIGA's limited monitoring of project performance and implementation, only sparse information is available on actual performance on minimizing negative impacts, enhancing positive impacts, and strengthening client capacity.

#### **Strengthening client capacity**

The application of Performance Standard 1 is MIGA's main instrument for strengthening client capacity. Its objective, to promote the clients' effective use of a SEMS throughout the life of

a project, expands upon the scope of MIGA's previous (1998) Environmental Assessment Policy by including social impacts and clarifying the clients' responsibilities. Thus, MIGA's review-at-entry of a project that is expected to have significant environmental and social impacts should include an assessment of the capacity of the client's SEMS and the identification of corrective actions to bring it up to standards.

The risks associated with inadequate SEMSs are illustrated by a category-B project for which the client requested an EHS audit. The audit, funded by the Japan-MIGA Trust Fund to Address Environmental and Social Challenges in Africa, found that the client's social and environmental management system did not meet MIGA's requirements, even though the client had obtained an environmental license from the host country. The audit also found that a fire had recently occurred and not been reported to MIGA. For each of the EHS gaps, the audit suggested corrective actions. A recent IEG mission found that the audit had been well received and the client was actively remedying the identified shortcomings.

To address client capacity challenges, MIGA has established the Trust Fund to Address Environmental and Social Challenges in MIGA-guaranteed projects in Africa. Since its launch in 2007, this program has supported nine environmental and social capacity strengthening activities, of which three have been completed.<sup>18</sup> One of these activities paid for the aforementioned EHS audit, which helped a client address a number of SEMS gaps. MIGA follow-up client

surveys indicate that client satisfaction with these activities has ranged from very good to excellent.

MIGA's 2007 sustainability framework requires an assessment of the social and environmental management system of financial intermediaries, which MIGA had not previously examined. Even so, out of the six post-Performance Standards financial sector projects in the sample, IEG found that the review-at-entry commented on only 50 percent (3/6) of the client's SEMS. This is an important gap, since financial sector projects constitute a large and growing share of MIGA's portfolio, and most of these projects support a diversified portfolio, including projects in sectors that typically face significant environmental and social risks.

Furthermore, MIGA's due diligence is limited to the corporate policies of the parent bank. How well the corporate parent is able to ensure that its subsidiaries—which are supported by MIGA—abide fully by these policies is not always clear. Given the likelihood of significant differences in implementation capacity between a parent bank's headquarters and its subsidiaries, with less sophisticated developing country partners and country systems, this approach may not provide an accurate assessment of the subsidiary financial intermediary's SEMS compliance with national laws and MIGA's Performance Standards, as required by Performance Standard 1. To date, MIGA has not received any monitoring reports on the environmental and social performance of its financial sector projects that would support the adequacy of its approach, which relies solely on a review of the corporate policies of the parent banks.

### **Minimizing negative and enhancing positive social impacts**

Aside from Performance Standard 1, which is the overarching framework for enhancing environmental and social management, five Performance Standards<sup>19</sup> constitute MIGA's tools for minimizing negative and enhancing positive social impacts. The discussion that follows focuses on the three standards (PS2, PS4, PS5),

since IEG does not have information from the review sample on performance for the other two (PS7,PS8).

The broadened scope of the Performance Standard on Labor and Working Conditions (PS2) has led MIGA to pay much more attention to labor issues than before. IEG found that the client's human resource policies had been reviewed and found satisfactory for 100 percent (7/7) of the category-B projects approved after Performance Standard 2 became effective, whereas they had been discussed for only one of the pre-PPSSES sample. This is fully in line with MIGA's PPSSES, but raises a question as to why Performance Standard 2 is not extended to category-C and -FI projects, since there is no *prima facie* indication that the same issues may not also be relevant to them.

Under the Performance Standard on Community Health, Safety, and Security (PS4), MIGA has devoted greater attention to the clients' management of potential community risks and impacts. Two recent projects illustrate what the process involves. For a medium-sized industrial project in Asia, the client committed to disclose planned activities and other environmental and social effects to the communities' leadership, as well as to undertake regular consultations and procedures for resolving community grievances. For a power transmission line in Latin America, the host country's legislation requires, and the client committed to a social communication program that provides landowners and local residents the opportunity to report environmental and social concerns that arise throughout the construction period. In the absence of MIGA monitoring, however, it is not possible to ascertain if these commitments have been met.

As a supporting initiative under the 2007 policy reforms, MIGA proposed that it would regularly report on the local community impacts for a small number of projects where such impacts may be significant. On this basis, two action plans were under preparation, but the guarantees did not go forward.<sup>20</sup>

Given limited MIGA monitoring, implementation of the Performance Standard on Land Acquisition and Involuntary Resettlement (PS5) is difficult to assess, and some risks are evident. In a power transmission project in Africa, approved under the safeguards framework, no RAP had been prepared, even though the due diligence mission had found that over 200 homesteads were going to be affected. Four years after, MIGA's first monitoring mission found that the majority of resettlement and compensation cases had not been satisfactorily handled, leading to numerous grievances, and committed the client to correct outstanding problems. A follow-up monitoring mission two years later found that, while a few important claims had been settled, most of the claimants had moved and could no longer be traced and adequately compensated.

A second example shows how active monitoring can help address unexpected problems and improve performance. Land compensation for a highway project in Latin America had been delayed because of conflicting ownership claims on the same land arising out of faulty historical transfers. Two years after project approval, a monitoring mission staffed by a qualified social scientist scoped out the problems and requested the government to give priority to resolving such cases through the courts system. A year later, a follow-up visit verified that the resolution of these cases had accelerated, but the project is still much delayed from the original schedule.

MIGA's limited monitoring capacity is constraining its ability to ensure that its projects meet the applicable Performance Standards. While it can be argued that the resettlement process and performance would have been worse if MIGA had not been involved, they also point to areas needing more attention and resources. These cases highlight the importance of preparing a full RAP before starting construction and the importance of timely supervision.

### ***Minimizing negative and enhancing positive environmental impacts***

Along with Performance Standard 1, Performance Standards 3 and 6 are MIGA's tools for

minimizing the negative and enhancing the positive environmental impacts of the projects it guarantees.

MIGA's limited monitoring of the Performance Standard on Pollution Prevention and Abatement (PS3) makes it difficult to assess clients' performance. While IEG found that environmental problems were identified in 25 percent (2/8) of the mature sample projects (older than two years) that MIGA had monitored, the absence of monitoring cannot be assumed as representing satisfactory performance for the 75 percent of projects that have not been monitored. The single case (mentioned earlier) for which the comprehensive audit requested by the client found numerous environmental and social management inadequacies illustrates the problems that may be hidden when monitoring is not done.

MIGA has been fairly consistent in its implementation of its Performance Standard on Biodiversity Conservation and Sustainable Natural Resource Management (PS6), although some avoidable losses occurred. IEG found that several projects support the sustainable use of natural resources, by incorporating environmentally friendly, energy efficient, and resource saving technologies, to ensure project impact will be positive relative to the facilities they replace and local comparators. A few projects incorporate intensive water treatment and recycling technologies to ensure their viability and minimize their impact in water-scarce locations.

Two of the projects in the MIGA sample supported the restoration of previously degraded habitats: a power plant in Europe included the creation of small ponds and wetlands, which will not only compensate for the losses from its own ash disposal site, but also for some of the habitat converted by an older plant it replaces. The other case is a wastewater treatment plant in the Middle East that will significantly improve the currently anoxic water flow into a major reservoir, enabling its restoration as a viable aquatic ecosystem and wintering ground for migratory birds.



### **Implementation performance from the perspective of MIGA's new sustainability framework**

Comparing the implementation performance from projects processed under MIGA's 2007 Performance Standards with projects subject to the earlier safeguards, IEG found some improvement in the following areas:

- Appraisal of the projects' SEMS, including those of Financial Sector projects (the latter were previously classified and screened as category-C projects)
- Appraisal of labor and working conditions
- Appraisal's attention to community consultations
- Provision of technical assistance to SEMS-challenged clients in Africa.

On the other hand, IEG found a substantial gap in MIGA's ability to monitor implementation performance and provide assurance that the objectives of the Performance Standards are being met. Most of this gap is due to a shortage of capacity and resources devoted to MIGA's environmental and social unit. In IEG's judgment, it is not feasible for MIGA to fully comply with the requirements of the PPSSSES and meet the expectations of the Performance Standards unless its environmental and social capacity is substantially increased.

### **Summary of Main Findings**

The main purpose of this chapter has been to assess implementation performance of the WBG's safeguards and sustainability policies. The WBG lacks a clear framework to assess the impacts of their safeguards and sustainability policies. Environmental and social outcomes of Bank projects are not clearly articulated, performance indicators are rarely specified and integrated in the project's results framework, and data to monitor and evaluate are not routinely collected and used. The Bank relies primarily on compliance with the environmental and social management plans as a proxy for assessing mitigation of adverse impacts. Despite the emphasis on mandatory procedures

at the Bank, IEG was able to find evidence of satisfactory mitigation of negative impacts in only two-thirds of Bank projects.

The adoption of the PPSSSES provided IFC and MIGA with an integrated framework to assess environmental and social performance. This has been strengthened by the introduction of additional monitoring instruments by IFC, such as the online ESRD document with specific performance indicators and a rating system; however, its efficacy depends on the quality of reporting by clients, and independent assessment of impacts is not the norm. The limited experience to date does not permit IEG to assess rigorously the performance of IFC projects prepared under the PPSSSES, yet there appears to be greater emphasis on sustainability outcomes in the Performance Standards approach.

The Bank's safeguards work appears to be more focused on the immediate effects of the projects it finances (and related reputational risks) than on longer-term environmental and social sustainability. The Bank's policies and systems emphasize appraisal of environmental and social risks and proposed mitigation plans to ensure compliance with safeguard policy requirements. Strengthening client capacity and enhancing positive impacts tend to take a back seat to mitigating the adverse impacts induced by Bank-financed investments. IFC's and MIGA's new policy emphasizes environmental and social sustainability and achievement of the Performance Standards. IEG found increased emphasis on strengthening the client's social and environmental management system and enhancing client responsibility for implementation and achievement of the Performance Standards since introduction of the PPSSSES framework in IFC and MIGA. IFC's approach encourages its clients to adopt additional measures to improve community impacts and EHS outcomes. Chapter 5 will return to these alternative paradigms for doing business.

*Although there have been some improvements, there is a substantial gap in MIGA's ability to monitor implementation performance and provide assurance that the objectives of the Performance Standards are being met.*



# Chapter 4

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## Evaluation Essentials

- The WBG's safeguards framework generates significant benefits, but these are not systematically measured or quantified.
- IFC's budgetary resources devoted to its sustainability framework are being efficiently allocated toward projects with higher risks and benefits.
- Bank costs are well targeted toward high-risk projects but findings on category-B projects indicate suboptimal allocation of resources.
- Bank clients tend to allocate resources efficiently in meeting safeguards requirements, but allocative efficiency cannot be assessed for IFC clients because data are not available.
- Better monitoring, documentation, and reporting of environmental and social impacts are needed to improve the quality of benefit-cost analysis.
- The assessments of benefits and costs show that the WBG's safeguards framework generates significant benefits for the mitigation of environmental and social risks of projects.



Crews working on a road in Peru. Photo courtesy of Jouni Martti Eerikainen.

# Risks, Benefits, and Costs of the WBG's Safeguards and Sustainability Policies

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## Introduction

This chapter explores the efficiency of safeguards work across the WBG by juxtaposing the distribution of benefits against costs. The WBG does not collect data on environmental and social benefits and costs. As an alternative, IEG developed proxy measures to estimate benefits that were compared with project costs obtained by IEG from the WBG's resource management databases and project data. This chapter extends the analysis of performance by ranking projects based on the significance of their likely environmental and social impacts, and uses this ranking to analyze the efficiency of the WBG's safeguards and sustainability frameworks. The likelihood of their occurrence and the extent to which impacts will be mitigated is uncertain; hence risk is a more accurate descriptor than impacts. The relative risk scale provides IEG with alternate metrics to analyze the distribution of risks embedded in the project categorization system. It is also a practical technique for estimating benefits of the safeguards and sustainability frameworks. Even though IEG was only able to obtain limited data on costs, comparing those findings with estimated benefits allows partial evaluation of the efficiency and cost effectiveness of safeguards and Performance Standard implementation.

Chapter 3 reported on IEG ratings for projects in the portfolio review sample against three performance indicators (mitigating negative impacts, enhancing positive impacts, and strengthening

client capacity). The use of those standardized indicators was aimed at comparing performance across the portfolio. The Risks and Benefits Model developed by IEG (box 4.1), and applied to the portfolio review sample, takes this analysis further by weighting the performance by the risk rating. The model used a log scale developed by IEG—building on criteria described in the Environmental Assessment policy (OP 4.01)—to rank projects by their significance and severity of risks, with higher risk ratings reflecting multiples of lower risks.

IEG applied the model to develop a risk profile of the Bank's portfolio, based on environmental and social data for the 102 projects in the review sample that had been completed by the time of this assessment and for which ICRs were available. The risk profile was compared with the safeguard categories for these projects and econometric analysis was undertaken to assess the robustness of the safeguards categorization system. The number of IFC and MIGA projects from the portfolio review, for which comparable data were available, was too small to replicate the econometric analysis of risks.

IEG estimated risks and benefits for the projects whose costs were available to compare the benefits and costs of the safeguards and sustainability frameworks at the Bank and IFC. The risk model provided a modality to impute the value of benefits by multiplying the MNI performance

of WBG projects by the aggregate environmental and social risk ratings. By adjusting MNI according to the significance of risk, this measure provides a proxy of the actual benefit (B) from the implementation of the WBG's safeguards for a specific project. IEG was able to collect data on both Bank costs for safeguards appraisal and supervision and client costs for safeguards implementation for 35 Bank projects that had triggered both social and environmental safeguards. This provided the empirical basis for the analysis of efficiency of resource use.

IEG applied the same model to estimate the distribution of risks and benefits for projects in the IFC portfolio sample where these data were available. MNI ratings were only available for 37 projects in IFC's sample. For proprietary reasons, IFC does not have access to data on client costs incurred on safeguards or Performance Standards. IFC costs therefore include costs incurred by IFC only, which too are likely to be a fraction of costs incurred by IFC clients. Comparative MIGA data are not available at this time.

### **What Determines Safeguard Categorization?**

Categorization is a screening mechanism described in the Environmental Assessment policy (OP 4.01) to classify projects based on the significance of anticipated environmental risks. Category-A projects require a more exhaustive Environmental Impact Assessment (EIA) and have more stringent disclosure requirements.<sup>1</sup> Categorization has had significant resource implications. The degree of environmental risk signified by the assigned category served as the primary mechanism to determine the intensity of effort expected of the client and the task team. Although, in the past decade, social risks have also been considered when categorizing projects, the extent to which social risks influenced the ratings was unknown prior to this evaluation.

All of the 102 completed Bank projects in the portfolio review sample triggered environmental safeguards, while 53 triggered social safeguards: 49 percent of the subset of completed projects

triggered Involuntary Resettlement, and 22 percent triggered the Indigenous Peoples policy, which is about the same proportion as in the Bank's portfolio. Data for estimating risks were obtained from IEG's review of appraisal and supervision documentation. Safeguard performance for these completed projects was assessed by IEG using the Risks and Benefits model described in box 4.1. Results were tabulated separately for the social risks ( $R_s$ ) and environmental risks ( $R_e$ ), estimated using the indicators described in table 4.1 and compared with the results from project categorization.

The risk assessment provided IEG with the means to explore three issues: (a) consistency between objective environmental and social risk criteria and safeguard categorization in Bank projects, (b) the extent to which safeguard categories are determined by social versus environmental risks, and (c) which variables are key determinants of category-A projects.

### **Regression analysis**

A probit regression was carried out on the completed projects in the Bank portfolio review to test the effect of environmental and social risk ratings, regional effect, and network effect on project categorization (see regression results in annex 6). The sample contained 32 category-A projects, 65 category-B, and 5 FI projects. The regression analysis included 97 completed projects (after excluding the 5 FI projects), 53 of which had both social and environmental risk ratings. The dummy for category A was the regressand while the regressors included environmental and social risks (8 ordinal gradations of risk level), sector (dummy for infrastructure), and region (dummy for East Asia and Pacific region). A zero was assigned to social risks in the remaining 44 projects, which only had environmental risks. Each project was rated on the significance of social and environmental risks using a four-point scale for the four criteria described in table 4.1

### **Misalignment between categorization and risk ratings**

IEG findings from the risk analysis indicate that categorization is not always determined by the



**Box 4.1: Risks and Benefits Model**

IEG developed an analytical model to rank the environmental and social risks of each project along four parameters, using transparent criteria to rank each project on the basis of data and documentation obtained for the portfolio review. The model postulates risks (R) to be a function of Magnitude (M), Intensity (I), Duration (D), and Sensitivity (S), with separate indicators for rating social risks ( $R_S$ ) and environmental risks ( $R_E$ ) along these four criteria. Data for estimating risks were obtained from IEG's review of appraisal and supervision documentation. The aggregate risk (R) is the sum of  $R_S$  and  $R_E$ , where

$$R_S = \log(M_S + I_S + D_S + S_S) \text{ and } R_E = \log(M_E + I_E + D_E + S_E)$$

The risk model provides a modality to impute value to benefits by weighting the environmental and social outcomes of WBG projects by the significance of environmental and social risks. For this purpose we rely on the rating for Mitigating Negative Impacts

(MNI), the best documented performance indicator. This rating from the portfolio review reflects IEG's assessment of the extent to which the risks identified at appraisal have been mitigated. Each project's success in mitigating negative impacts was rated as excellent (E=1.00), satisfactory (S=0.75), partially unsatisfactory (PU=0.5), or unsatisfactory (U=0.25). On this basis, a measure of the actual benefit (B) from the implementation of the WBG's safeguards for a specific project is estimated as:

$$B = \text{MNI} (R_S + R_E)$$

While B is only an ordinal indicator of the benefits of safeguards implementation, it can be appropriately used to compare benefits against costs, to analyze allocative efficiency and cost effectiveness of WBG, and client resources expended on meeting safeguards and sustainability objectives.

**Table 4.1: Indicators for Estimating Social and Environmental Risks**

Risks:	High	Substantial	Moderate	Low
<b>SOCIAL</b>				
<b>Magnitude</b> (No. of project-affected persons—displaced persons get 10 times the weight of other project-affected persons)	>10,000 project-affected persons or >1,000 displaced	1001 <=10,000 project-affected persons or up to 1,000 displaced	101 <=1000 project-affected persons or up to 100 displaced	<=100
<b>Intensity</b>	Physical displacement	Economic displacement	Workplace safety	Community impacts
<b>Duration</b>	Permanent (beyond the project's closing date)	(Late project life) Mid-term review—closing date	(Early project life) >1 year mid-term review	<1 year or by effectiveness
<b>Sensitivity</b> —Indigenous peoples (IP)	Substantial risks to be mitigated as per IP Plan	Potential risks identified in IP Framework	Projects mainstreaming benefits to IP	Targeted IP projects
<b>ENVIRONMENT</b>				
<b>Magnitude</b> —Area affected	Global, regional, or transnational	National or multiprovincial	State or provincial	Localized
<b>Intensity</b>	Irreversible	Severe	Moderate	Mild
<b>Duration</b>	>100 years	>10–100 years	>1–10 years	<1 year (seasonal or intermittent)
<b>Sensitivity</b> —Natural habitats (NH)	Significant impact on critical NH	Significant degradation of NH	Degradation other NH, parks or reserves	Conservation and rehabilitation of NH

riskiness of a project; neither is it based on use of objective criteria to assess environmental and social risks. The application of clearly specified risk indicators to the subset of completed projects, whose adverse impacts were fully known provided even stronger evidence of the weaknesses in the current practice of safeguards categorization. Almost a third of projects with

high-risk levels were incorrectly classified as category B, while one sixth of category-A projects had much lower risks. Based on the environmental and social risk ratings derived from IEG's model:

- Of the 32 category-A projects in the sample, one had moderately low environmental risks and no social risks, and was overclassified as category A.
- If the threshold were adjusted to include only projects with high or moderately high risks, 5 of the 32 category-A projects would appear to be overclassified, resulting in an inclusion error of 5 percent of the sample universe.
- Twenty-eight of the 97 projects had social and/or environmental risks that were high or highly substantial, and on the basis of the risk ratings could have been classified as category A; in fact, 8 of these were not, which suggests an exclusion error of 8 percent of the sample universe.
- The results do not change significantly if the risk threshold is adjusted. The econometric analysis also corroborates this result: for instance, the likelihood of a project being category A is 72 percent if both environmental and social risks are highly substantial. The likelihood increases to about 90 percent if both environmental and social risks are very high.
- On the other hand, 11 of the category-B projects had social and/or environmental risks that

were in the three lowest ordinal levels on both environmental and social risks, which would indicate overclassification of 11 percent of the sample, which resonates with the observation made in chapter 1, based on the trends in figure 1.2.

- In all, 12–16 percent of the sample projects were overclassified, while 8 percent were underclassified, leading to a total classification error of 20–24 percent among category-A and -B projects alone<sup>2</sup> when the assigned categories were compared with the results from the application of the risk indicators.

IEG also found substantial regional variation in use of safeguard categories; however, regional variations in distribution of environmental categories cannot be attributed to differences in categorization. East Asia and Pacific has a high proportion of category-A projects, while Latin America and the Caribbean seems to avoid them, a practice confirmed by IEG staff survey results. Econometric analysis shows that regional composition has no statistically significant effect on a project being category A when controlling for social and environmental risks, and network effects. Looking at all possible risk profiles, the likelihood of an East Asia and Pacific project being category A is only 2–4 percent higher than other regions. The substantial regional variation in the distribution of environmental categories appears to be driven more by the choice of lending operations than by differences in categorization.

### ***Social risks drive project identification as category A***

IEG analysis confirms that social risks are a significant determinant of classification as category A. Table 4.2 indicates that social and environmental risks both influence project categorization although not necessarily equally. Among the 32 category-A projects, 22 had high or substantial social risks, and 19 had high or substantial environmental risks, 10 of these having both substantial social *and* environmental risks. Econometric analysis suggests that a project with any social risk is 32 percent more likely to be category A than a project with no social risks when controlling for environmental risks and region and network effects. Taking into account gradations in environmental and social risks<sup>3</sup> for all possible risk profiles, social risk is a stronger determinant of project identification as category A than environmen-

***Safeguards categorization is not always determined by the riskiness of a project.***

***Regional variations in distribution of environmental categories cannot be attributed to differences in categorization.***

tal risk (table 4.3). For instance, projects with high social risks and low environmental risks are 26 percentage points more likely to be category A than projects with high environmental risk and low social risks.<sup>4</sup> By contrast, environmental risk does not have a statistically significant effect on projects being classified as category A.

The Bank has moved from an environmentally driven classification system toward one based on social and environmental risks. When only environmental risks or social risks are used to predict the likelihood of a project being category A, while controlling for network and region, they are both statistically significant on their own. But the likelihood of a project being category A is much higher for social risks than for environmental risks in the same category (figure 4.1). Although social risk better predicts category A, differences in the predicted probabilities are smallest when risks are low or very high and are greatest when risks are moderate or substantial, giving an inverted U-shaped curve.

