

OED IDA REVIEW

ENVIRONMENTAL SUSTAINABILITY ISSUES IN IDA10-12



May 14, 2001

Operations Evaluation Department

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This paper is based on work by John D. Shilling. Pablo Gutman did most of the country-level analysis for this report and wrote several sections. Arati Belle reviewed the country assistance strategy papers and gathered much of the data on lending programs. Alex McKenzie and Maria Mar assisted in preparing the survey, and Can Adamoglu did the statistical analysis. Olga Vybornaia provided general support. Other team members commented extensively and helped throughout the process.

This is one of the series of background papers prepared for the OED IDA Review. In the IDA12 Replenishment Report IDA Deputies requested OED to undertake an independent review of the IDA program during the IDA10-11 period and an interim review of IDA12. The Review concentrates on IDA's development contribution in six *thematic development priorities*: (i) poverty reduction; (ii) social development; (iii) private sector development; (iv) governance; (v) environmentally sustainable development; and (vi) gender. It also addresses four priority *process reform objectives*: (i) performance based allocations; (ii) enhanced CAS design and implementation; (iii) improved aid coordination; and (iv) participation.

The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the views of the Operations Evaluation Department or any other unit of the World Bank, its Executive Directors, the IDA Deputies or the countries they represent.

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Acronyms

| | |
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| BP | Bank Procedure |
| BRIM | Biodiversity Information Management |
| CAE | Country Assistance Evaluation |
| CAS | Country Assistance Strategy |
| CERN | Chinese Ecological Research Network |
| CODE | Committee on Development Effectiveness |
| CPIA | Country Policy and Institutional Assessment |
| EA | Environmental Assessment |
| EAP | Environmental Action Plan |
| EEI | Environment Economics and Indicators |
| ENV | Environment Department |
| ENVIS | Environmental Information System |
| ESSD | Environmentally and Socially Sustainable Development |
| ESW | Economic and Sector Work |
| GDP | Gross Domestic Product |
| GEF | Global Environment Facility |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association |
| NEAP | National Environmental Action Plan |
| NGO | Nongovernmental Organization |
| OD | Operational Directive |
| OECD | Organization Economic Co-operation and Development |
| OED | Operations Evaluation Department |
| OP | Operational Policy |
| PCD | Project Concept Document |
| PRSP | Poverty Reduction Strategy Paper |
| QAG | Quality Assurance Group |
| RED | Regional Environment Division |
| SEPA | State Environmental Protection Administration |
| UNCED | United Nations Conference on Environment and Development |
| USAID | United States Agency for International Development |
| WBIEN | World Bank Institute Environment and Natural Resources |

Executive Summary

i. Environmental sustainability has figured prominently in recommendations by International Development Association (IDA) deputies since IDA9, reflecting growing recognition of its importance to IDA goals of poverty reduction and sustainable growth, as well as a concern that the Bank Group was not doing enough to promote environmental sensitivity in its lending and country dialogue.¹ The environmental recommendations in IDA9 and IDA10 focused on issues of sustainability, whereas those in IDA11 and IDA12 focused more narrowly on specific actions, with greater attention to poverty reduction. Environmental sustainability and economic growth were viewed as the major supporting objectives, echoing the evolution of views in the development community and IDA itself.

ii. In 1970 the Bank became the first major international lending agency to appoint an environmental adviser, but the position received little attention or support. Seventeen years later, in response to external pressure to expand its environmental activities following events such as the Narmada Dam crisis in India, the Bank in its 1987 reorganization created a central Environment Department with power to review all projects. Six regional environmental divisions (REDs) were also established. Shortly thereafter the Bank instituted a mandatory environmental assessment program. Participation in the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro in 1992 and production of the *1992 WDR Development and the Environment* were major factors in the rapid expansion of work on the environment through the mid-1990s. Most indicators show that efforts have leveled off since then (e.g. lending, inclusion in strategies, safeguards until FY01 when a new push was begun).²

iii. This review of environmental sustainability issues is based on extensive examination of documents and evaluations of IDA's environmental activities, interviews with staff and managers, a survey of environmental task managers, and visits to selected countries.

Challenges

iv. Environmental issues are among IDA's most challenging goals, and a source of tension within the Bank.³ Prudent use of environmental resources is essential to sustainable growth and poverty reduction. Overusing or abusing them is a threat to ecosystem integrity. The indirect and

1. Environment policies and many programs apply equally to IBRD and IDA countries and can only be reviewed for the Bank as a whole. In specific activities IDA can usually be broken out for separate analysis. The International Finance Corporation is not included in this analysis—*Bank* refers only to IDA and IBRD.

2. Management disagrees. While there is room for improvement, the evidence provided in this paper, together with the data and discussion in the IDA Mainstreaming Report, *How Far into the Mainstream? A Review of Environmental Issues in IDA Activities* (IDA/SecM2001-0147), February 23, 2001, does not suggest a diminution of effort. In terms of lending, the portfolio of projects (core environmental projects and projects in other sectors with environmental components) has grown steadily over the decade – now at over 200 projects under implementation, a substantial number, representing IDA financing of \$6 billion. It is also important to note the growing GEF portfolio (about 50 projects, representing about \$2 billion in project value, as noted in Table 8 of the OED review), also prepared and supervised by IDA staff, along with a number of Montreal Protocol activities. This is a significant portfolio that responds to IDA mandates. Management also notes the numerous nonlending activities and partnerships (not discussed in this paper) that have developed over the last 10 years, many following up on NEAPs. (Annex 2 of the IDA Mainstreaming Report lists many of them.) Finally, the review overlooks two important sector strategies, prepared in the latter part of the 1990s, which explicitly discussed environmental concerns and their integration in sectoral operations. They are: the Urban SSP (*Cities in Transition: A Strategic View of Urban and Local Government*) dated November 2, 1999, and the Environmental Strategy for the Energy Sector (*Fuel for Thought*), dated July 20, 1999.

3. The recent report of the Inspection Panel on the Western China project, management's response, and the surrounding controversy in the Bank reflect many of these elements.

long-term nature of many environmental impacts makes drawing the line between use and abuse difficult. Debates rage between parties interested in short-term gains and those with longer-term horizons as well as among advocates of local, national, and global priorities.

v. IDA has not yet systematically addressed long-term sustainability issues through its strategy work. Natural resource management is particularly important for lasting poverty alleviation. How much long-term analytical work should be done directly by IDA is an open question. Since its mandate is to promote sustainable development, IDA should draw on the highly competent work done by other agencies and incorporate long-term environmental considerations into its policy advice.

vi. IDA has not given consistent support or adequate resources for mainstreaming. Organizational changes in the 1990s have undermined some of the progress made after the 1987 reorganization and impeded achievement of environmental goals.

vii. The links between environmental degradation and poverty have received very little consideration in IDA's poverty work or its work on growth and adjustment. Environmental links to health are only now receiving adequate attention.⁴ The long-time horizon of environmental issues is difficult to reconcile with the short-term perspective of IDA's three-year planning and strategy outlook or the short political horizons of policymakers in member countries. Environmental agencies tend to be weak, making it hard to integrate environmental concerns into the sectoral activities of powerful Ministries and agencies.

viii. Other donors' evaluations of their environmental programs show that they, too, lack clear strategies, strong institutional support, and resources for the environment; and that implementation results on environmental assessments and project outcomes are mixed. The commonality of problems indicates that some of the challenges IDA has faced in incorporating environmental sustainability into programs—sector resistance, long-term considerations, ambiguity over use and abuse of environmental resources, lack of substantive commitment outside the environmental community—are inherent and may need to be addressed in the larger context of concerted action among donors.

Compliance and Effectiveness

ix. This assessment of IDA's compliance with its environmental undertakings and its overall effectiveness covers four areas emphasized in the IDA10-12 replenishment agreements: integration of environmental concerns into country strategies, lending for environmental objectives, enhanced application of safeguards, and attention to global issues. (See Annex I for a detailed implementation matrix.) The time period under review—fiscal 1994-2000—is short relative to project implementation periods of 5-7 years, and the even longer periods needed to measure outcomes and impacts. Performance on the major issues has varied across countries over time. Unfortunately, the trend has not been consistently positive following the initial push which led to the setup of the Environment Department in 1987 and the momentum created by the Rio conference in 1992.

x. In many areas, performance peaked around 1996-97 and then leveled off. Success has depended more on the initiative and commitment of individual staff and line managers than on systematic support from senior management or the assignment of clear responsibilities. Budget allocations and incentives do not reflect stated environmental priorities—often the contrary, in the view of environmental staff. There has been too little effort to integrate environmental sustainability

4. Health-related economic losses due to environmental causes are estimated to be 4-5 percent of GDP annually in countries such as Azerbaijan, China, and India.

into core IDA goals and activities, too little attention to the structure and incentives necessary to achieve these objectives and not enough monitoring of results.

xi. *Integration into country strategies.* IDA made substantial efforts to complete national environmental action plans (NEAPs) in most of its countries, albeit more slowly than the deputies intended. While the quality of the plans varies widely, the overall goal was essentially met, with plans completed in nearly all IDA countries.⁵ But IDA has been less successful in ensuring that the findings of NEAPs and other environmental analyses are incorporated into country assistance strategies (CASs). Only half of the CASs reviewed for the study (covering the period of 1993-00)⁶ include satisfactory or better coverage of the environment. There are no guidelines for including environmental indicators in the CAS, and management reviews have not held country directors accountable for such coverage. IDA's economic and sector work on environmental issues has generally been good to excellent. But staff often lack time and resources to incorporate this analysis into operational work, as well as incentives to use the analysis.⁷

xii. The receptiveness of IDA countries largely determines the effectiveness of country strategies. Some countries have responded well to the environmental issues raised by IDA. Others have paid only lip service. Most countries have established environmental agencies or ministries, often following completion of NEAPs and usually with IDA or other donor support. Many of these ministries are still weak, and environmental regulations are not well enforced. Some countries have adopted their own environmental strategies and are working to implement them, sometimes in the face of vigorous resistance by vested interests. The lack of strong and consistent internal support of IDA for the environment has weakened its impact on a number of countries. Based on the evidence so far, the program has been only modestly effective in terms of overall results. Progress has been made despite opposition and indifference, but much more could have been done if IDA had given priority to the integration of environmental issues.

xiii. *Lending and mainstreaming.* Direct IDA lending for the environment increased in IDA 9 and then roughly leveled off. Environmental components in other projects increased into IDA 10, and then leveled off. In IDA countries, priority went to natural resource management. Projects have had significant impacts in reversing land degradation (the Sodic Lands project in India, the Loess Plateau project in China), establishing stronger environmental management capacity (in Madagascar), and improving income from arid lands (the Arid Lands project in Kenya). But putting environmental projects on the operational agenda has proven to be increasingly difficult. Many country managers do not allocate resources for these projects, and some countries (Bolivia and Mozambique) prefer to use donor grants rather than IDA credits for the environment. On the other hand, IDA's environmental activities have been included in a number of country programs (as in Bangladesh) despite weak coverage in the CAS.⁸

xiv. Mainstreaming, incorporating environmental concerns into projects in all other sectors, was an important concern of the deputies. This may well be more important than implementing purely

5. The remaining cases are nearly all countries without effective government or are new members.

6. However, using a priority-based standard, management's 2000 CAS retrospective rated closer to 66% fully satisfactory or above; and the number with unsatisfactory treatment as 5%. The remaining CASs are classified as marginally satisfactory. See *Country Assistance Strategies: Retrospective and Outlook* (SecM98-242), March, 1998 and *Country Assistance Strategies: Retrospective and Outlook* (R99-228), December 1999, p. 62.

7. This problem is not unique to the environment. It is part of a broader challenge to IDA. This paper focuses on the impacts on environmental programs in IDA and does not attempt to judge the relative value of various other programs. It does accept the high priority given to the environment in the IDA agreements.

8. Management disagrees that the evidence suggests a diminution of effort. See footnote 2.

environmental projects or components. IDA has yet to provide guidelines to define, promote, monitor, or evaluate this kind of mainstreaming. The safeguard policies aim to implement the “do no harm” mandate. But mainstreaming means something more: positive actions to improve the environment. Unfortunately, there is no reliable data on mainstreaming with which to monitor progress or evaluate results. Mainstreaming risks becoming a token statement of interest with little operational impact. This need not be the case: the Asia regions have recently made it a priority and provided explicit staff and budget support.

xv. Many projects and programs in IDA countries have had significant impacts on their own terms and as demonstrations of what such projects can accomplish. IDA projects in China, for example, were conceived as pilots for the government to replicate. There have been mixed results in other countries. Some countries, including Mozambique and Uganda, are working to include environmental concerns in more projects. Others, such as the Kyrgyz Republic, are not. In some cases, Global Environment Facility (GEF) grants have been used as a substitute for IDA credits because they are “free.” The overall record of IDA’s environmental projects so far is positive but modest, and it is too early to evaluate their effectiveness in terms of results. The new initiatives in the Asia regions will be instructive.

xvi. The limited evidence available indicates that environmental issues are addressed in about a quarter of adjustment lending operations. Adjustment lending has been excluded from safeguard policies, but the Bank’s operational directive on adjustment lending does require staff to look at potential environmental impacts. The primary guidance is to address environmental issues through other means.⁹ In 1999, sector adjustment lending was included in the environmental assessment process, but Bank and other analyses suggest that there is scope for more attention to environmental issues in adjustment and programmatic lending. Internal work on this is currently underway.

xvii. *Safeguards.* Reviews by the Operations Evaluation Department (OED) and the Environment Department suggest that the content of IDA’s safeguard policies and procedures are largely adequate. Management has given the safeguard policies more prominence since 1998. Staff and others have found that the environmental assessment process in most cases has contributed to improved project design and implementation. But there have been flaws in the implementation of the policies. Environmental assessments are often done too late to have much impact on project design.¹⁰ There have been errors in classification of projects. Supervision of both A and B projects for environmental issues has often been weak. There has been no systematic way for IDA to monitor implementation of environmental assessment programs after a project has closed. Divergent interpretations among staff and senior management of the scope and application of IDA’s safeguard policies have been observed by the Inspection Panel. The recent recentralization of responsibility for environmental assessment reviews and the approximately \$6 million¹¹ special budget allocation in fiscal 2001 indicate that management is aware of the need to address the problem.

xviii. The environmental assessment framework has been largely effective but failure to implement the safeguard policies in a few visible projects has created crises for IDA and raised concerns about the Bank’s commitment to the environment assessment process, its implementation capacity, and its

9. See the OP memo, Clarification of Current Bank Policy on Adjustment Lending, June 5, 2000. The analysis was based on the OD8.60 prevailing throughout the 1990s.

10. Originally the environmental assessment was to be a lighter document produced early in the project preparation cycle to influence the design as soon as possible. Later decisions to undertake more thorough reviews and to shorten project processing led to environmental assessments becoming available too late in the project cycle to influence design. Some are not available in the Bank’s information center until shortly before Board presentation, sometimes missing the 120-day lead time.

11. All dollar amounts are in U.S. dollars.

internal monitoring and accountability systems. These concerns led to the creation of the Inspection Panel in 1993. From the Narmada Dam project in India to the Arun II project in Nepal or the Western China project, IDA's initial reactions have tended to be defensive, followed by substantial adjustment of its program as the issues became higher profile¹². However, learning has taken place. For example, in the Chad-Cameroon Pipeline Project and the Nam Theun Dam Project in Laos, IDA took extensive corrective action in response to external concerns at much earlier stages, including wider consultations.¹³ The resulting polarization around IDA's role in a few large operations has overshadowed much of the good that has been accomplished and diverted management resources towards crisis management, internal crisis prevention, and risk avoidance.

xix. *Global issues.* IDA's treatment of global issues had been generally satisfactory. It has been most successful when it has built country support around global issues with local impact, such as biodiversity and water. This has helped IDA sidestep objections that it is an instrument of the industrial countries to prod developing countries to solve problems created by the industrial countries—as often alleged with respect to global warming. IDA linked global issues to local impacts in the Clean Fuels Initiative to reduce emissions of carbon dioxide and locally harmful particulates. It should continue in this direction to address the interests of all its member countries.

xx. IDA has used the GEF to support global and local environmental objectives, but sometimes as a substitute rather than a complement to IDA's own activities. On the other hand, Regional GEF projects such as that for Lake Victoria have led to IDA follow-on projects to promote regional environmental recovery.¹⁴ Other Bank activities have addressed such global concerns as deforestation and climate change, with special attention to the needs of IDA countries.¹⁵ These activities have been largely relevant, useful, and effective within their own limits. More resources are needed to achieve broader and more durable results.

xxi. *Country environment performance ratings.* Environment receives a 5 percent weight in country performance ratings. Criteria have changed three times in the period under review, and there is little difference among countries in the ratings. Most staff are unfamiliar with the system, and there is no indication that the environmental component has affected allocation decisions. On the other hand, poor performance on the environment is often related to governance issues which have substantial weight in resource allocation.

Overcoming Constraints and Tensions

xxii. Externally, IDA's pursuit of environmental objectives is often constrained by lack of interest and commitment among member governments. Outright corruption and abuse of environmental resources, exploitation of weak legal systems for short-term gains by vested interests (domestic and foreign), and ineffective regulatory and enforcement structures are not unusual. Governments often prefer bilateral grants to IDA credits for environmental programs and have other pressing priorities for their own funds. Internally, the frequent reorganization of the Bank has reduced institutional memory, distracted staff and managers, and confused responsibility for achieving environmental

12. This resulted in withdrawal from the Narmada and Arun projects and a major revision in the Western China project, which the Chinese government later withdrew as it could not accept additional conditions imposed by the Board beyond the agreement reached with management.

13. Chad-Cameroon has since been approved. Nam Theun is still in process.

14. This report does not evaluate GEF activities directly. See *The Global Environment Facility's Overall Performance* (World Bank, Washington, D.C.: Global Environment Facility, 1998).

15. The recently approved Critical Ecosystems program should also focus constructively on global and transboundary issues.

goals. Application of the safeguard policies has been affected by decentralizing—and ultimately diffusing—responsibility for environmental assessments and by combining responsibilities for policing environmental safeguard policies and promoting environmental benefits. Limited budgets, perverse incentives, and lack of clear accountability structures have compounded the problem. High-profile crises have attracted attention to the environment and made regional managers risk averse for wider environmental projects.

xxiii. The line between using and abusing the environment for growth and poverty reduction is difficult to define. Government priorities are often quite different from IDA's. Alternate sources of grant funding make IDA's environmental stance with many of its borrowers precarious. Poorly developed institutional capacity complicates many environmental projects. IDA's own priorities are spread widely, and its resources are thin. Other areas compete with the environment for attention and resources, and mechanisms for joint or cross-sectoral activities are weak. These tensions inherent in promoting environmental sustainability should be borne in mind in the rest of this report.

xxiv. A key lesson of this review is that IDA needs to clearly identify its environmental objectives and articulate appropriate strategies. Staff and management must be fully committed to the objectives of environmental sustainability. Staff must be supported by adequate budget and other resources. Transparent responsibility and accountability and consistent application of policies is critical.

xxv. Policy dialogue is central. Environmental sustainability must figure prominently in IDA's strategy and policy work, and member countries must be made aware of the strategic importance of environmental issues.

xxvi. Selectivity is important in IDA's environmental projects, consistent with country priorities identified in NEAPs or other environmental analyses. Resources should be allocated where IDA has the capacity to do innovative work, demonstrate its commitment to excellence with respect to the environment, and generate critical lessons for the development community.

xxvii. Projects should be designed to ensure environmental quality and sustainability. For proper mainstreaming, application of safeguards and mitigation should be a minimum threshold, not the main thrust of the strategy—a major change in focus.

xxviii. More than good policy formulation is needed for assuring that safeguards work. All staff should be committed to the environmental assessment policy. Better quality assurance is essential as is upstream dialogue with country authorities. The environmental assessment process must also be adapted to programmatic and adjustment lending.

xxix. Global environmental issues should be addressed in the context of their local manifestations and transboundary environmental issues should receive due attention. Full participation, ownership by local governments, and sufficient concessional and grant resources to address public good elements are essential.

xxx. Coordination with other donors in resource allocation and policy priorities is the key to responsible selectivity.

Recommendations¹⁶

16. OED has conducted a parallel review of the Bank's overall performance on the environment (See *OED Review of the Bank's Performance on the Environment*, (COED2001-29) March 23, 2001). It contains the same recommendations.

xxxi. **Recommendation 1: In pursuit of holistic, long term development and the International Development Goals, IDA should build on its comparative advantage and analytical capacity to demonstrate the critical role of the environment in sustainable development and poverty reduction. It should incorporate environmental objectives into its core strategy and its operations. In particular, the Bank should:**

- Reform the structure of its management, staff and budget incentives to give added emphasis to achieving environmental objectives.
- Integrate environmental sustainability into country and sector strategies.¹⁷
- Make the environment a central feature of policy dialogue with core ministries, with particular attention to the links between the environment, poverty reduction and sustainable livelihoods.
- Ensure that environmental issues are adequately covered in core integrative ESW (such as the proposed development policy reviews). When the CAS indicates a need for more in-depth analysis of environmental issues, environmental ESW should be carried out in a participatory manner taking full account of the work carried out by partners (e.g., national strategies for sustainable development proposed by DFID)
- Mainstream environmental concerns into its research and operations. Adequate guidance, standards, and monitoring should be put in place so that staff have the tools and incentives to implement the environmental strategy.
- Strengthen monitoring and evaluation of progress on the environment in CASs and SSPs. To this end, it should expand the use of environmental indicators in country analysis, particularly indicators of environmental degradation in terms of GDP.
- Enhance its efforts at capacity building in member countries, strengthening institutions, policies, and regulatory enforcement.

xxxii. **Recommendation 2: IDA should review its environmental safeguard oversight system and processes to strengthen accountability for compliance. In parallel, the policy framework should be modernized and adapted to the changing practices and instruments being used by the Bank and take account of recent experience. In particular the Bank should:**

- Ensure that the safeguard policies and standards for their implementation are clear and fully understood by managers and staff.
- Develop policies and practices for treating environmental issues in adjustment and programmatic lending not currently covered in the EA policy.
- Provide adequate and independent funding for oversight of safeguard processes and shield compliance review processes and staff from conflicts of interest.

17. This is not to propose a one-size-fits-all approach but appropriate inclusion among other key priorities with explicit, country-specific priorities worked out within the overall framework.

- Allocate accountability and responsibility for implementation of the safeguard policies to the relevant line managers and empower the central environment unit to intervene where compliance problems are identified.
- Establish a transparent adjudication process to resolve differences and avoid muddying responsibility and accountability.
- Help build borrowing countries' capacities to formulate and implement EA policies, and manage environmental resources and risks.

xxxiii. Recommendation 3: IDA should help implement the global environmental agenda by concentrating on global issues which involve local and national benefits. In particular, the Bank should:

- Identify environmental actions that achieve national and local benefits while addressing critical issues of global concern.
- Assist countries to prepare for the impacts of global environmental degradation such as global warming, and support transitions to renewable energy sources and end use efficiency.
- Give adequate attention to regional (transboundary) environmental issues in its analytic and program work, including cross-boundary cooperation.
- Enhance its role as a global leader in the environment through its public statements, being a role model through its own actions, and promoting understanding of the poverty-environment-development nexus.
- Use its convening power and partnership programs to increase attention to environmental issues of common concern, promote coordination among donors, and empower all stakeholders to achieve common objectives.