#### **Infrastructure sector projects are more likely to be category A than noninfrastructure projects**

An infrastructure project is 37 percent more likely to be category A than a noninfrastructure project, when controlling for social and environmental risk ratings and regional effects. The higher probability of classifying infrastructure projects as category A is evidenced for all

**Table 4.2: Distribution of Projects by Significance of Risks in Completed Bank Projects**

	Risks	Social risks (n=53)	Environmental risks (n=102)
Category A	High	4	0
	Substantial	18	19
	Moderate	4	13
	Low	2	0
	<b>Total</b>	<b>28</b>	<b>32</b>
Category B	High	0	2
	Substantial	10	30
	Moderate	12	35
	Low	3	3
	<b>Total</b>	<b>25</b>	<b>70</b>
All	High	4	2
	Substantial	28	49
	Moderate	16	48
	Low	5	3
	<b>Total</b>	<b>53</b>	<b>102</b>

Source: IEG portfolio review.

Note: Category B includes five FI projects with moderate environmental risks. This table presents the distribution of projects by safeguard category and significance of social risks based on the results from the application of the risk model to all 102 completed projects in the Bank portfolio review.

possible risk profiles. For instance, when both environmental and social risks are highly moderate (that is, in

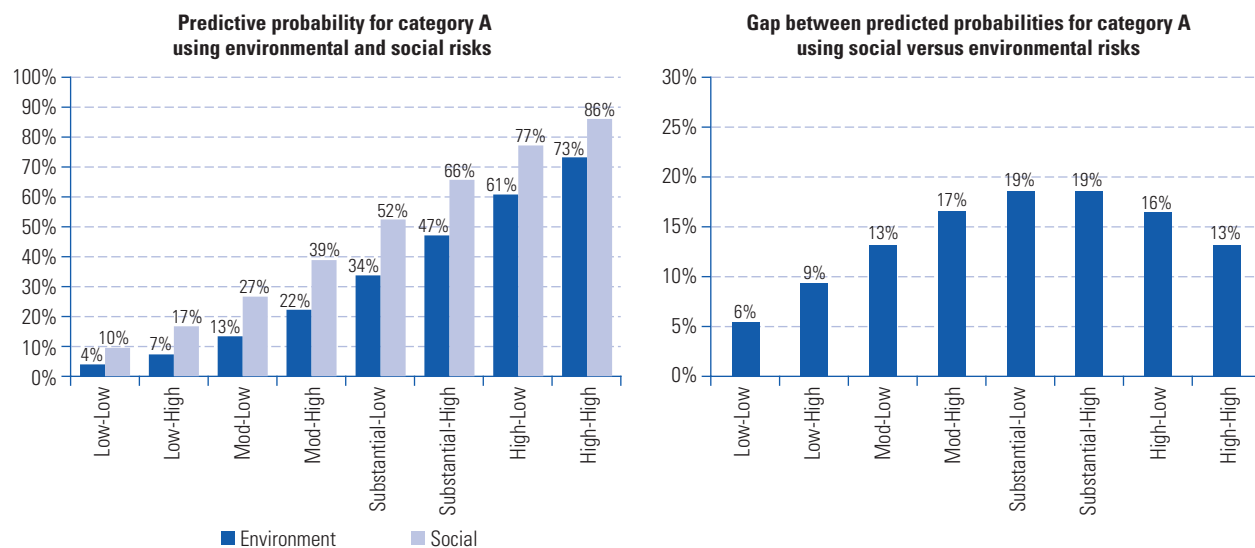
*The Bank has moved from an environmentally driven classification system toward one based on social and environmental risks.*

**Table 4.3: Likelihood That a Project Is Category A (min-max)**

		Social risks			
		Low	Moderate	Substantial	High
Environmental risks	Low	3%–8%	11%–23%	27%–45%	50%–69%
	Moderate	6%–15%	19%–35%	40%–59%	64%–81%
	Substantial	12%–25%	30%–49%	54%–72%	77%–89%
	High	21%–38%	43%–63%	68%–83%	86%–94%

Source: IEG portfolio review.

Note: Min-max is based on eight ordinal gradations of risk levels.

**Figure 4.1: Predictive Probabilities for Category-A Projects**

*Infrastructure projects are more likely to be classified category A than other projects.* the upper three ordinal risk grades), the likelihood of an infrastructure project being category A is 56 percent versus 15 percent for a noninfrastructure project.

From the empirical evidence we conclude that (a) the current categorization system in use at the Bank is based more on magnitude of physical impact (infrastructure projects) than significance of risks, and (b) social risks now have a substantial effect on categorization, justifying renaming the labels as “environmental and social categories” or simply “safeguard categories.”

*The WBG would benefit from development and introduction of transparent criteria for assessing social and environmental risks to ensure consistent, risk-based categorization.*

However, the Bank does not use transparent, objective criteria to determine safeguard categories, leading to inclusion and exclusion errors, with an overall tendency toward overcategorization, particularly among category-B projects. Use of transparent criteria does not eliminate the room for judgment, but the judgment needs to be risk-based, not driven by scale alone. Large-scale physical works are

not necessarily riskier. A risk-based assessment would also need to consider the context, including the institutional capacity of the implementing agencies, sensitivity of the location, and political economy effects on the project. The WBG, as a whole, would benefit from the development and introduction of transparent criteria for assessing social and environmental risks to ensure consistent, risk-based categorization of the projects it supports.

### Estimating Benefits from Risks

The risk ratings in IEG’s model provide estimates of the significance of environmental and social risks and potential benefits in individual projects. The higher the risk, the higher the potential benefit from mitigating the risks. However, identifying high risks at appraisal is only the first step in a long process toward realization of benefits. These benefits only materialize when the risks are fully mitigated. Careful supervision and monitoring helps to achieve intended results. The MNI rating captures the effectiveness of this process and provides a good measure of the extent to which potential risks have translated into actual

benefits. For example, the riskiness of Africa projects is at the Bank-wide average, but weaker MNI ratings compared with other regions (see chapter 3) leads to significantly lower benefits. MNI ratings are significantly higher in East Asia and Pacific and, to a lesser extent, in South Asia, so their ability to realize safeguard benefits is greater.

Safeguard benefits can be enhanced when performance in terms of mitigating negative impacts is augmented by strengthening client capacity and enhancing positive impacts. The Risks and Benefits Model has been generated to compare relative benefits against costs (see next section). However, benefits accrue not just from mitigation of adverse impacts. Benefits can be augmented by investing in client capacity and enhancing positive environmental and social effects.

**Benefits and Costs of the WBG's Safeguards and Sustainability Policies**  
*Qualitative feedback on benefits and costs*

IEG found broad support among staff and management for the objectives of the safeguards and sustainability policies. This was reiterated constantly during the interviews with WBG managers, and focus group discussions with WBG staff and NGOs. This finding is reinforced by data from the Staff Survey 2009, which covers all Bank staff. Overall, 61 percent of WBG staff rated safeguards policies and procedures favorably in terms of its effect in delivering high-quality results to clients, a rating that is higher than for fiduciary (53 percent), resource management (47 percent), and OPs and BPs (55 percent). The safeguards (which in the Staff Survey subsumed the Performance Standards) were rated higher by IFC staff (66 percent) and MIGA staff (61 percent) than by Bank staff (59 percent).

From its manager interviews and focus group discussions, IEG also found wide recognition that benefits from these policies accrue at multiple levels, including local beneficiaries, civil society, clients, the WBG, and in the form of global public goods (figure 4.2). However,

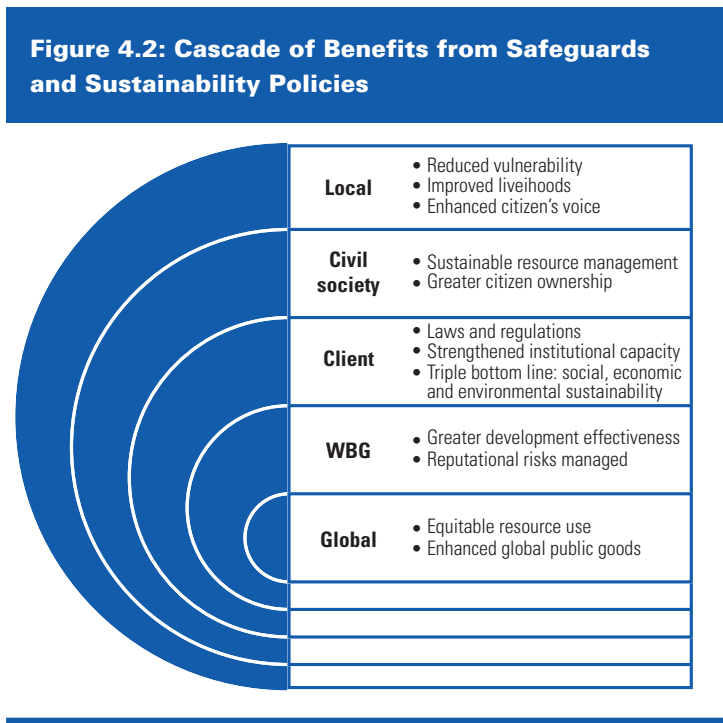
this implies better integration of the mitigation objectives of safeguards with the objectives of enhancing social and environmental sustainability.

IEG's evaluation identified some constraints emanating from Bank safeguard policies that could be addressed to improve the cost effectiveness of environmental and social policies. The majority of Bank managers interviewed reported that clients find safeguards cumbersome, some policies being more contentious and needing further refinement. The main issues identified revolved around client ownership, policy rigidity, and capacity (box 4.2).

The current social safeguard policies appear to create relatively greater discomfort among clients than environmental policies because of the prescriptive and restrictive nature of the social safeguard policies and perceived rigidities in policy application. Unlike the social safeguards, the requirements of environmental assessment

*Investing in client capacity and enhancing positive environmental and social effects can enhance safeguards benefits.*

*There is broad support among staff and management for the objectives of the safeguards and sustainability policies.*





**Box 4.2: Feedback from Bank Clients and Managers***Bank clients:*

- The Bank always considers safeguard policies superior to the client country's own laws and systems, reflecting lack of trust and undermining client ownership.
- Social safeguards are of greatest concern, 82 percent reporting that Bank standards are significantly higher than country requirements.
- Some also see the notification requirement of the International Waterways policy as an unnecessary imposition, especially for projects that will also benefit neighboring countries.

*Bank managers:*

- The primary concerns on Involuntary Resettlement arise from its treatment of illegal squatters (which contradicts national laws), and from imposition of high compensation rates, which in some instances have inflationary effects.
- The policy on Indigenous Peoples works better for groups whose rights are recognized and enshrined in national laws; in other regions the term is alien, and rights and identity are often contested and politicized, and can give rise to ethnic tensions.
- Capacity constraints among clients need greater attention to ensure sustainability.
- Staff capacity is weaker in some regions; there is greater need of technical oversight to ensure consistency in policy interpretation.

ties for the very people who need them most. Managers see this risk as most acute due to the lack of sensitivity to different contexts in the treatment of squatters by the Involuntary Resettlement policy, and in application of the Indigenous Peoples policy, both of which have, in some instances, resulted in errors of exclusion. In one African country, the borrower decided to drop one component of a loan that was to improve water supply and sanitation services in low-income areas because of the inability to reach agreement on how to deal with illegal squatters. In this instance, dropping that component led to the denial of development benefits from a Bank-financed project to those urban squatters. The inability to distinguish between projects designed to benefit squatters from those that are simply displacing them can thus undermine development effectiveness.

In another example cited, the insistence on imposing the IP policy on an ethnic group, which was not legally recognized as indigenous and was engaged in conflict with the government, derailed the process of project preparation. In one region, task teams complain about the lack of differentiation between projects that are designed to extend social services to indigenous peoples from projects that might adversely affect them. Staff expressed concern that insistence on preparing additional mitigation plans in a project that is designed to benefit, not harm them leads to duplication of effort and risks marginalizing indigenous peoples rather than bringing them into the mainstream of development benefits.

IEG's survey of task team leaders and interviews with Bank managers provided some evidence of a deterrent effect of safeguard policies on lending. Client avoidance of Bank lending was most prominently reported by team leaders from Latin America and the Caribbean (figure 4.3) but was also found in other categories and regions: 38 percent of survey team leaders said that clients avoided a project or dropped a component because of safeguards, while 18 percent reported that the project team revised

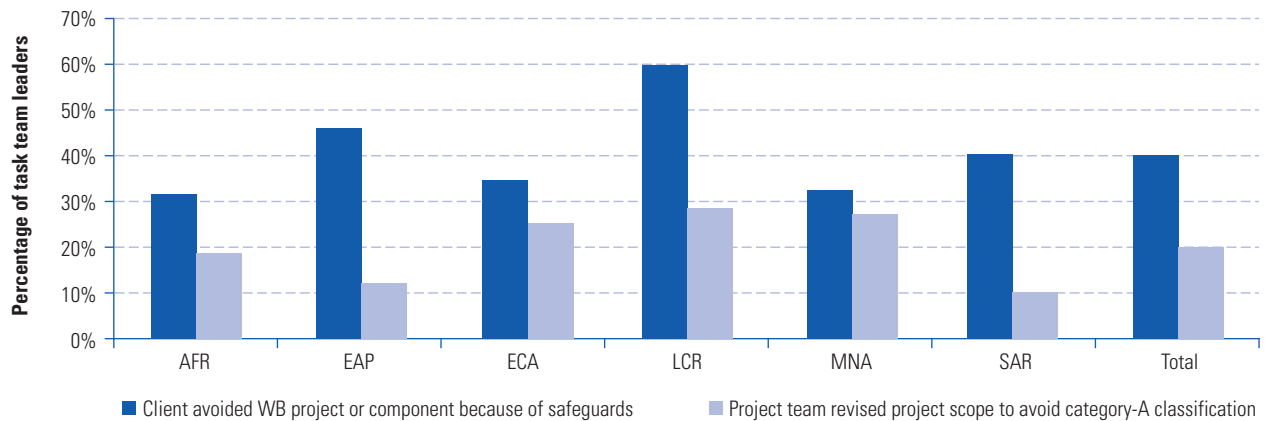
*The current social safeguard policies appear to create relatively greater discomfort among clients than environmental policies.*

are more open-ended, allowing greater room for dialogue and prioritization of risks. However, one recurring theme in the staff interviews was that affected people have the ability to change their minds about adequacy of compensation and entitlements. In effect, social risks include risks *from the project* and political economy risks *to the project* from affected people who are dissatisfied with its immediate effects, and who may then challenge the project, leading to costly delays. In contrast, environmental risks are risks from the project but are less likely to be a threat to the project's development outcome.

*Lack of sensitivity to different contexts can lead to missed development opportunities for the very people who need them most.*

In some instances, the lack of sensitivity to different contexts can lead to missed development opportuni-



**Figure 4.3: Impact of Safeguard Policies on Lending, by Region**

Source: IEG Staff Survey.

the scope of a project to avoid category-A classification. Two-thirds of managers interviewed reported that some clients had avoided or were dropping a Bank project because of safeguard policies. At the same time, 15 percent had clients who actively sought out Bank lending because of the stamp of approval of the Bank's safeguard policies, which makes it easier for them to mobilize additional funding. IEG's survey of IFC staff also identified similar chilling effects on their clients: 47 percent of investment officers and 56 percent of environmental and social staff had encountered a situation where the client wanted to avoid dealing with the IFC on a project or a part of a project because they considered that the Performance Standards might be too expensive or time-consuming. While avoiding environmental and social risks through project redesign is clearly desirable, the extent to which this leads to missed opportunities that weaken development effectiveness is also of concern.

The benefits of safeguards are undeniable, but they do come at a cost. Evaluating these benefits and costs makes it easier to demonstrate their value and help identify ways of increasing the cost effectiveness of WBG support. This does imply, however, that measurement of the benefits accruing from, and costs incurred on

safeguards, is essential if the WBG is to create broader ownership among its clients for environmental and social sustainability.

### Assessing Costs and Benefits

Assessment of the benefits and costs of safeguards and Performance Standards of the portfolio sample proved challenging because benefits of safeguards had not been systematically monitored and documented, and environmental and social costs were rarely available. In the rare cases where benefits were recorded, there was no attempt to put a monetary value on nonmarketed environmental goods and services. It is also very difficult to establish a counterfactual to determine the incremental value of WBG safeguard policies in relation to what would have happened without WBG involvement because very few projects contain baseline information. Given these data constraints, the assessment relied on qualitative description of benefits and costs, and benefit-cost

reasoning to assess efficiency of resource allocation from the perspective of the WBG and clients. A stylized benefit-cost model presented in the end illustrates the kind of assessment and insights that could be drawn with adequate data.

*Benefits of safeguards had not been systematically monitored and documented, and environmental and social costs were rarely available.*

### **Qualitative description of benefits**

The review of project documents and field studies provided rich qualitative descriptions of benefits and costs associated with safeguards from the perspective of society, clients, and the WBG. Benefits to society include:

- Reduction in accidents or health damages, and improved safety standards for the population
- Enhanced developmental opportunities through compensatory mechanisms, protection of use rights from common property resources, and improved livelihood opportunities
- Avoidance of harmful project and impacts of negative externalities.

Client adoption of the WBG's safeguard and Performance Standards generates incremental benefits including:

- Better management of environmental, social, health, and safety risks
- Improved community and government relations and access to funding
- Enhanced reputation, brand value, and market potential that is associated with improved sustainability performance, particularly for the private sector.

For the WBG, the main benefit of the sustainability framework is recognition of its leadership role in setting and promoting benchmarks for environmentally and socially sustainable projects, and management of reputational risks. Historically, the WBG has been widely acknowledged as being in the vanguard of promoting sound environmental and social policies; some clients see the WBG as representing the “gold standard” on these policies. Similar policies have

been adopted by many IFIs (and more recently by private banks) to provide assurance that the development activities they support are consistent with globally accepted standards for environmental and social performance.

*Bank costs for preparation and supervision of safeguard elements in the sample projects are a small fraction of the cost incurred by clients.*

Clients incur substantial costs on mitigation measures to address risks highlighted by the

safeguards and sustainability frameworks. For IFC and MIGA projects, these costs arise from the environmental and social corrective action plans developed in the course of appraisal, which the client agrees to implement as a condition of IFC and MIGA support. In the absence of real cost data, corrective action plans provide a proxy of client costs. Costs of safeguards are more difficult to identify for Bank-financed projects since they are subsumed under total client costs on safeguards, differing from country projects largely in the extent to which additional analysis, consultation, and mitigation is required, and in terms of the rigor with which they are implemented.

Bank costs for preparation and supervision of safeguard elements in the sample projects are a small fraction of the cost incurred by clients. Bank costs include direct staff costs of environmental and social specialists<sup>5</sup> and travel costs for identification, appraisal, and supervision of safeguard aspects of projects. Safeguard-related Bank costs are not directly identifiable in the Bank's cost accounting database because these costs are not recorded separately. The costs reflected in table 4.4 are based on the costs attributable to environmental and social specialists from the project's Bank budget only, which therefore do not capture the full costs incurred on safeguards. Feedback to IEG from the Regional Safeguards Advisors indicates that full Bank costs incurred on safeguards being supervised by task teams ranged from \$116,000 to \$250,000 for category-A, and up to \$130,000 for category-B projects.<sup>6</sup> Additional costs include those incurred by other staff and consultants on safeguards, as well as costs charged to other project codes. However, some category-B projects were also found to have negligible safeguards expenditures, lowering the median cost for category B. The median cost incurred by the Bank on safeguards in table 4.4, as a proportion of total Bank cost identifiable by IEG, was about 8 percent for category-A projects and 4 percent for category-B projects in the sample projects. The median Bank cost on safeguards was 3.3 percent of the preparation budget and 7.6 percent of the supervision budget. The median for safeguard costs incurred

**Table 4.4: Average and Median Costs for Safeguards (US\$)**

	Bank costs (n=60)		Bank client costs (n=53)		IFC costs (n=37)	
	Average	Median	Average	Median	Average	Median
A	72,412	51,061	19,230,200	8,357,000	254,450	60,264
B	45,675	22,876	5,168,489	4,031,200	24,654	12,195
<b>Sample total</b>	<b>59,766</b>	<b>38,700</b>	<b>13,544,300</b>	<b>5,920,000</b>	<b>62,953</b>	<b>19,062</b>

Source: World Bank and IFC data.

Note: These cost tables include data from completed and active projects in the portfolio sample and provide an incomplete picture of full costs on safeguards/Performance Standards at closure. World Bank are based on 60 projects: 28 completed projects (22 category A, and 16 category B), and 32 active projects (15 category A, and 17 category B). IFC data are based on 37 projects: 6 completed projects (all category B); and 31 active projects (6 category A, and 25 category B). While they are instructive in providing the relative proportion of safeguard costs, and in comparing costs of individual projects with risk-adjusted benefits, they are not appropriate for drawing inferences on resource allocation for safeguards.

by Bank clients was almost \$6 million, which is 5 percent of the loan amount, and 3 percent of total project cost from the sample of Bank projects on which client data could be obtained. Nonetheless, client costs on safeguards constitute the bulk of total expenditure on safeguards.

For IFC, the median cost reflected in table 4.4, was 13 percent of total IFC cost for category-A projects and 4 percent for category-B projects. Client costs were not available for IFC. The majority of projects in the IFC sample are still active. IFC data for the benefit-cost analysis are based on 36 projects from the portfolio review sample for which cost and MNI data were available, and may not be representative. Additional data obtained from IFC for a set of 30 projects in its current portfolio gave an average cost of \$163,410 and median of \$129,583 for category-A, and average of \$51,814 and median of \$36,450 for category-B projects. A comparison of these two sets of safeguards-related costs suggests that actual costs may be much greater than that available for the cost-benefit analysis from the historical portfolio.

The benefits from the safeguards and sustainability frameworks are computed from estimated environmental and social risks associated with each project, as described in box 4.1, and the MNI rating, which reflects IEG's assessment of the extent to which the risks identified at appraisal have been successfully mitigated.

### **Efficiency of safeguards resource allocation from the Bank's perspective**

From a resource management perspective, a simple test of the efficiency of the WBG's sustainability framework is whether the costs incurred are allocated in proportion to the environmental and social risks of projects and achieve the desired outcomes. Efficiency was assessed along a quadrant of the risk-adjusted benefit (B) and costs, with the separation between high and low based on median values of B and costs for safeguards and Performance Standards to the WBG and clients. Table 4.5 shows the distribution of WBG performance along the benefit-cost quadrant.

Analysis of the risk-adjusted benefits and Bank costs on safeguards in the sampled projects for which cost data are available do not provide clear evidence of allocative efficiency, particularly for category-B projects. The analysis in figure 4.4 shows that category-A projects tend to incur higher costs and yield higher benefits, 15 of 22 being at or above the median level of benefits. Category-B projects are more dispersed. Most category-B projects had lower benefits, but 6 of 10 projects in this sample incurred costs at or above the median level. All three projects in the extreme upper-right corner are "high risk-high reward" infrastructure projects<sup>7</sup> that incurred high costs and yielded high benefits. The project in the lower-right corner had high costs but yielded low benefits because of unsatisfactory

**Table 4.5: Distribution of Projects on Benefit-Cost Quadrant**

Benefit-cost quadrant	Bank (percentage) (n=35)	IFC (percentage) (n=36)
High benefit—low cost	26	19
High benefit—high cost	29	33
Low benefit—low cost	23	28
Low benefit—high cost	23	19

Source: IEG risk analysis.