Environmental Sustainability Issues in IDA10–IDA12

1. This evaluation is based on extensive document reviews, interviews with International Development Association (IDA) staff and managers, a survey of task managers,¹⁸ and inputs from governments, civil society, nongovernmental organization (NGOs), and IDA country offices.

EARLY HISTORY

2. During IDA9 (fiscal 1991-93) deputies drew on the 1987 Brundtland Commission report and preparations for the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro in 1992 to recommend making environmental issues a major objective:

Donors noted that a borrowing country's basic development strategy must be environmentally sound to assure the sustainability of the resource base, economic growth, and poverty alleviation. They welcomed the efforts currently under way to support **environmentally sustainable development**. They urged IDA to accelerate these efforts and advocated measures at three levels: first, at the level of IDA's lending operations; second, in IDA's country programs and dialogue; and third, with regard to global or regional initiatives. (Ninth Replenishment Report, p. 3)

3. These recommendations were picked up in IDA10 (fiscal 1994-96) after Rio and publication of *World Development Report 1992: Development and the Environment*.

The Deputies noted the rapid evolution of IDA's role in supporting environmental sustainability and underlined the importance of continuing efforts in this area. While environmental problems arise virtually everywhere, the *World Development Report 1992* demonstrates that low income countries are very seriously at risk from the rapid growth of environmentally unsustainable activities. (Tenth Replenishment Report, p. 7)

4. Most of the IDA10 recommendations were modified and carried forward to IDA11 and IDA12 (fiscal 1997-99 and fiscal 2000-02). The emphasis shifted strongly to the primacy of poverty reduction, with growth and environmental sustainability as the main supporting objectives.

The IDA11 Deputies reaffirmed that reduction of poverty continues to be IDA's overarching objective, and all its activities must be a means to that end. This main objective is complemented by two supporting objectives, namely broad-based growth led by the private sector, and environmental sustainability. (Eleventh Replenishment Report, p. 1)

The mission of IDA is to support efficient and effective programs to reduce poverty and improve the quality of life of its poorest member countries. . . . To achieve this, the focus must be on: *results* – to get the biggest development return from scarce aid resources; *sustainability* – to achieve enduring development impact within an environmentally sustainable framework; and *equity* – to remove barriers and open up opportunities for the disadvantaged. (Twelfth Replenishment Report, p. iii)

18. The survey of staff involved in environmental tasks was conducted to complement the interviews. A questionnaire was sent to 250 staff who had recently prepared or supervised IDA environmental projects or economic and sector work. The sample consists of 64 replies (26 percent), including many perceptive comments that are included in this report.

5. Beyond these broad statements, the replenishment agreements contained specific recommendations on the environment, though they were not formally listed until IDA12 (see implementation matrix in Annex I).

6. While the environment remains important in successive replenishment agreements, emphasis clearly shifts to environmentally sustainable poverty reduction supported by economic growth, reflecting the evolving consensus in the development community. These shifting priorities are mirrored in IDA's environment-related activities, most of which peaked around 1996–97 and have since lost momentum.

7. IDA implicitly accepted the Brundtland Commission's definition of environmental sustainability: "meeting the needs of the present without compromising the ability of future generations to meet their own needs." But so far this broad statement has not been translated into direct operational guidance. Box 1 summarizes the Bank's environmental activities. Specific sustainability requirements are difficult to aggregate into indicators that apply to national economic activity.¹⁹ It has been difficult to focus Bank research, projects, and policy dialogue on environmental sustainability in the sense of managing a country's environmental resources to support long-term growth and poverty reduction.

Box 1. Organization of Environmental Activities in the Bank²⁰

The Bank was an early leader in considering environmental issues. It appointed an environmental advisor in 1970 to review projects. The unit remained small, with no more than five professionals, and usually received projects late in the preparation cycle. It reviewed all projects and recommended mitigation actions where possible. The first review recommended moving a power line planned to run through a national park in an IDA country. The IDA project officer objected, and eventually agreed to make the change only when the alternate routing was shown to be less expensive.

In preparation for the United Nations Conference on the Environment and Development, the Bank set up 23 task forces to provide technical inputs on issues related to environment and development. It agreed to help member countries fulfill their obligations under international conventions. The *World Development Report 1992: Development and the Environment* was a major intellectual contribution to thinking on the environment.²¹ The Bank also played a leading role in addressing global issues, as an implementing agency for the Montreal Protocol on atmospheric ozone reduction and as one of the three executing agencies of the Global Environment Facility.

Translating the new environmental objectives into concrete action proved elusive, however. Weak leadership in the Environment Department in the late 1980s and poor coordination between the center and the regional environmental divisions led to tension and confusion. A series of structural changes transferred more resources and authority to the regions. By the early 1990s, the regional technical departments had established sounder leadership on environmental issues, with the center providing technical support and focus on broad issues. The 1996 reorganization reduced the role of the center and transferred more responsibility for environmental activities to the country departments, which led to a loss of momentum on cross-cutting issues and reinforced the sectoral treatment of the environment. The Environment Sector Board and the Environmentally and Socially Sustainable Development Network Council are now working to strengthen coordination and support of environmental issues, in part through the preparation of the Environment Strategy.

19. The Bank is at the forefront of research on natural capital and genuine savings and is engaged in joint efforts with partners such as the Organization for Economic Co-operation and Development (OECD) to develop sector-specific environmental indicators on a country basis.

20. This material is taken from Robert Wade, *Greening the Bank: The Struggle Over the Environment, 1970–1995*, in Devesh Kapur, John P. Lewis, and Richard Webb, eds., *The World Bank: Its First Half Century*. Vol. 2 (Washington, D.C.: Brookings Institution, 1997).

THE CHALLENGE OF ENVIRONMENTAL SUSTAINABILITY

8. Incorporating concerns about environmental sustainability into development and poverty reduction strategies is inherently more difficult than the other supporting objectives in IDA's mission—for a simple reason. Use of environmental resources is a necessary input in development, but misuse can damage longer-term development prospects. With low population and economic activity, such use tends to stay within regenerative capacity, and sustainability is not a concern. As population and economic activity increase, pressures on environmental resources rise, often beyond the point of regeneration and sustainability.

9. Threats to environmental sustainability have been widely documented globally, as has their effect on the long-term sustainability of economic growth and poverty reduction in IDA countries (Table 1).²² Deforestation continues at nearly 1 percent a year—more, by some accounts. About 40 percent of the population in developing countries, including much of Africa, China, and India, faces severe water stress. Air and water pollution levels are rising in most developing countries, particularly in fast-growing urban areas. Climate change—higher sea levels, hotter and drier climates, and more variable weather—will hurt most IDA countries. IDA staff have estimated that the measurable environmental costs of pollution and degradation, health losses, reduced land productivity, are equivalent to about 4–5 percent of GDP annually in Azerbaijan and India and perhaps as much as 8 percent in China.²³

Table 1. Indicators of Environmental Degradation for Selected Countries (percent of GDP)

| Country | Gross domestic savings | Genuine domestic savings ^a | Environmental degradation | Net forest depletion |
|------------|------------------------|---------------------------------------|---------------------------|----------------------|
| Bangladesh | 17.1 | 10 | .. | 2.1 |
| China | 42.6 | 32.0 | 8.0 ^b | 0.4 |
| India | 20.9 | 10.3 | 4.5 – 8.0 ^c | 1.6 |
| Indonesia | 24.1 | 5.9 | .. | 1.2 |
| Mali | 10.1 | 5.2 | .. | 0.0 |
| Nigeria | 11.8 | -14.2 | 15 ^d | 1.8 |
| Yemen | 2.4 | -26.3 | .. | 0.0 |

^a Net domestic savings, plus education expenditure, minus energy depletion, mineral depletion, net forest depletion, and carbon dioxide damage.

^b Clear Skies, Blue Water: China's Environment in the New Century (Vol. 1), World Bank, 1997. Air and water pollution damages have been estimated to be at least \$54 billion a year or nearly 8 percent of GDP in 1995.

^c A 1995 study, The Cost of Inaction: Valuing the Economy-Wide Cost of Environmental Degradation in India, C. Brandon and K. Hommann, presented at the Modeling Global Sustainability Conference, United Nations University, Tokyo, October 1995, assessed annual environmental costs at 4.5% of GDP. A second study, Environmental Evaluation of Economic Growth: An Agenda for Change, P. Khanna and P. Ram Babu in Yojana, August 1997, estimated costs from air pollution, groundwater mining, deteriorating quality of many aquifers, land degradation, and deforestation to be 5% of GDP. Annual economic costs of air pollution, contaminated water, soil degradation, and deforestation were estimated to be 8% of total GDP in 'Looking Back to Think Ahead' Tata Energy Research Institute, Delhi, 1998.

^d Estimated from Towards the Development of an Environmental Action Plan for Nigeria, World Bank Report No. 9002-UNI, December 18, 1990.

21. Despite criticism from many environmental advocates, it went about as far as was feasible for the Bank at that time and increased awareness inside the organization and among member countries. It stopped short of addressing environmental sustainability, although considerable background material had been prepared on that topic.

22. Unless otherwise referenced, all statistics are drawn from *The Little Green Data Book 2000*, Development Data Group (DECDG) and the Environmental Economics and Indicators Unit (EEI), World Bank, 2000. The data in this book is for the years 1990, 1997, and 1998 or the most recent year for which data is available.

23. See Todd Johnson, *Clear Water, Blue Skies: China's Environment in the New Century* (Washington, D.C., World Bank, 1997); the Azerbaijan CAS (Report No. 19892-AZ) November 29, 1999, and the India country assistance evaluation (CODE2001-18) February 23 2001.

10. While 60 percent of surveyed staff consider environmental sustainability a useful unifying concept, only 34 percent believe it is well understood Bankwide and only 19 percent by clients. Especially in poor countries, sustainability may require tradeoffs that do not immediately benefit the population. Respondents also noted the ambiguity of the concept. Its interpretation often depends on the context in which it is used. Nevertheless, IDA deputies have embraced the concept and the cross-sectoral linkages it implies.

Environment-Growth Links

11. The tradeoffs between conserving environmental resources and using them for growth are complex. Most studies find monotonically positive relations between improving education, health, governance, and gender equity and better prospects for poverty reduction and growth, but not for the environment. The impacts of growth on the environment are often expressed as environmental Kuznets curves: use of environmental resources in early stages of development leads to degradation and depletion, but the resulting growth creates the wealth and demand for environmental restoration as incomes rise. This suggests that particular types of environmental degradation increase as a function of per capita income up to a certain income level and then level off and eventually decline, perhaps to zero, depending on the specific environmental harm.²⁴ Beyond direct degradation, population growth and economic activities change the shape of the environment, shifting forest land into cultivation and towns, using and exhausting resources, and crowding out habitats and species.

12. Environmental Kuznets curves are controversial. They are based on empirical correlations with a limited number of observations. No underlying theory explains why the curves would have this shape. Environmental cleanups usually result from public pressure on governments and industry. While such pressure is more likely at higher income levels, informed choices can be made at any income level provided relevant knowledge is disseminated; it is critical for poor countries to understand the choices and IDA has a role to play in enhancing the awareness of the environmental dimension of poverty reduction.

13. Critics of the Bank have suggested that the focus on “win-win” did not take full account of the trade-offs implicit in many environmental policies and did not understand the opposition of those who stood to lose, as indicated by the difficulties in implementation. There was widespread concern that the concept of environmental Kuznets’ curves seemed to prevail. However, such views were deemed by environmental experts inside and outside the Bank as complacent and implicitly supportive of the discredited doctrine of “grow now and fix the environment later.” The Bank does not subscribe to this view and has issued guidelines and publications, such as *The Pollution Prevention and Abatement Handbook* demonstrating effective ways to improve the environment at all stages of development.²⁵ Unfortunately, some Bank operational staff still argue that selectivity and the important role of growth in poverty reduction are valid reasons to give a low priority to the environment in low income countries.

24. These curves with favorable outcomes do not show whether the point of inflection and decline occurs before or after the damage is irreversible. In industrial countries the reduction of forest cover has been reversed, but the new forest growth is very different from primal forest it replaces. It is even less clear to what extent tropical forests can replace themselves. China and India appear to have reversed deforestation in aggregate, but only after loss of vast forest reserves.

25. *The Pollution Prevention and Abatement Handbook* (World Bank, Washington, D.C.: 1999).

Environment-Poverty Links

14. The poor generally suffer most from environmental problems—land degradation, polluted air and water, disposal of toxic and other harmful wastes, and loss of access to natural resources that traditionally supply their livelihoods. They are most likely to be pushed onto marginal land and least able to protect against environmental disasters such as drought and flooding. They are more likely as farm laborers or as downstream water users to be harmed by pesticide and herbicide use. Improving the environment is intimately related to reducing poverty—for quality of life, income, and sustainable livelihood goals. But the poor can also cause environmental damage in their effort to survive; for example, moving onto marginal land and shortening fallow cycles to grow subsistence crops contributes to deforestation and land degradation. The poor would benefit most from improved environmental conditions and more sustainable access to resources (see Box 2).

Box 2. The Dilemmas and Challenges in IDA Countries: Madagascar

Madagascar is exceedingly poor, and income growth has only recently begun to exceed its rapid population growth (3 percent a year). Poverty has driven people to ravage critical environmental systems containing substantial endemic biodiversity in order to survive. Slash and burn agriculture is widespread. A 1989 national environmental action plan proposed a program of three five-year tranches, each to be funded by a large external assistance program. So far 11 donors, including IDA, have committed \$230 million to the first two stages.

Carefully designed to address the priority issues identified in the national environmental action plan, the programs have been partially successful in making progress against daunting challenges. Some aspects were too complex for the country's capacity, poorly integrated into the rest of the country's development strategy, and inadequately monitored. The public was not adequately involved. However, the programs have increased environmental awareness, improved links to growth, strengthened regulations, and made some progress in strengthening relevant institutions. The Bank's Quality Assurance Group commended the second project for having applied lessons learned from the first. There has been strong donor support and a number of encouraging results, but much remains to be done to have a lasting impact on environmental sustainability.

Deforestation continues. Economic growth did not occur until 1977 and has not yet been extensive enough to ease the pressures for slash and burn agriculture. Attempts to conserve unique ecology have continued the debate about "conservation versus development." Commitment to longer term environmental goals erode in the face of immediate threats to survival. Interactions with other sector activities are beginning, with a structural adjustment credit project that includes support for ecotourism and more integration of environmental concerns into rural development and energy activities..

Despite the good intentions and full funding of the Madagascar programs, the challenge is daunting—extreme poverty in an extremely sensitive environment. Many lessons are being learned and applied, but attaining satisfactory results will take a long time. This case illustrates the very problems faced. They requires more, not less, attention over the long term.

Source: Operations Evaluation Department, "An Evaluation of the World Bank's Assistance for Madagascar's Environmental Programs: A Country Case Study" (World Bank, Washington, D.C., 2000).

15. While the relationship between the environment and poverty is recognized, there has been little research on the links. A 1995 review found that 60 percent of national environmental action plans identified poverty as a major cause of environmental degradation. But in the staff survey, only 28 percent of staff ranked the environment as a high priority in IDA's poverty reduction strategy, among the lowest of the priorities surveyed. The Environment Strategy under preparation stresses environment-poverty links, particularly in health.

Long-Term Environmental Sustainability and Thematic Dimensions

16. Environmental sustainability is a long-term, cross-sectoral issue at the core of development, and the IDA deputies have viewed it in that light. This view is not widely shared. Rather than working together to make all projects environmentally sound, environmental activities tend to be viewed as stand-alone, sectoral activities competing with other sectors for resources and attention. For example, the Comprehensive Development Framework treats environment along with nine other sectors (on a par with energy, transport, and water), with no instructions to mainstream concerns about environmental sustainability into other sectors or actions. Nor does environmental sustainability have a prominent role in the Poverty Reduction Strategy Papers (PRSPs).²⁶ Yet the Bank's mission statement does embody the importance of "lasting results" and highlights the Bank's environmental friendly stance:

To fight poverty with passion and professionalism for lasting results.

To help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.

17. The incentives and structures of IDA and its clients are geared toward readily quantifiable short-term results. Reducing pollution and stopping soil degradation, for example, have immediate benefits and are important objectives in themselves. The assumption is that all short-term actions help enhance longer-term sustainability, although there is little analysis of this hypothesis.

18. Opinion is divided on the value of using a long-term framework to guide Bank and IDA work on environmental sustainability. In some countries, such as Yemen, an environmental concern such as water is so critical a long-term issue that it constitutes a central part of the country strategy, but in others, such as India, the lack of a similar urgency makes long-term considerations a lower priority. Long-term scenarios are applied widely outside the Bank to examine environmental issues. IDA deputies and management should consider paying more attention to these results since long-term issues are important to sustainability. The *World Development Report 2002/2003* on sustainable development should help clarify this issue.

19. Many cross-sectoral environmental issues that affect sustainability fail to receive adequate attention, as shown by the separate OED evaluations of desertification, energy, forestry, and other areas. (See Annex II). Most environmental issues are poorly integrated into country strategies and poverty programs. While there are good projects that demonstrate what is feasible, overall performance is less than satisfactory because of lack of incentives and adequate monitoring. There has been active involvement in international forums on long-term environmental issues such as the desertification strategy, the forest initiative, the Prototype Carbon Fund, and the Water Forum, but mechanisms to integrate these activities into mainline operations are weak. More attention is now being paid to cross-cutting environmental issues in sector strategies (e.g. *Fuel for Thought*, the Water and Urban sector strategies).

26. Environmental sustainability was included as a core objective in the January 2001 Strategic Framework. However, some consider treatment of the environment as a sector as a practical way to manage resources allocated to it. It remains to be seen whether the combination of including it as a core objective and treating it as a sector will be successful. Monitoring its inclusion as a core objective will be important in this regard.

MEASURING ENVIRONMENTAL SUSTAINABILITY

20. Defining explicit environmental objectives toward the goal of environmental sustainability is a challenge. Less than 10 percent of staff surveyed agreed that they had clear guidance on what IDA agreements with the deputies involved for the environment.²⁷ By contrast, there are two widely accepted indicators of poverty—the poverty headcount and the poverty gap—that are regularly monitored and can be computed by subnational units to further localize the problem.

21. The absence of a comprehensive indicator of environmental sustainability contributes to this dilemma. The most comprehensive, regularly calculated indicator is genuine savings, a measure of whether an economy is saving and investing enough to become more sustainable, making allowances for depletion of natural assets and building human capital (see Table 1). The Bank regularly publishes a range of environmental data, such as emissions, deforestation, land degradation, and pollution, in its *World Economic Indicators*. Its newly released *Little Green Data Book* (2000) consolidates all environmental data by country. These are valuable in addressing specific problems, but a framework is needed for analyzing these indicators, setting targets, and monitoring progress on a country-wide basis. While IDA has not yet developed such a framework, a few countries, such as China and Mozambique, are moving in that direction. IDA is not alone—evaluations by other donors cite the absence of an adequate measure of environmental sustainability as a major deficiency (see Box 9, later in this report.)

EVALUATING IDA'S PERFORMANCE

22. The Review covers IDA's performance through IDA10, 11, and the first year of IDA12. It examines progress in to implement replenishment commitments under four broad topics:

- Integration of environmental concerns into country strategy work (national environmental action programs, country assistance strategies, economic and sector work)
- Lending for environmental objectives, both directly and for mainstreaming into other sectors
- Enhanced application of safeguard policies (environmental assessments)
- Attention to global environmental issues, including support for the Global Environment Facility (GEF).

23. The IDA10-12 replenishment agreements support the thrust of IDA's programs, reinforce key points, and give focus and direction to the broad agenda laid out in IDA documents. The recommendations almost exclusively concern IDA actions and activities rather than results on the ground. Because the agreements contain only a few specific monitorable targets, the findings in this report are based on judgments from available evidence, some of it quite limited. The paucity of monitoring (for example, no indicators on mainstreaming, lapse of the environmental information system (ENVIS) etc.) is itself an indication of weak commitment. The absence of agreed indicators of environmental sustainability and IDA performance led this review to rely on secondary, in process indicators.²⁸

27. On other environmental objectives, 66 percent agreed that they had clear guidelines on environmental assessments, 47 percent on other safeguard policies, 31 percent on national environmental action plans, and 17 percent on mainstreaming.

28. Because the Bank treats the environment the same in both IDA and IBRD countries, policy, research, and strategic issues are reviewed here on a Bankwide basis, with the country-level analysis focusing on performance in IDA countries. Common results from IDA and IBRD countries are used because some country-based studies do not distinguish between them. Where a distinction is possible, there is rarely much difference between IDA and IBRD results. Blend countries are treated as IDA countries for general topics, since the Bank deals with these countries in the same way. Deputies urged that

24. Specific instructions to staff about compliance with IDA10 and 11 agreements were brief and were not followed up systematically. One to two page memos with summaries of operational commitments were circulated to operational vice presidents, who were encouraged to disseminate them to staff. There was no further explicit monitoring except for the periodic reviews required by the IDA Deputies. In IDA12, management circulated the full summary and text of the agreement along with the matrix of agreed actions.

Integration of environmental concerns into country strategy work

25. The deputies realized that to be a core aspect of IDA's programs, environmental sustainability would have to figure prominently in country assistance strategies (CASs) which would require collecting environmental information and analysis, preferably with the involvement of affected people. Thus they recommended supporting national environmental action plans (NEAPs or their equivalents), relevant economic and sector work, and inclusion of the findings in strategic analyses and CASs, which have emerged as the central document driving country programs and dialogue with the Board. The deputies saw this as the critical first step in incorporating environmental sustainability into country programs and in building country awareness and support for the environment.

26. Over the past decade environmental concerns have achieved more prominence in IDA countries. Country reviews and interviews suggest that preparation of NEAPs, international conferences and public discussions sponsored by the Bank or IDA, and environmental studies and projects under the auspices of the Bank or IDA have made environmental concerns more visible. Most countries have established environmental ministries or agencies, however weak and under funded. Civil society groups have achieved more standing and voice on environmental issues in many countries. In some countries, IDA projects have helped set up or strengthen environmental agencies and, together with other agencies and nongovernmental organizations (NGOs), enabled the development of local environmental interest groups. Where countries have been responsive, there has been substantial progress.

27. But an analysis of CASs also suggests that awareness has not systematically led to integration of the environment into country strategies or given environment a high place in country policy dialogues. Environmental issues are addressed in only about half the IDA CASs. More worrisome, the incidence did not improve over the period under review. IDA has been effective in promoting the environment strategically only where there has been strong country or IDA leadership.

28. *National environmental action plans.* NEAPs were first proposed in 1988 by the newly created Environment Department, partly to identify projects the Bank could finance with its planned expansion of environmental lending. The Bank would help countries prepare their own participatory action plans. IDA9 asked that NEAPs be completed for all the then 49 IDA countries by June 1993. Only 17 countries had completed NEAPs by the deadline, which was extended under IDA10 to 1996. IDA membership has since grown to 81.

29. NEAPs have now been completed for nearly all IDA countries except for some recent members or countries with failed governments. Preparation of the plans proceeded slowly in IDA9, partly because of time-consuming participatory processes. In Africa, a program was in place to help countries carry out the plans based on their own leadership. The NEAPs provided a basis for further

IDA lending in blend countries be directed to social and environmental issues, and this has largely been the case. Analysis of projects concerns only IDA projects, including those with both IDA and IBRD funds.

environmental analysis, new projects, and information for CASs and other documents. Some governments developed sustained environmental programs from these plans. The recently completed draft of the mainstreaming study²⁹ shows that most countries with NEAPs benefited from several subsequent environmental activities.

30. A 1996 OED evaluation of NEAPs found that

- NEAPs had helped build country consensus on environmental issues when stakeholders participated.
- Countries with NEAPs were more environmentally aware and exhibited more ownership of environmental procedures than those without.
- The impact of NEAPs on the environmental management capacity of borrowers was uneven. In most countries, few environmental professionals and staff working on Bank-financed projects had ever heard of the plans. Environmental institutions lack political clout and are weak in most countries. In the worst cases, the plans had no impact on institutional capacity.³⁰

31. OED recommended tailoring the NEAP process more closely to country circumstances and making requirements more flexible and responsive to client needs. Management agreed and made a commitment to better integrate NEAP findings into CASs. Subsequent reviews indicate that little has changed. More NEAPs have been completed, but their incorporation into CASs has been mixed. Nevertheless, as a result of this process and other factors, environmental awareness is increasing in most countries.

32. The deputies' recommendations that NEAPs be completed rapidly was a laudable goal, but it had unintended consequences. To satisfy the recommendations of IDA10, management made completion of the NEAPs a high corporate priority—the only IDA-specific environmental priority widely known to staff or IDA countries.³¹ On the positive side, regional and country managers were quick to allocate more resources to these activities, environmental units strengthened their staff and relations with other units, and the pace of completion picked up. But it remained slower than hoped because of the emphasis on participation and the difficult political choices involved. NEAPs typically have not been effective in setting priorities among environmental objectives or in forcing the hard political decisions that accompany many environmental issues. This is not surprising, since they are supposed to be participatory and include concerns of a wide range of stakeholders.

33. Some staff were concerned that pressure from the center to finish the plans reduced regional responsibility and country ownership.³² Plans were increasingly done by external consultants funded by external grants, leading to allegations that they were imposed by donors, too standardized, and did not build country capacity.³³ Most reviews have found no significant differences in the quality of the earlier and later NEAPs. Quality varied widely as a function of the complexity of the issues addressed, the resources available, and the extent of government interest. The primary concern articulated by IDA management was to get them done as well as possible within tight timetables. But

29. International Development Association (2001).

30. Operations Evaluation Department, *Effectiveness of Environmental Assessments and National Environmental Action Plans: A Process Study* (World Bank, Washington, D.C., 1996).

31. Most staff were aware of the goal of completing NEAPs, but only 33 percent of staff surveyed agreed that guidelines were clear on what to do with completed NEAPs.

32. Operations Evaluation Department, *Effectiveness of Environmental Assessments and National Environmental Action Plans: A Process Study* (World Bank, Washington, D.C., 1996) p. 57.

33. IDA could not directly fund NEAPs, but did fund a number of supporting activities with positive results.

once plans were completed, IDA follow-up did not extend to systematic incorporation of environmental concerns into IDA programs. There has been no formal evaluation of NEAPs since 1996, and no procedures were set up to ensure their quality, provide for updates, or monitor their incorporation into country strategies.

34. Only 16 percent of staff surveyed agreed that the NEAPs were effective. The plans were often complex, slow to be implemented, and without strong government support. They were usually the responsibility of the environment ministries, which are typically weak. Nonetheless, a number of country teams did pursue the NEAP recommendations in useful ways, largely because of the commitment of individual borrowers, country managers, and staff (e.g. Uganda, China, Mozambique, Bangladesh (Box 3)).³⁴

Box 3. Following-up on the Bangladesh National Environmental Action Plan

When the national environmental action plan (NEAP) in Bangladesh was found to be a long shopping list of concerns without adequate priorities, the country department initiated informal sector work to help the government establish priorities for the environment and translate them into components of a national environmental project. Initially a single environmental project was planned, but it was decided it would be more effective to incorporate most of the identified priority actions into other projects. IDA did this in several of its projects, and the United Nations Development Programme mounted a TA follow-on project, with the Bank executing several components. As a result, the NEAP was translated into an effective program that was mainstreamed into the IDA program. The CAS did not dwell much on this parallel activity because it was going so smoothly. This kind of mainstreaming approach to the NEAP unfortunately has not been general IDA practice. But a variety of approaches have been tried.

35. *Country assistance strategies.* The CAS became central to IDA management of country programs over the period under review.³⁵ Once the elements of an environmental program were identified, they needed to be included in the CAS to receive proper attention in the country programs. In responding to the OED review of NEAPs, management agreed to this inclusion “where appropriate.” The Bank’s January 1995 policy on CASs states:

This section, the core of the CAS document, presents the Bank Group’s strategy to achieve both the country’s and the Bank Group’s objectives. This section indicates how the Bank’s objective of helping countries to reduce poverty and its sectoral objectives—such as human resource development (including gender issues), environmentally sustainable development, and private sector development—are incorporated into the strategy and reflected in the policy dialogue. (The discussion is supported by major conclusions from the Environmental Action Plan [EAP] and poverty assessments, if they are available.)³⁶

And the Updated Interim Guidelines issued in January 1998 includes this statement:

Strategic Thrust. A good CAS serves as the vehicle for making strategic choices in country program design and Bank resource allocation. ...To this end, CASs should, as clearly as

34. Management notes that there have been follow-up activities in 48 IDA countries, about 70 percent of the countries that completed NEAPs or equivalent exercises. Many of these activities are listed in Annex 2 of the IDA Mainstreaming Report (2001). They include both lending and nonlending activities.

35. As part of the IDA requirements, IDA CASs were discussed formally with the Board beginning in 1994. This was soon extended to IBRD CASs. Hence the importance assigned to making them comprehensive strategic documents.

36. “BP (Bank Procedure) 2.11, Country Assistance Strategies,” *World Bank Operational Manual* (World Bank, Washington, D.C., 1995). Note that the reference is to the environment as a supporting *sectoral* objective.

possible, link proposed Bank Group activities (and the resources required to fund them) to country results. This involves: (i) assessing the magnitude and likelihood of the impact of Bank Group activities on economic growth, poverty alleviation, and social and environmental indicators....³⁷

36. The updated guidelines specifically cite poverty, macroeconomic issues, and governance as areas for particular attention, mentioning the environment again only as one of several factors to consider in country risks. The update also narrows the focus of attention to the environment to the impacts of Bank activities, not of the broader country strategy. These guidelines include reference to the environment, but not in the core sense indicated in IDA10. They reflect and perhaps amplify the shift of the deputies' recommendations toward poverty and treat the environment as a sector issue. Management gave no direction during CAS reviews to address these country risk factors up front and early in the project cycle. Responsibility for ensuring adequate attention to the environment has been left to environmental units.

37. Too often CASs treat the environment as a sectoral add-on. Staff interviews indicate that there is still little attempt to link environmental issues to core issues. Many CASs treat environment as a sector (with separate funding, objectives, activities, and so on), and not as a cross-sectoral issue. Data and indicators relating to the environment and natural resources are generally lacking. Analysis of environment and natural resource issues and their linkage to the development process is often weak or missing. The upcoming Environmental Strategy may address these issues.

38. External concerns have, in some cases, spurred attention. In the Chad-Cameroon pipeline project and the Nam Theun power generation project in Laos, external pressure over environmental, social, and governance threats from the projects led IDA management to demand more thorough analysis and mitigation work and to include many safeguard measures as conditions of project approval. Both projects are enclaves that export energy products; their sponsors are major international firms. Without external pressure, it is unlikely IDA would have expended the amount of effort eventually applied.

39. Management asked the Environmentally and Socially Sustainable Development Network to review the environmental coverage of the 37 CASs presented in 1999. The study ranked CASs according to identification of environmental issues, treatment of the issues with appropriate interventions, mainstreaming into other sectors, linkages between environment and poverty, policy linkages, and analysis of economic incentives in relation to the environment (Table 2).³⁸ The results were marginally satisfactory for both IDA and IBRD countries, with the IDA countries faring slightly better overall with the poverty linkages, but weaker on policy interventions. Regional variation was greater than that between IDA and IBRD countries, with more satisfactory results for the two Asia regions than for Africa and Latin America and the Caribbean. The Mongolia and Vietnam CASs were identified as best practice among the IDA countries reviewed.

37. Memo from MDOPS, January 1998.

38. Priya Shyamsundar and Kirk Hamilton, *An Environmental Review of 1999 Country Assistance Strategies—Best Practice and Lessons Learned* (Environment Department, World Bank, Washington, D.C., 2000). Both this report and the reviews done for the OED study looked at the full CAS, including Annexes and Program Matrices.

Table 2. Treatment of the Environment in the 1999 CASs

| | <i>Identify issues</i> | <i>Treat issues</i> | <i>Mainstream</i> | <i>Poverty links</i> | <i>Policy interventions</i> | <i>Incentives applied</i> | <i>Average</i> |
|--|------------------------|---------------------|-------------------|----------------------|-----------------------------|---------------------------|----------------|
| By Group | | | | | | | |
| IDA Countries (21) | 2.52 | 2.81 | 2.71 | 2.00 | 2.10 | 2.10 | 2.37 |
| IBRD Countries (16) | 2.44 | 2.94 | 2.50 | 1.50 | 2.44 | 2.06 | 2.31 |
| All CASs | 2.49 | 2.86 | 2.62 | 1.78 | 2.24 | 2.08 | 2.35 |
| By Region (excluding a single CAS in ECA) | | | | | | | |
| AFR (7) | 2.57 | 2.43 | 2.57 | 1.86 | 1.57 | 1.57 | 2.10 |
| ECA (5) | 2.00 | 2.20 | 2.00 | 1.00 | 1.80 | 1.80 | 1.80 |
| SAS (3) | 2.33 | 3.67 | 3.33 | 2.67 | 2.67 | 2.33 | 2.83 |
| EAS (2) | 3.33 | 3.67 | 3.33 | 3.00 | 3.00 | 3.00 | 3.22 |
| LAC (2) | 2.50 | 2.50 | 2.50 | 2.00 | 2.00 | 2.50 | 2.33 |

Note: 1 = not mentioned, 2 = addressed marginally satisfactorily, 3 = addressed satisfactorily, 4 = best practice. Numbers in parentheses are number of CASs.

Source: Environmentally and Socially Sustainable Development Network, "Review of 1999 CASs" (World Bank, Washington, D.C., 1999).

40. Using the same methodology, a similar assessment of 51 CASs for IDA countries from calendar 1992 to early 2000 was conducted for this review (Table 3).³⁹ Fourteen CASs from the beginning of or just before the IDA10 period were compared with 15 from the end of the period (1999–2000) to see whether there was any change in treatment of the environment.⁴⁰ These CASs were reviewed for all the substantive sectors in the overall IDA review. About 10 CASs in each period were for the same country. The results in both periods were partially satisfactory, with modest improvement across all items. An additional 22 CASs for the 15 focus countries in the intervening years were also reviewed, giving a full review of all CASs for the focus countries.

41. Coverage of the environment improved from 1992 through 1995 (no 1996 CASs were reviewed) and then declined again, with a slight recovery in 1999 (see Table 3). Given the limited coverage, not too much should be drawn from these results, but they are consistent with other indications that attention to the environment lost momentum. This may have been a result of the growing focus on poverty (though poverty-environment links are not well developed), shifts in internal organizational structure, and changes in corporate emphasis (see Box 4). The lack of improvement, through 1999 is what is noticeable.

39. The CAS reviews for this study were desk studies following the methodology in the Environmentally and Socially Sustainable Development Network review, looking at both the main text and the annexes.

40. The end period were the most recent available at the time the research was undertaken. IDA12 is under-represented.

Table 3. Environment Coverage in IDA CASs in IDA 10-12

| Group | Problem Identification | Proposed Action | Mainstreaming | Poverty Linkages | Economic Incentives | Average |
|-----------------|-------------------------------|------------------------|----------------------|-------------------------|----------------------------|----------------|
| Early CASs (14) | 2.21 | 2.00 | 1.43 | 1.57 | 1.43 | 1.73 |
| Late CASs (15) | 2.53 | 2.27 | 1.73 | 1.73 | 1.67 | 1.99 |
| 1992 CASs (5) | 2.60 | 2.00 | 1.40 | 1.60 | 1.00 | 1.72 |
| 1993 CASs (9) | 2.22 | 2.11 | 1.44 | 1.56 | 1.67 | 1.80 |
| 1994 CASs (7) | 2.86 | 2.71 | 1.86 | 2.00 | 1.71 | 2.23 |
| 1995 CASs (8) | 3.13 | 2.63 | 1.75 | 2.25 | 1.75 | 2.30 |
| 1997 CASs(6) | 2.83 | 2.67 | 1.67 | 1.67 | 1.33 | 2.03 |
| 1998 CASs (10) | 2.30 | 2.20 | 1.50 | 2.00 | 1.70 | 1.94 |
| 1999 CASs (6) | 3.00 | 2.33 | 2.17 | 1.50 | 1.50 | 2.10 |

Note: 1 = not mentioned, 2 = addressed marginally satisfactorily, 3 = addressed satisfactorily, 4 = best practice. Numbers in parentheses are number of CASs.

Source: Review conducted for this study

Box 4. Environment In or Out of CASs

Lack of coverage of the environment in CASs could be due to a number of reasons. For example, the Bolivian government asked IDA not to fund environmental projects, preferring to use donor grant funding. Environmental issues remained important, and IDA continued to provide limited technical assistance. But the subsequent Bolivia CAS did not discuss strategic environmental issues beyond noting IDA's commitment to making sure that its projects were sound and offering assistance as needed. Since the CAS' guidelines urge IDA activities to be selective, but its diagnosis to remain comprehensive—environmental issues should figure in other IDA activities (mainstreaming). The Bolivia CAS should have noted how other IDA activities would take the environment into account and how projects funded by other donors would fit within the overall strategy.

In Kenya, the recent CAS was devoted entirely to governance issues. Consultations with stakeholders in the environment community in Kenya focused almost exclusively on questions of governance as appropriate and essential for combating environmental degradation. Although not specifically referred to in the 1998 CAS, these issues are inherently linked to three related areas of reform: public sector restructuring, public expenditure management reform, and strengthening accountability mechanisms to fight corruption. The ongoing dialogue with the government is very much focused on tackling governance issues within the forestry sector. In fact, IDA staff had made a strong effort to design an environmental structural adjustment loan, which eventually had to be dropped because of lack of government interest.⁴¹

42. The findings of this review and the reported results of some smaller regional studies are consistent with those of the environmental survey of the 1999 CASs. Treatment of the environment is only partially satisfactory and has not improved over time. This review's averages are slightly lower than those in the ESSD 1999 survey, but the pattern across individual items is similar. This review shows Europe and Central Asia CASs devoting the least attention to the environment. Africa is somewhat better, but still only partially satisfactory, followed by Latin America and the Caribbean. South Asia and East Asia are satisfactory in their CAS coverage.⁴²

41. This experience did not figure in the CAS. See Frances J. Seymour and Navroz K. Dubash, with Jake Brunner, *The Right Conditions: The World Bank, Structural Adjustment, and Forest Policy Reform* (World Resources Institute, Washington, D.C., 2000).

42. No CASs for the Middle East and North Africa Region were covered in this study. The only IDA countries in the region are Egypt and Yemen through IDA11. Yemen was included in the Environmentally and Socially Sustainable Development Network review. However, management's CAS Retrospective II (covering 1998 and 1999) using a "priority-based standard," found 67% of Bankwide CASs satisfactory or above; and its 2000 CAS review found the number unsatisfactory declined to 16% (see *Country Assistance Strategies: Retrospective and Outlook* (R99-228), December 1999).

43. To complement and support the analysis in the CASs, the Bank has begun preparing sector strategy papers to clarify Bank approaches in important sectors. The sector strategy papers for energy, transport, rural development, and urban development mention the important environmental considerations in those sectors, but those for health and education do not.

44. In the CAS reviews, it was not always possible to determine whether brief references to the environment were just that or keys to larger ongoing dialogue. Moreover, the staff survey provided a mixed response. Only 30 percent of the respondents agreed that it is easy to incorporate environmental issues into the CAS, while 36 percent disagreed. One respondent commented that typically there is only one paragraph in the CAS devoted to environmental issues, and it “rarely rises above motherhood statements.” The CASs do not always reflect all of IDA’s environmental activities and policy dialogue. In Mozambique, for example, actions on the ground have gone well beyond what was reported in the CAS, with IDA activities and government programs normally including environmental considerations. In other countries as well, important environmental activities sponsored or encouraged by IDA and often funded by other donors are not always mentioned in CASs (Box 4).⁴³ Admittedly, CASs carry a large burden, and tend to be short-term in focus, perhaps more so than needed for a strategic document. However, inclusion of a summary diagnosis of the environment in the CAS is essential to ensure that environmental considerations are adequately included in the overall development vision and strategy. So if the environment is a corporate priority, it should be covered in the CAS. It may be that other objectives take priority in a particular country at a particular time, but if so, the CAS should note the rationale for that decision so senior management and country officials are aware of the strategic choices. Lack of such treatment, and of insistence on it, is a very worrisome shortfall.

45. In 1998, the Bank initiated a program to include environmental indicators and more systematic environmental analysis in the CAS. Six pilots, including three IDA countries, are near completion. The program makes basic environmental indicators available for inclusion in the CAS, a format has been designed to highlight critical indicators, and the data is readily available, including the broad gauge indicator, genuine savings. But there has been no instruction from management to add these indicators to CASs. They have been included in only one IDA CAS (Zambia) and one IBRD CAS (South Africa).

46. *Analytic work.* Incorporating environmental issues into strategies or projects requires basic data and understanding of how the environment interacts with other activities. The deputies emphasize data gathering, indicators, and research. Improving environmental data and the analysis of environmental impacts has received growing attention, spurred by the preparations for the UNCED and the Bank’s 1992 *World Development Report: Development and the Environment*.

47. Analytic work occurs at three levels in the Bank—in the Development Economics Research Group, in the central environmental units, and in the regions. The Research Group has built capacity for data collection and analysis in member countries, deepened understanding of the economics of the environment, and focused on broad cross-cutting issues with practical policy implications. The Environment Department has focused on reporting general progress in the Bank on the environment, developing environmental indicators, disseminating current thinking on major issues, and analyzing in-depth issues related to the Bank’s work program. The regions focus on country specific issues in support of their work programs through economic and sector work.

43. The Resource Mobilization Department Report on IDA11 Implementation (*Improving IDA’s Effectiveness in Reaching the Poor: IDA11, Fiscal 1997–99*). World Bank, Washington, D.C., 1997) cites several more examples.

48. Major pieces of analytical work appeared regularly for several years after the Rio conference, but the pace has slowed because of other priorities and pressures on environmental staff. Budget resources dwindled because of a sense that producing more information would add little value until existing information could be absorbed. Thirty-three percent of staff agreed that economic and sector work was effective. The contribution of Development Economics were rated below regional work, partly because operational staff lacked time to read and absorb work from beyond the region. Many staff report that they do not have time to keep up with the internal research and literature.

49. Since the expansion of environmental work in the Development Economics Vice Presidency in preparations for the UNCED and *World Development Report 1992*, about 12 percent of its annual research budget has been devoted to such research. These programs have leveraged other resources. Based on the priorities identified in *World Development Report 1992*, the initial thrust was on industrial pollution—promoting data collection, studying costs and benefits of abatement, and developing practical pollution regulations and policies. Because of its nature, the bulk of this work was directed to IBRD countries, though China and India were significantly involved.⁴⁴ Other issues that are now receiving attention are agricultural pollution, land use and ecosystem preservation, environmental health, global carbon trading, motorization, private provision of public infrastructure, and urban development, many of them relevant to IDA countries. A 1999 workshop on the links between poverty and the environment produced several interesting papers, which should be disseminated more widely. Development Economics produces a regular flow of publications and seminars on environmental topics and has developed active networks among practitioners, increasingly Internet based. This work has been widely praised both inside and outside the Bank. Some of it is groundbreaking.

50. The Environment Department has supported research and dissemination on a wide variety of environmental issues. From 1990 to 1995, it produced the annual *Environment Report*, which summarized Bank environmental activities, discussed current issues, and suggested new directions and initiatives. This was replaced in 1996 by *Environment Matters*, a shorter publication. Neither document looked specifically at IDA country activities. The department also sponsors several publication series, ranging from books and conference volumes through working papers and dissemination notes in various formats. The scope of topics is broad, and some of the work is outstanding.

51. Major works have been published by the Bank on environmental indicators, drylands issues, the impacts of biotechnology, challenges to biodiversity, measures of natural capital and genuine savings, financing of sustainable development, trade and the environment, and guidelines for industrial pollution. Similar suites of publications in other departments (e.g. energy, water, rural development, and urban development) address many environmental issues. But there is surprisingly little analytic work on factors affecting long-term environmental sustainability or the links between poverty and environmental degradation.

52. Regional and country units do a great deal of country-specific analysis in the form of economic and sector work. Although many country economic reports do not treat environmental factors in the detail recommended by the deputies, other sector work addresses environmental issues. Some IDA countries have produced major environmental reports in addition to NEAPs.⁴⁵ For most countries, sector work on agriculture, energy, and water addresses environmental issues were relevant. The Regions prepared environmental strategies, and a number of country teams have

44. The research program does not distinguish IDA vs. IBRD issues.

45. See, for example, Todd Johnson's *Clear Water, Blue Skies*, 1997 on China's environment.

prepared country environment strategies every few years. While this review could not consider or evaluate all of this work fully, independent sources give the general impression that much of it is quite good and valuable for reference.

53. New regional strategies are being prepared for the Bank's Environment Strategy. They are critical for supporting national policy dialogue and designing lending programs and projects. This work helps build country support and a better understanding of the practical issues in each country. The extent and depth of environment-related sector work varies by country, depending on interest in the country, other demands on the budget (or ability to attract trust funds), and support from the country director. Staff interviews confirmed the value of this work. Unfortunately, declining resources for sector work across the board, not just for the environment, hurts the staff's ability to help identify and promote environmental projects.

54. Environmental ESW is declining compared to the early 1990s, both with respect to numbers of studies and budgetary allocations.⁴⁶ Interestingly, economic and sector work on the environment is reported in that review to be the most expensive, at an average of \$200,000 per task. Only 17 tasks were completed in fiscal 1999, fewer than in most sectors. Only 15 percent of countries had relevant environmental work that was less than five years old (only private sector development was lower at 14 percent, and other sectors were well above 40 percent). Only 30 percent of the 10 largest IDA countries had current environmental work and just 9 percent of a sample of 42 smaller countries, a decline from several years ago. A recent study by management found that the Bank needs to be diligent in ensuring that environmental issues are analyzed for all countries and that there is current environment ESW where it is an important issue. Some very good environmental ESW has been carried out, but environmental issues are infrequently incorporated into country economic memoranda and other mainline ESW. For this purpose, adequate coverage in integrative ESW (such as the proposed development policy review) would be an important first step.

55. There is no set pattern for effective policy documents, but the more approaches tried, the greater the chances of success. Efforts in China (Box 5) and Mozambique have been successful, and innovative attempts have been tried in Bangladesh and Vietnam, although those have met with less success because of weaker government response. Response to efforts in India have varied by sector and state.

46. Operations Policy and Strategy Department, *Fixing ESW: Where Are We?* (CODE2000-76) May 17, 2000.

Box 5. IDA Assistance to China on Environmental Policy and Practice

Notwithstanding the magnitude of its environmental problems, China has one of the most comprehensive environmental frameworks and competent environmental protection institutions of any developing country. Most of the credit for those achievements rests squarely with the Chinese government, although IDA's assistance has been important and timely.