Note: These figures are based on costs incurred by the WBG and exclude client costs.

*IFC’s allocation of ESHS resources has been broadly aligned with risks, and the alignment has improved since introduction of the Performance Standards.*

MNI. Greater attention to outcomes would have improved its benefit-cost ratio.

The analysis of Bank client expenditures shows much greater allocative efficiency (figure 4.5), higher costs being incurred on projects with relatively high benefits. An in-depth analysis of specific projects in the different quadrants suggests that better client implemen-

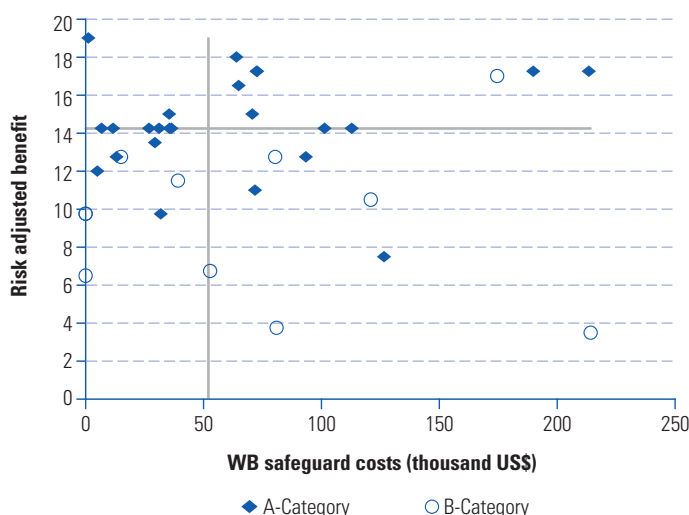
tation and improved supervision by project staff are key factors driving cost-effective mitigation of environmental and social risks. Most of the projects fell into the “low cost – low benefit” or “high cost – high benefit” quadrants. With two exceptions, all the category-B projects were in the “low cost – low benefit” quadrant, while four category-A projects were in the “low cost – high benefit” quadrant. Only two projects achieved low benefits despite high client expenditures.

**Efficiency of resource allocation at IFC**

Analysis of costs incurred by IFC to implement the Performance Standards in relation to the distribution of environmental and social risks shows that IFC’s allocation of ESHS resources has been broadly aligned with risks, and that the alignment has improved since introduction of the Performance Standards. The greatest costs have been incurred on projects facing relatively higher risks and higher benefits (see figure 4.6).<sup>8</sup> Of the six category-A projects in the chart, five lie in the upper-right quadrant of higher benefits and costs, while the sixth falls just below the median of risk adjusted benefits. Both projects in the upper-right quadrant with the highest benefits and costs are from extractive industries. Projects implemented with Performance Standards also show more efficient allocation of resources compared with projects under the safeguards policy. These data are time sensitive, however, subsequent analyses over the course of this evaluation indicated that, even with updated costs data, the distribution of projects in the chart did not change significantly.

Client costs for IFC projects could not be analyzed by IEG because relevant information was unavailable. However, client feedback reveals that incremental benefits were perceived as commensurate with the costs. Interviews with a small sample of clients indicate that incremental costs associated with IFC’s sustainability framework were perceived as necessary and appropriate. IEG’s staff survey and interviews with IFC managers also confirm the perception that incremental costs associated with the implemen-

**Figure 4.4: Bank Benefits and Costs for Environmental and Social Safeguards**



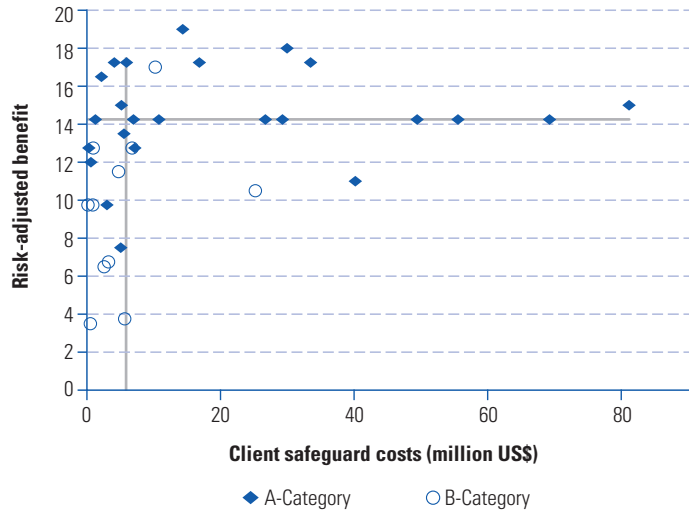
Source: IEG.

tation of the Performance Standards appear to be proportionate to the benefits received.

Current arrangements for safeguards supervision have created inefficiencies in resource allocation. The contrast between the ability of the Bank and IFC to target institutional resources efficiently toward higher-risk projects appears to be related to the differing administrative arrangements for environmental and social services. In IFC (as in MIGA), environmental and social supervision is funded off the top and not left to the discretion of investment officers. Supervision efficiency and quality has improved markedly. By contrast, safeguard oversight for most category-B and -FI projects at the Bank has been delegated to the sector management units, and supervision services are paid through cross-support in all regions. Delegation of authority also means that the responsibility for determining loan covenants rests with the delegated sector managers. While this permits a demand-driven approach, delegation reduces the ability of social and environmental sector managers to influence safeguards design, ensure that critical actions are covenanted, and deploy their staff resources strategically where they are most needed.

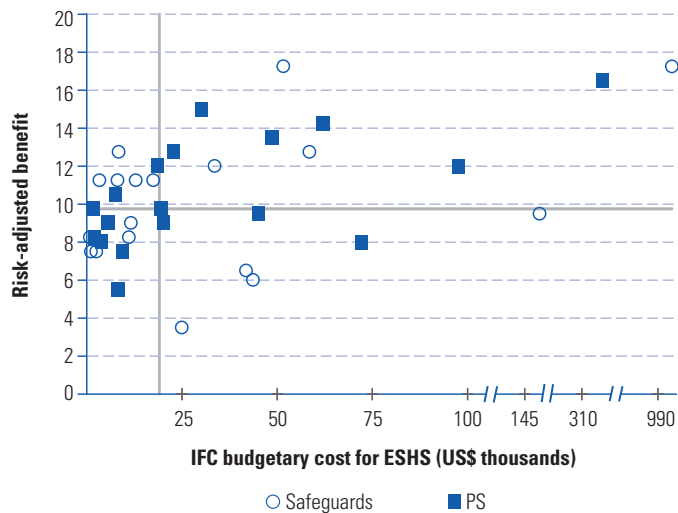
IEG's risk analysis provides evidence of misallocation of resources and IEG's findings on supervision illustrate the neglect of safeguard supervision in one-third of Bank projects that trigger safeguards. In recent years several regions (Africa, Middle East and North Africa, and South Asia) have moved to more structured arrangements with off-the-top payment for operational support in fiduciary areas, which provides the institutional space for regional managers to plan and allocate staff and budget resources strategically. The arrangements of environmental and social operational support for safeguards have not been changed, and due to delegation of responsibility for category-B projects to sector management units, oversight does not rest with the social and environmental sector managers in the regions. Organizational responsibility and incentives are not well aligned with environmental and social supervision needs, leading to

**Figure 4.5: Bank Client Benefits and Costs for Environmental and Social Safeguards**



Source: IEG.

**Figure 4.6: IFC Safeguard Benefits and Costs**



Source: IEG; cost data from IFC.

poor and uneven supervision quality, particularly for category-B and -FI projects. This deficiency requires urgent attention. *Current arrangements for safeguards supervision have created inefficiencies in resource allocation.*

*Delegation reduces the ability of environmental and social sector managers to influence safeguards design, ensure that critical actions are covenanted, and deploy staff resources strategically.*

**Stylized Model of Benefits and Costs**

To illustrate the insights that could be drawn from a benefit-cost analysis, a stylized benefit-cost model was estimated for a scenario *with* IFC intervention and another *without* IFC intervention. Model costs were based on expert opinion and information from the literature and validated with examples from IFC project portfolio and discussion with IFC staff. A benefit-transfer method was used to estimate benefits from safeguards. The results from the IFC stylized model (box 4.3),

provided in greater detail in annex 7, show that the estimated benefits from the environmental and social policies are greater than the incremental costs in every case.

A similar benefit-cost model was estimated for two stylized Bank projects. The results from the Bank model show that the estimated benefits from the environmental safeguards far outweigh the incremental costs. In the case of social safeguards the benefits do not exceed the costs, but a number of benefits cannot be quantified (box 4.4).

**Box 4.3: Quantitative Estimates of Costs and Benefits from Stylized IFC Projects**

The stylized model estimates the net benefit-to-cost ratio for two hypothetical IFC interventions: a gold mine in West Africa, employing 500 people; and a General Manufacturing and Services (GMS) project in the Middle East and North Africa, employing 1,500 people on a greenfield site. Benefit-cost ratios

have been estimated applying a discount rate of 10 percent and a lifetime of 25 years for each project. The results show that the safeguards had positive payoffs in every case when compared with a situation without IFC interventions.

**IFC Interventions for Which a Benefit-Cost Ratio Has Been Estimated**

	Gold mine project category A	GMS project category B
Labor and working conditions	Reduced fatalities and accidents at the workplace	
Pollution prevention and abatement	Reductions in spills of toxic materials such as cyanide	Reductions in biological oxygen demand and in emissions of volatile organic compounds
Community health and safety	Reduced fatalities and accidents from the increased flow of traffic generated by the project	
Land acquisition and resettlement	Time savings due to less disputes on resettlement	—

**Benefit-Cost Ratios for the Selected IFC Interventions**

	Gold mine project category A	GMS project category B
Labor and working conditions	4.8	7.7
Pollution prevention and abatement	3.6	5.1
Community health and safety	1.5	8.2
Land acquisition and resettlement	4.4–6.5	—

Source: IFC.



**Box 4.4: Quantitative Estimates of Costs and Benefits from Stylized Bank Projects**

The stylized model estimates the net benefit-cost ratio for two archetypal Bank interventions: a transport project in Sub-Saharan Africa, through virgin rainforest and degraded savannah, adversely affecting 2,000 people; and an urban water and sanitation improvement program in Asia involving small-scale resettlement. Benefit-cost ratios have been estimated applying a discount rate of 12 percent for the water and sanitation project

and 5 percent for the transport project, given the long-term nature of benefits from the forest ecosystem being valued. The results show that the safeguards had positive payoffs when compared with a situation without Bank interventions. However, the absence of policies on labor and community impacts reduces the net benefits that can be attributed to social safeguards policies.

**Bank Interventions for Which a Benefit-Cost Ratio Has Been Estimated**

<b>Policies triggered</b>	<b>African road project</b>	<b>Asian water sanitation project</b>
OP 4.01: Environmental Assessment	Strategic Environmental Assessment conducted with supplemental EMS/EMAPs for main road sections	EA with individual subproject EIAs and EMPs. Support to 3 project management units to improve supervision.
OP 4.04: Natural Habitats	Road sections pass through virgin rainforests and protected areas	Not applicable
OP 4.36: Forests	Increases in legal and illegal logging operations anticipated	Not applicable
OP 4.10: Indigenous Peoples (IP)	1,600 IPs negatively affected by project and compensated	Not applicable
OP 4.11: Physical Cultural Resources	"Chance Find" procedures and manual prepared	"Chance Find" procedures and manual prepared
OP 4.12: Involuntary Resettlement	400 people lacking clear property title are relocated and livelihoods restored	Land acquisition, restoration of livelihoods, and resettlement for 1,000 project-affected households and 100 businesses

**Benefit-Cost Ratios for the Selected Safeguard Policy Interventions**

<b>Policies triggered</b>	<b>African road project</b>	<b>Asian water sanitation project</b>
Environmental safeguards (OPs 4.01, 4.04, 4.36, and 4.11)	\$330 million / \$9 million = B:C ratio of 37	Costs = \$0.75 million. Benefits in total are \$20 million. If at least 13% of health and tourism benefits are due to safeguards then B:C>1.
Social safeguards (OPs 4.10 and 4.12)	Costs = \$3.2 million Benefits = \$2.6 to \$4.3 million; Assuming successful livelihood restoration, B:C ratio ranges from 0.8–1.3	Costs = \$13.3 million. Benefits range from \$14.9 to \$47.2 million, depending on starting income level of project-affected persons and benefits from restoration of livelihoods. B:C>1 if income of those persons affected is less than 75% of the national average, and is even higher for lower income levels.
Total combined B:C ratio	\$333.5 million / \$12.2 million = B:C ratio of 27.3	

Such a systematic framework for assessment of benefit-cost analyses can be used to evaluate:

- The costs associated with each safeguard or impact area
- The incremental costs and benefits of WBG requirements versus those of country systems
- Opportunities for cost savings from, for example, alternative project design parameters, technology choices, or siting options.

### Summary of Main Findings

IEG developed and applied a model to test the effectiveness of the project categorization system as a proxy for safeguard risks. There was considerable variability in the risk profiles leading to inclusion and exclusion errors in categorization. The risk model enabled scrutiny of the relative effects of social and environmental risks on project categorization and provided evidence that social risks are strong, indeed marginally stronger, determinants of projects classified as high risk. The current practice of signaling high risk if either social or environmental risks are high is appropriate. The assessment of risks, which is integral to the safeguards model, is a proxy for potential benefits that would materialize if the mitigation measures were fully implemented. The focus of safeguards thus needs to evolve beyond perfecting the design of action plans toward ensuring effective implementation with clear allocation of resources and accountabilities for safeguards supervision.

The assessment of benefits and costs shows that the WBG's safeguards framework generates

significant benefits for the mitigation of environmental and social risks of projects even though these are not systematically measured or quantified. Budgetary resources devoted by the IFC to its sustainability framework are being allocated relatively efficiently. However, the evidence on Bank resource allocation for safeguards work is more mixed. Bank clients tend to allocate resources efficiently in meeting safeguards requirements. The same could not be assessed for IFC clients because data were not available. Benefit-cost analysis can provide useful insights into environmental and social performance. Better monitoring, documentation, and reporting of environmental and social impacts are needed to improve the quality of benefit-cost analysis. The WBG should systematically integrate indicators of environmental and social performance within project results frameworks and collect data to monitor and evaluate safeguards and Performance Standards.

IFC has taken effective steps to strengthen supervision to ensure that environmental and social benefits are achieved. However, the Bank lags significantly behind. Resolving this deficiency at the Bank will require (1) revamping the policy framework to correct the overemphasis on compliance with frontloaded procedural requirements and inadequate attention to supervision, monitoring, and completion reporting; (2) development and application of transparent criteria for risk assessment and safeguards categorization; and (3) revamping the incentives, resource management, and accountability arrangements for safeguards supervision.

# Chapter 5

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## Evaluation Essentials

- The thematic coverage of the Performance Standards is more relevant than the safeguards suite to the WBG's investment project portfolio.
- Current World Bank social safeguards do not provide adequate coverage of community impacts, labor and working conditions, and health, safety, and security issues at the project level.
- The Bank's approach to country systems for safeguards needs to be substantially revised.
- The safeguards approach is heavily frontloaded with mandatory requirements at entry but has weaker guidance and systems for effective implementation.
- The instruments and practices introduced by IFC in parallel with the Performance Standards have improved implementation.
- Lack of disclosure and independent verification of monitoring by IFC's clients are serious concerns.



Road running through a deforested area in Bhutan. Photo by Curt Carnemark, courtesy of the World Bank Photo Library.

# Safeguards and Sustainability Frameworks: Policy Issues

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This chapter relies on comparative analysis to examine the effects of the policy frameworks on implementation results, and explores ways of addressing policy constraints. This is not designed to be a comprehensive analysis of the WBG’s safeguards and sustainability policies. Rather, it limits the examination to the systemic constraints giving rise to the shortcomings and constraints previously identified and the solutions being tried to address them within the WBG, or in other multilateral development banks (MDBs).

Five issues are covered in this chapter: (1) relevance of the policies and Performance Standards to the current portfolio; (2) lessons from the use of country systems; (3) comparative analysis of MDB safeguards and sustainability policies; (4) lessons from other MDBs and IEG evaluation on social safeguards; and (5) alternative paradigms for environmental and social risk management within the WBG. This chapter is diagnostic and is not intended to prescribe solutions. It will, however, identify policy and institutional constraints that need to be addressed and, where possible, identify solutions derived from the comparative analysis.

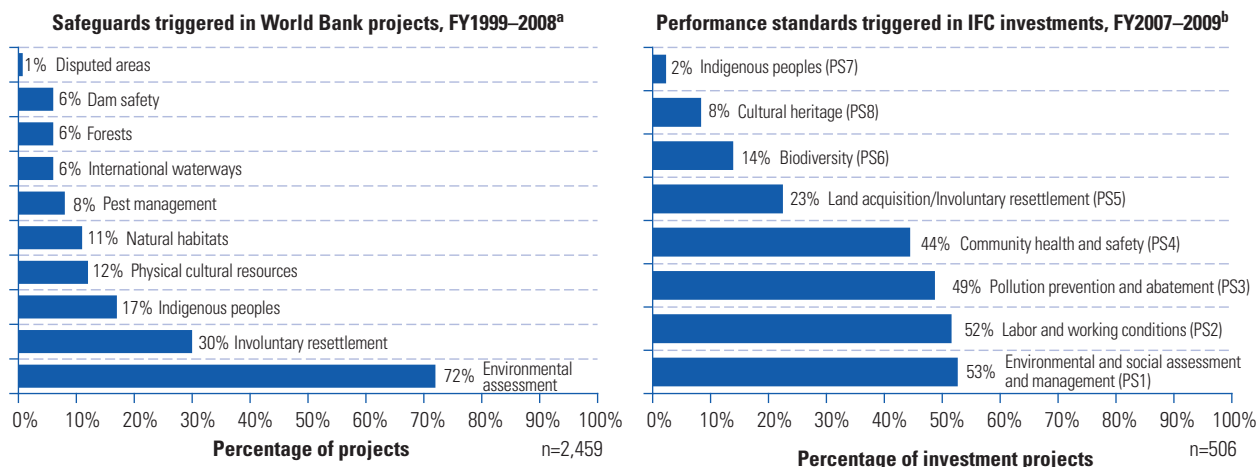
## Relevance of the Safeguards and Performance Standards to the Current Portfolio

The frequency with which the safeguards and Performance Standards are triggered by the

lending portfolio gives some indication of the relevance of these policies to the portfolio. Safeguards data from the 10-year portfolio for the Bank, and from the 3 years since the introduction of Performance Standards at IFC are shown in the two charts in figure 5.1.<sup>1</sup> The data indicate that the thematic coverage of the Performance Standards is more relevant to the WBG’s investment project portfolio than the policies in the current safeguards suite, due to the addition of explicit provisions on labor impacts, community impacts, and pollution prevention and abatement.

The Environmental Assessment policy is triggered by 72 percent of the investment lending portfolio and subsumes pollution prevention issues; the Involuntary Resettlement policy is triggered by 30 percent. However, 6 of the 10 safeguard policies

*The thematic coverage of the Performance Standards is more relevant to the WBG’s investment project portfolio than the policies in the current safeguards suite.*

**Figure 5.1: Safeguards and Performance Standards in WBG Portfolio**

Sources: World Bank and IFC databases.

a. Bank data are based on results for all 2,056 investment projects in the portfolio, approved in fiscal 1999–2008. This excludes 439 development policy loans and structural adjustment loans from the same portfolio; 6 percent of the structural adjustment loans, approved prior to Sept 2004 and that triggered OP 4.01 (Environmental Assessment), are reflected in this chart. IFC figures are based on the entire IFC portfolio, including FI- and C-category projects.

b. IFC data depicted are an underestimate as they do not portray the Performance Standards triggered by FI subprojects.

were triggered by less than 12 percent of the Bank's investment lending portfolio (figure 5.1).<sup>2</sup>

In contrast, the first four Performance Standards are triggered by about half of IFC's total portfolio. The relevance of these four standards increases to over 90 percent among category-A and category-B operations.

The policies that are more frequently triggered at the Bank, and are common to both Bank and IFC, are triggered in roughly similar proportions. The Environmental Assessment policy affects more than half, while Involuntary Resettlement is triggered by 23 percent and Biodiversity by 14 percent of IFC's portfolio, which is similar to that in the Bank's portfolio. But the Performance Standards on Labor and Working Conditions; and Community Health, Safety, and Security apply to about twice as many projects, and to over 90 percent of real sector projects. While there are some differences between the priorities of public and

private sector clients, many investment projects in the Bank resemble IFC's real sector projects. There is no obvious reason to presume that community and labor impacts are not relevant to the Bank's portfolio.

Comparing portfolios helps to identify opportunities to increase policy relevance by harmonizing thematic coverage, and to improve efficiency by learning from each other's practices. Labor issues, such as occupational safety and working conditions, are just as relevant to the public sector as to the private sector. Bank assistance to help its borrowers deal with retrenchment or employment effects is already being addressed in the Bank's portfolio but is not covered by the safeguards policies, leading to some missed opportunities (see the Dhaka transport example in box 3.2). Attention to community impacts ensures that the people directly affected by a project are better off as a result of the project. A focus on adverse community impacts also provides an entry point to engage borrowers



on social impacts in country contexts where an exclusive focus on indigenous peoples or on gender issues may not be culturally or politically feasible. An integrated assessment of community impacts, as already encouraged under IFC's Performance Standards also increases the efficiency of social assessments. On the other hand, the Bank's policy suite has stronger provisions on dam safety, which is also relevant to IFC.

### Lessons from the Use of Country Systems

In 2005 the Paris Declaration on Aid Effectiveness established global commitments from donors and partner countries to improve the management and effectiveness of aid in reducing poverty and inequality. Subsequently, the World Bank launched a pilot program<sup>3</sup> to promote the use of country systems (UCS) for environmental and social safeguards. Managers interviewed by IEG, including some involved in developing the country systems approach, said that the rationale was to scale up development impact by encouraging the use of improved systems for government expenditures to increase country ownership, build institutional capacity, promote donor harmonization, and increase cost effectiveness for both the Bank and the borrower. Although these objectives are still relevant, the country systems approach adopted for the safeguard policies has proved to be too self-limiting and not sufficiently robust and flexible for scaling up, and has lost ownership among Bank staff and their clients.<sup>4</sup>

Seven projects in six countries were included in the initial phase of the UCS pilot program. All piloted Environmental Assessment and two triggered Physical Cultural Resources. By December 2009, another eight pilots had been initiated in seven more countries. These included three corporate systems (in Brazil, India, and South Africa) and two proposed country-level pilots (in Mauritius and Croatia). A state-level pilot planned in Brazil appears to have been dropped. A progress report to the Board in 2009 describes the country pilots as follows: "Two SDRs [safeguards diagnostic reviews], in Croatia and Mauritius, are being conducted at

the country level, which is considered appropriate for small countries with projects identified that would be piloted based on the outcomes of the SDR process." But because of more significant differences with Bank policies and procedures, the piloting of Involuntary Resettlement and Indigenous Peoples was avoided entirely in the first phase, either through project design, or by simply applying normal Bank safeguard procedures. In the second phase, involuntary resettlement is being piloted in the parastatal corporations. However, even in Brazil, the Indigenous Peoples Policy has not been triggered. IEG visited three of the six first-phase countries involved—Egypt, Romania, and Tunisia—to see how well country systems were being implemented. Clients were contacted a second time after eight months to assess progress on the country systems since the field visit. In addition, IEG undertook a desk review of other UCS pilots and included a question concerning UCS in its manager interviews. This information was used to prepare a background paper for the evaluation.

Initial borrower ownership of the UCS pilot scheme was mostly positive, but interest has dissipated. Participating governments wanted to get away from the use of dual systems and hoped that the UCS approach could be extended to additional sectors and projects. However, recent experience suggests that the anticipated time and cost savings in the processing of subsequent operations have not materialized because new SDRs<sup>5</sup> have been required for subsequent projects in the same country. Client feedback regarding the UCS pilots indicates that there is an inconsistency between client expectations of the purpose of UCS and that presumed by the Bank. For example, client expectations that Bank safeguard responsibilities would be transferred to the borrower did not occur. Management has clarified that this was never the intention of the pilots. Anticipation that UCS could automatically be applied to subsequent Bank-financed projects has likewise been frustrated. The benefits of the UCS pilots to clients thus remain unclear. Even countries like China, which IEG's evaluation confirms as having one of the best records on

*Although initial borrower ownership of the UCS pilot scheme was mostly positive, interest has dissipated.*

safeguard policies, have declined to participate in the UCS experiment.

Within the Bank, enthusiasm for participating in the UCS pilot has also waned. Some country directors and sector managers are concerned that UCS will increase the cost and time of project preparation and supervision, while increasing reputational risk. Of the regional safeguards advisors and the environment and social development sector managers interviewed by IEG, three-quarters maintain that the right approach is not being followed, and not one believes that the UCS approach *in its present form* can be scaled up. They perceive that the current costs of UCS for safeguards outweigh the potential benefits, despite some positive aspects of the initial pilots.

Although the pilots are ongoing and additional projects have been added, the UCS program objectives are only partly being achieved, and in several areas performance has fallen short:

- **Strategic scope.** The countries and projects selected were not a representative sample of Bank operations, and UCS was limited to safeguard areas where country policies were already close to the Bank's and institutional capacity and government commitment were relatively strong. The second-stage pilot projects have been extended to parastatals using corporate systems<sup>6</sup> rather than country systems.<sup>7</sup> Continuing to pursue individual projects and policies rather than adopting an integrated countrywide or sectorwide approach to address capacity, however, is proving to be of little value.
- **Thematic scope.** The UCS pilots were unable to apply the entire safeguards policy suite in any country. A progress report to the Board states that the UCS approach has not worked for social safeguards in any country. The only attempt to pilot use of the resettlement policy was in Jamaica, but this was for a project that did not have any resettlement impacts, so the approach could not be tested. In all other UCS pilot countries, the social safeguard policies were found to have irreconcilable differences with national laws.
- **Harmonization.** Stakeholder concern that the UCS approach would water down the safeguard policies turned out to be incorrect. On the contrary, the Bank has insisted that country safeguard policies be brought up to the Bank's standards, rather than starting from the country's own systems and accepting compromises in equivalence. Because of the rigidities in the policy (OP 4.00) governing the pilots, which leaves no room for experimentation, its uptake has been very slow.
- **Social safeguards.** The social safeguard policies were found to have irreconcilable differences with national laws in UCS pilot countries. Not a single pilot country was found equivalent to the World Bank on social safeguards in the first phase, and in the second phase there has been more headway in corporations than at the country level.
- **Downstream issues.** Many of the challenges associated with the UCS are the same as those associated with the application of regular Bank safeguards. Often these have more to do with "downstream" issues such as implementation monitoring, enforcement, and compliance.
- **Rigidity.** More generally, some staff members interviewed by IEG affirm that an underlying problem with the efforts to apply country systems, to date, is the highly process-oriented nature and rigidity of the Bank's own safeguard policies.
- **Decentralization and devolution.** Scaling up of UCS is most challenging. In the near term, unless there is a change in the UCS policy, there will be a continued need for intensive Bank supervision to ensure compliance with the UCS policy. This may continue to frustrate some borrowers, who expected UCS would lead to greater safeguards-related responsibilities vested in the clients, with the Bank's role being more supervisory in nature.
- **Cost implications and ownership.** The incremental preparation cost to the Bank for UCS projects was expected to decline as the fixed cost of diagnostic work was shared among more projects and sectors. However, the Bank's experience indicates that this will

not be the case, especially when the investments fall in other sectors and/or involve additional or different safeguard policies. Borrowers do not perceive significant benefits from UCS, so ownership is low.

It does not appear likely that the UCS program can be mainstreamed in its present form. The method prescribed in OP 4.00 has not worked satisfactorily and has led to a lack of ownership by Bank staff and borrowers. While there is a general consensus that the concepts underlying the use of country systems are sound, the piecemeal approach, which focused on individual projects and policies in the UCS pilots, appears unworkable and needs a major redesign for it to be successfully scaled up. National systems can and should be used, where possible, in some countries, in some sectors, and for some safeguards, particularly environmental assessment. Nonetheless, significant revisions will need to be made to the policy framework and approach before country systems can be used for safeguard policies.

At the same time, the UCS pilots' inability to address social safeguards brings home the inherent weaknesses in the safeguard policies themselves and in the lack of a comprehensive framework that addresses environmental and social issues equally. Gaps in both equivalence and acceptability will likely remain too wide to permit UCS to be scaled up unless the Bank modernizes its own policies.

## **MDB Safeguard and Sustainability Policies**

### ***Overarching differences with policy frameworks of other MDBs***

Feedback from clients and NGOs reveals that the WBG has significantly improved environmental and social results, as compared with the 1990s. This is most visible among the high-risk category-A projects, where the Bank's experience provides important lessons for other MDBs. But challenges remain among category-B and financial intermediary projects and, within the World Bank, on the growing number of projects that rely on environmental or social policy frameworks, leaving risk assessment to the implementation phase.

A quick comparison of the environmental and social policy frameworks depicted in table 5.1 reveals three overarching differences. Other MDBs (except the African Development Bank) tend to have an integrated policy framework, an umbrella policy on environmental and social sustainability, and a relatively balanced treatment of social and environmental issues.

### ***From policy innovation to bureaucratic inertia at the Bank***

In the 1980s and 1990s, the Bank was the trailblazer in policy innovation. Many of the individual safeguard policies were originally developed at the Bank and then emulated by other MDBs. The Bank was the first to acknowledge the need for enhanced accountability and established the Inspection Panel in 1995. IFC and MIGA followed suit, as did the Asian Development Bank (ADB) and EBRD, but they all refined the accountability mechanism, introducing a conflict resolution mechanism alongside the accountability function. The Bank has retained the original institutional model and lacks a grievance redress mechanism.

The procedure for safeguard policy revision at the Bank has proven so cumbersome and time-consuming that there is great reluctance to revise and improve the policies even when the lessons of experience indicate that this would be beneficial in achieving the broader objectives of environmental and social sustainability. During the review period, the safeguard policies were converted individually from operational directives to operational policies (see table 5.1). Among the changes adopted during that process were the increased attention to economic displacement and livelihood restoration under the policy on Involuntary Resettlement, and the recognition of free, prior, informed consultation as a requirement under the Indigenous Peoples policy. However, staff who participated in these revisions informed IEG that they found the process extremely cumbersome and inefficient. Consequently, they

*The social safeguard policies were found to have irreconcilable differences with national laws in UCS pilot countries.*

*The piecemeal approach to UCS, which focused on individual projects and policies, appears unworkable and needs a major redesign for it to be successfully scaled up.*

**Table 5.1: Comparison of WBG Safeguards and Performance Standards with Other MDBs**

	<b>World Bank Safeguard Policies<sup>a</sup></b>	<b>IFC/ MIGA Policy and Performance Standards on Social and Environmental Stability (2006/2007)</b>	<b>EBRD Environmental and Social Policy and Performance Requirements (2008a)</b>	<b>African Development Bank Group Safeguard Policies</b>	<b>Asian Development Bank Safeguard Policy Statement (July 2009)</b>	<b>Inter-American Development Bank Sustainability Standards (2006)</b>
<b>Env &amp; soc</b>		PS1: Social and Environmental Assessment and Management System	PR1: Environmental and Social Appraisal and Management  PR 9: Financial Intermediaries		SR4: Special Requirements for Different Financing Modalities	
<b>Environmental</b>	4.01 Environmental Assessment (1999)  4.04 Natural Habitats (2001)  4.36 Forests (2002)  4.09 Pest Management (1998)  4.11 Physical Cultural Resources (2006)  4.37 Safety of Dams (2001)	PS6: Biodiversity Conservation and Sustainable Natural Resource Management  PS3: Pollution Prevention and Abatement  PS8: Cultural Heritage	PR6: Biodiversity Conservation and Sustainable Management of Living Natural Resources  PR3: Pollution Prevention and Abatement  PR8: Cultural Heritage	Policy on the Environment (2004)  Policy on Integrated Water Resources Management (2000)  Agriculture and Rural Development Sector (2000)	SR1: Environment	Environment and Safeguard Compliance Policy (2006)  Disaster Risk Management Policy  Disclosure of Information Policy
<b>Social</b>	4.12 Involuntary Resettlement (2001)  4.10 Indigenous Peoples (2005)	PS5: Land Acquisition and Involuntary Resettlement  PS7: Indigenous Peoples  PS2: Labor and Working Conditions  PS4: Community Health, Safety and Security	PR5: Land Acquisition, Involuntary Resettlement and Economic Displacement  PR7: Indigenous Peoples  PR2: Labor and Working Conditions  PR4: Community Health, Safety and Security  PR 10: Information Disclosure and Stakeholder Engagement	Involuntary Resettlement Policy (November 2003)	SR2: Involuntary resettlement  SR3: Indigenous Peoples safeguards	Involuntary Resettlement Policy  Operational Policy on Indigenous Peoples (IPP) – Operating Guidelines (2006)
<b>Legal</b>	7.50 International Waterways (2001)  7.60 Disputed Areas (2001)					

Source: IEG.

Notes: PS = Performance Standard, PR = Performance Requirement, SR = Safeguard Requirement. Four multilateral development banks have policies on gender, although these are not considered safeguards. IFC integrates gender issues under the guidance for PS1.

a. Except for pest management, all Bank Operational Policies (OP) have accompanying Bank Procedures (BP).

have little incentive to attempt further revisions even when practical experience demonstrates the need for further refinement.

When the Bank created the suite of safeguard policies, it made public commitments of 100 percent compliance with these “do no harm” policies, a goal that ultimately proved unrealistic. At that time, the Bank’s safeguard policies suite excluded some existing policies that addressed social impact—including Sociological Appraisal, which is a part of the Bank’s policy on Project Appraisal (OMS 2.20), and the policy then on Gender and Development (OP 4.20). In addition to those two, the Bank subsequently developed guidance on financing severance payments in Bank operations that involve labor retrenchment in the public sector.<sup>8</sup> The WBG has jointly prepared and issued EHS guidelines. However, Bank provisions on these two issues do not receive adequate attention by safeguards practitioners even in projects where these risks are relevant. Of the 23 projects in the portfolio sample approved since the EHS guidelines were prepared, IEG found references to the guidelines in 5 projects (22 percent). In contrast, IFC draws on the EHS guidelines when preparing loan covenants. Neither has the Bank integrated the Performance Standard on Labor and Working Conditions, or the one on Community Health, Safety, and Security adopted by IFC in 2006 and MIGA in 2007. The safeguards suite has functioned as a prescriptive framework for existing social policies and a restrictive framework excluding consideration of other social risks that are routinely integrated by other members of the WBG.

The reluctance to add more social issues to the suite of safeguard policies was based on the priority given in the policies to mitigation of adverse impacts. The other social issues were assumed to not involve social risks (although the experience with downsizing of state-owned enterprises proved this assumption incorrect) and they lacked the standards and procedures for compliance found in the safeguard policies. The exclusion of these additional social policies (such as OMS 2.20) from the list of safeguards does not diminish their importance for the IPN,

which has been reviewing compliance with *all* Bank policies, not just those labeled safeguard policies. The goal of 100 percent compliance with the safeguard policies has proved elusive, despite the additional resources allocated for it. Yet the priority given to mitigation effectively crowded out attention to other social impacts on local communities,<sup>9</sup> including gender impacts in Bank-supported projects, as shown by a recent IEG evaluation. The label “safeguards” has also creates an artificial barrier precluding attention to emerging environmental themes such as climate change and occupational health and safety under the safeguards framework.

Most of the safeguard policies provide clearer guidance on procedures and mandatory requirements for risk assessment and development of risk mitigation plans prior to appraisal but relatively little guidance on the implementation phase.<sup>10</sup> Since 1999, the Bank has dedicated additional resources managed by QACU, to ensure high-quality safeguards performance. Those resources are targeted largely toward clearance of all projects during preparation and tracking of high-risk projects, with some resources invested in staff training. However, feedback from staff indicates that the incentive structure flowing from the policy and resource allocation prioritizes safeguard design rather than supervision and monitoring. This has had detrimental effects on safeguards performance.

More recently, Bank policy initiatives have been overtaken by other MDBs. Over the past decade, several development institutions—including IFC, MIGA, EBRD, and ADB—have consolidated their environmental and social policies into an integrated policy framework. But safeguard policies at the Bank have evolved piecemeal. The current set of OPs and BPs has continued to be revised individually since 1998; the latest example is the ongoing revision of the policy on International Waterways (OP/BP 7.50). The robustness and conceptual integrity of the Bank’s safeguards *as an integrated framework* has never been subjected to scrutiny. The UCS approach was an opportunity to test the integrity of the policy framework. However, the safeguards policies



could not be applied at the country level as an integrated policy framework.

The crucial question associated with these policy changes will be their effectiveness in achieving environmental and social results. The reforms introduced by other MDBs are too recent to compare results but the comparison helps to highlight the need for a more systemic approach at the World Bank, which complements risk assessment requirements with implementation and careful supervision to get better results. It will be important to develop indicators and benchmarks to measure and monitor environmental and social outcomes as an integral part of further reform.

#### ***Policy innovation at IFC***

The IFC's Policy and Performance Standards for Social and Environmental Sustainability (PPSSES), approved in 2006, has since been emulated by others. The PPSSES is an integrated policy framework with an umbrella policy on environmental and social sustainability that applies to IFC and MIGA, and relatively well balanced Performance Standards on environmental and social impacts for their clients. IFC added two Performance Standards—Labor and Working Conditions (Performance Standard 2) and Community Health, Safety, and Security (Performance Standard 4)—to the two Performance Standards derived from the Bank's social safeguards. IFC does not have Performance Standards on dam safety or on gender. However, some IFC clients integrate gender impacts within their community impacts study for Performance Standard 4. On the whole, environmental and social staffs feel the Performance Standards have had a positive impact on clients (see appendix E).

IFC and MIGA have framed their Policy and Performance Standards as principles to be followed by their largely private sector clients. IFC and MIGA continue to be responsible for supervision of client implementation of the Performance Standards. IFC's policy challenges lie in financial intermediary projects and frontier areas—corporate finance, listed equity projects, trade finance in instruments, and emerging themes such as

climate change. (IFC-specific gaps related to lending instruments have already been discussed in chapter 3.) IFC has put in place a process to review and update the PPSSES. IEG endorses the practice of periodically reviewing environmental and social policies to clarify areas that need more guidance and consider mechanisms to improve implementation performance and results.

Some NGOs expressed concern about the weakening of safeguard standards under the PPSSES, but IEG did not find any evidence of a dilution of standards. From meetings and survey responses, IEG found a perception among some NGOs that IFC and MIGA would no longer be directly accountable, under the PPSSES, if their clients do not comply fully with the Performance Standards. Some NGOs expressed concern that the PPSSES would result in a watering down of accountability standards set by the safeguard policies since they depend heavily on the private sector client or partner for implementation and monitoring.<sup>11</sup> The previous chapters of this evaluation compared IFC performance under the two different sets of policy frameworks. IEG's evaluation did not find evidence of deterioration of policy content among IFC's projects in the sample of projects reviewed. However, civil society concerns about the relative lack of disclosure and the absence of independent verification of implementation results in IFC projects are valid.

#### ***Private sector ownership of social and environmental sustainability***

The consistency of the Performance Standards with the voluntary standards of the Equator Principles appears to have increased acceptance of the latter among the private sector clients of IFC and MIGA. The Equator Principles are voluntary standards for determining, assessing, and managing social and environmental risk in project financing. They were developed by private sector financial institutions and launched in 2003. Those institutions chose to model the Equator Principles on the safeguard policies of the IFC. By October 2009, 67 financial institutions had adopted the principles, which have become the de facto standard for banks and investors on



how to assess major investment projects around the world. The Equator Principles represent a significant industrywide initiative. In July 2006 the principles were revised after IFC's new sustainability policy was approved, increasing their scope and strengthening their processes to match those of the Performance Standards.

### **Recent policy changes in other MDBs**

The EBRD, whose architecture resembles that of IFC and MIGA, adopted the PPSSSES in 2008 with some improvements. While retaining the structure of social and environmental sustainability, EBRD used the term "Performance Requirements" instead of Performance Standards. Significant responsibility for ensuring implementation lay more clearly with EBRD. It has also added a performance requirement on financial intermediaries and one on Information Disclosure and Stakeholder Engagement. The growing share of financial sector projects at IFC and MIGA suggests that similar, more explicit guidance for financial intermediaries would be useful for IFC too. IFC is also in the process of updating its disclosure policy. Disclosing supervision and monitoring results to key stakeholders would augment IFC's ability to improve results.

In the treatment of indigenous peoples, EBRD has adopted the language of "free, prior, and informed consent" rather than "free, prior, and informed consultation" provided for in WBG policies, thereby meeting a longstanding demand of advocacy groups for indigenous peoples. IFC is currently reviewing the corresponding language in the PPSSSES as well.

In July 2009, the Board of Directors of the ADB approved a new Safeguard Policy Statement,<sup>12</sup> which brings its previous safeguard policies on the environment, involuntary resettlement, and indigenous peoples into one single policy that enhances consistency and coherence, and more comprehensively addresses environmental and social impacts and risks. ADB refers to the safeguard areas under the policy as "Safeguard Requirements." In addition to the three previous safeguard areas, ADB has added a fourth dealing with special environmental and social requirements for different financ-

ing modalities. ADB also has a policy on gender and development going back to 1998. It added guidance on integrating gender and development into ADB operations in 2006, and on integrating social dimensions into ADB operations in 2007, but it has followed the Bank's lead in excluding these from its safeguards suite.

By using the terms "Performance Requirements," and "Safeguard Requirements," at least in their choice of language, both agencies have signaled a commitment to greater accountability. However, it will be a few years before the environmental and social results of these policy revisions at EBRD and ADB are known.

### **Safeguards architecture**

Most MDBs have umbrella policies on environmental and social sustainability. In terms of the internal architecture (see table 5.1), each MDB dealing largely with the private sector—EBRD, IFC, and MIGA—has an explicit policy on environmental and social sustainability with a set of Performance Standards (IFC/MIGA) or Performance Requirements (EBRD) under the umbrella. Among the regional development banks, the Inter-American Development Bank (IDB) does not have an umbrella but maintains a balance among environmental and social aspects with three separate policies on environment, involuntary resettlement, and indigenous peoples. IDB also situates its safeguards work in the context of environmental and social sustainability. ADB has an umbrella Safeguard Policy Statement with a similar balance on environmental and social aspects under the policy. The Bank and the African Development Bank have neither an umbrella safeguard policy nor a policy on environmental and social sustainability. Given the renewed concern for environmental and social sustainability and climate change, a review of the Bank's safeguards as an integrated framework that complements up-front risk assessment with implementation and sustainability is needed.

An unintended consequence of the lack of a policy on environmental sustainability at the Bank is that it has resulted in a divide between safeguards work and the considerable body of

work being done by the Bank's environmental units to strengthen national environmental laws and systems. Safeguards work is aimed at mitigating the adverse impacts of investment projects while environmental policies and institutions are being supported by analytical work, technical assistance, and lending operations, including investment projects and environmental DPLs. However, that work is kept operationally distinct from the work on safeguard compliance, leading to a growing disconnect between the two and running the risk of undermining client ownership for environmental and social safeguards. This separation has been reinforced by the transfer of staff providing quality assurance and oversight for safeguards from the former ESSD network to OPCS and their counterparts in the regions, on the grounds that housing the safeguards compliance staff within the same Sustainable Development Network

*The lack of a policy on environmental sustainability at the Bank has resulted in a divide between safeguards and the work to strengthen national environmental laws and systems.*

whose infrastructure and agricultural projects generate safeguard impacts could lead to a conflict of interest. The effects of Sustainable Development Network integration on environmental and social performance have not been assessed in this evaluation because it will likely be examined under IEG's planned matrix evaluation.

### **Policy balance**

Overall, the environmental and social policies in IFC, MIGA, ADB, EBRD, and IDB provide more comprehensive coverage of environmental and social risks than those of the Bank. Among the MDBs, the World Bank has the most visible imbalance among its environmental and social policies and also lacks an umbrella policy on environmental and social sustainability. However, unlike the other three, ADB has confined itself to three safeguard areas—environment, resettlement, and indigenous peoples—while it maintains a separate focus on gender in its operational manual. Unlike IFC, MIGA, EBRD, and ADB, the African Development Bank does not comingle its environmental and social policies, and has separate policies on environment and involuntary resettlement as well as

policies on gender, integrated water resources management, and agriculture and rural development, but it does not have a policy on indigenous peoples.

The absence of a comprehensive policy at the World Bank limits the scope of social policies to a far greater extent than environmental policies. The Bank safeguards consist of six environmental, two social, and two legal policies (issues addressed in those legal safeguards are not covered to the same length or complexity in other MDBs). OP 4.01 (Environmental Assessment) provides well-rounded coverage of environmental issues. However, as discussed previously, the social safeguards are limited to the two (Involuntary Resettlement and Indigenous Peoples) that are labeled safeguards. The set of safeguard policies is skewed toward the environment both through the exclusion of social policies existing within the Bank, and the Performance Standards on labor issues and community impacts adopted by IFC, MIGA, and EBRD. The lack of a comprehensive policy for coverage of social risks thus appears to be resulting in the inability to capture social risks adequately. However, the addition of other themes would have to be accompanied by policy consolidation under one social umbrella policy to ensure synergies and efficiency gains.

Two considerations militate against consolidation of all the safeguards under one umbrella. Internally, the current safeguards framework has resulted in a narrow approach to social safeguards, restricting them to two specialized issues. Expansion of thematic coverage will be more practicable if the assessment of social risks is consolidated under one assessment that prioritizes these risks according to their relevance to each operation. Externally, the country dialogue on safeguards has hitherto been dominated by environmental concerns and complemented by a large volume of environmental analytical work, institutional strengthening, and lending operations. Expanding the scope of country legislation and environmental institutions to ensure comprehensive coverage of social risks is not realistic since most countries have separate

agencies to deal with environmental and social risks. Rewriting environmental legislation, and revamping institutional responsibilities and regulatory structures for environmental agencies to deal with social risks would require significant institutional change and impose substantial costs on Bank clients without the assurance that those institutions would have the capacity to address social impacts adequately.