The initial financial vehicle for IDA's assistance on environmental policy and practice in China was the Environmental Technical Assistance project (Cr. No. 2522-CHA, \$50 million equivalent, November 1993). This was the largest and most complex project of its kind at the time and arguably has been one of the most successful and effective. It supported the development of the two key environmental institutions in China—the State Environmental Protection Administration (SEPA), and the Chinese Academy of Sciences (CAS).

The project assisted SEPA to improve environmental monitoring and information systems; promote cleaner production; research pollution control policies; strengthen environmental education; strengthen the environmental assessment system; and develop a strategy for control of vehicular emissions. It helped the Chinese Academy of Sciences establish the Chinese Ecological Research Network (CERN) and Biodiversity Information Management System (BRIM), both of which are now making substantial contributions to biodiversity management and protection in China. The Chinese Academy of Sciences claims that CERN is now one of the largest and most successful long-term ecological research networks in the world.

Major environmental reports generated by the Environmental Technical Assistance Project include:

- Study of China's Pollution Discharge Levy Policy, 1995
- Study of Policy of Cleaner Production in China, 1995
- Study of Methodology of Cleaner Production Auditing, 1995
- The Planning of China's Environmental Information System, 1996
- China's Environmental Education Planning, 1996
- Study of the Market-Based Approach to TVIE Pollution Control, 1996
- Study of China's Ecological Monitoring Network Establishment, 1996
- Strengthening the System for Environmental Assessment, 1997
- Study of China's Ecological Agriculture, 1997
- Cleaner Production Action Plan in the Chemical Sector, 1996
- Study of China's Motor Vehicle Emission Control, 1997

IDA also provided major intellectual support to environmental institutions in China for preparation of the 1992 "China: Environmental Strategy" paper. SEPA considered this paper to be seminal in raising political awareness of environmental degradation in China and increasing SEPA's credibility in the Chinese civil service. SEPA has since been upgraded to the rank of a ministry.

Source: China Country Unit of the World Bank, 2000.

56. The World Bank Institute has conducted environmental training programs to sensitize policymakers and educate operational staff in environmental matters (Box 6). While not IDA focused, many representatives of IDA countries have participated in the training, which can improve a country's strategic response to environmental matters. It can also build ownership and local support that will eventually have a lasting effect, though one that is difficult to measure.

Box 6. The World Bank Institute Environment and Natural Resources Division

The objective of the Environment and Natural Resources Division of The World Bank Institute (WBIEN) is to promote sustainable development in its economic, environmental, and social dimensions by facilitating a learning dialogue and disseminating innovative approaches to sustainable development, primarily among policymakers and opinion leaders. The division's recent activities with significant impacts in IDA countries include the following.

- The Africa Water Resources Management Policy Conference in Nairobi, Kenya, in May 1999, was organized with the Environment Department as part of the Africa Water Resources Management Initiative. This was the largest gathering of African water policymakers and practitioners to date, with about 240 participants from 24 African countries. The main outcome of the conference was the initiation of the first continent-wide network of African water resources management policymakers and professionals.
- The Sustainable Forestry: National and Global Perspectives Program, fosters sustainable use of forests via the development of a South-South network of forestry professionals who influence forest management in the Bank's client countries. Members include representatives of government, the private sector, nongovernmental organizations (NGOs), the media, and academia. A June 1999 meeting of ministers of environment and forestry in Bolivia was the first forum for the Amazon basin countries to discuss a regional position on forest carbon sequestration in the Clean Development Mechanism.
- The core Policy and Institutional Reform for Sustainable Rural Development course brought together more than 100 policymakers from all over the world to share experiences on constraints and opportunities for institutional changes promoting rural development.
- The first core course on Environmental Economics for Development Policy brought together over 50 practitioners from over 25 countries as well as Bank staff to share cutting-edge knowledge and experience.

Source: World Bank Institute.

57. *Rating.* The Bank has done a great deal of environment-related studies and analysis, and NEAPs have been completed for most IDA countries. Most have initiated follow-up activities. Guidelines have been established for incorporating environmental concerns into country strategies. But management has not established adequate standards and incentives for integrating the environment into CASs, inclusion is not monitored, and there is no clear accountability. As a result *compliance in incorporating environmental sustainability into IDA strategies and country programs has been partially satisfactory.* The relevance of integrating environmental issues into country strategies is substantial, but the implementation has been modest with considerable variation by country. Effectiveness has been mixed.

58. Even OED evaluations of country assistance programs have not regularly assessed the Bank's activities in relation to the environment.⁴⁷ Of course, CAEs should not be expected to cover everything. On the other hand, since environmental sustainability is not just another theme or sector but one of the core objectives of the Bank (along with poverty reduction and broad based growth), it would be appropriate for CAEs to review its relevance and coverage in the Bank's country programs, even if only to briefly note that taking action on the environment may be a lower priority at a particular point.⁴⁸

47. Recent reviews of 29 Country Assistance Evaluations (CAEs) by OED (15 IBRD countries and 13 IDA countries) found that only 9 examined the treatment of environmental issues fully. Ten gave some reference to environmental issues and nine had only marginal or no references to the environment despite significant environmental challenges faced by many of these countries.

48. A country assistance evaluation for Vietnam is under way, and one is scheduled for China in 2001. Both countries have made substantial environmental efforts.

- Evaluations for three countries—Kyrgyz Republic, Tanzania, and Uganda—do not mention environmental issues at all. This omission is particularly striking for Uganda because the evaluation comments in detail on 10 areas of IDA assistance and reports on a detailed stakeholder consultation. Moreover, Uganda has done relatively well in developing and implementing its environmental strategy in recent years.
- Evaluations for five countries—Azerbaijan, Bangladesh, Cambodia, Côte d’Ivoire, and Ghana—make only passing mention of environmental issues, mainly in sections on rural development. Only for Côte d’Ivoire are these comments analytical. The evaluations do not assess or rate the development effectiveness of the environmental assessment or make recommendations for the future.
- Evaluations for the remaining five countries – Bolivia (Box 7), India, Mozambique, Nepal, and Yemen—address IDA environmental assistance in some detail. Three evaluate the assistance outcomes, and four make recommendations. The evaluation for India rates IDA’s environmental assistance on the basis of a separate background paper on the environment program.⁴⁹

Box 7. Bolivia’s 1998 Country Assistance Review

In terms of analysis and reporting, Bolivia’s 1998 country assistance review is an example of best practice in evaluating IDA’s environmental assistance. In only two pages it manages to:

Identify the country’s priority environmental issues.

- Assess the environmental outcomes of ongoing IDA activities—for example, the disappointing poverty reduction gains and unanticipated environmental problems of the Eastern Lowland project and the limited progress in land titling.
- Assess IDA’s environmental assistance (“The Bank and Government [in mid 1998] still have not developed a coherent agenda for reconciling many competing interests that have a stake in Bolivia’s natural resources....Underlying the continued risks to Bolivia’s environment is the disconnect between the sound legislation that has been enacted to stop environmental damage and its enforcement on the ground” (p. 26).
- As part of the five core country assistance review proposals, make detailed recommendations, such as addressing natural resource management issues in the *altiplano* (highlands) and developing a country strategy for sustainable natural resource management.

Unfortunately, the Bolivian government requested in 1997 that IDA stop lending for the environment in favor of grants from other donors, and the 1998 country assistance strategy did not treat environmental issues in any depth. Donors have requested IDA to keep its hand in environmental matters, but without the resources of an ongoing lending program or a special allocation from an already tight country budget, it is difficult for IDA to play a role.

Source: Operations Evaluation Department, “Bolivia Country Assistance Review.” Report 17957 (World Bank, Washington, D.C., 1998)

59. The country assistance evaluations probably understate IDA’s impacts on environmental issues at the country level, both because environmental indicators are not readily available and because of the weak coverage in many CASs.

49. Ringskog, Klas. *India: A Country Case Study. Promoting Environmental Sustainability in Development: An Evaluation of World Bank Performance.* Background Paper (World Bank, Operations Evaluation Department, Washington, D.C., 2000).

Lending for Environmental Objectives and Mainstreaming into Other Sectors

60. Lending is the main instrument for achieving IDA's objectives. The deputies urged IDA to mainstream the environment into its lending program. At the first stage, environmental lending can take the form of loans directly for environmental projects, then as environmental components in projects classified in other sectors. Measurement of these forms of lending began in 1988. Mainstreaming beyond such direct lending means incorporating environmental concerns into all lending. The emphasis on the broader definition of mainstreaming grew stronger over the three replenishments, as it was recognized that actions in many sectors impact the environment.

61. The green agenda (natural resource management, land improvement) is associated with rural development, especially prominent in IDA countries. Lending for pollution abatement (the brown agenda), largely an urban and industrial activity is more prominent in IBRD countries (See Tables 4 and 5). In both agendas, environmental issues overlap with other sectors—pollution issues are related to energy production, transport, and urban sanitation, and natural resource issues are related to agriculture, fisheries, and forestry.

62. *IDA lending for the environment.* IDA environmental lending—managed by environmental units— was variable throughout the period. The volume of lending peaked in 1996, and then returned to the earlier level or somewhat less.⁵⁰ The number of projects has remained somewhat higher, as there has been a tendency to do smaller, less complex projects.⁵¹ (See Table 4). The share in total IDA lending remained at roughly 3% over the IDA 10 and 11 periods, but has declined so far in IDA 12. The young environment portfolio, which contains few closed projects, expanded over the period, reaching 86 projects amounting to almost \$4 billion by the end of fiscal 1999. Environmental components in projects in other sectors almost double those portfolio figures.

50. Management notes that Table 4 demonstrates that total lending for the environment and the number of new operations has been more or less steady since the mid-1990s, with normal year-to-year variations, and represents about 11 percent of total IDA lending (based on the data used to produce this table. See also footnote 2.

51. China has accounted for about 31% of IDA's environmental lending, and its graduation will result in a decline in IDA's lending in this area, though presumably not for the Bank as a whole.

Table 4. IDA Lending for the Environment, 1990–2000⁵²

| <i>Fiscal Year</i> | <i>Direct Environment Lending (number of projects)</i> | <i>Direct Environment Lending (\$ millions)</i> | <i>Environmental Components, Other Sector Projects (project no.)</i> | <i>Estimated IDA Financing of Environmental Components (\$ millions)</i> |
|--------------------|--|---|--|--|
| 1990 | 2 | 191 | 13 | 155 |
| 1991 | 1 | 179 | 19 | 290 |
| 1992 | 5 | 229 | 34 | 554 |
| 1993 | 4 | 202 | 23 | 235 |
| 1994 | 4 | 172 | 26 | 581 |
| 1995 | 3 | 69 | 33 | 552 |
| 1996 | 5 | 349 | 34 | 1,063 |
| 1997 | 12 | 257 | 25 | 435 |
| 1998 | 4 | 149 | 28 | 556 |
| 1999 | 5 | 213 | 21 | 437 |
| 2000 | 7 | 60 | 27 | 608 |

Based on sectoral reviews of the agriculture, urban, water supply & sanitation, and energy portfolios carried out by the Environment Department. It includes environmental components in sector projects that have closed over 1990-2000. The value of IDA financing for environmental components has been calculated at the same proportion as the overall IDA commitment in total project costs, as this review did not undertake a component by component breakdown.

63. There are several explanations for the stagnation of direct environmental lending. Some countries have been reluctant to borrow for the environment, preferring grants from other donors. Others simply accord the environment a low priority and prefer that IDA direct its lending elsewhere. Countries are also deterred by the long time frame typically required to prepare and execute environmental projects. Support for environmental lending is mixed among country directors and task managers in other sectors. Where the country team is not committed to the environment, environmental staff interviews indicate that it is very difficult to secure needed funding. They then resort to activities supported by the GEF and Trust Funds, which provide a growing share of funds for environmental work in the Bank. Current budget cuts are expected to make this situation even worse. China's graduation from IDA and South Asia's decision to reduce its stand-alone environmental projects and mainstream the environment into other projects may further reduce direct IDA lending for the environment.

64. Most projects in IDA countries are directly or indirectly related to poverty reduction, and this often overlaps with environmental concerns—increasing productive capacity and preserving natural assets for the poor to sustain their livelihoods. However, an OED study (1999) found that only 40 Bank investment projects completed between 1990 and mid-1999 addressed the poverty-environment link explicitly, only 13 of them in detail.⁵³ In some cases, difficult choices must be made between critical environmental objectives and short-term income generation. An example is the choice between protecting mangrove swamps vs. increasing aquaculture. IDA interventions try to balance these objectives.

52. This data is from the Mainstreaming study (International Development Association, 2001) conducted by IDA at the request of IDA 12 Deputies and circulated in draft in February, 2001. This is the Bank's first exercise to systematically monitor environmental components and look at how to address mainstreaming. As the methodology is refined and extended, ESSD believes the results will improve.

53. Simone Lawaetz, *Building on Synergies between Poverty Reduction and Environmental Sustainability? A Synthesis of Bank Performance* (World Bank, Operations Evaluation Department, Washington, D.C., 1999).

Table 5. Environmental Projects by Sector, 1993–99

| FY | Green | | Brown | | Institutions | |
|------|--------|------------|--------|------------|--------------|------------|
| | Number | Ave. (mil) | Number | Ave. (mil) | Number | Ave. (mil) |
| 1993 | 3 | 35.2 | 1 | 115.0 | 3 | 24.3 |
| 1994 | 6 | 81.4 | 1 | 26.2 | 2 | 8.7 |
| 1995 | 2 | 41.5 | 4 | 26.4 | 2 | 9.4 |
| 1996 | 2 | 84.4 | 5 | 27.8 | 1 | 11.8 |
| 1997 | 10 | 19.2 | 1 | 21.4 | 3 | 25.7 |
| 1998 | 6 | 45.1 | 4 | 15.1 | 1 | 21.5 |
| 1999 | 2 | 8.4 | 0 | 0.0 | 0 | |
| Avg. | 4.4 | 43.4 | 2.3 | 35.2 | 1.7 | 16.9 |

Source: ESSD Core database - based on the Broad ENV Portfolio

65. Fifteen of the 28 Bank environmental capacity building projects between 1990 and 1997 were in IDA countries. The Environmentally and Socially Sustainable Development Network reviewed this set of projects in 1999.⁵⁴ IDA resources funded \$305 million of \$732 million in total project costs.⁵⁵ The projects have often been complex, with as many as 30 components—including data management, education and research, financing mechanisms, information systems, institutional performance, monitoring, policies, and instruments, and public awareness campaigns—and have tried to address national environmental action plan objectives. The projects have usually been agreed with (weak) environmental agencies and rarely have been able to address broader cross-sectoral issues.

66. The review noted improvement in this part of IDA’s environmental lending portfolio. Institutional development and development ratings are now slightly better than overall Bank averages. But despite satisfactory ratings, the review reported frustration with the process, resulting from the view that such projects are typically treated as one-shot actions while environmental institution building is a long-term affair that requires continuous capacity building across the government. Time may be a more important factor than money, but current incentives discourage staff-intensive projects that require flexibility and adjustment over a relatively long time frame in favor of large projects that can be processed quickly and require little supervision. The report recommends better incentives and processes to enhance country ownership and implementation of these projects, which are considered vital to embedding environmental concerns in the strategies and programs of IDA countries. Such long-term and flexible approaches also require much stronger monitoring and evaluation as intended in the introduction of the Adaptable Program Loan investment.

67. *Mainstreaming Beyond Direct Lending.* Various Bank reports and statements support the goal of viewing the environment as a critical theme that should be integrated into activities in all sectors affecting the environment—energy, transport, water, and rural development in particular, but also in other areas where relevant. This goal is the reason the deputies encouraged mainstreaming. But it is difficult to know what has been accomplished.

68. Mainstreaming beyond direct lending and explicit environment components is hard to measure. Data have not been systematically collected and monitored, and there have not been clear guidelines. Several project design criteria are cited: distributing more environmental staff and

54. Sergio Margolis and Tonje Vetleseter, *Environmental Capacity Building: A Review of the World Bank’s Portfolio* (Environmentally and Socially Sustainable Development Network, World Bank, Washington, D.C., 1999).

55. These figures are dominated by two projects of \$155 million each in Madagascar with very substantial funding from 11 other donors. IDA shares were \$26 and \$30 million.

responsibility to the regions (largely accomplished); ensuring that potential negative environmental impacts are appropriately addressed in all projects (the environmental assessment process has made substantial progress here); and integrating environmental approaches into projects in other sectors so that their design and outcomes are more environmentally sustainable (this is closest to the intent of the deputies, since other recommendations address staffing and environmental assessment issues covered elsewhere).

69. Beyond these criteria, mainstreaming implies thoroughly integrating environmental issues into the policy dialogue and adequately monitoring the results. Properly done, mainstreaming would be seamless and hard to observe by means of the data typically collected. Mainstreamed projects should be designed to have the maximum positive net environmental impacts consistent with their primary objectives. Appropriate environmental staff should be integral to the design team, and economic, environmental, and social interests should be balanced. It is likely there would not even be an explicit environmental component to observe and measure. Such mainstreaming can only be observed by people closely involved in project preparation and country dialogue.

70. Only a detailed project-by-project review could assess whether projects address environmental factors in a sustainable way, and this report was not resourced to carry out such a review. Interviews made it clear that some projects have done an excellent job of mainstreaming environmental issues. Staff in the Mumbai Water project, for example, identified better ways to design the sewage catchment system, avoided overloading local streams, and laid the basis for future expansions of the catchment area.

71. But interviews also suggested that many projects failed to include environmental features that could easily have been added. For example, two similar power rehabilitation projects were undertaken in neighboring countries in the Europe and Central Asia Region. One managed the environmental aspects well, and the other ignored many of the environmental refinements of the first—the task managers had different priorities. Some regional environmental units are only beginning to contact counterparts in other sectors to lay the basis for incorporating environmental factors into projects. Not entirely blameless, environmental units have sometimes demanded unreasonable changes in project design or made demands too late in the preparation process.

72. The deputies asked for a report on mainstreaming by December 2000. The paper was completed in February 2001, and some of its findings have been included in this evaluation.⁵⁶ It confirms that IDA has accepted the importance of mainstreaming, but implementation has only been measured for direct and component environmental lending. IDA management has not set out clear objectives or guidelines for mainstreaming environment beyond direct or component lending with commensurate indicators, monitoring, and funding. Unlike poverty reduction, mainstreaming is not seen as a corporate responsibility, but as a sector responsibility of the environmental units.

73. *Adjustment Lending.* IDA countries have received substantial adjustment lending over the period under review. The Bank's OD 8.60 of 1992 recommends that staff in adjustment operations review the borrower's environmental policies and practices, take these into account in designing the adjustment loan, and identify the linkages between the adjustment program and the environment. The OD suggests reforming country policies on the environment and natural resources in separate actions, rather than delaying the adjustment program in cases where there are negative impacts on the environment. But the primary instrument for such policy reform is adjustment operations. Environmental structural adjustment loans are rare, and there is little policy guidance on how to minimize impacts of adjustment lending on the environment, or on how to design policies for SALs

56. International Development Association (2001).

that are also environmentally favorable.⁵⁷ Until recently all adjustment lending was exempt from the environmental assessment process.⁵⁸ In March 1999, sector adjustment loans and credits were made subject to environmental assessment on the grounds that specific actions required may have the characteristics of an investment operation that is subject to the environmental assessment process.

74. Environmentalists have criticized the Bank for paying insufficient attention to the environmental impacts of its adjustment lending.⁵⁹ The Bank has done relatively little analysis in this area. The Environment Department published a study of the treatment of the environment in adjustment operations in 1994, partly in response to external concerns.⁶⁰ It analyzed 71% of the adjustment operations in the period FY88-92. The remaining operations were primarily in the financial sector and judged not to have environmental impacts. Of the operations studied, they found 60% addressed environmental considerations, including applying environmentally related conditionality. This amounts to 42% of all operations in that period. No studies have been published since. The recent Bank *Adjustment Lending Retrospective* reports that in the 1990s about 23% of all adjustment operations addressed environmental issues in some manner.⁶¹ While the methodologies may be different, the trend is worrisome. Further careful research is called for. Both studies covered both IBRD and IDA, but there is unlikely to be large differences in results between the two sets of operations.

Table 6. Environmental Content of Adjustment Loans, 1998–99

| <i>Number of operations</i> | <i>Mention of environment as concern or factor</i> | <i>Mention of environment as possible risk or benefit</i> | <i>Environmental conditionalities</i> | <i>Mitigating measures</i> |
|-----------------------------|--|---|---------------------------------------|----------------------------|
| IDA 26 | 7 | 3 | 3 | 6 |
| IBRD 28 | 4 | 1 | 1 | 1 |
| Total 54 | 11 | 4 | 4 | 7 |

Source: Environmentally and Socially Sustainable Development Network, "Social and Environmental Aspects: A Desk Review of SECALS and SALS Approved during fiscal 1998 and fiscal 1999" (World Bank, Washington, D.C., 1999). See also, World Bank, "Reinvesting Adjustment Lending: Retrospective and Strategy, MDOPS, World Bank (2000).

75. Current processes do not ensure that project documentation contains adequate information about potential environmental impacts relevant to adjustment operations. Nor do they monitor whether environmental concerns have been adequately addressed. There is no regular updating of relevant environmental background information or analysis, and reference to NEAPs is rare. IDA's adjustment operations should consider the direct effects of policy reforms—perhaps more immediate

57. Several good studies on the environmental impacts of adjustment lending inside and outside the Bank suggest analytic tools and matrixes for incorporating environmental impacts into structural adjustment lending and appropriate policy reactions. There has been no effort by management to mainstream these results.

58. The purpose of adjustment loans is to help the borrower undertake policy change by providing financial (balance of payments) support, not support for any specific investment. Adverse effects are usually more difficult to attribute than they are in investment projects. So, while the Bank recognizes that a change in economic policies ultimately may have impacts on investments and other economic behavior, which themselves have impacts on third parties or the environment, it has taken the position that the safeguard policies do not apply because the possible chain of causation is indirect.

59. See Reed, D. 1992. *Structural Adjustment and the Environment*. Westview Press.; and Reed, D. 1996. *Structural Adjustment, the Environment and Sustainable Development*, World Wide Fund for Nature, Earthscan Publications.

60. *The Evolution of Environment Concerns in Adjustment Lending: A Review*, by Jeremy Warford, Adelaida Schwab, Wilfrido Cruz, and Stein Hansen, Environment Working Paper No. 65 (Washington, D.C.: World Bank, 1994).

61. World Bank, *Adjustment Lending Retrospective*, Draft Final Report, SecM2001-0215 (Washington, D.C.: World Bank, 2001).

in IDA countries—on the environment. The adequate treatment of environmental issues is expected to be taken up in the planned update and conversion of OD8.60 Adjustment Lending Policy into OP/BP format. The Bank is also reviewing its safeguard policies and their application to adjustment lending and to other programmatic lending instruments being developed.

76. *Project Implementation:* The Bank regularly evaluates its projects to gauge the impact of its assistance at the project level, the country level, and—less frequently—at the sector or policy instrument level. This approach, based on assessments of closed projects, is difficult to apply here. No environmental project in any of the 15 focus countries initiated during IDA10 or after had been closed and evaluated at the time of this review (mid 2000). Moreover, environmental sustainability is a long-term endeavor, and seven years of IDA assistance may be too short a period to render solid answers.

77. This review considered the ratings of all environment-related projects completed and evaluated by OED during 1995–2000. Although these projects were designed and appraised before IDA10, they would have been influenced to some degree by the recommendations for IDA 10, which generally supported existing environmental practices and policies that were in place at the time these projects were prepared and approved. The at-risk rating, implementation progress, and institutional development of all active, environment-related projects were also reviewed for the focus countries as of June 2000. Since they are still active, their final development effectiveness is an open issue.