However, there is merit in consolidating the environmental safeguards within one umbrella policy. The environmental assessment policy is always triggered when other environmental risks occur, and the EA/EIA encompasses the risks covered in the remaining environmental safeguards. In terms of managing safeguard risks, treating them in isolation can lead to duplication or redundancy. While the separate themes remain relevant, they could be amalgamated as requirements under a consolidated environmental policy.

### Fitting Social Safeguard Policies to Context: Lessons from MDBs

The two most contentious issues regarding social safeguards have significant policy implications: the treatment of squatters in the Involuntary Resettlement Policy, and the lack of differentiation in the treatment of people affected by resettlement or indigenous peoples in projects designed to benefit them compared with projects where they are not the intended beneficiaries.

IEG interviews with country directors (box 5.1) and clients revealed that the social safeguard policies were difficult to implement. Country directors were most concerned about the prescriptive and restrictive nature of the policies, which they felt often differed from national laws, an observation that resonates with the findings of the UCS review. Sector managers' views were more variable (box 5.2), some sharing similar concerns about social safeguards, others critiquing environmental safeguards. On environment, the main concern was "mission creep," which was reflected in overcategorization of projects such as some technical assistance loans<sup>13</sup> and

#### Box 5.1: Country Director Views on Social Safeguard Policies

Country directors find Bank social safeguard policies narrow, rigid, and difficult to implement.

- "There is a serious disconnect between what countries are doing and our social safeguards. The resettlement policy is way out of line with what our clients have. It is amazing how little clarity there is on how this policy applies to legal or nonlegal, poor or nonpoor claimants, and how to deal with people who refuse to accept the compensation rate."
- "By mandating some things that are onerous we encourage task teams to take a very narrow look at those social issues... They focus on resettlement but not on other social issues."
- "We are creating distortions in countries, for example, on restoration of livelihoods. Our recommendations are not consistent with reality and distort the market. The compensation is far greater than what the market is offering. This is more apparent in Africa but is also true in other regions."
- "The policies are open to a lot of interpretation between the compliance unit in OPCS, the regional safeguards unit, and the sector units. It depends a lot on personalities, and the transaction costs are huge for us."

Source: IEG interviews with country directors.

social sector projects with no immediate physical impacts. Classifying as category B projects that require little or no mitigation measures widens the category band and undermines the purpose of categorization. IEG found that clients incurred expenditures of less than \$1 million in a third of category-B projects in its portfolio sample. Except for one project, which was rated unsatisfactory, these expenditures seemed adequate, indicating that these projects need not have been placed in category B.

In the focus group discussion with Bank staff (appendix E), the absence of an umbrella policy for an integrated social assessment was highlighted as a key constraint faced by social development staff, which compels them to ignore risks of wider import. They felt that this limited their ability to adapt their work to different contexts and forced them to rely on the two social safeguard policies as the only entry point for engaging

### Box 5.2: Sector Manager Comments on Bank Safeguards

- “Safeguards do add value when done well. When done poorly they increase transaction costs and lead to delays and problems.”
- “High level of risk aversion is resulting in extension of the [environmental] safeguards approach to areas where their immediate value is questionable, for example, to technical assistance loans and land cadastre projects.”
- “The disconnect between borrower-Bank policies is greatest on resettlement.”
- “Safeguards work is much stronger on environment than social because of the existence of an umbrella policy. Social safeguards are very different. The Bank does not have an umbrella policy on social analysis, unlike the IFC, which has a balanced policy on social and environment.”
- “The Indigenous Peoples policy is easier to implement in Latin America [than in other regions] as there is constitutional protection in most countries, which have moved from assimilation to acceptance of diversity.”
- “The Indigenous Peoples policy has resulted in more risk aversion [other than in Latin America and Caribbean region] than the resettlement or environmental policies. Projects have been modified to avoid dealing with IPs.”
- “Safeguard policies are not well aligned to community-driven development and programmatic approaches. They have been applied to such projects with policy frameworks. But we often fail to ensure that site-specific supervision and design is done when frameworks are used.”
- “Environment policies are more prescriptive and are even less aligned with programmatic approaches than the social safeguard policies, which include provisions for use of frameworks.”

Source: IEG interviews with sector managers.

clients. One of the main criticisms identified in IEG’s client surveys and manager interviews was that the social safeguards are implemented in a rigid, legalistic manner with insufficient adaptation to the operational context. IEG investigated how other IFIs were implementing their social safeguard policies in different contexts. While not an exhaustive treatment of the subject, the examples below from other IFIs seem relevant to WBG operations.

### *Indigenous peoples policy*

The Indigenous Peoples policy was developed originally to address social exclusion of disadvantaged ethnic groups in Latin American countries. Subsequently, the policy was adopted and made applicable globally, although the term “indigenous” does not translate easily elsewhere and its relevance is more contested in other regions, except in countries where national legislation recognizes the rights of indigenous peoples or ethnic minorities. The policy is particularly challenging in conflict countries and multi-ethnic countries in Asia and Africa grappling with challenges of national integration.

The richest experience in applying this policy remains in Latin America by both the Bank and the IDB. The experience and approach adopted by IDB is therefore directly relevant to the WBG. Policies of the IDB (and EBRD) include provisions for adjusting the policy requirements to specific contexts.

The IDB classifies projects under its Indigenous Peoples Policy (IPP) into three categories: (i) *independent projects for indigenous peoples*, (ii) *mainstreaming projects*, and (iii) *projects with safeguards*. While all three types involve consultations with indigenous peoples to ensure that their inputs and perspectives are integrated within project design, the intensity of studies varies. Independent projects are those that are designed wholly to benefit indigenous peoples. Therefore, by design they are expected to “do no harm.” Mainstreaming also does not involve harmful impacts; it seeks to increase the value added by the bank’s projects to ensure that indigenous people are also able to benefit from them. Projects with safeguards are those that have potential direct or indirect adverse impacts on the rights and assets of indigenous peoples. The third type of IPP project is subject to much greater scrutiny than the other two.

The EBRD’s policy<sup>14</sup> toward indigenous peoples distinguishes between projects that are likely to result in adverse impacts on them and those that are not, with more stringent requirements for projects causing adverse impacts. EBRD’s policy

makes a distinction between the types of impacts on indigenous peoples to determine the level of risk assessment needed. As is the case for IFC, EBRD’s policy also permits the assessment of indigenous peoples’ issues to be undertaken as part of a broader community impact assessment, which may be more acceptable in countries where other forms of vulnerability or social exclusion are also pervasive.

### ***Involuntary resettlement policy***

*In one African country, the government decided to fund a housing project involving slum clearance and redevelopment from its own funds rather than Bank financing. In the government’s view, the Bank’s safeguard policies would be unworkable in the high-density urban environment where it would be unable to control the huge influx of rent-seeking illegal occupants demanding compensation.*

—Country director interview

As previously identified from interviews with clients and managers, involuntary resettlement is perceived as contentious because of the rigidity in the WBG’s policy requirements on land acquisition regarding treatment of untitled persons. Unless untitled persons have customary tenure rights they are considered illegal occupants in all countries, yet WBG policies entitle them to compensatory assistance for involuntary resettlement and economic rehabilitation. The policy does not distinguish among displacement induced by projects purposively designed to benefit affected people from those that merely induce adverse impacts on them, and the policy requirements apply regardless of the significance of impact. In one instance “an extension of a small pumping station by a few meters,” which did not even cause physical displacement of any household, led to a whole overlay of safeguard compliance issues. These rigidities are being addressed by other MDBs by considering the nature and significance of resettlement impact.

In their policy of Involuntary Resettlement, the IDB similarly makes a distinction between *projects where resettlement is a project objective to*

### **Box 5.3: Civil Society Comments on Bank Safeguards**

- “The Bank safeguards were effective when adopted but have not been updated, and the world has changed in the meantime.”
- “Whereas certain Bank policies may once have been considered ‘best practice,’ there are now institutions and accepted standards that offer superior social and environmental protections:
  - Several private banks, including Citigroup, Bank of America, and HSBC, have stronger biodiversity conservation and forest protection policies than the WBG.
  - Corporations such as Alcoa, DuPont, and Shell have eclipsed the Bank in setting greenhouse gas emissions reduction targets.
  - On climate change the ADB is more stringent than the Bank.”
- “IBRD/IDA needs to broaden safeguard coverage of social impacts, at least to match IFC/MIGA.”
- “Environmental/social assessment framework for development policy lending must be strengthened.”
- “Performance Standards do not go far enough to protect indigenous peoples.”
- “Special provisions are needed in respect of safeguards in conflict areas or where there is poor governance (the Chad-Cameroon Pipeline project is a good example of this).”
- “The issue of human rights should not be avoided.”

*Source:* IEG evaluation survey findings.

improve the quality of lives of affected persons, and those projects where displacement is an adverse consequence of a broader operation not designed to benefit them.<sup>15</sup> In particular, when a project is designed to move people from areas that are unfit for human habitation, or to provide basic infrastructure in urban upgrading projects, or resolve land tenure problems, resettlement is treated in a different manner from those projects where the project is not designed to benefit the people it is affecting. The distinction between operations designed to benefit locally affected persons and those that only affect them adversely, provides much more flexibility in adapting policy to the operational context.

*Impoverishment Risk Analysis* was pioneered at the World Bank, however, the Bank does not use this instrument routinely in its resettlement



work to assess potential social impacts and evaluate project outcomes. IDB has adopted it and requires an Impoverishment Risk Analysis<sup>16</sup> for projects inducing involuntary resettlement. Impoverishment Risk Analysis serves to remind task teams that the primary risk of resettlement is impoverishment. Systematic risk analysis enables task teams to identify which of these risks are more acute and need to be addressed. By linking the lack of clear title to housing, livelihoods, and impoverishment, IDB also offers a way to deal with the claims of speculators or politically influential land grabbers who seek to capture development benefits. Adapting safeguards measures to the poverty context provides a useful guide to mitigation actions and also provides an opportunity to link safeguard outcomes to the Bank's mission of poverty reduction.

These illustrations are provided to encourage introspection and debate within the Bank on how to improve implementation and ownership of these policies. The examples provided do not imply that the policies should be restricted to cases where adverse impacts are induced, nor do they imply an elimination of the need to consult with affected people or indigenous peoples. But they do suggest the need for further refinement of the policies to differentiate projects that need mitigation plans to address adverse social impacts from those projects where the consultation process is aimed at enhancing the project's benefits. Adopting such measures to customize safeguards policies to the operational context

*Keeping the focus on poverty outcomes and benefits accruing to affected people can help ensure that the ends justify the means.*

would require a revision to existing policies to permit this sort of flexibility during implementation. Keeping the focus on poverty outcomes and benefits accruing to affected people can help ensure that the ends justify the means.

### **WBG Paradigms for Environmental and Social Management**

The WBG is using two different paradigms for its environmental and social work, the Bank's safeguards paradigm, largely for the public sector, and the IFC's Performance Standards

paradigm for the private sector. The two share similar objectives "to avoid, mitigate, or minimize adverse environmental and social impacts of projects supported by the Bank" and to ensure that they are "environmentally sound and sustainable." IFC applies the Performance Standards "to manage social and environmental risks and impacts and to enhance development opportunities in its private sector financing."

The safeguards paradigm prescribes assessments and normative requirements for clients with mitigation measures designed prior to project approval, just as traditional projects were fully designed at appraisal. Although many countries have adopted similar environmental legislation, whenever national regulations differ from the Bank's safeguard policies those are overridden by the requirements of the Bank's safeguard policies. Supervision focuses essentially on compliance with the mitigation plan rather than on monitoring outcomes. The exceptions made in recent years for financial intermediary projects and other decentralized projects that replaced risk assessments with policy frameworks have had even worse results than other projects because of weak follow-up during implementation.

The Performance Standards paradigm is based on an expectation that the clients, who are private business entities, will voluntarily adhere to Performance Standard requirements, with loan covenants that provide remedies if they do not. IFC places greater responsibility for implementation and monitoring of specified performance indicators on the client and supports this with supervision and documentation of performance. However, lack of independent verification and disclosure remain a fundamental lacuna.

The introduction of the Performance Standards is too recent to compare results with those under the safeguard policies. However, there is evidence that the instruments and practices introduced by IFC in parallel with the Performance Standards have improved implementation. IFC's systems include a balanced environmental and social thematic coverage,



including more relevant social standards. It relies on the responsibility of the private sector client or partner for annual monitoring and achievement of Performance Standards but lacks disclosure of monitoring information, third-party verification or community monitoring. It has more intensive supervision and review of performance, including use of explicit performance indicators, an annual environmental and social performance review by IFC, as well as integration of environmental and social effects as one of the four dimensions of the project's development objective.

The World Bank's systems are frontloaded, stressing requirements during appraisal, and individual policies have more specific requirements (see table 5.2). They emphasize screening, risk assess-

ment, and appraisal of the proposed mitigation plans to ensure compliance with safeguard policy requirements. They have highlighted and covered high-risk projects adequately but have lacked the flexibility to address a broader array of risks. Supervision and monitoring receive far less attention affecting implementation quality and leading to highly uneven results.

Ideally, policy reform should draw on the strengths of both the safeguards and Performance Standards in an integrated fashion. A paradigm based on more relevant thematic coverage, flexibility in procedures ensuring the integrity of standards, and client responsibility for monitoring would likely lead to more client ownership, and verification and disclosure would ensure better results. The quality

**Table 5.2: Paradigms for Achieving Social and Environmental Results**

<b>Safeguard policies</b>	<b>Performance standards</b>
Client refers to borrower, agency, and local beneficiaries	Client refers to private sector firms or business partners, but not communities
Environmental Assessment Policy provides an entry point for the country dialogue on environmental (but not social) safeguards	Performance Standard 1: Social and Environmental Assessment and Management Systems provides an entry point for dialogue with the client
Thematic coverage of social safeguards restricted to <i>involuntary resettlement and indigenous peoples</i>	Expanded thematic coverage includes <i>labor and working conditions</i> , and <i>community impacts</i> (including health, safety, and security)
Mandatory Bank requirements for project preparation and disclosure; loan covenants included largely for higher-risk projects	Preparation and disclosure requirements rest with private sector clients or partners; loan covenants included for compliance with Performance Standards during implementation
No monitoring requirement from clients and no reporting requirement in supervision reports, except for ISR safeguard ratings	Client submits its Annual Monitoring Report and IFC staff prepare annual Environmental and Social Review Document with indicators for each Performance Standard
Identification and supervision of category A adequate but not of category B	Identification of category A inadequate, but supervision process strengthened for all
Supervision reports not disclosed until fiscal 2011 and outcomes not measured or independently verified, except for high-risk projects	AMRs and ESRD not disclosed and environmental and social outcomes not independently verified, except for high-risk projects, weakening accountability
Rare use of EHS guidelines	EHS guidelines routinely used
ICR reporting weak; no link to results framework and the project's development objective	Environmental and Social Effects rated in the Extended Project Supervision Report as one of four dimensions of the project's development outcome

Source: IEG.

*Without investing in these elements the IFC's Performance Standards paradigm would be a riskier option than the previous safeguards compliance model with respect to environmental and social outcomes.*

of implementation and monitoring, which depends on client capacity and commitment, needs to be adequate, and checks and balances need to be in place to ensure that intended social and environmental outcomes are achieved. In this context, four elements are vital: (i) investment in the clients' social and environmental management system; (ii) integration of adequate environmental and social performance indicators in the project's results framework; (iii) effective instruments for monitoring by the client, reinforced by independent verification of environmental and social outcomes; and (iv) regular supervision, performance review, and disclosure of monitoring and supervision reports. Without investing in these elements the IFC's Performance Standards paradigm would be a riskier option than the previous safeguards compliance model with respect to environmental and social outcomes.

The limitations of the safeguards paradigm become even more visible in the UCS pilots. The mandatory requirements spelled out in an Operational Policy have prevented meaningful dialogue and the experimentation needed for the pilots to succeed. And the piecemeal approach to examining individual safeguards policies at the project level has reduced the likelihood that any Bank borrower will be able to adopt the entire suite of safeguards policies. Adoption of country systems will only be feasible if the Bank starts from national laws and regulations, rather than from individual projects and individual safeguard policies, and invests in strengthening client institutions and capacities, analogous to IFC's focus on the social and environmental management systems of its clients. This would require a shift in emphasis from mandatory procedural requirements at entry to monitoring implementation and outcomes, adopting a results-oriented paradigm for its operational work, even if the overall objectives of the Bank safeguards framework are retained.

### **Implications for the World Bank Group**

The Bank's 2001 Environment Strategy highlighted the need to address a number of safeguard issues that are still relevant today. A two-pronged approach was outlined to first address a number of short-term priorities, such as strengthening safeguard compliance, "mainstreaming" environmental concerns across Bank sectors, and improving results by strengthening the Bank's internal review, monitoring, and tracking system. The strategy also sought to move safeguard considerations "upstream" in the decision-making process through use of strategic and country environmental assessments. It also encouraged development of a risk-based management system to address the intrinsic risk of a given project and the client country's capacity to manage that risk, and move toward greater in-country ownership of and capacity to implement safeguards in accordance with their own policies and procedures.

The analysis does not provide sufficient basis to prescribe specific policy changes, but it does make a compelling case for updating the Bank's safeguards framework to achieve better environmental and social outcomes. That would involve refining Bank environmental and social policies to strengthen implementation, borrowing elements of the changes in M&E and the clients' role from IFC, as well as policy innovations of other MDBs, and redesigning the Bank's country systems approach. At the same time, implementation of high-risk projects and the enhanced disclosure policy adopted by the Bank provide lessons for other MDBs. Harmonizing thematic coverage of the policies, shared systems for risk-based categorization of projects, and performance indicators to track outcomes across the WBG are highly desirable. This will need leadership from senior management to indicate the priorities for stronger environmental and social results, and mobilization of a technical team dedicated to seeking out opportunities for innovation and reform to strengthen social and environmental sustainability.

# Chapter 6

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Community discussion in India. Photo by Curt Camemark, courtesy of the World Bank Photo Library.

# Conclusions and Recommendations

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## Conclusions

In the 1980s, the WBG began developing a series of Operational Policies to safeguard people and the environment against undue harm from the development operations it finances. In 1997, ten existing policies were labeled safeguard policies and have since been treated as the environmental and social standards to which the WBG has committed and is publicly accountable. These policies have been revised over the past decade but always in a piecemeal fashion, without examination of the safeguards policies as an integrated framework. While the World Bank still relies on these safeguard policies, IFC and MIGA, two other members of the WBG, replaced them with the Policy and Performance Standards on Social and Environmental Sustainability in 2006 and 2007, respectively. Cumbersome procedures to revise Bank policies have created a disincentive against modernizing the safeguard policies, leading in several instances to rigidities and difficulties in implementation.

IEG found strong support among WBG staff, management, and clients for the underlying principles of the safeguards and Performance Standards. Three-fourths of the respondents to an IEG survey of NGOs said that the WBG's performance in dealing with environmental and social impacts is significantly better than in the 1990s, while less than 10 percent thought WBG performance had worsened. However, substantial implementation and capacity challenges remain.

IEG has conducted several evaluations of individual safeguard policies, such as Involuntary Resettlement, Indigenous Peoples, and of related themes, including the Environment Strategy, Social Development in World Bank Operations, Environmental Sustainability, and Climate Change. This evaluation is the first assessment of the entire suite of environmental and social safeguards and sustainability policies. Its purpose is to go beyond evaluation of compliance with requirements of individual safeguard policies

or standards but of the relevance, efficacy, and effectiveness of the safeguards and Performance Standards as integrated policy frameworks.

The evaluation also attempts to compare environmental and social performance at IFC and MIGA under the safeguards policies with that under the Performance Standards. IEG found IFC's instruments and procedures for monitoring performance under the PPSSSES to be an improvement over those under the safeguard policies, although still lacking mechanisms for disclosure and independent verification. And given the short period since the adoption of the PPSSSES, IEG is unable to arrive at conclusions regarding performance of projects prepared under the new policy framework.

Nonetheless, IEG's assessment reveals that the PPSSSES cover a wider spectrum of environmental and social effects,<sup>1</sup> including labor issues, such as retrenchment and workers' rights, and community impacts relevant to WBG operations than that covered by the Bank's safeguard policies. In addition, IFC uses EHS guidelines as binding covenants for clients, covering a number of high-risk industries with specific guidance and requirements to prevent pollution. IFC applies specific guidelines to address occupational health and safety aspects, an important social area that has been relevant in 85 percent of IFC projects but the use of EHS guidelines by the Bank is rare, even in projects with obvious health and safety risks, as in power plants and road construction.

IEG found the Bank's safeguard policies to be imbalanced, with several notable gaps on social risks, which are addressed more systematically by other MDBs. The *Environmental Assessment* policy (OP 4.01) functions as an effective umbrella for the environmental safeguards, which could be consolidated under one combined environmental policy. However, the current safeguards framework has led to the exclusion from scrutiny of some project-induced risks already included in IFC/MIGA Performance Standards, other existing Bank policies, and EHS guidelines. Their inclusion will make it more likely that priority risks more relevant to client and project needs will be addressed. The addition of these

social policies does not necessarily imply an additional burden on the Bank and its clients. Consolidation under one umbrella social policy that provides for an integrated social assessment and management of relevant, project-induced social risks and vulnerabilities would increase efficiency and enhance synergies among them. A social policy umbrella would allow a determination of the most significant social risks relevant to each project, just as OP 4.01 allows the identification of the most significant environmental risks relevant to each project. Further consolidation of the environmental and social themes under one umbrella is not advisable because the environmental institutions, which the Bank has helped put in place in borrower countries, have neither the mandate nor the expertise to address most of these social risks. Expecting environmental agencies to expand their mandate to cover social issues runs the risk of continued marginalization of social issues, as has been the experience within the Bank to date.

These policy changes would improve the *relevance* and *efficiency* of the Bank's environmental and social policies. The evaluation has highlighted the urgent need to strengthen implementation, supervision, monitoring, and reporting to improve the *effectiveness* of the World Bank's social and environmental policy framework.

The changing nature of the portfolio requires special attention. IEG found a growing number of projects whose impacts cannot be appraised prior to project approval. In the Bank, these include projects managed by financial intermediaries, community-driven development projects, and projects with multiple subprojects not identified at appraisal. For these projects, task teams rely on policy frameworks,<sup>2</sup> which describe the actions to be taken by the client to assess impacts, and develop and implement mitigation plans, during project implementation. Uneven supervision has affected the WBG's ability to ensure quality in these projects.

At the Bank, staff capacity is unevenly distributed across the regions, with Africa suffering the most from skill shortages, particularly on



social safeguards. The skills deficit is further compounded by the increasing separation between environmental and social staff who work on safeguards and those who work on other environmental and social issues, which are perceived as being professionally more satisfying. The relocation of safeguards clearance and compliance functions with the transfer of the Quality Assurance and Compliance Unit from ESSD to OPCS, and the Regional Safeguard Advisors from regional ESSD departments to regional departments with OPCS functions, appears to have resulted in more systematization of clearances and appraisal but has also inadvertently increased the separation between environmental and social staff working on safeguards and those engaged in own-managed operations, whose work programs are not always well aligned with each other. Responsibilities and incentives need to be realigned to address these constraints.

Overall, IFC is demonstrating improved compliance with its policy framework since introduction of the PPSSES. IFC is using its leverage in applying the Performance Standards effectively within project and corporate finance with identified use of proceeds, but this leverage is limited in listed equity projects and trade finance. The introduction of IFC's on-line ESRD document, with specific performance indicators and a rating system, has strengthened monitoring under the PPSSES framework. However, its efficacy depends largely on the quality of the AMRs submitted by clients and IFC's environmental and social staff resources to maintain the ESRD documents. Supply chains are not well identified and managed, especially in agribusiness and trade finance in IFC-financed operations. IFC's local disclosure practices and monitoring are weak and communities do not have sufficient information on projects impacts.

Overall, MIGA is managing the limited resources devoted to its sustainability function efficiently, with positive results in comparison to the absence of MIGA's intervention. But the very limited extent to which MIGA can monitor and ensure the projects' compliance with the applicable Performance Standards leaves the projects

exposed to environmental and social risks, and leaves MIGA unable to provide assurance that the projects it supports have adequately prevented and mitigated their adverse environmental and social impacts.

## Recommendations

The following recommendations to the World Bank, IFC, and MIGA are made to help maintain the objectives of safeguards and sustainability policies; strengthen compliance, implementation, and accountability; and improve clients' and the WBG's ability to promote positive social and environmental results. These objectives are critical to realizing the WBG's goal of poverty reduction in the context of increasingly mature clients and a rapidly evolving portfolio.

The WBG's safeguards and Performance Standards play a key role in ensuring adequate attention to environmental and social outcomes. Given the changing nature of its clients and portfolios, the challenge is to ensure the continued relevance of the WBG's environmental and social policies, complementing the emphasis on compliance with effective implementation to increase the efficiency and effectiveness of its practices. The transaction costs of safeguards and rigidities in policy interpretation, particularly for the social safeguards, have led to risk aversion and, in some cases, to avoidance of projects or components that would benefit the poor.

To ensure that vulnerable groups are not excluded from development benefits, there is a need to adopt differentiated approaches for interventions designed to benefit affected persons from those likely to induce adverse effects. The evaluation points to the need for a systems approach that balances up-front risk assessment with implementation support to increase effectiveness; policy consolidation with more comprehensive, balanced thematic coverage to ensure adequate up-front regulations, while providing for better supervision, monitoring and evaluation, verification, and disclosure; and partnership with clients, third parties, and local communities to enhance ownership and results.

**1. Revise the policy frameworks to harmonize thematic coverage and guidance across the WBG and enhance the relevance of those frameworks to client needs.**

- IFC, MIGA, and the World Bank should jointly adopt and use a shared set of objective criteria to assess social and environmental risks to ensure adequacy and consistency in project categorization across the WBG, using the more inclusive criteria for category A, and refining the categorization system to address the bunching of higher- and lower-risk projects within the current category B.

The World Bank should:

- Ensure adequate coverage of social effects—integrating community and gender impacts, labor and working conditions, and health, safety, and security issues not currently covered by its safeguard policies—by consolidating existing social safeguards with other WBG policies on social risks as requirements under one umbrella policy on social sustainability.
- Consolidate the environmental policies as requirements under one umbrella policy on environmental sustainability.
- Revise the current approach to safeguards pilots on use of country systems to focus on strengthening country institutions and systems to manage environmental and social risks.

IFC should:

- Strengthen the provisions on sustainability to address emerging issues, notably climate change and supply chains and their commodity certification.
- Develop more robust approaches to the implementation of the Performance Standards in financial intermediary projects, listed equities, and trade finance.
- Strengthen policies and practices on disclosure, including at the local levels.

MIGA should:

- Increase the capacity of the Environmental and Social Unit to the level needed to provide credible assurance on performance against the standards for every project. Should MIGA be unable to increase its resources devoted to implementation of Performance Standards, it should revise its Policy on Social and Environmental Sustainability to disclaim any responsibility for monitoring the projects' social and environmental performance and ensuring that they comply with the standards. Under this option, MIGA's role would be limited to reviewing the client's assessment of the project's environmental and social risks against the standards, identifying corrective actions as needed, and securing the client's commitment to implement these actions.
- Require that category-B Small Investment Program projects follow the same disclosure requirements as for regular category-B projects.

**2. Enhance client capacity, responsibility, and ownership.**

The World Bank should:

- Increase the synergies between safeguards work and broader Bank engagement on environmental and social sustainability by investing in upstream analytical work, technical assistance, and lending to strengthen country and sector institutions and capacities in client countries.
- Require regular reporting by the borrower on implementation and outcomes of safeguards in Bank-supported projects, and work with clients to develop instruments and indicators to help in such monitoring.

IFC should:

- Develop incentives for investment officers to share ownership of the Performance Standards and mainstream their implementation.
- Use advisory services to build social and environmental management systems and implementation capacity, especially among small and medium enterprises, financial intermediaries, and clients in countries and

sectors with weak environmental and social management.

- Mobilize resources at appraisal for energy and clean production audits, using auditors with relevant sector knowledge.
- Define areas of influence and requirements to better address supply chain risks and opportunities, particularly related to biodiversity and forestry, expanding the application of material biodiversity along the supply chain for suppliers.

MIGA should:

- Focus the due diligence reviews of financial sector projects on the Social and Environmental Management Systems of developing country subsidiaries the project supports, rather than the corporate policies of the parent banks.
- Expand the size and eligibility of the Trust Fund for Addressing Environmental and Social Challenges to all low-capacity clients on the basis of need.

### **3. Revise guidelines, instruments, and incentives to strengthen supervision arrangements.**

The World Bank should:

- Assign responsibility and budget for safeguards oversight and reporting to environmental and social units in each operational region—in line with IFC practice—in place of the delegation of safeguards processing and supervision to sector management units.
- Introduce a certification program to expand the pool of staff qualified to undertake social and environmental preparation and supervision while ensuring quality and consistency, and provide orientation training on environmental and social sustainability to all task team leaders.
- Develop and implement an action plan to ensure regular supervision of financial intermediary projects and investment projects that use social and environmental policy frameworks through third-party or community monitor-

ing for higher-risk projects, and disclosure of monitoring and supervision reports.

IFC should:

- Enhance the supervision of financial intermediaries at the subproject level by developing clear guidelines for applying the Performance Standards at the subproject level and by adopting a systematic approach to environmental and social specialists' site visits to selected subprojects.
- Use loan covenants, including Conditions of Disbursement to enforce compliance with environmental and social requirements and reporting if the clients lack commitment and are continuously out of compliance.

### **4. Strengthen safeguards monitoring, evaluation, and completion reporting.**

The World Bank should:

- Include performance indicators on environmental and social outcomes in project results frameworks and ensure systematic collection of data to monitor and evaluate safeguards performance.
- Ensure that Implementation Completion Reports and IEG reviews of those reports rate and report effectively on the outcomes of safeguards and, for all projects with significant environmental and social effects, ensure the results are incorporated as an essential dimension when assessing achievement of the project's development objective, as has already been done for IFC and MIGA.

IFC should:

- Disclose project-level environmental and social information from monitoring and supervision reports.
- Make use of independent, third-party, or community monitoring and evaluation for its projects, particularly for projects with involuntary resettlement and higher-risk financial intermediary and agribusiness projects.

MIGA should:

- Disclose project-level environmental and social information from supervision reports.
- Develop a credible mechanism to ensure that Performance Standards are adhered to by financial sector projects.
- Seek greater symmetry in the structure of WBG accountability and grievance redress mechanisms. For the World Bank this would entail creation of a grievance redress and conflict resolution mechanism to complement the IPN. For IFC and MIGA this would entail a more independent compliance review process, ensuring that the CAO submits its audits directly to the Board.

**5. Improve systems and instruments for accountability and grievance redress.**

IFC, MIGA, and the World Bank should:

# Appendixes

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## APPENDIX A: SAFEGUARD AND SUSTAINABILITY POLICIES

**Table A.1: World Bank Safeguard Policies**

<b>OP/BP 4.01 Environmental Assessment</b>	The Bank requires environmental assessment (EA) of projects proposed for Bank financing to help ensure that they are environmentally sound and sustainable, and thus improve decision making
<b>OP/BP 4.04 Natural Habitats</b>	To promote environmentally sustainable development by supporting the protection, conservation, maintenance, and rehabilitation of natural habitats and their functions.
<b>OP 4.09 Pest Management</b>	To minimize and manage the environmental and health risks associated with: <ul style="list-style-type: none"> <li>• Pesticide use; and</li> <li>• Promote and support safe, effective, and environmentally sound pest management.</li> </ul>
<b>OP/BP 4.10 Indigenous Peoples</b>	To design and implement projects in a way that fosters full respect for indigenous peoples' dignity, human rights, and cultural uniqueness, so that they: <ul style="list-style-type: none"> <li>• Receive culturally compatible social and economic benefits; and</li> <li>• Do not suffer adverse effects during the development process.</li> </ul>
<b>OP/BP 4.11 Physical Cultural Resources</b>	To assist in preserving physical cultural resources and avoiding their destruction or damage. Physical cultural resources include resources of archaeological, paleontological, historical, architectural, religious (including burial sites), aesthetic, or other cultural significance.
<b>OP/BP 4.12 Involuntary Resettlement</b>	To avoid or minimize involuntary resettlement and, where that is not feasible, to assist displaced persons in improving or at least restoring their livelihoods and standards of living, in real terms, relative to pre-displacement levels or to levels prevailing prior to the start of project implementation, whichever is higher. This policy covers direct economic and social impacts that both result from Bank-assisted investment projects and are caused by the involuntary taking of land resulting in: <ul style="list-style-type: none"> <li>• Relocation or loss of shelter;</li> <li>• Loss of assets or access to assets; or</li> <li>• Loss of income sources or means of livelihood, whether or not the affected persons must move to another location.</li> </ul>
<b>OP/BP 4.36 Forests</b>	This policy seeks to: <ul style="list-style-type: none"> <li>• Realize the potential of forests to reduce poverty in a sustainable manner;</li> <li>• Integrate forests effectively into sustainable economic development; and</li> <li>• Protect the vital local and global environmental services and values of forests.</li> </ul>
<b>OP/BP 4.37 Safety of Dams</b>	To ensure quality and safety in the design and construction of new dams and the rehabilitation of existing dams, and in carrying out activities that may be affected by an existing dam.
<b>OP/BP 7.50 Projects in International Waterways</b>	To ensure that Bank-financed projects affecting international waterways would not affect relations between: <ul style="list-style-type: none"> <li>• The Bank and its borrowers and between states; and</li> <li>• The efficient utilization and protection of international waterways.</li> </ul>
<b>OP/BP 7.60 Projects in Disputed Areas</b>	To ensure that projects in disputed areas are dealt with at the earliest possible stage, so as not to affect relations between the Bank and its member countries, or between the borrower and neighboring countries; so as not to prejudice the position of either the Bank or the countries concerned.

**Table A.2: IFC Policy and Performance Standards****Key Content and Comparison with IFC's 1998 Safeguards****Performance Standard 1:****Social and Environmental Assessment and Management System**

Relevant existing safeguards and IFC documents

- OP 4.01 Environmental Assessment
- OP 7.50 International Waterways

Differences in approach or interpretation; other observations

IFC (not the client) categorizes projects. Documentation and processes are driven by risks and impacts, not project categorization. Clients can conduct the assessment themselves or outsource it. Moves away from a requirement to consult “at least twice” during the assessment process, to an ongoing and iterative consultation process throughout the life of the project. International Waterways (OP 7.50) is no longer a freestanding policy because all transboundary impacts are considered as part of the assessment process. The Performance Standard does not require the client to compare project alternatives to the “without project” situation.

**Performance Standard 2:****Labor and Working Conditions**

Relevant existing safeguards and IFC documents

- Forced Labor and Harmful Child Labor
- Occupational Health and Safety Guidelines

Differences in approach or interpretation

Refers to child labor instead of “harmful” child labor.

**Performance Standard 3:****Pollution Prevention and Abatement**

Relevant existing safeguards and IFC documents

- No directly equivalent policy
- Related policies/documents:
  - OP 4.01 Environmental Assessment
  - OP 4.09 Pest Management
  - Pollution Prevention and Abatement Handbook
  - IFC Environmental, Health, and Safety Guidelines

Differences in approach or interpretation

Sets out the principles of the Pollution Prevention and Abatement Handbook (PPAH) and EHS Guidelines as a freestanding policy. Pest Management (OP 4.09) is no longer a freestanding policy because pesticides are addressed as part of a more inclusive approach to pollution prevention and abatement established by Performance Standard 3. Addresses climate change through quantification and monitoring of significant greenhouse gas (GHG) emissions more than 100,000 tons per annum.

**Performance Standard 4:****Community Health, Safety, and Security**

Relevant existing safeguards and IFC documents

- No directly equivalent policy
- Related policy:
  - OP 4.37 Safety of Dams

Differences in approach or interpretation

The Performance Standard builds on OP 4.37 Safety of Dams and addresses structural safety through a risk-based approach to the design, construction, and operation of all project equipment and infrastructure that may pose risks—not just dams. No longer applies the 15-meter threshold for dam height.

**Table A.2: IFC Policy and Performance Standards (cont'd)****Key Content and Comparison with IFC's 1998 Safeguards****Performance Standard 5:****Land Acquisition and Involuntary Resettlement**

Relevant existing safeguards and IFC documents

- World Bank OP 4.30 Involuntary Resettlement (1990 version)

Differences in approach or interpretation

Articulates private sector responsibilities under government-managed resettlement to complement government activities, if permitted by the responsible government agency, to achieve outcomes consistent with the Performance Standard. Requires clients to monitor government-managed resettlement activities through completion.

**Performance Standard 6:****Biodiversity Conservation and Sustainable Natural Resource Management**

Relevant existing safeguards and IFC documents

- OP 4.04 Natural Habitats
- OP 4.36 Forestry

Differences in approach or interpretation

The Performance Standard's requirements draw from OP 4.36 Forestry and OP 4.04 Natural Habitats and establish a comprehensive approach to biodiversity conservation and sustainable natural resource management.

**Performance Standard 7:****Indigenous Peoples**

Relevant existing safeguards and IFC documents

- OP 4.20 Indigenous Peoples (1991 World Bank version)

Differences in approach or interpretation

Tailors the requirements to the responsibilities of the private sector. Moves away from a requirement for a freestanding Indigenous Peoples Plan to a more flexible and broader community development plan with components for indigenous peoples, where indigenous peoples are integrated into larger affected communities.

**Performance Standard 8:****Cultural Heritage**

Relevant existing safeguards and IFC documents

- World Bank OPN 11.03 Cultural Property (1986 version)

Differences in approach or interpretation

Uses the term "cultural heritage" rather than either "cultural property" (as in OPN 11.03) or "physical cultural resources" in order to capture the concept of intangible cultural heritage (addressed in the project's use of cultural heritage).



## Desk Review of the Portfolio

### World Bank

#### *Portfolio review objective*

A desk review was undertaken of a representative sample of projects with significant safeguard risks for the period, fiscal years 1999–2008. The purpose of the review was to assess the extent to which the Bank’s projects fulfilled the process requirements and objectives of the safeguard policies.

#### *Project universe for the portfolio review*

The gross population addressed by the review was 2,495 projects approved during the 10-year period beginning in fiscal 1999 (when OP 4.01 was introduced) and ending in fiscal 2008. From this population, projects that were assigned EA category C (minimal impacts) and U (unclassified) were excluded, yielding a universe of 1,404 projects that were assigned EA category A, B, or FI.

#### *Sample size and robustness*

From the universe of 1,404 projects, a sample of 252 projects was chosen, giving a confidence interval of  $\pm 5.6$  percent at a confidence level of 95 percent. This sample was drawn from the universe by applying random numbers. A complete list of sampled projects is available on request.

#### *Distribution of the portfolio review sample*

The distribution of the universe and sample, by region and network, is shown in tables B.1 and B.2. In order to improve the confidence interval for EA category-A projects, a higher percentage of this group was sampled relative to its share in the population (table B.3). The distribution of the sample with respect to the universe is shown by region (table B.4). In each case, the distribution of projects in subcategories is similar for the universe and the sample. However, the

confidence interval at the level for most subcategories is less robust than at the aggregated sample level. Among the regions, the sample is more robust for Africa, East Asia and Pacific, Europe and Central Asia, and Latin America and the Caribbean and yielded a confidence interval of  $\pm 13$  percent (see table B.4). The results for South Asia and Middle East and North Africa should be treated with caution. Among the EA categories, the sample is more robust for category A and B and yielded a confidence interval of  $\pm 10$  percent (see table B.3). The results for category FI should also be treated with caution.

### IFC

#### *Portfolio review objective*

The objective was to assess the extent to which IFC’s projects met safeguard and sustainability framework process and performance objectives and to compare the pre-Performance Standard projects (fiscal 1999–April 2006) with post-Performance Standard projects (May 2006–fiscal 2008).

#### *Project universe for the portfolio review*

The gross population addressed by the review was 403 pre-Performance Standard projects and 220 post-Performance Standard projects. The population included A, B, and FI projects but excluded dropped projects, C projects, and projects without categorization.

#### *Sample size and robustness*

From the population of 623 projects, a sample size of 63 projects (39 non-FI and 24 FI projects) was chosen, giving a confidence interval of  $\pm 11.7$  percent, at a confidence level of 95 percent. The sample was stratified to mimic the population, based on region, industry sector, and environmental category (A, B, FI). The

**Table B.1: Bank Portfolio Review Universe**

Number of EA Category A, B, and FI Projects Approved during FY99–08, by Region and Network

Region	Network											
	Environmentally and Socially Sustainable Development		Financial and Private Sector Development		Human Development Network		Infrastructure		Poverty Reduction and Economic Management		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
AFR	112	6	24	0	80	5	152	9	17	3	385	24
EAP	70	5	3	0	14	1	134	13		0	221	19
ECA	116	8	14	1	23	2	136	8	9	0	298	19
LCR	88	6	8	1	46	3	97	8	3	0	242	17
MNA	30	1		0	19	2	49	4		0	98	8
SAR	52	3	11	1	31	4	65	5	1	0	160	12
<b>Total</b>	<b>468</b>	<b>30</b>	<b>60</b>	<b>3</b>	<b>213</b>	<b>16</b>	<b>633</b>	<b>47</b>	<b>30</b>	<b>4</b>	<b>1404</b>	<b>100</b>

**Table B.2: Bank Portfolio Review Sample**

Number of EA Category A, B, and FI Projects Approved during FY99–08, by Region and Network

Region	Network											
	Environmentally and Socially Sustainable Development		Financial and Private Sector Development		Human Development Network		Infrastructure		Poverty Reduction and Economic Management		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
AFR	16	8	1	2	13	6	23	11	7	1	60	27
EAP	13	5		0	2	1	34	10		0	49	16
ECA	21	8	3	1	4	2	20	10	1	1	49	21
LCR	14	6	2	1	8	3	19	7	1	0	44	17
MNA	3	2		0	5	1	11	3		0	19	7
SAR	8	4	2	1	9	2	12	5		0	31	11
<b>Total</b>	<b>75</b>	<b>33</b>	<b>8</b>	<b>4</b>	<b>41</b>	<b>15</b>	<b>119</b>	<b>45</b>	<b>9</b>	<b>2</b>	<b>252</b>	<b>100</b>

stratified pre-Performance Standard sample was drawn from the randomly sampled XPSRs.<sup>1</sup> This sampling methodology allowed IEG to use environmental and social review reports that had been prepared to validate the Environ-

mental and Social Effects ratings of XPSRs. The reports provide information and ratings on individual performance indicators, including compliance with Safeguard Policies and EHS Guidelines.



**Table B.3: Bank Portfolio Review Population and Sample by EA Category**

EA category	Population (no.)	% of population	Sample (no.)	% of sample	Confidence interval (%)
A	219	16	60	24	10.8
B	1076	77	176	70	6.8
FI	109	8	16	6	22.7
<b>Total</b>	<b>1404</b>	<b>100</b>	<b>252</b>	<b>100</b>	<b>5.6</b>

**Table B.4: Bank Portfolio Review Population and Sample by Region**

Region	Population (no.)	% of population	Sample (no.)	% of sample	Confidence interval (%)
AFR	385	27	60	24	11.6
EAP	221	16	49	19	12.4
ECA	298	21	49	19	12.8
LCR	242	17	44	17	13.4
MNA	98	7	19	8	20.3
SAR	160	11	31	12	15.9
<b>Total</b>	<b>1404</b>	<b>100</b>	<b>252</b>	<b>100</b>	<b>5.6</b>

The Safeguard Evaluation Questionnaires (SEQs) for the portfolio review were designed primarily for non-FI projects. Since Annual Environmental Performance Reports (AEPRs) were available for only 10 post-Performance Standard FI projects, and only 5 post-Performance Standard FI projects had requirements to make sure that their subprojects complied with Performance Standards, the sample for FI evaluation was expanded to 136 investments—94 pre-Performance Standard projects from the XPSR database that contains compliance information regarding IFC's standard requirements<sup>2</sup> for FIs, and 42 randomly sampled post-Performance Standard projects with AEPRs submitted. The expanded FI sample of 136 projects from the population of 250 yields a confidence interval of  $\pm 5.7$  percent, at a confidence level of 95 percent.

#### ***Distribution of the portfolio review sample***

The distribution of the population and sample by region, industry department, and Environmental Screening Category (ESC) is shown for post-Performance Standard (tables B.5 and B.6) and pre-Performance Standard projects (tables B.7 and B.8). In each case, the distribution of projects in subcategories is similar for the population and the sample.

#### ***MIGA***

IEG-MIGA undertook a portfolio review of a stratified sample of 35 MIGA projects approved during fiscal years 2000–09. More recent projects were oversampled to facilitate findings on MIGA's implementation of its current policies and standards. Therefore, projects processed by MIGA under the 2007 PPSSSES account for 40 percent (14/35) of the sample. Projects

**Table B.5: IFC Portfolio Study Population for Post-Performance Standard Projects**

Department code	Region						ESC			Total	
	Africa	Asia	ECA	LAC	MENA	World	A	B	FI		
CAG	6	12	11	13	1	1		42	2	44	10.9%
CFN	8	10	5	5	3				31	31	7.7%
CGF	21	24	30	34	15	4			128	128	31.8%
CGM	15	17	29	12	12	2	2	85		87	21.6%
CHE	5	6	3	3	5			18	4	22	5.5%
CIN	1	19	7	12	7	1	2	41	4	47	11.7%
CIT	3	2	1					6		6	1.5%
COC	3	9	7	6	4	4	4	29		33	8.2%
CSF		1	2	1	1			5		5	1.2%
Total	62	100	95	86	48	12	8	226	169	403	100.0%
	15.4%	24.8%	23.6%	21.3%	11.9%	3.0%	2.0%	56.1%	41.9%	100.0%	

**Table B.6: IFC Portfolio Study SEQ Sample for Post-Performance Standard Projects**

Department code	Region						ESC			Total	
	Africa	Asia	ECA	LAC	MENA	World	A	B	FI		
CAG	1	2		1				4		4	9.8%
CFN		1		1	1				3	3	7.3%
CGF	3	1	2	7					13	13	31.7%
CGM	1	1	4		2	1		9		9	22.0%
CHE		1			1			2		2	4.9%
CIN		3	2					4	1	5	12.2%
CIT			1					1		1	2.4%
COC	1		1			1	1	2		3	7.3%
CSF		1						1		1	2.4%
Total	6	10	10	9	4	2	1	23	17	41	100.0%
	14.6%	24.4%	24.4%	22.0%	9.8%	4.9%	2.4%	56.1%	41.5%	100.0%	

supported by the MIGA-Japan Trust Funds were also oversampled (4 projects). Figures B.1 and B.2 highlight the sample composition by region and sector.