78. In the 15 focus countries, only 10 environmental projects—4 in China and none in the 9 other countries—had closed by mid-2000. There are other closed projects with environmental components, but the number is still small at the country level (see Annex III). With these caveats the data suggest:

- Of the African focus countries, Côte d'Ivoire, Ghana, and Tanzania had overall development effectiveness of environmental and environment-related projects similar to or a little above the country average (the development effectiveness indexes of these countries are higher than the regional average). Uganda's ratings are poor for both environment and environment-related projects, and Mozambique's development effectiveness is poor for environment-related projects.⁶² In most of the countries, project sustainability⁶³ and institutional development score below project output impacts, suggesting that the projects may have desirable short-term impacts but uncertain long-term development effectiveness.
- Of the focus countries in East Asia, China is an across-the-board high performer, with development effectiveness ratings for the freestanding environmental projects well above country, IDA wide, or Bank wide averages. But sustainability and institutional development lag behind the impact of project output even in China. There are no relevant projects for Cambodia and Vietnam.
- Based on project status reports (PSRs), the development effectiveness of environment-related projects is above country and regional averages for Bangladesh and below country and regional averages for India and Nepal.
- Among the rest of the focus countries, Azerbaijan has no relevant projects; development effectiveness scores for environmental projects in Bolivia are above country and IDA wide averages; and the Kyrgyz Republic has only one environment project, which has had top reviews. Yemen scores well in the development effectiveness of its environment-related projects.

62. Many countries may have only one project.

63. The likelihood that the project will be sustained over time, financially and institutionally, not including environmental sustainability at country or project level.

79. Active projects in the focus countries are rated with a somewhat different rating system. The ratings look at development objectives, progress, and whether the project is at risk.⁶⁴ Again, this is a small portfolio, with few projects per country. This review suggests that:

- Among African focus countries, development effectiveness prospects are high for Ghana and Tanzania. Performance in Côte d'Ivoire, which had good development effectiveness among closed projects, has fallen, while that in Uganda has moved from poor in closed projects to high in active projects. The Mozambique portfolio has average performance.
- All three focus countries in East Asia show outstanding performance in their current environment and environment-related portfolios
- In South Asia, performance of the active portfolio of environment and environment-related projects is about average for Bangladesh and far below country and regional averages for India and Nepal.
- Azerbaijan, Bolivia, and Yemen have top-performing environment and environment-related portfolios, while the Kyrgyz Republic's ratings are below average

80. Overall, the environmental portfolio seems to perform about as well as the portfolio in general, with considerable variation by country. But the sample is small, and it is too soon to judge the sustainability of the portfolio or its impact on IDA member countries' approach to environmental issues. Projects with environmental components fare about as well as the environment portfolio.

81. *Rating.* The stagnation of environmental lending since early IDA11 is not encouraging.⁶⁵ IDA's lack of any measure of mainstreaming makes it difficult to conclude that it has successfully met the objectives of increasing environmental lending and mainstreaming. Internal incentives are not in place, and these would be difficult to implement without credible metrics. Despite a number of satisfactory lending operations and substantial mainstreaming efforts in some parts of the Bank, *compliance so far is only partially satisfactory.*

82. *Overall, the relevance of the IDA lending program is substantial, although its small size makes its impact only modest.* Innovative forestry projects in India and industrial pollution projects in China have served as pilots and demonstration projects. Institutional development projects have addressed the central issue of building domestic capacity, but their one-off, complex design has not been judged as relevant to meeting the objectives as a longer-term, more culturally appropriate approach. Project results vary by country, and the extent of environmental lending in most countries is too small to register substantial effects. Well over half the staff who responded to the survey felt that environmental projects and components were IDA's most effective pro-environment interventions, followed by environmental assessments and dialogue with environmental ministries.⁶⁶

Application of Safeguard Policies (Environmental Assessments)

83. The Bank was relatively late among official international lenders in establishing its environmental assessment procedures, but its policies and procedures were patterned on accepted models and considered good practice.⁶⁷ IDA replenishment reports have emphasized stronger

64. The Bank presents several other ratings, but they are based on samples and therefore unavailable for the projects and countries of this review.

65. Management disagrees. The overall evidence on lending does not suggest a diminution of effort. See footnote 2.

66. NEAPs, CASs, and dialogue with other ministries were found particularly ineffective.

67. For example, both the Asian Development Bank and USAID instituted EAs before the Bank. For the history of environment issues in the Bank, see Robert Wade, *Greening the Bank: The Struggle Over the Environment, 1970–1995* in

environmental assessment (EA) and better reporting. This concern has been heightened by a few highly visible cases of inadequate Bank attention to its environmental assessment policies (Narmada, Arun II). Among other things, the concerns of the donors and protests from NGOs led to the creation of the Inspection Panel in 1993 (see Box 8).

84. *Environmental assessments.* After the 1996 reorganization, the regions were delegated full responsibility for environmental assessment, funded out of regular task budgets. Technically, the EA is to be undertaken by the borrower and is often paid for through Trust Funds, by other organizations, or by the project entity. However, IDA has responsibility for establishing the EA category required, reviewing terms of reference, and reviewing and approving the final product -- or suggesting and reviewing modifications. This can represent a substantial cost to the task budget, especially in complex projects where IDA's involvement can be substantial. Regional budgets were presumably increased for this, but environmental assessment funds were not separately identified or earmarked in the regions.

85. In response to continuing concerns about the implementation of environmental assessment policies, the Bank formalized ten "do no harm" policies in 1998. Eight cover environmental and social safeguards. Due to concerns about the implementation of the EA process, a special budget allocation of several million dollars was made for fiscal 2001 to support the work required by these policies, and a central unit was created to monitor their application. That is a strong commitment to safeguards during a period of declining budgets, although some estimate that financing is still insufficient to do all that the policies require. Unfortunately, the focus on "doing no harm" diverts the attention of management and staff away from promoting environmental goods to reactively mitigating harms.⁶⁸ Another unintended result is to shift more responsibility for the environmental assessment process from the country, where it belongs, to the Bank.

Devesh Kapur, John P. Lewis, and Richard Webb, eds., *The World Bank: Its First Half Century*. Vol. 2 (Brookings Institution, Washington, D.C., 1997).

68. This is in part driven by the controversies that arise when safeguard policies are misapplied. The Western China project (the last IDA project in China) shows the huge amount of staff and management time diverted from more productive purposes to respond to criticism and the importance of getting projects right in the first place.

Box 8. Complaints to the Inspection Panel about Environmental Assessment and Mainstreaming in IDA Projects

From its inception in 1993 through mid-1999, the Bank's Inspection Panel received 16 complaints. Half of them concerned IDA-financed operations—the Arun II Hydroelectric Power project in Nepal, compensation for expropriated assets in Ethiopia, the Emergency Power project in Tanzania, the Jamuna Bridge project in Bangladesh, the Ecodevelopment project in India, the Lagos Drainage and Sanitation project in Nigeria, and the Western Poverty Reduction project in China.

The China project was still in its initial stage at the time of the complaint in late 1999. The panel considered the Ethiopia case outside its mandate, found no IDA failure in the Tanzania project, and—while acknowledging some justification for complaint—found inadequate grounds for investigation in the Bangladesh and Nigeria projects. The remaining three cases are relevant to this review:

- The best-known case is the Arun II Hydropower project, for which the first complaint was filed with the Inspection Panel. The project aimed to meet medium-term power demand in Nepal and enable export of power to India. It was designed and appraised over six years by the World Bank, the Asian Development Bank, and Japanese and German agencies. By 1993 the project had support from 10 international donors and was a central piece of that year's Nepal CAS. But opposition from local and international NGOs mounted. A Nepalese NGO claimed that the project did not comply with IDA policies on disclosure of information, environmental assessment, indigenous people, and involuntary resettlement. Against management views the Inspection Panel found that there were grounds for a full investigation, and after several rounds of consultation, the Board approved the investigation. During this process the Bank's president decided on the basis of an independent review not to proceed with the project.
- Complaints about Bangladesh's Jamuna Bridge project concerned IDA's failure to comply with its policies on environmental assessment, participation of NGOs, and resettlement. Management put in place a program to address these issues, but only after the complaint was registered. As a result the Inspection Panel considered that a full investigation was not needed.
- Complaints that India's Ecodevelopment project had violated IDA policies on forestry, indigenous people, and involuntary resettlement are particularly striking because these issues were among the project's main objectives. The Inspection Panel's initial review acknowledged grounds for concern and for a full investigation, but the Board decided that management reactions to the initial inquiry were appropriate and that no further investigation was required.

Source: Ibrahim Shihata, *The World Bank Inspection Panel in Practice* (Oxford University Press for the World Bank, New York, 1999).

86. The environmental assessment process was well established before the period under review, with IDA projects classified as A (full environmental assessment required) or B (selective environmental analysis required in place of full environmental assessment), depending on type, location, sensitivity, and scale of the proposed project and the nature and magnitude of expected impacts. The share of projects in the A category almost doubled after 1994 to around 8 percent (Table 7). The share of projects in the B category fluctuated between 30 and nearly 50 percent, with no trend apparent. Internal studies indicate that a small percentage of projects have been misclassified because task managers have time and budget incentives to prefer a B rating. The new safeguards unit is compiling data on this issue. The remaining projects are classified as C (no assessment).

Table 7. Classification of IDA Projects by Environmental Assessment Requirements, 1992-2000

| FY | A Projects | | B Projects | | Total projects |
|------|------------|------------|------------|------------|----------------|
| | Number | % of total | Number | % of total | |
| 1992 | 4 | 3.3% | 37 | 30.8% | 120 |
| 1993 | 4 | 3.4% | 51 | 43.6% | 117 |
| 1994 | 4 | 3.7% | 51 | 47.2% | 108 |
| 1995 | 10 | 8.5% | 35 | 29.9% | 117 |
| 1996 | 11 | 8.0% | 49 | 35.5% | 138 |
| 1997 | 6 | 5.7% | 36 | 34.0% | 106 |
| 1998 | 10 | 6.9% | 48 | 33.3% | 144 |
| 1999 | 7 | 4.4% | 59 | 37.1% | 159 |
| 2000 | 12 | 8.6% | 61 | 43.6% | 140 |

Source: Bank Data

87. Environmental assessments were reviewed internally by the Environment Department in 1992 and 1997 and evaluated by OED in 1996. The OED review found the environmental assessment procedures embodied in OD (operational directive) 4.00 and OD 4.01 to be comprehensive and generally complied with.⁶⁹ It found that assessment procedures since 1995 have drawn greater attention to environmental issues in Bank projects, which has been confirmed by surveys and interviews. But the process is not living up to its full potential to influence project design because the assessments are often completed too late in the project cycle. Environmental assessment recommendations and mitigation plans have not been integrated adequately on the ground, and related Bank supervision has been weak. OED recommended following guidelines more closely and improving the analysis; better integrating the environmental assessment into the project cycle at an earlier stage, moving to sectoral environmental assessments; applying environmental assessment plans more carefully in project implementation and supervision; and including environmental priorities more effectively in advisory services and CASs.

88. The Bank's second environmental assessment review in 1997 reached similar conclusions.⁷⁰ It noted the values and strengths of the process but also the need to improve much of the analysis and to move environmental assessments further upstream. Finding progress on action plans and supervision to be weak in both A and B projects, the review proposed an action plan to strengthen the environmental assessment process and build more capacity in country.

89. A third environmental assessment review planned for fiscal 1996–98 was delayed and is now under preparation. This review aims to set out an action plan for implementing recommendations outstanding from the second review and to help set the agenda for the new safeguards unit, rather than to analyze performance over the past few years.

90. Other analyses indicate that despite continued progress in some areas—for example, the production of the sourcebook on assessments and workshops—many of the issues OED identified in 1996 remain unresolved. In 1999, the South Asia Region published a thorough review of the effectiveness of the environmental assessment process in India for projects approved in fiscal 1990–97. The review found that the quality of environmental assessment reports was satisfactory and

69. The conversion of the operational directives (ODs) to operational policies (OPs) in 1999 strengthened the policies, partly as a result of extensive consultations with concerned groups.

70. Olav Kjørven, *The Impact of Environmental Assessment: A Review of World Bank Experience*. World Bank Technical paper 363 (World Bank, Washington, D.C., 1997).

improving but that there were weaknesses in “identification of issues and scoping, analysis of alternatives, prediction and assessments of impacts, and public involvement and consultation. Finally, compliance with environmental assessments during project implementation was found to be weak.”⁷¹ Environmental specialists were found to have participated in less than 50 percent of the supervision of A projects and less than 20 percent of the supervision of B projects.⁷²

91. There remains a striking lack of agreement on how to apply the EA policies. While no studies have been undertaken across all projects, the experience in projects that have become high profile and contentious, such as Narmada and Arun II, the Western China project, raise concerns that serious environmental and social issues may be inadequately treated in some cases. The internal flaws that allowed the Western China project to become an issue for the Inspection Panel suggested that the Bank had not fully learned its lessons from the earlier experiences.

92. The IDA environmental assessment process has been reviewed from a number of aspects and found generally sound. The shortfalls are not so much in the IDA policies themselves, but in the application and implementation of safeguards—insufficient analysis of alternatives, lack of timely disclosure, and inadequate supervision. The lack of a clear definition of satisfactory compliance and the lack of consistency across regions and sectors are impediments to high-quality environmental assessments.

93. Interviews for this review indicated that because of the perceived onerousness of the environmental assessment process, IDA managers tend to be risk averse and to shy away from projects—particularly A projects—that will require these assessments. The costs associated with Inspection Panel investigators reinforce this tendency. To the extent that such projects are avoided, the environmental assessment process for IDA projects becomes less effective because it is applied to fewer critical projects. However, this would not show up in the evaluation of EAs actually completed.

94. The Bank is addressing some of the structural problems that appear to have caused problems in recent years by creating and earmarking resources for a unit responsible for quality assurance of safeguard policies. Several in-depth studies are under way that should increase understanding of this issue and lead to changes in approach. The current initiative to develop clear criteria and standards based on an analysis of best practice environmental assessments throughout the Bank will be a major contribution to improving the environmental assessment process. A new unit was established in April 2000 to improve the procedures and oversee the application of the safeguard policies. Substantial additional budget resources have been allocated to get this process right – a major commitment at a time of budget reductions in general. As IDA shifts toward more programmatic lending, the environmental assessment approach will need to be revised along more sectoral lines. The Environmentally and Socially Sustainable Development Network is reviewing options for this. The on-going review should identify ways to build greater country capacity. A good practice example is described in Box 9.

71. *India, Review of the Effectiveness of Environmental Assessments in World Bank Assisted Projects* (South Asia Region, World Bank, Washington, D.C., 1999), p.1.

72. In all of these studies IDA and IBRD projects are treated together, although the deputies in IDA11 asked that reports break out IDA experience on environmental assessments. Where detailed information is available, there seems to be little systematic difference in results between IDA and IBRD, so these conclusions hold for IDA.

Box 9. Eritrean Environmental Policy: Doing the Right Things Right

Eritrea gained autonomy in 1991 and independence in 1993 after a 30 year war of Liberation. It is a very poor country (\$200 per capita) with limited resources. The new government recognized that environmental sustainability was essential for achieving their development goals and prepared a National Environmental Management Plan, which was directed by an Eritrean (former UNEP official) and independently funded. When IDA learned that the project was well underway, it provided additional funds (\$30K) to enable Government to conduct participatory meetings throughout the country (3000 attended). The NEMP was published in 1995. IDA supported the implementation of the NEMP with a \$500K IDF grant to prepare EA guidelines, legislation, and training. The guidelines required EAs for all projects in the country – public, private, and donor financed. Although the 1998-00 border conflict delayed formal enactment of the legislation, it is generally applied. In 2000, IDA undertook a pilot whereby Eritrean environmental guidelines would be applied to IDA projects in lieu of Bank guidelines (though still subject to review for Safeguards compliance). Three projects have been processed in this manner successfully (Category Bs and Cs). The pilot has been successful in terms of the environmental work, but more important in terms of building local capacity, institutions and respect for the national guidelines. Poverty has clearly been treated as a critical reason for protecting the environment, rather than as an excuse for neglecting it.

95. *Sector and regional environmental assessments.* The IDA deputies and the Bank have encouraged more sectoral and regional environmental assessments to help identify and design environmentally sound projects at an early stage. Some have been done in conjunction with sector investment loans and covering the expected range of projects in the sector loan. IDA has not done such assessments systematically in anticipation of lending in a sector or region. Informal internal reviews have judged the sector environmental assessments satisfactory, and more rigorous analysis is planned.

96. Since EAs are a borrower responsibility, the recommendation to do more regional and sectoral assessments ahead of identifying a specific project would pose an added burden on the IDA countries.⁷³ In fact, such a prospective sector or regional approach is really more like sector work or country environmental strategies, which should be IDA activities. Some regional and country strategies have been prepared and have served this prospective function. Unfortunately, environmental economic and sector work has declined along with economic and sector work in general, and fewer resources are available for these activities. The recently proposed strategic environmental assessments for economic and sector work recognize this fact and should be supported. And IDA should develop clear guidelines for preparing environmental strategies in member countries.

97. *Conflicting staff roles.* The environmental assessment is considered an essential part of the Bank's environmental safeguard procedures, but poses a difficult structural problem. Environmental staff in the regions have to perform a dual role. On the one hand, they are responsible for enforcing environmental assessment policies—determining project classification, defining the scope of needed environmental assessments, reviewing those assessments, and helping redesign projects to reflect their findings. This policing role is often viewed as a burden by task managers. On the other hand, environmental staff are responsible for promoting environmental projects and components and for improving the environmental design of other projects. Staff are very sensitive to this potential conflict of interest. A survey respondent commented, "Environmental staff should act as colleagues rather than adversaries; they should consider themselves integral members of the team, accountable for projects' successes and failures. Their 'watchdog' function prevents this." Tension is most serious in the classification process.

73. Borrowers generally have neither the resources nor the capacity nor the motivation to undertake such studies without external support.

98. In addition to the appropriateness of the recommendations of the environmental assessments for IDA projects, this review looked at their implementation in the field; countries' adoption of the environmental assessment process for their own projects; and the impact of those mitigation actions on improving the environment are important areas to assess, albeit with limited data.

99. *Carrying out the recommendations of IDA environmental assessments.* However good the recommendations contained in environmental assessments, they are only effective if they are carried out. There is some information on how environmental assessment recommendations are followed during project implementation. The third Quality Assurance Group review of supervision found supervision of environmental aspects to be satisfactory in 88 percent of projects, but in only 78 percent of category A projects.⁷⁴ While the Quality Assurance Group study does not separate IDA projects from other projects, detailed analysis of IDA projects as a whole indicates a similar supervision record. Environmental projects have slightly better overall supervision ratings and score slightly better on the Focus on Development Impact and Supervision of Fiduciary Impacts indicators. They score somewhat worse on Adequacy of Supervision Inputs and Realism of Project Performance Ratings. None of these differences is significant.

100. The post-completion stage is, perhaps more important for long-term effectiveness and sustainability, and it is beyond IDA's purview.⁷⁵ Once the IDA credit is disbursed, the project begins to function and, a completion report is filed, IDA has no formal mechanism for monitoring the subsequent operation of projects or their effectiveness in meeting environmental or other goals. This is a serious omission because many projects under implementation are rated low on sustainability.

101. *Clients' adoption of environmental assessment processes.* While environmental assessments are important for ensuring the soundness of IDA projects, they represent only a small share of a country's public investment program and an even smaller share of total investments in a country. Their direct impact is likely to be small. It is more important for long-term environmental concerns that member countries adopt and implement their own environmental assessment programs. Helping countries do this has been one of the more valuable outcomes of IDA's follow up with the NEAPs, particularly for the private sector activities that are assuming a larger role in the development strategies of IDA countries.⁷⁶ All fifteen focus countries have environmental assessment legislation and some environmental assessment processes. The standards may be lower than those applied by IDA, and enforcement may be spotty, but this is the first step. IDA and other donors are supporting these activities and providing assistance to strengthen them over time. In the other IDA countries, the picture is not as bright. Only 22 of 50 IDA countries in Africa have environmental assessment processes.

102. *Positive impacts of environmental assessment actions on the environment.* At a project level—for example, in the Mumbai project in India—environmental assessments have led to significant improvements in project design, lowered emissions and/or pollution, reduced environmental degradation, and encouraged more sustainable activities within the scope of the projects. However, it is impossible to judge whether environmental assessments have been effective on a larger scale. There is change, albeit slow. By most accounts, environmental degradation—air and water pollution, deforestation, soil erosion—continues in IDA countries. Nevertheless, there is much greater awareness

74. Quality Assurance Group, *Supervision of Quality in fiscal 1999: A QAG Assessment* (World Bank, Washington, D.C., 1999), p. 5.

75. Projects may set up mechanisms for carrying out environmental assessment activities into project operation, and follow-on projects may include a mechanism to monitor this performance.

76. Although government agencies and state enterprises can often avoid application of environmental regulations, it is important that such regulations be applied to private sector investments. Stronger application to the private sector is a potential benefit from privatization of state enterprises.

and concern about these issues than there was a decade ago and more realization that something can be done to design less damaging development projects and projects with positive impacts on the environment. The environmental assessment and safeguard process has contributed to this increased awareness and action. In China, Uganda, and Vietnam, IDA's and the countries' own environmental assessment processes have joined many other factors in contributing to environmental mitigation and larger-scale efforts to reduce degradation. These efforts must continue—it will be a long time before we know whether they are broad enough or fast enough to improve environmental conditions.

103. *Rating.* The basic structure of the environmental assessment process is satisfactory, and constant improvement was recorded in the 1996 OED review. However, delegation of responsibility for environmental assessments to the regions, combined with inherent conflicts in the budgeting and policing of safeguards by regional staff, may have led to some deterioration of the system. The August 2000 creation of the new central unit for safeguards, the special budget allocation, and the results of the Inspection Panel report on the Western China project indicate that this is the case. Little progress has been made in increasing sector and regional environmental assessments. *Overall, compliance on the safeguard policies has been partially satisfactory.*

104. The environmental assessment process is important for the objective of environmental sustainability, though primarily as a means of preventing further degradation. *The relevance of IDA's performance has been less than substantial.* The deficiencies are in timing, consistency of implementation, and procedures for follow up after project completion, rather than in the policy and process themselves. Effectiveness is constrained by the limitation to individual IDA projects. Efforts to move upstream to more strategic environmental assessments have not been extensive and will face difficulties without funding from new sources.

105. The *efficacy* of the environmental assessment process has been reviewed in several studies and is also substantial on a project basis but modest on a country basis because of the limitation of coverage to IDA projects and slow adoption by member countries. The assessments have been strong in identifying adverse environmental impacts of specific projects and proposing action programs. They have been weak in examining alternatives, moving the process upstream, and implementing action plans during supervision. The results of transferring ownership of the environmental assessment process to member countries have also been modest. Some countries have established their own environmental assessment regulations, but implementation is still weak in most cases. Ongoing efforts to design better guidelines and standards should help address these concerns.

Attention to Global Environmental Issues

106. The deputies increased their emphasis on global issues as these have become more prominent in the global environmental dialogue. They have focused both on promoting the use of the GEF, which was designed to help countries undertake projects that contribute to improving global environmental issues such as biodiversity, climate change, and water; and on raising awareness in IDA countries of the importance of these issues. Progress has been made on both fronts.

107. But contributing to global environmental improvement has been a delicate issue for many IDA members, even while they admit its importance. Most feel they are being asked to bear the burden of fixing global environmental threats they did not create. They argue that the industrial countries, which bear most of the responsibility for past degradation and which will benefit most from environmental improvement, should contribute more to their efforts.⁷⁷ As a result, IDA has addressed global issues in

77. Most IDA countries are minor contributors to carbon dioxide emissions and believe they should receive more assistance to protect against the potentially negative effects, which are likely to be significant. They view global warming as an

dialogue with IDA countries primarily by focusing on the local benefits of, for example, preserving biodiversity or producing power more efficiently. Asked whether treatment of global issues should be linked to local impacts and benefits, 74 percent of staff surveyed agreed, while 44 percent agreed that global issues should be presented on their own merits.

108. Interviews indicated that relevant environmental officials in most countries—but not most others in government and business—are well informed on these issues. One complaint was that the few qualified environmental officials spend so much time at international conferences that they do not have enough time at home to disseminate the information and manage programs. In some countries, elements of civil society are well informed about environmental issues, but this is rarely true of the general population.

109. The GEF program is growing (see Table 8), with a significant increase in activity in IDA countries and in regional and global projects after the new replenishment in 1996.⁷⁸ This increase is a result of the efforts of the GEF and its sponsors, IDA management support, and improvements in processing procedures, though survey respondents complained that they are still cumbersome. Interviews indicated that in many countries, the GEF is virtually the only way to get the country and the country department to undertake environmental projects.⁷⁹ Countries are willing to use grant money for environmental projects but are very reluctant to borrow money, even on IDA terms, for these activities. Many country departments that are unwilling to allocate Bank funds to prepare environmental projects will accept GEF projects that bring their own funding for preparation. The increase in GEF projects may partly offset the decline in direct IDA lending. 56 percent of staff surveyed agreed that the GEF is a useful tool for promoting global issues; only 25 percent agreed it should be used as a substitute for IDA lending, and 45 percent disagreed.

Table 8. Global Environment Facility projects in IDA and IDA–GEF blend countries (millions of dollars)

| FY | Number | | | Amount | | | Ave. Proj. Size | | | IDA Cofinancing | | |
|--------------------|--------|-------|---------|--------|--------|---------|-----------------|-------|---------|-----------------|-------|---------|
| | IDA | Blend | Glo/Reg | IDA | Blend | Glo/Reg | IDA | Blend | Glo/Reg | IDA | Blend | Glo/Reg |
| 1992 | 1.0 | 1.0 | 0.0 | 16.5 | 122.7 | 0.0 | 16.5 | 122.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| 1993 | 3.0 | 2.0 | 0.0 | 81.3 | 93.1 | 0.0 | 27.1 | 46.6 | 0.0 | 10.0 | 15.4 | 0.0 |
| 1994 | 1.0 | 1.0 | 1.0 | 8.3 | 101.4 | 5.5 | 8.3 | 101.4 | 5.5 | 0.0 | 0.0 | 4.7 |
| 1995 | 4.0 | 1.0 | 1.0 | 199.9 | 150.8 | 50.5 | 50.0 | 150.8 | 50.5 | 30.0 | 0.0 | 0.0 |
| 1996 | 0.0 | 0.0 | 1.0 | 0.0 | 0.0 | 12.9 | 0.0 | 0.0 | 12.9 | 0.0 | 0.0 | 0.0 |
| 1997 | 6.0 | 2.0 | 2.0 | 63.9 | 466.9 | 84.3 | 10.6 | 233.4 | 42.1 | 17.6 | 0.0 | 35.0 |
| 1998 | 5.0 | 2.0 | 3.0 | 106.1 | 13.3 | 45.9 | 21.2 | 6.7 | 15.3 | 71.8 | 4.4 | 0.0 |
| 1999 | 6.0 | 2.0 | 3.0 | 194.3 | 253.0 | 31.8 | 32.4 | 126.5 | 10.6 | 27.2 | 73.0 | 0.0 |
| Total | 26.0 | 11.0 | 11.0 | 670.3 | 1201.2 | 230.8 | 25.8 | 109.2 | 21.0 | 156.6 | 92.8 | 39.7 |
| Grand Total | | 48.0 | | | 2102.4 | | | 156.0 | | | 289.1 | |

industrial country responsibility. Among IDA countries only India and China are major contributors to these emissions. China has worked to reduce them, taking advantage of GEF funds. India has yet to reduce its emissions, having done only one GEF project (1999) related to energy and being slower in instituting policy change to reduce emissions.

78. See the GEF annual reports and other documents for a full account of its activities. This report covers only GEF projects implemented by the Bank. The United Nations Development Programme and the United Nations Environmental Program are also implementing agencies for the GEF.

79. In the Lake Victoria project a successful GEF project led to some associated IDA lending after its value was demonstrated.

110. While GEF funding enables environmental staff to advance the environmental agenda in IDA countries, the agency was not designed to play this role. The GEF aims to provide *incremental* funds to help borrowers address global environmental issues, but it has no particular mandate for poverty alleviation. Staff try to take poverty into account in project design, but biodiversity, climate change, or other global priorities come first. Sometimes these priorities conflict with local poverty objectives—for example, protecting an environmentally sensitive area from encroachment by poor people seeking income. Cofinancing GEF projects with IDA funds can help address both problems, but it is not appropriate to substitute GEF funds for IDA funds to meet environmental objectives in a country. IDA should address the local environmental issues that the GEF cannot.

111. The much larger size of GEF projects in blend countries is due to a series of six projects in China during 1992–97 and two in India in 1999 covering energy efficiency, natural resources, and pollution management. Both India projects, but only one China project, include IDA cofinancing. The projects in the other focus countries covered a wide range of objectives representing all the GEF themes, and other GEF implementing agencies sponsor projects in these countries. Most regional projects have concentrated on biodiversity and resource management in areas of shared resources—primarily water, such as the Aral Sea, Lake Ohrid in Albania and Macedonia, and Lake Victoria—while others have concentrated on alternative energy, photovoltaics, and pollution management.

112. The GEF is not primarily IDA focused. Of a total 1992–99 program of \$5.6 billion only \$670 million went to IDA-only countries, with another \$1.2 billion to blend countries, \$2.9 billion to IBRD countries, and \$836 million to global and regional projects. IDA’s cofinancing of GEF projects has grown over the years, which is encouraging.

113. The GEF has implemented several transboundary projects, but IDA was only involved in the follow-on to the Lake Victoria project. Many important environmental issues span sovereign borders and need regional solutions. Bank research has recognized these issues and has tried to work through other agencies to address them. IDA has not ventured into these projects, partly because of the strong country orientation of its organizational structure. This gap was noted by a number of survey respondents and should be addressed.

114. *Rating.* Compliance efforts are satisfactory. IDA has supported introduction of global issues into country dialogues and expanded its use of the GEF. IDA’s overall efforts to deal with global issues have been useful but have been hampered by identification with the developed country agenda. IDA needs to increase its efforts to address these issues in terms of their local manifestations, as the impacts and costs are local. IDA should also pay more attention to helping countries deal with the local impacts of global problems, particularly climate change. (Note that this is not an assessment of the GEF projects themselves.)

115. The GEF has been effective in persuading IDA countries to address global issues by providing grant resources to supplement local efforts and to help fund the global public good aspects of its projects. Other programs such as the Energy Sector Management Assistance Programme have addressed similar goals by providing grants to address global issues, though on a smaller scale. Recent public opinion polls in some IDA countries show that awareness of global issues increased during the 1990s.⁸⁰

116. IDA’s activities have been *relevant*, and given its primary mission of poverty reduction, it has been able to link global and local issues. Its *efficacy has been fairly substantial*. But where GEF and

80. Environics Millennium Poll, *The Public Aspirational Agenda*, presented on World Bank Corporate Day, May 12, 2000.

similar activities have been used as substitutes for IDA's own environment-related activities, the effectiveness has been weakened.

Summary of Findings

117. This review finds that IDA's compliance with the deputies' recommendations, allowing for differing circumstances and the relatively short time frame for implementation, varies considerably across countries. The countries' willingness to address environmental issues and the commitment of country and task managers were major factors in this variation. The review also examined the extent to which management incorporated the replenishment recommendations into IDA's core activities through resource allocation and incentives for compliance. In this regard, it should be noted that IDA was also being asked to expand programs in other areas, which created competition for priorities and resources.

118. IDA's compliance record has been mixed. In some areas, such as research and analysis on environmental issues, performance has been highly satisfactory and has made a real contribution to the state of the art, although its absorption by IDA has been less satisfactory. Work on the global agenda has been largely satisfactory. In other areas, such as CASs, NEAPs, and safeguards, results have been much more varied. There have been outstanding efforts in some periods and countries and major shortfalls in others. Depending on the topic, most country efforts are partially satisfactory to satisfactory. Good results have been much easier in receptive and committed countries. In countries with weak governance and extensive corruption, it has been much more difficult to make progress, which raises the question of whether IDA should adjust its overall lending where there is poor governance and little concern for the longer-term environmental impacts. There have been some cases of noncompliance on specific requests, such as including more analysis on the impacts of debt on the environment in heavily indebted poor countries and setting up a small projects fund for the environment.

119. Effectiveness is more difficult to judge than compliance. Effectiveness covers how IDA's actions have changed its clients' perceptions, behaviors, and outcomes, which are subject to many influences often much more powerful than IDA. Only in a few instances was IDA a dominant factor in the longer-term environmental outcomes of its programs. This review assessed to what degree IDA's actions contributed to the observed outcomes (or expected outcomes, given the relatively short time horizon of this study), and whether this impact was worth the effort expended. There are quantitative measures in some areas, but in other areas conclusions have been drawn from surveys, interviews, and judgments about work in progress. The assessment of effectiveness focuses on relevance, efficacy, and efficiency.

120. IDA's performance has also been mixed, although that judgment rests on less extensive evidence. Good measures are lacking. At the micro level of projects and their impacts, results have been fairly substantial in terms of lending, mitigation resulting from environmental assessments, and development effectiveness and institutional development ratings of environmental projects. But it is not clear whether enough environmental projects have been done in many countries to have substantial impact. IDA's activities have been effective in raising general awareness of environmental issues, both local and global, in most member countries. But IDA is part of a large international movement in this area, and it is neither possible nor fruitful to try to determine how effective it has been in relation to other players.

121. On a macro level, effectiveness has been modest at best. IDA has had limited success in building environmental sustainability into country strategies and dialogue, in achieving mainstreaming, and in managing the overall application of the environmental assessment process.

Without integrating environmental sustainability into its own strategies, IDA cannot have a large or lasting impact on its borrowers. With better management, including clarifying expectations and then holding managers accountable for results, IDA could have done much better. There has been substantial progress in some cases, such as China and Mozambique, but lasting effectiveness is an open issue.

122. The expansion of activity generated after the Rio conference slowed across three of the four areas discussed above. Initial efforts to build environmental sustainability into IDA and country strategies was not sustained in systematic follow-up to NEAPs, in improved CASs, or in incorporating the environment into IDA core strategy. Mainstreaming into lending has made progress. Direct lending has leveled off in volume.. Environmental components in other lending operations grew in IDA 10 and then leveled off, though the number of projects has increased somewhat. Mainstreaming into other sector projects, while encouraged, did not benefit from explicit guidelines, development of quantitative criteria, or regular monitoring. The Bank's basic policy on environmental assessments and safeguards is sound and has led to improved outcomes in many projects. However, internal organizational and budget constraints led to a decline in the quality of implementation. The recent controversy over the Western China Project has revealed deeper shortcomings in the understanding of staff and managers about the process and its application. Recently enacted reforms attest to management's concerns. It remains to be seen whether they will be effective enough.

123. Overall, environmental sustainability has not been embedded as a core corporate objective by which to judge effectiveness. Management focus on the environment tends to intensify primarily when there are major reputational threats to the institution. This has led to risk aversion and overemphasis on the policing functions of environmental staff at the expense of the positive aspects of improving interventions overall.

124. A comparison of these findings with the self-evaluations of the environment programs of several other donors (Box 10) suggests that despite some progress, no one has been able to make a convincing case for the environment that has been translated into effective operational terms.⁸¹ IDA has been under justifiable pressure from its donors to improve its performance. But the fact that its shortcomings characterize many of the donors' own programs indicates that promoting environmental sustainability is difficult—and difficult to internalize. More cooperative efforts are needed. This could begin with coordinating the development of strategies, environmental indicators, and monitoring and evaluation procedures and could be supplemented by effective in-country coordination of environmental programs and their evaluation, rather than independent implementation by each donor.

81. See, for example, Organisation for Economic Co-operation and Development, *Donor Support for Institutional Capacity Development in Environment: Lessons Learned* (Paris 2000).

Box 10. Self-assessments of Donor Environmental Aid Programs

Norway evaluated its environmental aid program in 1995, Denmark in 1996, and Finland and the United Kingdom in 1999. The conclusions of these major studies were surprisingly similar to those of this review. Although these donors' programs are generally smaller than IDA's, their evaluations are important because many IDA countries have expressed a preference for bilateral (grant) support for environmental projects.

The emphasis and terms of expression differ across reports, but they have common themes. All the donors note that environment has been a high priority in their aid program, express confidence in the formulation and emphasis of their policy statements, and are satisfied with the progress and positive impacts of their programs. Beyond that the picture is not good. All the reports show a significant gap between rhetoric and reality, and the more recent indicate that performance declined in the late 1990s as effective priorities shifted away from the environment. Translation of environmental goals into action was weak for a number of reasons:

- Country-level strategies were nonexistent or inadequate (usually from both the donor and country points of view, though national environmental action plans were welcomed).
- Targets and staff guidelines were not clear.
- Skilled staff were scarce and overextended, with too little authority.
- Environmental issues were not adequately integrated or mainstreamed into other projects.
- Monitorable environmental indicators were lacking, and monitoring and evaluation inadequate.
- Internal feedback systems were inadequate, and since management reviews rarely addressed environmental issues, there was no effective accountability for achieving articulated environmental goals and principles.
- Environmental assessments were rarely applied, often too late in the project cycle to do more than risk mitigation.

The donors recommended improvements in all these areas, particularly better strategies, better implementation across the board, and better monitoring.

Source: National reviews cited in bibliography (Annex IV).

COUNTRY PERFORMANCE RATINGS

125. The deputies have encouraged IDA to tie lending to country performance.⁸² Given the importance of environmental sustainability for longer-term development and poverty reduction, sound environmental policy should be part of country performance ratings. Three sets of environmental criteria have been used for this rating since 1992, and a revision is proposed for 2000. From 1992 to 1994, the rating quantified only Long-term Economic Management, Poverty Reduction, and Short-term Economic Management. The environment was included in Sustainability of Development Effort under Long-term Economic Management.⁸³ The environmental indicators were Actions to Develop Key Environmental Institutions, Consistency of the Economic Policy Framework with Environmental Responsibility, Implementation by Government of Environmental Assessments for Sensitive Investment Projects, Natural Resource Management, and Progress in Preparing and Implementing Environmental Action Plans.

126. This impressive set of criteria indicates a belief that sustainability of the development effort is squarely based on sound environmental policies and their implementation. Unfortunately, there was little guidance for satisfactory performance under each heading. No specific weight was assigned to each of the five components of Long term Economic Management, nor were indicators suggested.

82. A separate paper prepared for OED IDA Review covers performance-based assessment in detail. This section looks at the environmental element of the process.

83. The other components were Human Resource Development, Infrastructure, Institutional Capacity, and Structural Policies.

127. A revised performance rating system used during 1995–97 attempted more quantification, identifying 10 major categories to be rated on a scale of 1–5. Environment received a 5 percent weight based on environmental impact assessments and national environmental action plans. A low rating went to countries without these, a medium rating to countries that had not fully implemented them, and a high rating to countries that had followed up on environmental impact assessments and implemented NEAPs. These judgment criteria are much narrower than the earlier rating and give less weight to the importance of environmental sustainability for long-term development.

128. The rating system changed again in 1998. The new country policy and institutional assessment (CPIA) rated 20 specific items on a scale of 1–6, giving each item a 5 percent weighting. Environmental Policies and Regulations was one of eight items under Policies for Sustainable and Equitable Growth. A country with the following characteristics earned a rating of 2 for this item:

Few effective policies or investments for sustainable management of natural resources or for pollution control. Fiscal incentives and/or ownership structure promote non-sustainable resource use. Assessment procedures and regulation on activities with environmental impact are inadequate or weakly enforced. (All quotations are from the relevant instruction memo cited in the bibliography.)

A country with the following characteristics rated a 5:

Comprehensive policies, accompanied by credible regulations and enforcement capacity, to sustainably manage key natural resources. Macroeconomic and fiscal policies support environmental goals. Public investment is effectively utilized to meet environmental goals. Regulations and impact assessments consistent with international norms are implemented effectively.

129. In 1999 the item Policies for Sustainable and Equitable Growth became Institutions for Environmental Sustainability under the heading Structural Policies, with somewhat more complete guidelines:

This question assesses the extent to which economic and environmental policies foster the protection and sustainable use of natural resources (soil, water, forests, etc.) and the control of pollution.

A country with the following characteristics earned a rating of 2 for this item:

Fiscal incentives and/or ownership structure promote non-sustainable resource use or degradation. No effective policies or public programs for sustainable management of natural resources or pollution control. Regulatory framework and its implementation are inadequate to handle major environmental challenges.

And a country with the following characteristics rated a 5:

Macroeconomic and fiscal policies foster sustainable resource use and environmental stewardship. Laws and policies on resource use and pollution are in place and are accompanied by credible regulations and enforcement capacity. Public programs are effectively utilized to meet environmental challenges. Regulatory framework and its implementation are effective in addressing major issues.

130. These latest rating criteria hearken back to the broad ones used during 1992–94, though their identifiable policy inputs increase the precision of the rating. Additional modifications are proposed for the 2000 CPIA to improve the indicator. Nevertheless, this item has the drawback of lacking

accepted common core indicators. There is no way to ensure cross-country comparisons, which are the purpose of the exercise.⁸⁴

131. With frequent changes in rating criteria, it is difficult for staff to make consistent ratings and for evaluators to assess trends over time. More than 90 percent of the staff who responded to the question in the staff survey were unaware of the criteria or the weight used in the CPIA for the environment. A single rating of this type cannot easily capture a country's performance in such a vast and long-term area. Moreover, the scant 5 percent weight makes extremely good or bad performance on the environment unlikely to affect the overall allocation, unless it is associated with poor performance across several items. A high correlation would be expected with governance, for example. These ratings were subject to negotiation between the Poverty Reduction and Economic Management Network (which compiles them) and the country departments.⁸⁵ The interest of the country departments may vary from year to year on components of the overall measure. The absence of any audit trail makes it difficult to determine how ratings were arrived at or why they change.

132. The ratings for the 15 focus countries are relatively constant across time and countries, with only modest changes from year to year. The average rating is around 3 for 1995–97, dropping to about 2.5 for 1998–99 (adjusting back to a 5-point scale). This change is the result of a drop of nearly a full point in the ratings of several countries between 1997 and 1998.⁸⁶ It cannot be determined whether this was a result of changes in the rating system or of substantial reevaluation of countries. There was no significant correlation between the CPIA ratings and this review's measures of the performance of active and closed projects or an indicator of country compliance with the deputies' recommendations. The CPIA ratings tend to cluster around the midpoint.

133. The value of the environmental indicator in the CPIA is questionable. Its low weight and lack of variability suggest that it has little impact on country allocation. Where environmental issues have affected country operations, it has been because of specific, high-visibility, incidents such as the fallout from the Arun project in Nepal or the forest sector adjustment loan in Cameroon. Serious environmental issues in Kenya were eclipsed by issues of governance. If environmental sustainability is a major IDA goal, better performance indicators should be developed and should be shown to have an impact in aggregate performance rating and resulting country allocations.

DONOR COOPERATION

134. Environment has enjoyed a great deal of support from Part I donors, evident from the availability of trust funds to help prepare environmental assessments, environmental projects, and other environmental activities. Many staff affirmed in interviews that much of IDA's environmental work would have been impossible without access to these trust funds. Of the factors that facilitate the quality of environmental operations, donor cooperation was given the highest affirmative rating—44 percent—by staff respondents. But such support is not an unmitigated gain. One staff respondent commented, "Trust fund support has been extremely important because the Bank doesn't provide adequate resources. Unfortunately, obtaining this support can be very time consuming."

84. The OED IDA Review paper on performance-based allocations finds this true of other indicators as well, but it is particularly acute with the environment.

85. In 2000 the Operations Policy and Strategy Vice Presidency took over the responsibility for compiling the ratings from the Poverty Reduction and Economic Management Network.

86. The countries are Ghana, India, the Kyrgyz Republic, Nepal, Uganda (modest drop), and Vietnam.

135. IDA's success in working with other donors in country programs has varied. Most countries that this review was able to examine closely had some kind of cooperative forum on the environment, either in relation to the consultative group or in another format. These forums have generally been useful for sharing information and convincing client governments of the importance of environmental issues. Most staff respondents believed that other donor involvement has been beneficial. In the best cases, it has led to a more coordinated approach to environmental issues, especially where other donors are able to supply grant funds. For example, after IDA identified priorities from the NEAP in Bangladesh, the United Nations Development Programme put together a follow-up project with components to be executed by IDA and other donors. But in other countries, such as India, there is little explicit cooperation beyond keeping other donors informed of IDA activities.

136. Because other donors have grant funds for the environment, clients often prefer to use those funds. This has been the case in Bolivia and Mozambique. This support is welcome, and other donors are often better placed than IDA to undertake environmental projects. But interview respondents noted a lack of long-term reliability in donor programs—volatile support, instigation or cancellation of projects on short notice, lax disbursement criteria, and disagreement about priorities that can confuse clients (see Box 10). One staff respondent summarized the problem this way: “Other donors have either more stringent or less stringent environmental practices. The more stringent practices make borrower governments more resistant to addressing environmental concerns; the less stringent practices make borrower governments reluctant to borrow from IDA. It is important that all donors take a concerted stand—but one that recognizes the countries’ other priorities.”

137. Most important, donors need to present a common front to the borrowers and insist on appropriate actions. So far, IDA has rarely taken the lead in trying to elicit cooperation on environmental priorities. Nor has it helped other donors to do so. The responsibility should be shared among all donors interested in environmental issues, and the deputies should press for more donor cooperation in this area.

CONSTRAINTS

External Constraints

138. There are three main external constraints on IDA's efforts to promote environmental sustainability. The first is lack of interest and support by some member countries. Because the use of environmental resources is part of growth and development, it is often hard to draw the line between reasonable use and abuse. In many countries, officials exploit environmental resources for their own gain and that of political or personal allies. Where such active corruption is centered in key ministries responsible for environmental resources, IDA can accomplish little. Exploitation of resources is often part of a broader pattern of corruption in government.

139. Thirty percent of staff surveyed for this review saw governments as an obstacle to IDA's promotion of environmental sustainability, while 24 percent found them supportive. Success in promoting environmental sustainability clearly depends on the country. Sometimes IDA has been able to address environmental issues by mainstreaming into projects of other line ministries and sectors, but this is usually difficult. Where governments are indifferent, increasing information, mobilizing other concerned interest groups, and demonstrating quantifiable short-term benefits from environmentally beneficial actions can help. Often IDA can support the environmental ministry in discussions with the core ministries. This approach relies on analytical and advisory work and extensive dialogue, as well as cooperation with country teams. Such efforts have been successful in China, Mozambique, and Uganda, but are sometimes difficult to arrange without active lending.