For each project in the sample, the study evaluated the effectiveness of MIGA's framework for preventing and mitigating adverse environmental and social impacts

**Table B.7: IFC Portfolio Study Population for Pre-Performance Standard XPSR Projects**

Department code	Region						ESC			Total	
	Africa	Asia	ECA	LAC	MENA	World	A	B	FI		
CAG	3	3	3	8				16	1	17	7.7%
CFN	2	4	2	1	1	1				11	5.0%
CGF	7	12	28	14	6			1	66	67	30.5%
CGM	5	13	19	18	7		1	61		62	28.2%
CHE			5	7				12		12	5.5%
CIN	1	3	4	20	1		2	26	1	29	13.2%
CIT	1	3	2	2				7	1	8	3.6%
COC	4	3	3	4			6	7	1	14	6.4%
Total	23	41	66	74	15	1	9	130	81	220	100.0%
	10.5%	18.6%	30.0%	33.6%	6.8%	0.5%	4.1%	59.1%	36.8%	100.0%	

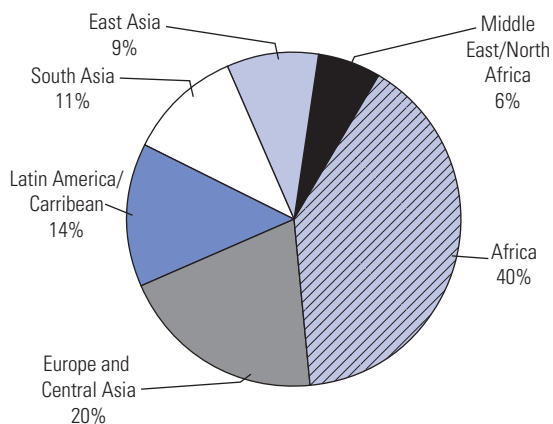
**Table B.8: IFC Portfolio Study SEQ Sample for Pre-Performance Standard Projects**

Department code	Region						ESC			Total	
	Africa	Asia	ECA	LAC	MENA	World	A	B	FI		
CAG		1		1				1	1	2	9.1%
CFN			1						1	1	4.5%
CGF	1	2	1	2	1			1	6	7	31.8%
CGM		1	2	2	1			6		6	27.3%
CHE			1					1		1	4.5%
CIN			1	2				3		3	13.6%
CIT			1					1		1	4.5%
COC	1						1			1	4.5%
Total	2	4	7	7	2		1	13	8	22	100.0%
	9.1%	18.2%	31.8%	31.8%	9.1%		4.5%	59.1%	36.4%	100.0%	

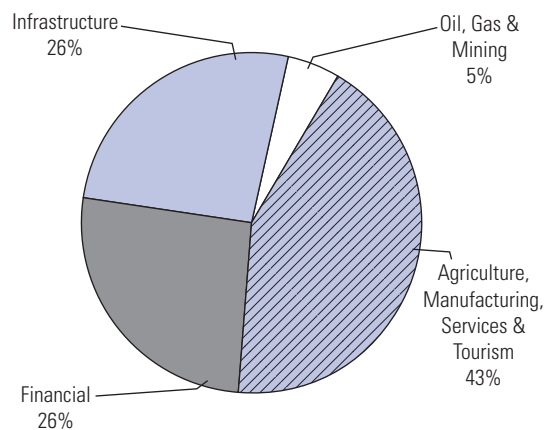
and enhancing client capacity for their management. The evaluation was based on an examination of the extent to which MIGA's policies and processes for reviewing environmental and social risks, monitoring project performance, and ensuring compliance with

applicable standards have been implemented. The examination was structured around a project-specific evaluation questionnaire, which was completed based on a review of relevant documents for each project, such as Contracts of Guarantee, Environmental

**Figure B.1: MIGA Sample by Region**



**Figure B.2: MIGA Sample by Sector**



Impact Analyses, Environmental and Social Review Summaries, Environmental and Social Clearance Memoranda, monitoring and other reports, as available in project files. The resulting portfolio review data are the main basis for this report.

**Field Case Studies**  
**World Bank**

The study draws upon findings from 31 field-based, project case studies. Criteria for selecting

projects for study included adequate coverage of all safeguard policies, reflecting the distributions of the population of projects in terms of project status (active/completed); EA category; regions; and sectors. Of the field study sample, 14 projects were active and 15 were completed at the time of the field visits. Twelve projects belonged to EA category A, 15 to category B, and 2 to category FI. The largest number in any region was Africa (9), followed by East Asia and Pacific (7), Europe and Central Asia and Latin

**Table B.9: World Bank Purposeful Sample for Field Visits**

Sector	Region						EA category					Total
	AFR	EAP	ECA	LAC	MNA	SAR	A	B	C	FI	Unassigned	
Energy	5	2				2	4	3	2			9
Environment	1		2		1		1	1		1	1	4
Health	1						1					1
Rural	2	1		1				4				4
Transport		2	1	1		1	4	1				5
Urban		2	1	2	1		2	4				6
Water	2						2					2
<b>Total</b>	<b>11</b>	<b>7</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>14</b>	<b>13</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>31</b>

Note: The count for total number of projects is 29 if Chad-Cameroon pipeline is taken as one project.

America and the Caribbean (4 each), South Asia (3), and Middle East and North Africa (2). In terms of sectors, Energy, Mining and Telecom (9) and Transport (7) had the largest numbers, while Environment and Urban Development had 3 each, followed by Social Development and Water (2 each), and Health and Social Protection (1 each). The field study teams included experienced local safeguards consultants. The field case study teams filled questionnaires similar to those used by the portfolio review for comparison purposes and supplemented them, to the extent possible, with face-to-face interviews with multiple stakeholders—beneficiaries, government officials, Bank staff, project officials, and civil society representatives.

### IFC

To complement the stratified random sample, a purposeful sample of 18 projects were

selected for field visits to obtain in-depth findings from industry sectors and regions that were expected to provide rich lessons for the study, see table B.10. One mining project in Africa was also included in the random sample, making a total of 18 portfolio and field study projects.

As shown in the table, five category-A projects were sampled, including three in Oil, Gas, Mining, and Chemicals (COC), one in Infrastructure (CIN), and one in Global Manufacturing (CGM).

### Background Papers

Three background papers were commissioned as follows:

- *Safeguards Aspects of Using Country Systems.* This paper examines the Bank pilot program

**Table B.10: IFC Purposeful Sample for Field Visits**

Department code	Region				ESC			Total
	Africa	Asia	ECA	LAC	A	B	FI	
<b>Pre-Performance Standard</b>								
CAG		1				1		1
CFN			1				1	1
CGF			1	1			2	2
CGM				1		1		1
CIN				1	1			1
COC	1				1			1
<b>Total</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>7</b>
<b>Post-Performance Standard</b>								
CAG		3		1		4		4
CGN	1	1			1	1		2
CIN		2				2		2
COC	1	1		1	2	1		3
<b>Total</b>	<b>2</b>	<b>7</b>		<b>2</b>	<b>3</b>	<b>8</b>		<b>11</b>
<b>Grand total</b>	<b>3</b>	<b>8</b>	<b>2</b>	<b>5</b>	<b>5</b>	<b>10</b>	<b>3</b>	<b>18</b>

**Table B.11: Distribution of Screened Literature Survey Documents**

Type of document	Number screened
IEG documents (Sector Reports, Country Assistance Evaluations, Background Papers)	304
Bank Working Papers	195
Country Assistance Strategies (CAS)	130
Board Reports	129
Publications	91
Articles from NGO sources	51
Peer-reviewed articles and others	9
Country Environmental Analysis (CEA)	5

to promote the use of country systems for environmental and social safeguards. These pilot projects were intended to increase country ownership, build institutional capacity, and increase cost effectiveness.

- *Social Safeguards*. This paper evaluates the Bank social safeguards in terms of their effectiveness in preventing and mitigating adverse environmental and social impacts and their impact on client capacity.
- *Accountability Mechanisms*. This paper looks at the Bank Inspection Panel and the IFC/MIGA Compliance Advisor Ombudsman to determine how these mechanisms affect the implementation of safeguard and sustainability policies.

The key findings from the papers have been included within the evaluation report.

### Literature Review

The literature review on environmental and social safeguard policies drew upon documents from the Quality Assurance and Compliance Unit (QACU) of the Operational Services department of OPCS; research and analytical literature generated by the World Bank and IEG; as well as external sources such as academic journals, civil society organizations, and news sources. Based on an appropriate keyword search, documents were selected for review as indicated in Table B.11.



**IEG Staff Survey**  
**World Bank and IFC**

An Internet-based staff survey was conducted for Bank (i) project task team leaders and (ii) environmental and social safeguard specialists, and for IFC (iii) investment officers and (iv) environmental and social specialists. The purpose of the survey was to draw upon the project-level experiences of the task team leaders, investment officers, and specialists regarding the process and efficacy of the Bank’s safeguard policies and IFC’s Performance Standards and areas for improvement. The survey was administered by a third-party firm to ensure the anonymity of the respondents. The respondents were asked to complete the survey, based on the last project for which they participated to the greatest extent during both the preparation/appraisal and implementation stages. Separate survey instruments were used for each of the team leader/investment officer and specialist groups in keeping with their respective roles in the environmental and social appraisal and supervision process.

The survey covered team leaders of all projects approved during fiscal years 1999–2008, after excluding EA category-U (unclassified) projects.

Task team leaders that were no longer listed in the Bank’s directory were excluded. All current identifiable environmental and social safeguards specialists were covered. In all, the survey was administered to 1,195 task team leaders, 81 environmental safeguards specialists, and 53 social safeguard specialists. After excluding incomplete and invalid responses, the response rates were 50 percent for task team leaders and 79 percent for specialists. At these levels of response, the survey results are valid within  $\pm 2.8$  percent for the population of team leaders and specialists taken together;  $\pm 3.2$  percent for the team leaders alone; and  $\pm 4.6$  percent for the specialists alone, all at a confidence level of 95 percent. The salient figures for the survey are summarized in table C.1. Similarly for IFC, the survey included 500 investment officers and 51 specialists. The survey results are valid within  $\pm 3.8$  percent confidence interval for the population of investment officers and specialists, at a confidence level of 95 percent (see table C.2).

**MIGA**

Because of the small number of staff involved, a similar survey was not conducted for MIGA.

**Table C.1: Staff Survey on Bank Safeguard Policies: Population and Sample Size**

	Population	Net <sup>a</sup> response rate (%)	Confidence interval (%)	
Project task team leaders	1,195	50	$\pm 3.2$	
Environmental and social safeguard specialists	135	79	$\pm 4.6$	$\pm 2.8$

a. After excluding incomplete and invalid responses.

**Table C.2: Staff Survey on IFC Performance Standards: Population and Sample Size**

	Population	Net <sup>a</sup> response rate (%)	Confidence interval (%)	
Investment officers	500	51	±4.3	
Environmental and social specialists	51	86	±5.5	±3.8

a. After excluding incomplete and invalid responses.

### IEG NGO Survey

An Internet-based survey was conducted for nongovernmental organizations (NGOs) in all regions of the world, covering those operating at the local, subnational, national, and global levels. The survey covered the experience and opinions of NGOs on the content, conduct, and efficacy of Bank safeguard policies and the Performance Standards of IFC and MIGA. The survey was administered using the updated list maintained by the World Bank's External Affairs Department, comprising NGOs that have shown interest in the developmental efforts of the WBG. Of the listed NGOs, 174 (40 percent of those with active email addresses) completed the survey.

### IEG Interviews with Clients

A number of instruments were used to validate the results of the portfolio review and to provide additional perspectives and information. As part of the field study missions, supplementary interviews with structured questionnaires were held with Bank and IFC clients/stakeholders during the field visits. This included representatives from both financial intermediaries and nonfinancial intermediaries. The feedback obtained from the interviews with project management unit directors, representatives of government planning and finance ministries, and other interested stakeholders was supplemented with additional telephone interviews with implementing agency staffs to obtain feedback on client experience and perceptions regarding safeguards implementation.

### IEG Discussions and Focus Group Meetings with WBG Staffs

Face-to-face interviews using structured questionnaires were also held with 55 Bank managers. The questions varied slightly depending on the responsibility areas of the respondents. Managers interviewed included the safeguard consumers (Country Directors and Non-Environmental and Social Sector Managers), and the safeguard service providers (Regional Safeguard Advisors and Environmental and Social Sector Managers). Additional interviews were conducted with Operations Directors/Quality Managers. IEG conducted 26 interviews in parallel with IFC management (Country/Regional Directors, Sector Directors, and CES/Advisory Services).

Discussions were held with the Sustainable Development Network Council at the concept stage and also (at their request) with a group of forestry staff.

Three formal facilitated focus group discussions were also arranged. In each case a brief presentation was made by IEG, and certain questions were proposed. In all three cases, however, participants were then encouraged to put forward any issues they believed to be pertinent. One group covered social specialists, one covered environmental specialists, and one was for IFC environmental and social specialists.

Feedback was received from over 200 NGOs, either in the open questions in the electronic survey, through a focus group discussion or in the form of documents sent to the IEG team. Typical comments are recorded below, grouped by theme.

### Compliance, Enforcement, and Monitoring

- “Self-compliance by clients and private firms should be banned.”
- “Independent monitoring of resettlement plans should be mandatory.”
- “Performance Standards are much better on paper than in practice since not all staff treat them with equal seriousness. Enforcement can be quite weak depending on the commitment of local staff. While the IFC has done a better job than the Bank on educating its staff and partners on its standards, there seems to be an institutional bias against correcting violations [of standards].”
- “The Bank needs to make assessments of whether environmental/social conditions actually improved over time after Bank interventions, because too much assessment is devoted to measuring adequacy on inputs/ outputs rather than outcomes.”
- “Performance Standards are over-discretionary and rely too much on client-generated information and client self-monitoring.”
- “One report claims that IFC has not complied properly with its post-2006 Performance Standards and makes 11 recommendations:
  - (i) Performance Standard 1: Restoring the livelihoods and living standards of project affected persons. Non-land-related displacement is not covered and should be added.
  - (ii) The impacts associated with supply chains should be assessed in all projects.
  - (iii) In the environmental and social process for category-A projects, independent experts should be retained.
  - (iv) Action plans and monitoring reports should be translated into languages understandable and accessible to affected peoples.
  - (v) Environmental and social monitoring (progress) reports should be disclosed to affected people and the public.
  - (vi) Impacts of climate change due to deforestation should be assessed in the social and environmental assessment process.
  - (vii) Free, prior, and informed consent should be obtained from the indigenous peoples.
  - (viii) Areas having biodiversity that support local communities’ basic needs should be a criterion in Performance Standard 6.
  - (ix) In areas of critical habitat, the client should not significantly convert or degrade such habitat.
  - (x) Environmental and social monitoring reports should be disclosed on IFC’s website.
  - (xi) IFC’s monitoring results including site visit reports should also be disclosed on IFC’s website.”

### Transparency

- “In a poor governance context, total access to information should be compulsory.”

### Use of Country Systems

- “IBRD/IDA would make a colossal mistake to declare the era of safeguards to be over (that is, to rely on country systems to deliver on the

Bank's sustainability and poverty reduction mandates).

- “National systems should only be seen as equivalent if the appropriate national policy is in operation. Planning to have a new national policy is not enough.”
- “Governments should not decide, themselves, in assessing whether national systems are equivalent to Bank systems.”
- “The World Bank has initiated a number of specific processes supposedly to simplify the safeguard policies. While some of these processes, such as the IFC's policy review and the Bank's country systems approach, are ongoing, the intended outcome is clear: a shift from explicit mandatory policies, to which the WBG can be held accountable, to flexible principles permitting the investor and/or borrowing government to determine the project's social and environmental requirements. The Bank's proposed country systems approach does not include any concrete measures to effectively strengthen national capacities.”

### Social Impacts

- “IBRD/IDA needs to broaden safeguard coverage of social impacts, at least to match IFC/MIGA's.”
- “Environmental/social assessment framework for development policy lending must be strengthened as DPLs are accounting for an increasing share of lending.”
- “Gaps in standards between IBRD/IDA and IFC/MIGA should be harmonized upwards, while providing flexibility for different business models.”
- “Performance Standards do not go far enough to protect indigenous people.”
- “Special provisions are needed in respect of safeguards in conflict areas or where there is poor governance (the Chad-Cameroon Pipeline project is a good example of this).”
- “The issue of human rights should not be avoided.”

### Changing World

- “The Bank safeguards were effective when adopted but have not been updated, and the world has changed in the meantime.”
- “Despite the importance of the safeguard policies and their achievements, the World Bank's policy framework has come under increasing pressure since the late 1990s. The Bank has failed to comprehensively implement and consistently update its safeguard policies based on the latest best-practice standards and the findings of multistakeholder reviews.”
- “Whereas certain Bank policies may once have been considered “best practice,” there are now institutions and accepted standards that offer superior social and environmental protections. For example, several private banks, including Citigroup, Bank of America, and HSBC, have stronger biodiversity conservation and forest protection policies than the WBG. EBRD, the UK export credit agency, and others explicitly address principles of democracy and human rights in their policy requirements. Corporations such as Alcoa, BP, DuPont, and Shell have also eclipsed the Bank in setting greenhouse gas emissions reduction targets.”
- “On climate change, the ADB is more stringent than the Bank.”
- “The safeguard policies need to take into account the imperatives of investment lending reform.”

### Implementation

- “Implementation of safeguard policies by the WBG has weakened over the last decade. Much WBG investment is no longer covered by the safeguards, such as program and DPL lending and lending to intermediaries.”
- “In practice, the implementation of safeguard policies leaves much to be desired.”
- “Internal processes need to be looked at; what are the incentives for staff to comply with safeguard policies?”

## APPENDIX E: MAIN MESSAGES FROM FOCUS GROUP DISCUSSIONS WITH WORLD BANK GROUP STAFF

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### World Bank Environmental Specialists

- Consistency of safeguard application: There is a need for more transparency and consistency in applying safeguards, avoiding reversal of safeguards decisions. The current process is arbitrary and unpredictable.
- Delegation of lower-risk projects to regional sector management units has reduced the influence of the Regional Safeguards Advisor. In Africa, delegation has helped safeguard units focus on highest-risk projects.
- Client capacity building: Country ownership is crucial, and the key to that is focusing on using safeguards as a risk management tool to strengthen a country's institutions, to manage its own environmental and social risks, not on strict procedural compliance with Bank safeguards policies. Regional capacity-building initiatives might be more effective and cost-efficient.
- Staff incentives: There is a serious shortage of safeguards specialists and their work is not recognized as important or rewarded as an attractive career path. Safeguard outcomes should be an element of task team leader's and project's performance rating.
- Inspection Panel is well-intentioned but involves high costs and lowers staff morale; an intermediate, complaint resolution mechanism is needed to resolve issues initially, whenever possible.
- Supervision: To overcome the limitation of insufficient supervision budgets for adequate safeguard support, establish regional rosters of qualified local consultants as an alternative.
- Focus on results, not process: Safeguards are perceived as a compliance issue, not as an element of the development process. Bank should not drop or weaken safeguards, but

should focus on achieving results by revising them to be more flexible, living guidance tools. Greater harmonization of safeguard policies with other international financial institutions and development partners is needed.

### World Bank Social Development Specialists

**Compliance approach.** Effectiveness of emphasis on compliance depends on the country context. In middle-income countries it is less useful and sometimes counterproductive. In low-income countries with weaker capacity it can be a useful entry point to help the client address social issues.

**Delegation to sector managers.** Unanimous view that this attempt to streamline safeguards work has not worked. Sector managers are often reluctant to take on this responsibility. Delegated projects are more vulnerable to reputational risk.

**Social safeguard policies.** The Involuntary Resettlement policy needs customization to the context and faces implementation challenges. The Indigenous Peoples policy has more problems with the policy itself because the social context varies enormously across regions and countries. If the policy was based on vulnerability rather than ethnicity, or was integrated within a broader assessment of community impacts, governments would be more willing to engage with it.

### Advice to senior management

- Need a stronger policy framework for social assessment parallel to the EA policy, which looks at risks and opportunities and includes

community impacts, gender, and labor re-trenchment.

- Need to train a core of social specialists to harmonize approach to safeguards implementation.
- Need to integrate social agenda across sector managers and task teams to create broader ownership of social issues.

### **IFC Environmental and Social Specialists**

- Positive impact on clients but sometimes time-consuming. The market (consumer preferences, public image, etc.) helps drive the culture shift in favor of Performance Standards.
- IFC stamp of approval helps clients gain credibility with host governments and attract additional finance. Greater acceptance of environmental and social standards through IFC demonstration effect and adoption of Equator Principles. Performance Standards are rarely an issue in project approval.
- Value added on environmental and social aspects comes from greater IFC focus on implementation and outcomes. (Performance Standard 1 lays the foundation). But also greater value through Performance Standard 2 (Labor and Health & Safety) and Performance Standard 4 (Community Impacts).
- The Environmental and Social Review Document is not very useful for risk management. It serves mainly to provide information to managers. The tool is necessary, but the format can be improved.
- On supply chains, more use of third-party verification would be preferable to burdening the client. There is a need to differentiate types of supply chain as the potential leverage with clients differs.
- Advisory Services cannot currently be used to help clients comply with Performance Standards; it could be of use especially for weaker clients.

### **Suggestions to improve implementation of Performance Standards**

- Move from compliance to a risk-based approach.
- Provide clearer indicators for effectiveness in the Social and Environmental Management System.
- Financial Intermediaries need more attention to ensure that they are paying sufficient attention to community engagement issues.
- Consider integration of new, emerging issues (e.g., climate change, human rights) into existing Performance Standards.



## Management Response

1. *Paris Declaration on Aid Effectiveness: Ownership, Harmonization, Alignment, Results and Mutual Accountability*. Second High-Level Forum on Aid Effectiveness. Paris, March 2005.

2. *Accra Agenda for Action*. Third High-Level Forum on Aid Effectiveness. Accra, September 2008.

## Chapter 1

1. The World Bank consists of two complementary institutions—the International Bank for Reconstruction and Development (IBRD) focuses on middle income and creditworthy poor countries, while the International Development Association (IDA) focuses on the poorest countries in the world. Together they provide low-interest loans, interest-free credits and grants primarily to the public sector in developing countries. The International Finance Corporation (IFC) provides investments and advisory services to build the private sector in developing countries, while the Multilateral Investment Guarantee Agency (MIGA) provides political risk insurance. The World Bank Group (WBG) includes a fifth institution, the International Centre for Settlement of Investment Disputes (ICSID), which does not provide financial support to its clients. For the purposes of this report the term WBG refers only to the World Bank, IFC, and MIGA.

2. See, for example, the World Bank website at <http://www.worldbank.org>.

3. See annex 1, available on this report's website at <http://www.worldbank.org/ieg>.

4. The Quality Assurance Group (QAG) has used sample project assessments and surveys to assess the safeguard policies, as part of the wider canvas of its Quality-at-Entry Assessments and Quality-of-Supervision Assessments since 1999. Three Reviews of Environmental Assessment have also been prepared by the Bank's Environment Department (1993, 1997, and

2002). IEG prepared a process review of Environmental Assessments and National Environmental Action Plans in 1996. Furthermore, some IEG sector evaluations [e.g., Extractive Industries (2003), Community-Driven Development, Low Income Countries under Stress (2006)], and some Country Assistance Evaluations have included background papers or significant discussions on safeguard issues. At the project level, numerous IEG Project Performance Assessment Reports have covered safeguards issues where relevant.

5. For more on the rationale of the evaluation, see IEG 2009b.

6. Also see Picciotto, van Wicklin, and Rice 2001.

7. See also IEG 2009b.

8. Investment Lending Reform—Concept Note.

9. Beginning in 2003 IFC advised 10 leading banks from seven countries on the adoption of the *Equator Principles*, a voluntary set of guidelines based on IFC policies. A revised set of principles was launched in July 2006, reflecting IFC's 2006 Policy and Performance Standards on Social and Environmental Sustainability. By February 2009, 68 banks representing the majority of project investments in developing countries, including major institutions such as Citigroup and HSBC, had declared their adherence to the Principles and Performance Standards.

10. See, for example, "Rome Declaration on Harmonization," Rome, Italy; February 25, 2003, on an "effort to harmonize the operational policies, procedures, and practices of our institutions [IFIs]" and "A Common Framework for Environmental Assessment: A Good Practice Note," Multilateral Financial Institutions Working Group on Environment, February 28, 2005, prepared with contributions from the World Bank Group.

11. For example, Environmental Defense Fund ([www.edf.org](http://www.edf.org)), Shannon Lawrence, *Retreat from the Safeguard Policies*, 2005, and Oxfam International ([www.oxfam.org](http://www.oxfam.org)).

12. World Bank 2005.

13. World Bank 2008b. Also see “First Year Review of Implementation of Incremental Scaled-Up Program to Pilot Use of Country Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects,” July 14, 2009.

14. In the text the term “WBG safeguard policy framework” refers to the Bank safeguard policies and IFC/MIGA Policy and Performance Standards on Social & Environmental Sustainability.

15. “Development policy lending is rapidly disbursing policy-based financing, which the Bank provides in the form of loans or grants to help a borrower address actual or anticipated development financing requirements that have domestic or external origins. ... They typically support a program of policy and institutional actions, for example, to improve the investment climate, diversify the economy, create employment, and meet applicable international commitments.” (OP 8.60 *Development Policy Lending*).

16. Category-A projects are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented; category-B projects can have potentially adverse impacts; category-C projects are likely to have minimal or no adverse impacts; Financial Intermediary projects involve on-lending typically by national banks, credit institutions, and other financial intermediaries. The financial intermediary screens each subproject proposed for financing and classifies it into the appropriate category (A, B, or C).

17. The Bank portfolio review included 108 completed projects and 144 active projects. In addition, field assessments of 29 purposely selected projects (15 completed, 14 active) were also carried out for the evaluation.

18. Regional and networks samples were drawn in proportion to their distribution in the universe, yielding a CI of  $\pm 12$  percent or better for most regions, except for South Asia Region ( $\pm 16$  percent CI) and Middle East and North Africa ( $\pm 20.3$  percent CI). The CI was  $\pm 8.1$  percent for Sustainable Development Network–INF,  $\pm 10.4$  percent for Sustainable Development Network–ESSD, and  $\pm 13.8$  percent for Human Development Network.

19. The IEG evaluation included field visits to 18 projects.

20. Every year IEG selects a random sample for XPSRs, which covers 51 percent of projects approved five calendar years prior to the current year and have

generated at least 18 months of operating revenues (covered by at least two sets of company annual audited accounts). Additional performance indicators were sourced from earlier 348 IEG’s environmental and social reviews for the XPSR projects appraised between fiscal years 1999 and 2004. To analyze environmental and social performance in FIs, the FI sample was expanded by 42 randomly sampled post-Performance Standard projects that had received first Annual Environmental Performance Reports.

21. The evaluation includes findings up to the third quarter of fiscal year 2009.

22. IEG-MIGA’s sample included category A (4 projects), B (21), C (5), and FI (4). Prior to the PPSES, financial sector projects were classified by MIGA as “C.”

23. The World Bank has introduced a new policy on Access to Information, which went into effect on July 1, 2010, and replaces the *Information Disclosure Policy (2002)*.

24. See *Involuntary Resettlement Sourcebook* (World Bank 2004, p. 3).

25. The Environmental and Health & Safety (EHS) Guidelines that IFC uses as covenants in investment agreements are important parts of IFC’s sustainability framework. In all, 41 environmental guidelines were collected under WBG “Pollution Prevention and Abatement Handbook” in 1998. In addition, IFC developed its own General Health & Safety Guideline and 29 industry sector guidelines.

26. Also see IFC’s Sustainability Policy and Performance Standards—Key Differences with IFC’s 1998 Safeguard Policies (appendix table A.2).

27. These procedures do not apply to development policy lending (DPL) under OP 8.60, but the policies do apply to other instruments except DPLs. They also apply to emergency operations under OP 8.00, but may be exempted when compliance with safeguards requirements would prevent the effective and timely achievement of the objectives of the emergency operation.

28. The Regional Safeguard Advisor confirms the applicable Environmental Category of the project at a safeguards review meeting with the task team leader, which is recorded in the Integrated Safeguards Data Sheet. Bank environmental and social specialists often advise the borrower on Terms of Reference for relevant assessments. The borrower is responsible for preparation of the Environmental Assessment (EA), Environmental Management Plan (EMP), Resettlement Action

Plan (RAP), or Indigenous Peoples Plan (IPP) and consultation with affected parties. Safeguards aspects of the draft Project Appraisal Document are reviewed and cleared by the Regional Safeguard Advisor, and the assessments and plans are publicly disclosed prior to appraisal. The implementation completion report prepared at the end of the project assesses compliance with safeguard policy and procedural requirements and is subject to review by the Independent Evaluation Group (IEG).

29. The Project Data Sheet – Early Review includes a description of environmental and social aspects, the client's management capacity, provisional categorization and applicable environmental and social requirements and standards.

30. At appraisal the need for and content of a Peer Review Meeting (PRM) as well as evidence of free prior and informed consultation are considered.

31. Disclosure time before a Board Meeting for the Summary of the Proposed Investment, ESRS and Environmental and Social Action Plan is 60 days for category-A and 30 days for category-B projects.

32. The Environmental and Social Risk Rating score is based on operational and reputational risks, client management capability and compliance with environmental and social requirements.

33. Since 2004 IEG has also evaluated IFC's environmental and social work quality at appraisal and supervision, and role and contribution, as well as performance in meeting Safeguard Policies and EHS Guidelines, and other requirements (such as effluents, air emissions, waste management, health and safety, annual reports, etc.). It commenced evaluating compliance with Performance Standards in January 2007.

34. See paragraph 13 in MIGA 2007.

## Chapter 2

1. The portfolio review contained projects from categories A, B, and FI only. Reported results from the portfolio review in the evaluation report are based on projects with satisfactory ratings as a percentage of this subset of the portfolio universe.

2. The staff surveys yielded a response rate of 50 percent (470 Bank task team leaders; 202 IFC investment officers), and 80 percent from environmental and social specialists (92 from the Bank; 38 from IFC).

3. Face-to-face, semi-structured interviews were conducted with 50 Bank country and sector managers, and 21 IFC managers.

4. The NGO survey received 174 responses, yielding an effective response rate of 40 percent.

5. The social assessments include socioeconomic surveys and other studies of resettlement impact undertaken to prepare the RAP, or the assessments of impact on indigenous peoples to prepare the IPP (formerly known as the Indigenous Peoples Development Plan).

6. OP 4.01 does not explicitly provide for similar policy frameworks but some regions, such as the Africa Region, frequently rely on Environmental and Social Management Frameworks (ESMFs) where a full impact assessment cannot be prepared prior to Board approval. In other regions, such as Europe and Central Asia, the use of policy frameworks to address environmental issues has been discouraged, Strategic Environmental Assessment being the instrument of choice.

7. Chi-square test independence probability  $p$  was much below 5 percent, with 95 percent confidence level.

8. IFC's quality at appraisal was 88 percent satisfactory for 347 XPSR projects appraised in 1999–2004 and evaluated by IEG between 2004 and 2009.

9. EBRD Environmental and Social Policy, approved on 12 May 2008, appendix 1.

10. IFC Annual Report FY09, original committed portfolio by industry sector.

11. ESRP 2009, paragraph 7.2.7. They were previously also required to comply with host-country laws according to ESRP 1998 and annex 2.

12. The IFC Exclusion List defines the types of projects that IFC does not finance such as production or trade in weapons or tobacco (ESRP 2009, p. 16).

13. Production-specific indicators define pollution loads and energy consumption per unit production, for example, kilograms of SO<sub>2</sub> emissions per ton of product (SO<sub>2</sub> kg/t) and power and heat consumption per ton of product (kWh/kg, MJ/kg). Such indicators can be easier benchmarked against industry best practices compared with the traditional concentration-based indicators like milligrams of SO<sub>2</sub> in a norm cubic meter (SO<sub>2</sub> mg/Nm<sup>3</sup>).

14. The AMR templates should include the most important results-based H&S indicator, namely Lost Time Accidents per million working hours (LTA/mill hrs), making it possible for IFC and the client to benchmark health and safety performance against publicly available industry statistics, available from major industrial countries.

15. Both category-A projects, one before and one after the Performance Standards, were extractive industry projects in Africa.

16. IEG Environmental Sustainability Study 2008 and MSME study 2008. IFC's common requirements in ESRP 1998 for all FI projects included Training, Process (policy, procedure, responsible staff), and Annual reports.

17. In the ESRP 2009 linked to the PPSSES framework, the requirements to apply Performance Standards for subprojects are based on the tenor, transaction sizes and the industrial sector risks in the portfolio, and IFC's leverage and capacity to carry out a reasonable review of the project's risks.

18. MIGA's 1999 Environmental Assessment Policy, which applied until 2007, did not have a category FI for financial intermediary projects.

19. The confidence interval is  $\pm 12$  percent or better for most regions, except for South Asia Region ( $\pm 16$  percent) and Middle East and North Africa ( $\pm 20.3$  percent). The confidence interval was  $\pm 8.1$  percent for the Sustainable Development Network- INF,  $\pm 10.4$  percent for Sustainable Development Network-ESSD, and  $\pm 13.8$  percent for Human Development Network.

20. This is similar to the supervision performance of other projects using policy frameworks instead of fully prepared environmental/social management plans.

21. Number of environmental and social specialists supervising FI projects increased from one in 2005 to five in 2009.

22. Knowledge Gap is the share of active projects under supervision where monitoring information has not been obtained in the past two or more years.

23. In IEG's XPSR statistics 2004–2009, the performance in submitting satisfactory AMRs is 62 percent for real sector projects and 60 percent for FI projects in regard to their EMS compliance, and only 41 percent in regard to subprojects' compliance with IFC's environmental and social requirements.

24. *CAO Audit of MIGA's Due Diligence of the Dikulushi Copper-Silver Mining Project in the Democratic Republic of the Congo, Final Report*, November 2005. Office of the Compliance Advisor/Ombudsman, IFC/MIGA.

25. The findings on the IPN/CAO are extracted from a background paper on the WBG's accountability mechanisms which is summarized in annex

1 (available on this report's website at <http://www.worldbank.org/ieg>).

26. Previous IEG evaluations have also found that OMS 2.20 was often ignored by Bank staff even though it is part of the Operational Manual.

27. For example Clark, Fox, and Treakle, 2003.

28. The accountability mechanisms at the WBG have also encouraged other IFIs to develop their own such mechanisms. *The Inspection Panel at 15 Years* World Bank 2009.

29. For a more detailed breakdown of requests received see 2008–09 data in annex 3, table X3.5 at <http://www.worldbank.org/ieg>.

### Chapter 3

1. These outcome indicators are based on the intent of OP 4.01 *Environmental Assessment* which states that "The [World] Bank requires environmental assessment (EA) of projects proposed for [World] Bank financing to help ensure that they are environmentally sound and sustainable, and thus to improve decision making."

2. See forthcoming IEG Results and Performance Report (RaPR 2010). MIGA has begun to implement self-evaluation in FY10 and will use the same indicators in assessing the development outcome of guarantee projects.

3. Outcome data from self-assessments by staff are not available for MIGA due to the recent introduction of self-evaluation in MIGA beginning in FY10.

4. These include BP 4.01 *Environmental Assessment*, BP 4.04 *Natural Habitats*, and BP 4.11 *Physical Cultural Property*.

5. The relevant social safeguard policies are BP 4.10 *Indigenous Peoples*, and BP 4.12 *Involuntary Resettlement*.

6. These differences are statistically significant. Results for Middle East and North Africa, although also good, are based on a very small sample and are therefore not reported.

7. IEG solicited feedback from borrower representatives, project staff, and local NGOs in the countries where field studies were undertaken. The client feedback is based on those semi-structured interviews.

8. The variation between high and low performing regions was wide enough to be statistically significant.

9. Overall quality of client implementation in 13 post-Performance Standard projects was 85 percent in

contrast to 60 percent of 15 pre-Performance Standard projects.

10. Management of hazardous materials was satisfactory in 93 percent of in 14 post-Performance Standard projects and 87 percent of 187 XPSR projects appraised 1999–2004.

11. Implementation of EHS Guidelines was satisfactory in 62 percent of 13 post-Performance Standard projects and 67 percent of 84 XPSR projects appraised 1999–2004.

12. Only 56 percent of 71 pre-Performance Standard projects and 50 percent of 38 post-Performance Standard projects implemented the ESMS in a satisfactory manner

13. Manager perceptions are from the semi-structured interviews conducted by IEG with 50 Bank managers. Regional Safeguard Advisers and environmental and social sector managers were more pessimistic about safeguards results than were country managers and sector managers from other sectors.

14. The outliers were local NGOs from Latin America and the Caribbean, 71 percent reported high or substantial client capacity building, and NGOs from Africa who rated effectiveness of environmental mitigation as 72 percent, and NGOs from South Asia Region who rated effectiveness of social mitigation as 70 percent.

15. This move was motivated by the desire to avoid perceptions of conflict of interest when the Vice Presidency for Environmental and Socially Sustainable Development (ESSD) was merged with the Infrastructure Vice Presidency to create a new Sustainable Development Network. The transfer of QACU from ESSD to OPCS was accompanied by the transfer of the Regional Safeguard Advisors from Regional ESSD Departments to Regional Departments with OPCS functions.

16. It should be noted that an EMS was not formally required for these XPSR projects since requirement for the client to develop and implement a social and environmental management system (SEMS) became a formal requirement when Performance Standards were approved in April 2006

17. Environmental and Social Effects ratings FY2007–09 are based on IEG’s Environmental and Social Reviews that validate XPSRs prepared by project teams.

18. As of June 30, 2009.

19. These are PS2: Labor and Working Conditions, PS4: Community Health, Safety and Security, PS5: Land

Acquisition and Involuntary Resettlement, PS7: Indigenous People, and PS8: Cultural Property. The last two are not evaluated here, since they were not applicable to any of the MIGA projects in the review sample.

20. As of December 31, 2009.

## Chapter 4

1. Under the Pelosi Amendment, EIAs for projects with major environmental impacts, category-A projects are required to be disclosed 120 days prior to Board approval or the U.S. Executive Director is required to abstain or vote against a project. In practice, category-A projects are disclosed 120 days prior and category-B projects 30 days prior. IFC discloses category-A projects 60 days prior, and category-B projects 30 days prior to the Board date.

2. Category-C projects were not included in the portfolio review; consequently the extent of underclassification between categories B and C has not been assessed in this evaluation.

3. Eight risk gradations were specified: low-low, low-high, moderate-low, moderate-high, substantial-low, substantial-high, high-low, high-high.

4. That is, environment risk is low-high while social risk is high-low, and vice versa.

5. This estimate does not include costs incurred by Bank management and the Legal Department on project preparation and supervision or costs incurred in addressing requests for investigation filed with the Inspection Panel.

6. Bank management informed IEG that the costs for category-B projects with limited impacts and risks are significantly lower.

7. Two projects in the extreme upper-right corner of table 4.5 were classified as category A: one from the extractive industries sector and one from the transport sector; the third, from the urban sector, was classified as category B.

8. Given that, of the more costly half of the sample, 63 percent (12/19) are in the high cost/high benefit quadrant, and 27 percent (7/19) in the high cost/low benefit quadrant.

## Chapter 5

1. The portfolio review excluded category C and unclassified projects, consequently OP 4.01 (*Environmental Assessment*) affected all 252 projects in the review sample, OP 4.12 (*Involuntary Resettlement*) 49 percent, OP 4.10 (*Indigenous Peoples*) and OP 4.11



(*Physical Cultural Property*) 22 percent and OP 4.36 (*Forests*) 18 percent. The rest occurred in less than 12 percent of the sample.

2. Prior to 2004, safeguard policies included sectoral adjustment loans which are now subsumed under DPLs and governed by their own environmental and social requirements. Sector adjustment loans triggered the environmental assessment policy only. If DPLs were included from the portfolio the relevance of environment would decrease to 60 percent and involuntary resettlement to 25 percent of the portfolio.

3. The pilot program is governed by a new Operational Policy 4.00 "*Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects*". The policy applies only to the World Bank, not to IFC and MIGA, consequently the UCS section of this chapter only pertains to the World Bank.

4. This section of the chapter summarizes the main findings from the background paper commissioned by IEG on the use of country systems, augmented by additional information gleaned from the staff surveys.

5. Before agreeing to use country systems, the Bank assesses the strengths and weaknesses of borrower safeguard systems and identifies targeted—or gap-filling—measures to strengthen such systems. The Bank has developed a tool to do this analysis: the Safeguards Diagnostic Review (SDR). The SDR evaluates the equivalence of the borrower's system (the extent to which it is designed to achieve the same objectives and adhere to the same principles as the Bank's safeguard policies) and the acceptability of borrower implementation practices, track record, and capacity. Measures to achieve and sustain equivalence and acceptability are identified, included in the legal agreement for the project, and are then actively supervised during implementation.

6. That is, systems based on implementing agency/utility corporate policies in the Fifth Power Systems Development Project in India and Eskom Investment Support Project in South Africa.

7. The first attempt to apply the UCS to a country was in Mauritius. However, as of December 2009, when the second round of inquiry was undertaken by IEG, there was insufficient progress for the Mauritius case to be assessed by IEG.

8. Operations that include downsizing (retrenchment) in the public sector or public enterprises may

support severance. In investment operations support is provided through financing of severance pay.

9. This crowding-out effect has previously been identified by QAG assessments of Bank supervision, described in the background paper on social safeguards.

10. OP 4.12 Involuntary Resettlement, and OP 4.10 Indigenous Peoples provide relatively better guidance than the other safeguard policies on supervision, monitoring and completion reporting.

11. See for example, Shannon Lawrence, "Retreat from the Safeguard Policies," Environmental Defense Fund, January 2005; Dana Clark, "Comments on IFC Policy and Performance Standards," International Accountability Project November, 2005.

12. The goal of the SPS is to promote the sustainability of project outcomes by protecting the environment and people from projects' potential adverse impacts by: (i) avoiding adverse impacts of projects on the environment and affected people, where possible; (ii) minimizing, mitigating, and/or compensating for adverse project impacts on the environment and affected people when avoidance is not possible; and (iii) helping borrowers/clients to strengthen their safeguard systems and develop the capacity to manage environmental and social risks.

13. There is a difference between technical assistance provided for project preparation studies or project implementation, and technical assistance for studies unrelated to actual project implementation. Managers acknowledged the relevance of safeguards to the former but expressed concern about the practice of classifying all technical assistance projects as category B.

14. See European Bank for Reconstruction and Development, Environmental and Social Policy, May 2008. "In projects where Indigenous Peoples are likely to be affected, the client is required to carry out an assessment ... of the impacts on Indigenous Peoples. Depending upon the outcome of this, the client is expected to first avoid adverse effects and where this is not feasible, to prepare an Indigenous Peoples' Development Plan ... so as to minimize and/or mitigate any potential adverse impacts and identify benefits" (p. 52). "The client's proposed actions to minimize, mitigate and compensate for adverse effects and to identify and share benefits are required to be developed with the informed participation of affected Indigenous Peoples and contained in a time-bound plan, such as



an Indigenous Peoples Development Plan (IPDP), or a broader community development plan with separate components for Indigenous Peoples” (p. 53).

15. “When the primary objective of an operation is to move people from areas that are unfit for human habitation or, as in urban upgrading projects, to provide basic infrastructure or resolve problems of land tenure, the guiding principle will be to minimize the disruption of the affected population. The views of the affected population will be taken into account in the design and execution of the resettlement plan, and where feasible, voluntary procedures will be established to determine which households will be relocated. The plan will also ensure that those who are displaced will have access to equivalent or better employment opportunities and urban services.” Inter-American Development Bank, Sector Operational Policy: *Involuntary Resettlement*, GN-1979–3, July 1998.

16. “When the baseline information indicates that a significant number of the persons to be resettled belong to marginal or low-income groups, special consideration will be given to the risks of impoverishment to which they may be exposed as a result of resettlement, through: (i) loss of housing, land, access to common property or other rights to real property, due to lack of clear title, economic pressure or other factors; (ii) loss of employment; (iii) loss of access to means of production; (iv) food insecurity, increased morbidity and mortality; (v) disarticulation of social networks; and (vi) loss of access to education. A detailed analysis will be carried out at the earliest opportunity, covering gender, ethnicity, income and other socioeconomic factors, in order to determine the risks and design preventive measures to minimize them.” Inter-American Development Bank, Sector Operational Policy: *Involuntary Resettlement*, GN-1979–3, July 1998.

## Chapter 6

1. The two Performance Standards in the PPSSES that are not among the Bank’s safeguard policies are on “Labor and Working Conditions” and “Community Health, Safety and Security.” Additionally, IFC is currently reviewing its PPSSES, and may integrate additional environmental and social effects within its policy.

2. The current safeguard policies at the Bank provide for Resettlement Policy Frameworks and Indigenous Peoples Planning Frameworks. While there is no such provision within the environmental safeguard policies, an increasing number of projects, particularly in Africa, are making use of joint Environmental and Social Management Frameworks (ESMFs).

## Appendix B

1. Every year IEG selects a random sample of XPSRs that cover projects approved five calendar years prior to the current year and have generated at least 18 months of operating revenues (covered by at least two sets of company annual audited accounts).

2. IFC’s standard requirements for FIs are: (i) process (policy, procedure, responsible staff); (ii) appraising and supervising subprojects; (iii) IFC training; (iv) exclusion list; (v) host-country laws; (vi) IFC policies; (vii) category-A and/or -B subprojects meet applicable guidelines; (viii) IFC clearance, public consultation, and EA of category-A subprojects; (ix) annual report (AEPR) on process (EMS, appraisal, screening); and (x) annual report summarizing subprojects’ performance. Requirements (i)–(vi) are applied to all projects, and some of requirements (vii)–(x) are applied depending on the type of IFC investment and the portfolio risks of FIs.



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