140. The second external constraint includes lack of government implementation capacity and the role of vested interests. Environmental agencies in most member countries are relatively new and rarely have a large constituency in the government or outside. Regulatory structures are just being created, often with assistance from IDA, and have had little time to develop strong procedures. Skilled staff are often in short supply. Enforcement capacity is weak because of budget and staff limits and weak judicial systems. Until countries gain more experience and become more committed to environmental sustainability, these will be major constraints.

141. In many IDA countries, both state enterprises and private sector groups benefit from the use of environmental resources and sinks⁸⁷ for which they usually pay less than market value. Particular interest groups may aim to protect their private access to environmental wealth regardless of the longer-term consequences, involving corruption in some cases. This heedlessness may be the result of poorly defined property rights, traditional usage, or weak government enforcement. Vested interests need not always be local. Many foreign-owned firms, forestry and mining interests in particular, wield strong influence to protect their interests at the expense of long-term environmental sustainability.⁸⁸ They may argue that current use of resources creates wealth for the future, but all too often they take that wealth out of the country rather than investing it in national development. These forces can make it very difficult to enact and enforce appropriate environmental policies and regulations. Most staff respondents identified the lack of resources, implementation capacity, and enforcement of environmental regulations as the most important country obstacles.

142. The third constraint is the preference of most IDA countries for grants for environmental projects—and the resultant donor coordination issues. Many IDA countries believe it makes no sense to borrow for the environment. Without a portfolio of projects under supervision and in the pipeline, IDA has difficulty integrating environmental considerations into its country dialogue and into other projects. Less staff time is available, and environmental work is perceived as disrupting normal synergies.

Internal Constraints

143. A number of internal factors, some having to do with institutional structure and others with incentives, hinder environmental activities in IDA countries. Probably the most important has been the frequent changes in Bank and IDA organizational structure.

144. The 1987 reorganization created regional environmental divisions and a central Environment Department. These new units needed time to assume a workable structure and for staff to become experienced with the system and their clients. The frequent mini restructurings between 1989 and 1996, which culminated in the creation of the networks in 1996, continued the sense of disruption. Decentralization of budgets and task assignment and increased reliance on charge-back for staff time inhibited the development of strong team approaches.

145. The organizational changes led to more regional variation in the application of safeguard policies. As regional environmental staff depended more on country managers for task assignments, the policing function inherent in applying the safeguard policy complicated relations. Some staff were afraid to apply safeguards rigidly lest they lose future assignments, and others threatened task managers with strong application of safeguards if they were not given assignments. The fact that

87. 'Sinks' is a term used to describe the capacity of the environment to absorb and sometimes neutralize man-made pollutants.

88. See, for example, the discussion of foreign timber interests' influence in Cameroon in the Seymour et al, 2000.

funds for application of safeguard policies came out of regular task budgets aggravated this tendency.⁸⁹ The recent decision to recentralize more of the safeguard functions and dedicate regional budget funds directly for safeguard activities should resolve part of this problem, but at the cost of yet more restructuring. OED has raised questions about the adequacy of the proposed measures, and further discussions are needed within the Bank to determine how that unit should function.⁹⁰

146. Another consequence of the restructuring was the relegation of the environment to the status of one sector among others, rather than that of a core IDA objective such as poverty reduction and broad-based growth. Environmental staff felt they had to compete with other sectors to sell their products. Given the country resistance discussed above, this was often a major hurdle. As a result, the extent of IDA's environmental actions in a country depends more on staff persuasiveness and articulateness than on the importance of environmental concerns.

147. Like the Bank, most governments are organized along functional lines with limited capacity for cooperation among different ministries and agencies. This makes dealing with the cross-cutting and systemic aspects of the environment more difficult. Balancing the need to address environmental concerns holistically, including through regulation and information dissemination with the narrow sector activities in the line agencies is a real challenge. Short IDA and country operational horizons complicate dealing with long-term environmental sustainability issues. Planning cycles are dominated by the three-year country strategy paper frame and one- to three-year project preparation periods. The political time horizons of Bank clients reinforce the emphasis on shorter-term issues. One of IDA's challenges is to make sure that short-term actions directly or indirectly fit into the priorities of longer-term environmental sustainability.

148. A second internal constraint, nearly as important as reorganization, has been the apparent lack of senior management commitment to the environment and to IDA environmental policies. This has not only weakened environmental components in country strategies and lending programs, but also led to embarrassing situations in several high-profile projects in which the Inspection Panel and the public have questioned IDA's integrity and ability to follow its own policies. Senior managers should accept full responsibility for achieving IDA's environmental objectives and hold regional and country managers accountable for their performance in achieving these objectives.

149. The Bank's incentive structure has not supported environmental actions. Despite many strong statements, there are few direct incentives for environmental activities in IDA. CAS reviews have not emphasized environmental issues, lending has not been encouraged (discouraged on occasion because of perceptions of risk), environment is not adequately incorporated as a central corporate priority, and resources have been tight.

150. Structurally, there are few incentives for task managers in other sectors to mainstream environmental issues. The complexity of projects and scarce time and resources work in the opposite

89. This is not to imply that there were widespread distortions of the system or that most staff do not maintain their integrity. But the structure created tensions that were readily exploited by some and that eroded the efficacy of the safeguard process.

90. Two issues, in particular remain to be addressed. First, under the emerging safeguards compliance framework of decentralized responsibility with central oversight, the members of regional safeguards compliance team will still depend on cross-support from project task managers for a substantial portion of their own work program, and thus face a potential conflict of interest. Second, since management monitors elapsed time between the project concept document (PCD) and the project approval date as a key performance indicator, there is a built in incentive to delay the formal issuance of a PCD. On the other hand, since the PCD often represents the first time that a project can be reviewed by those not involved in the project, including the staff responsible for quality assurance on safeguards, safeguards issues may be identified too late in the project processing cycle to allow adequate consideration of more environmentally friendly alternatives to the project. (*OED Review of the Bank's Performance on the Environment*, March 23, 2001), p. 21.

direction. The same disincentives discourage environmental staff from participating in other projects unless specifically invited to do so.⁹¹ Environmental units' efforts to become more involved in other sectors depend on the inclination of task managers in those sectors and the insistence of country directors on including environmental concerns. Some country directors surveyed felt that the case for the environment was often poorly presented and that many environmental projects and components were supply driven.⁹²

151. In interviews, operational staff said they gain the most recognition for producing large adjustment, infrastructure, and innovative poverty alleviation projects. Adjustment operations are increasingly seen as timely response to crisis and welcome relief to clients. Infrastructure projects move large amounts of money that help meet implicit lending goals and generate large contracts for donor countries.⁹³ New approaches to poverty lending demonstrate IDA's commitment to poverty reduction. On the other hand, environmental operations tend to be relatively small and costly, and they produce long-term results that may not attract kudos from national leaders within their political time horizons, nor from IDA managers. Some of these operations have been highly successful in their own right, but they have attracted little attention within the Bank. Regardless of their positive outcome, high-quality environmental projects have less cachet for generating recognition and promotion than high-visibility adjustment operations.

152. A third set of constraints, budget limitations, too, have constrained environmental actions. At one level, the limited budget allocated directly to environmental activities rather than through task budgets controlled by country departments has reduced the environmental units' capacity for independent research and monitoring. A large share of funding for environmental staff and activities comes from cross-support—staff hired by other managers to do environmental work for managers with the budget. This creates incentives to try to fill up dance cards, to find specific self-managed tasks, and to compete for tasks. This structure does not generate a strong and coherent approach to environmental issues.

153. Moreover, staff have expressed the view that constrained allocation of resources for environmental work further limits the extent and number of feasible projects. Staff have overcome some of these limitations by becoming more efficient, by leveraging other resources such as GEF and bilateral trust funds, and by partnering with other agencies and NGOs. But the latter have taken staff time and energy that could have been devoted to operations directly.⁹⁴ Staff surveyed felt that budget increases of 20–30 percent were needed for the environment. The allocation of additional budget funds for safeguards in fiscal 2001 should alleviate some of this pressure, but it may also send a message to staff that “do no harm” approaches in A and B projects more important than doing broader environmental good.

91. Sometimes the environmental assessment review can indicate possible environmental improvements in a project, but this function is not systematic and is difficult to separate from the policing function. Some regions try to use the environmental assessment review as a lever to mainstream environmental issues into other projects, with some success.

92. Presumably in the sense that it is not high on country priorities and hence not demanded. In some of the country visits, it appeared that officials and civil society often valued improved environmental benefits but did not always understand how to incorporate them appropriately into their proposals for IDA projects and activities—or they believed IDA's efforts were not sensitive to the local situation.

93. While lending targets have been de-emphasized, there is still a perception, partly reinforced by comments from deputies and executive directors, that the Bank and IDA need to keep their lending up.

94. All operational units of the Bank and IDA face severe budget constraints. Interviews with environmental staff indicated that this is true in most regions, although this cannot be verified, and there is an inherent bias in their comments. Available data on average project cost do not show a significant difference from other sectors, but there is no standard for optimal project costs by sector.

FINDINGS

154. This review has yielded a number of important findings about the impacts of IDA deputy recommendations and the effectiveness of IDA's implementation of those undertakings. These lessons concern the clarity of objectives, the importance of full commitment, IDA's role in the policy dialogue, the scope for IDA leadership in projects, the proper role of safeguards, and the relation of global to local issues.

Clarity of Objectives

155. Both IDA and the deputies subscribe to the widely accepted definition of environmental sustainability and identified specific goals and activities consistent with that definition. But desirable goals, especially when they are broad, thematic, and long term, must be translated into operationally relevant guidance. IDA has not adequately translated the broad definition or the specific recommended actions into clear and quantifiable targets or objectives that integrate the goal of environmental sustainability into its mission of poverty reduction. Nor has it established monitorable outcome targets for country programs. Efforts to set quantitative targets, such as completion of NEAPs, became numerical exercises that did not consistently focus on the desired outcome—integrating better understanding of environmental priorities into planning on a national level. Because management did not make this a priority in CASs, environmental sustainability was integrated into country programs irregularly, too often through other vehicles such as the GEF which has a different objective.

156. Critical inputs and results should be identified that can be monitored, quantitatively if possible. Senior management needs to make clear to concerned line managers that they will be held accountable for meeting these targets or else for adequately explaining deficiencies. Performance must be visible and consistently monitored. The CAS is an appropriate vehicle for translating environmental sustainability priorities into practical country programs. Better measures of sustainability are needed to monitor progress, and management should review CASs with this in mind. OED country reviews, too, should address this question systematically.

Importance of Full Commitment

157. Substantial progress is unlikely without full commitment from IDA senior and line management and from senior levels of government in IDA countries. IDA can help nourish the ownership and commitment of member governments through its analytical and advisory work, its lending, and its policy dialogue. In addition to attention to environment in the CPIA, IDA should be prepared to set and adhere to minimum standards of performance on environmental factors and to reduce the overall lending program if these are not met. To avoid mixed signals to clients, such action would be more effective in conjunction with other donors committed to environmental sustainability.

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158. IDA has been most effective in nurturing commitment in its member countries when its staff have undertaken programs jointly with country officials to solve critical environmental problems, and when there has been coordination among donors. Mutual confidence and experience have contributed to expanding programs in some countries. Management should underpin the corporate commitment to

95. Officials in some countries visited reported that they believe donors feel obliged to disburse their aid programs and can therefore be played off against each other to avoid hard conditions. Some donor self-evaluations also noted that it had been counterproductive for each donor to push its own pet programs.

environmental sustainability with adequate administrative resource allocation, recognition of good work, consistent application of policies, and clearly applied accountability.

Importance of Appropriate Indicators

159. The Bank is largely motivated by quantitative values, and setting corporate priorities usually requires some monitorable targets. In the area of the environment, the Bank has done state of the art work in developing specific and general indicators of environmental sustainability. These have important policy relevance at both sectoral and national levels. Where indicator work has been done with local counterparts, it has strengthened local capacity. And careful use of indicators can have very positive effects on both private and public incentives when used imaginatively, as the Greening Industry project demonstrated. More systematic use of indicators with regular monitoring in CASs, country studies, and dialogue, would improve environmental results.

160. IDA could readily adopt existing indicators for its own strategies, analysis, and monitoring. Management should be more attentive to monitoring them. Genuine savings and the set of indicators developed for the CAS environment pilot program should be implemented immediately. A further important step would be to calculate on a regular basis for all IDA countries the environmental losses to GDP due to environmental factors, such as those cited for China and India. Such a calculation would gauge environmental damage and become a metric against which to target and measure progress on environmental sustainability. It would link directly to the real growth objective and closely to the poverty objective, as many of the impacts measured—for example, health and land degradation—directly affect the poor.

IDA's Role in the Policy Dialogue

161. The results of the analysis for this review underscored the importance of maintaining a policy dialogue on environmental issues. Most clients are generally aware of potential threats from environmental degradation, but not always of the severe short- and long-term costs. Officials, the business community, and members of civil society often are unaware of the damage caused by emissions and runoffs or of techniques for mitigation. Policy actions will be easier to implement if this information is made available and transparently monitored. Many macro-level policies have important environmental impacts. Proper regulation and proper pricing for resources such as energy and water can encourage private sector actors to be more environmentally responsible. Since implementing such policies often faces opposition from vested interests, IDA has a role to play in raising these issues with governments and demonstrating to governments and civil society that the benefits are important.

162. IDA should use its leading role in country policy dialogue to ensure government awareness of the environmental issues, the potential costs of inaction, the benefits from improved policies, and the best methods to apply these policies. It should also reinforce the collection and use of essential data for indicators as part of monitoring and evaluation. IDA is viewed as knowledgeable and largely impartial in this area. Moreover, it is central to IDA's mission to make countries aware of sustainability issues beyond the time horizons of local politicians. IDA is well placed to take the lead in this dialogue and to promote the information gathering, dissemination, and monitoring essential to effective policy.⁹⁶

96. The results of the Greening Industry initiative and the Central American resource monitoring program are promising in this area.

The Proper Role of Safeguards

163. The Bank is improving its environmental assessment and safeguard policies and practices. Lessons have been learned even from setbacks. Without the safeguard policies, many sensitive issues would never have received proper attention.⁹⁷ The inconsistent interpretations of the environmental assessment process in the Inspection Panel report on the Western China project are cause for concern. Management needs to ensure that Bank policy is fully understood and implemented internally. Attempts to move environmental assessment farther upstream have not been successful, despite the obvious benefits of addressing environmental issues early in project design. Shortfalls in the application of safeguard policies attract a great deal of management attention because of the reputational risks to the institution. While such attention is appropriate, it has negative side effects in diverting scarce managerial and financial resources, reinforcing the tendency to risk aversion, and placing environmental staff in a policing role.

164. IDA should focus more on project design, emphasizing proper treatment of the environment as part of the core quality objectives of all IDA projects. Once it is clear that environmental sustainability is a central part of good project design, not an add-on, and once staff are held accountable for it, safeguards can assume their proper role as backup to the primary policy of good design. IDA should also prioritize building client capacity and commitment to implement environmentally sound projects—and local capacity and regulatory structure to maintain national safeguard policies, especially for private sector activities. The adequate treatment of environmental issues in programmatic lending needs to be assured. This issue is expected to be taken up in the planned conversion of OD8.60 Adjustment Lending policy into OP/BP format. It should also apply to all forms of programmatic lending not covered by the existing EA policies. The proposed strategic environmental assessments may be an important step in this direction.

The Relation of Global to Local Issues

165. IDA has worked to help build awareness of global issues in its member countries by relating global issues to local benefits. The additional resources it has brought its members through the GEF are by no means sufficient in the face of enormous global problems, but they have made a start in addressing some global issues and raising awareness in member countries. The differing objectives of IDA and GEF, however, means the GEF cannot be viewed as a substitute for IDA efforts. IDA resources should be added to GEF projects to increase local benefits of environmental action, as was demonstrated in the Lake Victoria project. IDA generally has a less positive record in addressing regional and transboundary concerns, except in a few GEF projects in which IDA was one of the few agencies that could bring neighboring countries together to solve shared environmental problems.

97. For example, many export credit agencies lack similar safeguard policies and end up financing many projects with serious environmental problems and no accountability. The Bank's 1999 *Pollution Prevention and Abatement Handbook* provides guidance for investors on proper pollution limits. Its broader use in the investment community should be encouraged.

RECOMMENDATIONS⁹⁸

166. **Recommendation 1: In pursuit of holistic, long term development and the International Development Goals, IDA should build on its comparative advantage and analytical capacity to demonstrate the critical role of the environment in sustainable development and poverty reduction. It should incorporate environmental objectives into its core strategy and its operations. In particular, the Bank should:**

- Reform the structure of its management, staff and budget incentives to give added emphasis to achieving environmental objectives.
- Integrate environmental sustainability into country and sector strategies.⁹⁹
- Make the environment a central feature of policy dialogue with core ministries, with particular attention to the links between the environment, poverty reduction and sustainable livelihoods.
- Ensure that environmental issues are adequately covered in core integrative ESW (such as the proposed development policy reviews). When the CAS indicates a need for more in-depth analysis of environmental issues, environmental ESW should be carried out in a participatory manner taking full account of the work carried out by partners (e.g., national strategies for sustainable development proposed by DFID).
- Mainstream environmental concerns into its research and operations. Adequate guidance, standards, and monitoring should be put in place so that staff have the tools and incentives to implement the environmental strategy.
- Strengthen monitoring and evaluation of progress on the environment in CASs and SSPs. To this end, it should expand the use of environmental indicators in country analysis, particularly indicators of environmental degradation in terms of GDP.
- Enhance its efforts at capacity building in member countries, strengthening institutions, policies, and regulatory enforcement.

167. **Recommendation 2: IDA should review its environmental safeguard oversight system and processes to strengthen accountability for compliance. In parallel, the policy framework should be modernized and adapted to the changing practices and instruments being used by the Bank and take account of recent experience. In particular the Bank should:**

- Ensure that the safeguard policies and standards for their implementation are clear and fully understood by managers and staff.

98. OED has conducted a parallel review of the Bank's overall performance on the environment (*OED Review of the Bank's Performance on the Environment*, (CODE2001-29) March 23, 2001). Much of the same material and analysis has been used in both, and the principal author is the same. In order to convey a consistent message clearly to the Bank and IDA, the same formal recommendations are made in both reports, and the references to the Bank should be understood to apply equally to IDA.

99. This is not to propose a one-size-fits-all approach but appropriate inclusion among other key priorities with explicit, country-specific priorities worked out within the overall framework.

- Develop policies and practices for treating environmental issues in adjustment and programmatic lending not currently covered in the EA policy.
- Provide adequate and independent funding for oversight of safeguard processes and shield compliance review processes and staff from conflicts of interest.
- Allocate accountability and responsibility for implementation of the safeguard policies to the relevant line managers and empower the central environment unit to intervene where compliance problems are identified.¹⁰⁰
- Establish a transparent adjudication process to resolve differences and avoid muddying responsibility and accountability.
- Help build borrowing countries' capacities to formulate and implement EA policies, and manage environmental resources and risks.

168. ***Recommendation 3: IDA should help implement the global environmental agenda by concentrating on global issues which involve local and national benefits. In particular, the Bank should:***

- Identify environmental actions that achieve national and local benefits while addressing critical issues of global concern.
- Assist countries to prepare for the impacts of global environmental degradation such as global warming, and support transitions to renewable energy sources and end use efficiency.
- Give adequate attention to regional (transboundary) environmental issues in its analytic and program work, including cross-boundary cooperation.
- Enhance its role as a global leader in the environment through its public statements, being a role model through its own actions, and promoting understanding of the poverty-environment-development nexus.
- Use its convening power and partnership programs to increase attention to environmental issues of common concern, promote coordination among donors, and empower all stakeholders to achieve common objectives.

100. The Advisory Panel of OED's environment review recommends "that definitive clearance authority on every project with environmental implementations should be centralized to ensure clarity and consistency in the application of safeguard policies."

ANNEX I. Implementation Matrix: Environmental Sustainability Issues

Introduction

The IDA12 Replenishment Report requested OED to undertake an independent review of the IDA program during the IDA10-11 period and an interim review of IDA12. The Review concentrates on IDA's development contribution in *six thematic development priorities*: 1) poverty reduction, 2) social sector development, 3) private sector development, 4) governance, 5) environmentally sustainable development, and 6) gender. It also addresses *four priority process reform objectives*: 1) performance based allocations, 2) enhanced CAS design and implementation, 3) aid coordination, and 4) participation.

The following matrix lists the main undertakings of the IDA10,11 and 12 Replenishment Reports related to Environmental Sustainability and presents comments on the extent of IDA's implementation. The comments focus on actions taken by IDA during the respective replenishment period and, where appropriate, give a sense of subsequent or on-going actions.

The matrix reports on the *extent of compliance*, not effectiveness in terms of outputs or outcomes from IDA's actions. The wide variation in the nature of the undertakings –ranging from encouragement of broad redirections in areas of operations to specific calls for reports – created a challenge for arriving at aggregate ratings. The findings on IDA's degree of compliance as reported in the IDA Review's report and this background study made use of a system of ratings on individual undertakings, reviewed with management. This system also served as input into the substantive discussion of implementation that is summarized in the text in this Annex.

| Undertaking | Comments |
|---|--|
| Mainstream environmental sustainability in lending | |
| IDA 10: Continue substantial lending to deepen IDA's programs to encompass environmental sustainability. | IDA environmental lending levels remained at roughly the same level in IDA10 as in IDA9, though the number of projects increased slightly. |
| IDA10: Stress importance of ensuring the environmental sustainability of programs in key sectors. | Environmental components in projects have been promoted, notably in the agriculture, urban, water and sanitation and energy portfolios. |
| IDA 11: Integration of environmental considerations across the spectrum of IDA projects is more important than the targeted portfolio. | There are no clear and consistent criteria for tracking mainstreaming. In the South Asia region there has been a decision to reduce IDA environmental projects in favor of GEF projects and the mainstreaming of environmental concerns in relevant sector projects. |
| IDA 12: Support strategies that promote environmentally sustainable development and increase efforts to mainstream environmental objectives; and build partnerships. IDA 12: Mainstream environmental considerations – national, regional as well as global – in IDA operations. | The Environment Strategy under preparation is redefining the approach to environmental activities, placing more emphasis on making environmental projects support poverty objectives, with particular attention to health related factors. As above, mainstreaming has not become an IDA priority. |
| Provide support for the preparation of NEAPs | |
| IDA 10: Place emphasis on timely completion and high quality of national environmental action plans (NEAPs) with effective <i>public participation</i> . IDA 11: Same as above. | Completion of NEAPs received high priority and management support. Reviews of NEAPs have indicated that the quality was mixed. In some cases, they have provided the basis for more focused sector work and projects provided the primary input into CASs. By the end of IDA 11, NEAPs have been completed for nearly all IDA countries, and many were considered adequately participatory. There is no systematic follow up on NEAPs or successor activities to direct country environmental strategies. |
| IDA 12: As a follow-up to the recommendations in NEAPs, provide support to: (i) projects which strengthen environmental agencies and their legal and regulatory frameworks, and avenues for promoting public awareness; and (ii) sub-national and cross-border pollution abatement or resource management strategies and programs. | i) The number of IDA projects devoted to institutional building has fallen to zero in IDA 12 so far. ii) There has been little attention to cross border issues. |
| Integrate NEAPs into CASs | |
| IDA 10: Integrate these plans into policy dialogues and CASs. | The environment was not given a high priority in CASs in IDA 10. Instructions to staff on the preparation of CASs placed very little emphasis on incorporation of environmental issues. |
| IDA 11: Reflect NEAP findings and recommendations in CASs and indicate whether and how priority environmental investments are to be financed. | Coverage varies considerably. With some exceptions, most CASs only mention NEAPs. In FY98, a pilot program was begun to improve treatment of environment in CASs and incorporate environmental indicators. The six pilots include three IDA countries. Results are not yet in and environmental indicators are not yet required for CAS, although they are available. |
| IDA 12: Integrate into CASs environmental considerations from NEAPs and other sources as building blocks for systematic analysis of environment and other cross cutting issues. | Overall, there is no clear trend toward better integration of environmental issues into CASs through the IDA10-12 period. The treatment of environment is uneven across regions. ENV review indicated satisfactory treatment in about half, which was confirmed by further examination by this review. On a priority-based standard, however, CAS Retro II (which includes coverage of CASs in the first half of FY99) rated environment coverage as satisfactory in over 60% of CASs. Still, a review of FY00 CASs suggests that beyond the treatment of environment in diagnosis, few CASs have yet mainstreamed environmental sustainability in their programs. |

| Undertaking | Comments |
|--|---|
| Conduct Comprehensive ESW | |
| IDA 10: Take account comprehensively of environmental issues and their impact on development strategies in country economic memorandum (CEM). | Most CEMs have not taken comprehensive account of environmental issues but most IDA countries have other ESW devoted to environmental issues, generally in critical sectors. They often focus of issues of direct operational value, such as improving energy efficiency or water management. In addition, the Energy Sector Management Assistance Program (ESMAP) has devoted considerable resources to energy issues in IDA countries. |
| IDA 11: Analysis of HIPC should look at environmental impact of high debt levels. | No specific studies were made, nor was the issue formally raised in the HIPC discussions or analysis by the Bank. |
| Improve Environmental Assessments (EAs) | |
| IDA 10: Assist borrowers to improve the quality and scope of environmental assessments and analyses and to make the analysis publicly available. | There was an effort to improve EAs after their relatively late introduction. The process was generally considered satisfactory. IDA helped countries establish their own EA process though OED and management's reviews identified problems of upstream supervision and analysis of alternatives which required attention in subsequent years. |
| IDA 11: The quality of EAs should continue to improve, especially with respect to the analysis of alternatives, and the recommendations of these assessments should be systematically integrated into project design and implementation. IDA 12: Same as above. | The process has been subject to further upgrading and EAs were included in the framework of the safeguard policies. Nevertheless, shortcomings remain. EAs are largely remedial and consideration of alternatives is relatively weak. Implementation and supervision has been difficult; there have also been errors in classification. The Inspection Panel review of the Western China Project reveals serious problems of interpretation and implementation that indicate a deterioration in the EA process in recent years. Remedial action is under way. |
| Encourage sectoral EAs | |
| IDA 10: Encourage sectoral EAs. Also in IDA11 and 12. | The Environment Department has supported Sectoral and Regional EAs. Some have been conducted in relation of sector investment lending operations. Few forward looking EAs have been conducted to identify where projects should be directed, as has been intended for sectoral EAs; the Mekong Delta Initiative is an example. However, the Bank has done ESW tasks that fulfill this role. The Bank is currently examining how to apply EAs more comprehensively to sector and other programmatic lending following the May 1999 requirement to develop EAs for sector adjustment loans. |
| Pursue analytical work and research | |
| IDA 10: Pursue further analytic work and research on environmental costs and benefits. (Also implicit in IDA 11 and 12) | The Bank devoted substantial resources to research on environmental issues conducted by DEC and EVN Department. The major increase in DEC took place between 1990 (8.4% of the research budget) and 1991 (13.3%) and the share has remained around 12% since. Bank research is well regarded, and many consider the Bank one of the leaders in many aspects of environmental research. |

| Undertaking | Comments |
|---|---|
| Promote cross sector initiatives | |
| IDA 12: Promote cross-sectoral initiatives, including in the rural development, urban, and transport sectors. | So far, there are no specific IDA initiatives to promote more cross sectoral initiatives. Environmental units in each region have initiated individual efforts to integrate their work with other sectors, with mixed results to date. Initiatives with rural development and water have been the most productive. The Environment Strategy under preparation is trying to promote greater integration of environmental issues in other sectors, with particular focus on health and poverty. The CDF, which treats environment as a sector (not a theme), does not encourage this. |
| IDA 12: Prepare a report on progress made in mainstreaming environmental considerations into IDA's regular assistance, including collaboration with GEF, by December 2000. | This report is under preparation. |
| Promote energy efficiency | |
| IDA 10: Promote end-use energy efficiency; base credits on, and support the development of environmentally sustainable energy strategies; and adopt a similar approach for all sectors. | Through ESMAP and other activities, the Energy units have worked to promote more sustainable energy use and greater use of renewables. This has led to only seven projects in IDA countries currently active for IDA 10-12. Eight are in preparation and fifteen projects in other areas had components addressing energy issues. Technical assistance and other programs have been carried out. The largest responses have been in China and Africa. |
| IDA 12: The World Bank's environmental strategy for the energy strategy should be implemented, promoting energy efficiency programs, rural energy availability, and the use of renewable energy where economically justified. | Fuel for Thought (An Environmental Strategy for the Energy Sector) is being monitored currently. Follow up will be needed later. |
| Promote Poverty-Environment Links | |
| IDA 10: Reinforce through lending allocations the linkages between environmental protection and poverty reduction as a way of promoting sustainable development. (Also implicit in IDA 11 and 12) | Various Bank studies, including the 1992 WDR, the <u>Annual Environment Reports, Environmental Matters</u> , and other studies have highlighted the link between poverty and the environment. ¹⁰¹ This link has not been picked up in the bulk of the Bank's poverty analysis and strategy, including the 1990 and 2000 WDRs, the initial PRSP instructions, or other elements of the Bank's and IDA's poverty strategy. Few projects attempt to make this link explicit, although most IDA environmental projects make poverty links, the reverse is not the case. The Environment Strategy in preparation will aim to bridge this gap. |
| Attend to Regional and Global Impacts | |
| IDA 11: Where appropriate, identify in EAs regional and global environmental impacts. | Most attention to global environmental issues in IDA countries has been financed with GEF grants. There are few examples (outside of the large countries of India and China) of IDA - support; incorporation of climate impacts in specific projects (where relevant) has been uneven. No regional EAs have been completed. |
| IDA 12: Devote more attention to integrating global concerns in line with the Policy Recommendations for the Second GEF Replenishment, in the country dialogue, CAS, and ESW. | Expansion of GEF and related analysis and information dissemination is proceeding. A growing body of ESW is looking at the implications of global issues, such as climate change for IDA countries. Some countries are beginning to develop their strategies with assistance from IDA. The GEF program has significantly expanded in IDA countries. |

101. 1992 World Development Report; Annual Environmental Reports; and Environmental Matters.

ANNEX II. OED Reviews of Bank Attention to Long-term Environmental Issues

The World Bank's Operations Evaluation Department (OED) has recently evaluated Bank work in several environment-related sectors, including energy, desertification, water resources and forestry.* All these studies cover both IBRD and IDA activities and do not report separately for each. As elsewhere, it is assumed that the conclusions apply equally to both IDA and IBRD countries.

Desertification. This 2000 background paper for the OED Environment Review looked at the range of lending related to drylands. It found no noticeable impact from the Bank's association with the 1994 United Nations Convention to Combat Desertification. Dryland-related lending amounts tend to be overstated, and overall project results are only marginally satisfactory, particularly in relation to poverty and monitoring and evaluation. There is no current strategy for activities in arid areas, although one is being prepared with wide stakeholder participation. The current shift toward more participatory involvement of affected communities is a good sign but raises the serious question of tradeoffs. Local communities sometimes prefer actions with short-term benefits for income and quality of life, even at the expense of longer-term environmental quality. Mechanisms are not being implemented to resolve this tension or to find external funding to address the longer-term issues without compromising the short-term needs of communities. Overall the report finds a number of good projects but no adequate strategy or adequate targeting of poverty alleviation.

Energy strategy. This 1998 evaluation was undertaken as background for the Bank's strategy on energy and the environment, "Fuel for Thought." The review noted that Bank activity in the energy sector had shifted from direct support for generation to more support for privatization of production and improved distribution—and only marginally to end-use efficiency and nontraditional renewables. Privatization tended to be slow and only partially successful, and reform was more difficult than expected. The major environmental benefits were from waste reduction and tariff increases associated with privatization, not from explicit environmental policies or regulations. End-use efficiency was the target of only 1.4 percent of energy lending (4.4 percent if components of other projects are included). Support of renewables also accounted for only 1.4 percent of energy lending. OED deemed performance in these areas unsatisfactory. Lack of client interest and the economics of emission reduction contributed to the poor score—more can be achieved in the short run from reforming large units than from introducing renewables. Bank support for hydropower also declined, partly because of controversy over large dams, and the projects that were undertaken had poor environmental and resettlement performance. The report recommended more monitoring of ongoing activities and development of a better strategy. "Fuel for Thought" was an attempt at such a strategy.

Forest strategy. Adopted under pressure from various environmental groups, the 1991 forest strategy declared that the Bank would not finance projects that involved logging in wet tropical forests. This led to a sharp reduction in forest projects and reduced risk taking by the Bank but had little overall effect on rates of deforestation. The 2000 review found that the strategy and its implementation chilled Bank involvement in forest-rich countries and were too narrowly focused. They failed to address either tropical dry forests or temperate forests; funding for the externalities identified; or governance of natural resources. And they did not adequately diagnose the causes of deforestation. The review argues that the poor cause much less damage to forests than commercial fuel wood extraction, local and export timber demands, and road building. The Bank's policy leverage was limited and forest issues were inadequately included in Country Assistance Strategies and poverty

* Interestingly, the OED review on poverty did not consider the link between poverty and the environment. See *Poverty Reduction in the 1990s: An Evaluation of Strategy and Performance* (Washington, D.C.: World Bank, 2000).

strategies for member countries. Where forest issues were addressed—for example, in adjustment loans—it was episodic in response to short-term pressures and not part of a longer-term strategy for the sector. The Bank had much more success in helping forest-poor countries, such as India and China (often at their request) to improve forest management and its impact on poverty alleviation. OED deemed the overall effectiveness of the forest strategy to be modest and sustainability uncertain. It was not adequately integrated into country, poverty, or rural development strategies and led to risk reduction and lower direct involvement in the sector. A new strategy was recommended to address these issues.

Source: Operations Evaluation Department, “The World Bank Environment Strategy for the Energy Sector: An OED Perspective” (World Bank, Washington, D.C., 1998); Operations Evaluation Department, “An Evaluation of Bank Performance in Desertification,” Discussion Draft (World Bank, Washington, D.C., 2000); Operations Evaluation Department, “A Review of the World Bank’s 1991 Forest Strategy and Its Implementation,” Preliminary Report (World Bank, Washington, D.C., 2000).

ANNEX III Project Evaluations in Focus Countries

Table III.1. Africa focus countries. Development effectiveness of projects closed FY95 through FY00 *

| <i>Country /Region</i> | <i>Number of Projects</i> | <i>Outcome Satisfactory or higher (%)</i> | <i>Sustainability Likely or higher (%)</i> | <i>Institutional Dev. Substantial or higher (%)</i> | <i>APPI</i> |
|--|---------------------------|---|--|---|-------------|
| COTE D'IVOIRE | | | | | |
| Free-standing environmental projects | - | - | - | - | - |
| Other projects with environmental components | 2 | 100 | 100 | 50 | 7.76 |
| All projects | 7 | 71 | 86 | 29 | 7.28 |
| GHANA | | | | | |
| Free-standing environmental projects | 1 | 100 | 0 | 100 | 7.50 |
| Other projects with environmental components | 7 | 43 | 43 | 43 | 6.57 |
| All projects | 28 | 39 | 32 | 39 | 6.46 |
| MOZAMBIQUE | | | | | |
| Free-standing environmental projects | 1 | 0 | 0 | 100 | 7.00 |
| Other projects with environmental components | 1 | 0 | 0 | 0 | 4.50 |
| All projects | 16 | 69 | 44 | 62 | 7.09 |
| TANZANIA | | | | | |
| Free-standing environmental projects | 1 | 0 | 100 | 100 | 7.50 |
| Other projects with environmental components | 4 | 50 | 75 | 75 | 6.93 |
| All projects | 11 | 55 | 73 | 73 | 7.09 |
| UGANDA | | | | | |
| Free-standing environmental projects | 1 | 0 | 0 | 0 | 4.25 |
| Other projects with environmental components | 5 | 40 | 40 | 40 | 5.40 |
| All projects | 16 | 44 | 25 | 19 | 6.15 |
| REGION | | | | | |
| All projects closed 90-93 | 278 | 54 | 28 | 25 | 5.8 |
| All projects closed 94-97 | 320 | 55 | 28 | 24 | 5.8 |
| All projects closed 98-99 | 122 | 61 | 34 | 26 | 6.0 |

* OED rated projects since FY95 through May 2000. Free-standing environmental projects are all projects labeled as such plus forest management projects. Other projects with environmental components are mostly agricultural and water and sanitation projects. APPI is in a 1 to 10 scale. Region figures are taken from the 1999 Annual Review of Development Effectiveness (World Bank, 1999)

Table III.2. Asia focus countries. Development effectiveness of projects closed FY95 through FY00 *

| <i>Country /Region</i> | <i>Number of Projects</i> | <i>Outcome Satisfactory or higher (%)</i> | <i>Sustainability Likely or higher (%)</i> | <i>Institutional Dev. Substantial or higher (%)</i> | <i>APPI</i> |
|--|---------------------------|---|--|---|-------------|
| BANGLADESH | | | | | |
| Free- standing environmental projects | - | - | - | - | - |
| Other projects with environmental components | 7 | 43 | 43 | 57 | 7.00 |
| All projects | 19 | 47 | 47 | 26 | 6.17 |
| INDIA | | | | | |
| Free- standing environmental projects | - | - | - | - | - |
| Other projects with environmental components | 20 | 45 | 30 | 30 | 6.13 |
| All projects | 36 | 47 | 53 | 31 | 6.46 |
| NEPAL | | | | | |
| Free- standing environmental projects | - | - | - | - | - |
| Other projects with environmental components | 6 | 50 | 17 | 33 | 5.87 |
| All projects | 13 | 54 | 23 | 23 | 6.15 |
| SOUTH ASIA, REGION | | | | | |
| All projects closed 90-93 | 109 | 73 | 38 | 30 | 6.4 |
| All projects closed 94-97 | 130 | 67 | 47 | 27 | 6.2 |
| All projects closed 98-99 | 50 | 66 | 42 | 34 | 6.5 |
| CAMBODIA | | | | | |
| Free- standing environmental projects | - | - | - | - | - |
| Other projects with environmental components | - | - | - | - | - |
| All projects | 2 | 0 | 0 | 0 | 6.00 |
| CHINA | | | | | |
| Free- standing environmental projects | 4 | 100 | 100 | 75 | 8.87 |
| Other projects with environmental components | 15 | 80 | 67 | 47 | 7.70 |
| All projects | 36 | 81 | 86 | 53 | 7.71 |
| VIETNAM | | | | | |
| Free- standing environmental projects | - | - | - | - | - |
| Other projects with environmental components | - | - | - | - | - |
| All projects | 2 | 100 | 50 | 100 | 8.75 |
| EAST ASIA, REGION | | | | | |
| All projects closed 90-93 | 159 | 80 | 70 | 45 | 7.2 |
| All projects closed 94-97 | 158 | 84 | 69 | 41 | 7.1 |
| All projects closed 98-99 | 58 | 81 | 54 | 50 | 7.1 |

* OED rated projects since FY95 through May 2000. Free-standing environmental projects are all projects labeled as such plus forest management projects. Other projects with environmental components are mostly agricultural and water and sanitation projects. APPI is in a 1 to 10 scale. Region figures are taken from the 1999 Annual review of development effectiveness (World Bank, 1999)

Table III.3. ECA, LAC and MENA focus countries. Development effectiveness of projects closed FY95 through FY00 *

| <i>Country /Region</i> | <i>Number of Projects</i> | <i>Outcome Satisfactory or higher (%)</i> | <i>Sustainability Likely or higher (%)</i> | <i>Institutional Dev. Substantial or higher (%)</i> | <i>APPI</i> |
|--|---------------------------|---|--|---|-------------|
| AZERBAIJAN | | | | | |
| Free- standing environmental projects | - | - | - | - | - |
| Other projects with environmental components | - | - | - | - | - |
| All projects | 1 | 100 | 100 | 0 | 7.25 |
| KYRGYZ REPUBLIC | | | | | |
| Free- standing environmental projects | - | - | - | - | - |
| Other projects with environmental components | 1 | 100 | 100 | 100 | 10.00 |
| All projects | 3 | 100 | 100 | 100 | 9.52 |
| BOLIVIA | | | | | |
| Free- standing environmental projects | 2 | 50 | 50 | 0 | 7.75 |
| Other projects with environmental components | 4 | 25 | 50 | 50 | 6.06 |
| All projects | 20 | 65 | 65 | 55 | 7.21 |
| YEMEN | | | | | |
| Free- standing environmental projects | - | - | - | - | - |
| Other projects with environmental components | 9 | 55 | 11 | 55 | 7.00 |
| All projects | 15 | 47 | 27 | 40 | 6.83 |
| ALL IDA/BLEND PROJECTS | | | | | |
| All projects closed 90-93 | 398 | 63 | 33 | 28 | 6.1 |
| All projects closed 94-97 | 476 | 65 | 38 | 29 | 6.2 |
| All projects closed 98-99 | 207 | 69 | 41 | 34 | 6.4 |

* OED rated projects since FY95 through May 2000. Free-standing environmental projects are all projects labeled as such plus forest management projects. Other projects with environmental components are mostly agricultural and water and sanitation projects. APPI is in a 1 to 10 scale. Figures for all IDA/Blend projects are from the 1999 review of development effectiveness

Table III.4 Africa focus countries. Development effectiveness of active projects as of 6/1/2000

| <i>Country /Region</i> | <i>Number of Projects</i> | <i>QAG Not at risk projects (%)</i> | <i>Supervision: % with DO Satisfactory</i> | <i>Supervision: % with IP Satisfactory</i> |
|---|---------------------------|-------------------------------------|--|--|
| COTE D'IVOIRE | | | | |
| Free- standing environmental projects | - | - | - | - |
| Other projects with environmental components | 3 | 33 | 67 | 67 |
| All projects | 15 | 80 | 87 | 87 |
| GHANA | | | | |
| Free- standing environmental projects | 2 | 100 | 100 | 100 |
| Other projects with environmental components | 6 | 83 | 100 | 83 |
| All projects | 23 | 83 | 91 | 91 |
| MOZAMBIQUE | | | | |
| Free- standing environmental projects | - | - | - | - |
| Other projects with environmental components | 5 | 80 | 80 | 80 |
| All projects | 13 | 92 | 92 | 92 |
| TANZANIA | | | | |
| Free- standing environmental projects | 1 | 100 | 100 | 100 |
| Other projects with environmental components | 3 | 100 | 100 | 100 |
| All projects | 21 | 86 | 90 | 90 |
| UGANDA | | | | |
| Free- standing environmental projects | 2 | 100 | 100 | 100 |
| Other projects with environmental components | 5 | 100 | 100 | 100 |
| All projects | 25 | 84 | 100 | 96 |
| REGION / IDA | | | | |
| Africa region all active projects (as of 8/ 99) | 292 | 73 | 84 | 84 |
| IDA all active projects (as of 8/99) | 1,322 | | 91 | 88 |

* Free-standing environmental projects are all projects labeled as such plus forest management projects.
Other projects with environmental components are mostly agricultural and water and sanitation projects.

Table III.5. Asia focus countries. Development effectiveness of active projects as of 6/1/2000

| <i>Country /Region</i> | <i>Number of Projects</i> | <i>QAG Not at risk projects (%)</i> | <i>Supervision: % with DO Satisfactory</i> | <i>Supervision: % with IP Satisfactory</i> |
|---|---------------------------|-------------------------------------|--|--|
| BANGLADESH | | | | |
| Free- standing environmental projects | 2 | 50 | 100 | 50 |
| Other projects with environmental components | 6 | 83 | 100 | 83 |
| All projects | 25 | 79 | 88 | 84 |
| INDIA | | | | |
| Free- standing environmental projects | 13 | 54 | 69 | 62 |
| Other projects with environmental components | 12 | 67 | 92 | 92 |
| All projects | 54 | 74 | 87 | 83 |
| NEPAL | | | | |
| Free- standing environmental projects | - | - | - | - |
| Other projects with environmental components | 4 | 25 | 100 | 25 |
| All projects | 9 | 44 | 100 | 56 |
| SOUTH ASIA, REGION | | | | |
| <i>All active projects (as of 6/30/99)</i> | 139 | 83 | 93 | 90 |
| CAMBODIA | | | | |
| Free- standing environmental projects | - | - | - | - |
| Other projects with environmental components | 1 | 100 | 100 | 100 |
| All projects | 10 | 90 | 100 | 90 |
| CHINA | | | | |
| Free- standing environmental projects | 11 | 91 | 91 | 100 |
| Other projects with environmental components | 10 | 100 | 100 | 100 |
| All projects | 53 | 94 | 96 | 96 |
| VIETNAM | | | | |
| Free- standing environmental projects | 2 | 100 | 100 | 100 |
| Other projects with environmental components | 4 | 100 | 100 | 100 |
| All projects | 21 | 100 | 100 | 100 |
| EAST ASIA, REGION | | | | |
| <i>IDA/blend all active projects (as of 8/99)</i> | 1,322 | | 91 | 88 |

* Free-standing environmental projects are all projects labeled as such plus forest management projects.
Other projects with environmental components are mostly agricultural and water and sanitation projects.

Table III.6. ECA, LAC and MENA. Development effectiveness of active projects as of 6/1/2000

| <i>Country /Region</i> | <i>Number of Projects</i> | <i>QAG Not at risk projects (%)</i> | <i>Supervision: % with DO Satisfactory</i> | <i>Supervision: % with IP Satisfactory</i> |
|--|---------------------------|-------------------------------------|--|--|
| AZERBAIJAN | | | | |
| Free- standing environmental projects | 1 | 100 | 100 | 100 |
| Other projects with environmental components | 2 | 100 | 100 | 100 |
| All projects | 10 | 90 | 100 | 90 |
| KYRGYZ REPUBLIC | | | | |
| Free- standing environmental projects | - | - | - | - |
| Other projects with environmental components | 3 | 66 | 100 | 66 |
| All projects | 11 | 91 | 100 | 91 |
| BOLIVIA | | | | |
| Free- standing environmental projects | 1 | 100 | 100 | 100 |
| Other projects with environmental components | 3 | 100 | 100 | 100 |
| All projects | 15 | 93 | 100 | 100 |
| YEMEN | | | | |
| Free- standing environmental projects | 1 | 100 | 100 | 100 |
| Other projects with environmental components | 2 | 100 | 100 | 100 |
| All projects | 20 | 90 | 100 | 85 |
| IDA | | | | |
| All active projects (as of 8/99) | 1,322 | | 91 | 88 |

* Free-standing environmental projects are all projects labeled as such plus forest management projects.

Other projects with environmental components are mostly agricultural and water and sanitation projects.

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