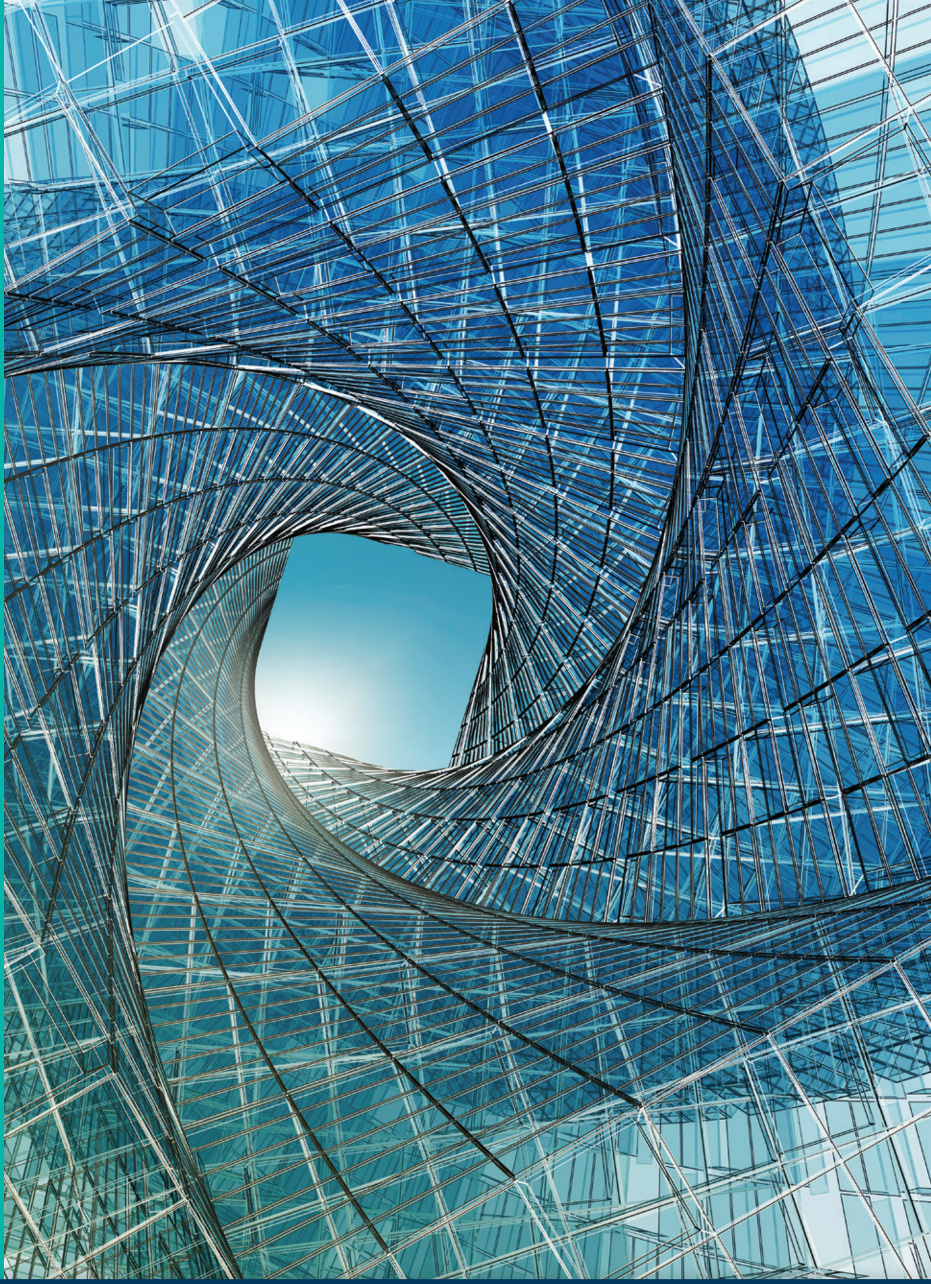
Managing Environmental and Social Risks in Development Policy Financing



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WHAT WORKS

Managing Environmental and Social Risks in Development Policy Financing

IEG Learning Product

July 27, 2015

1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

Abbreviations

CEA	Country Environmental Analysis
CPF	Country Partnership Framework
DPF	Development Policy Financing
DPL	Development Policy Loan
DPO	Development Policy Operation
GP	Global Practice
ICR	Implementation Completion Report
IEG	Independent Evaluation Group
IPF	Investment Project Financing
IEGPS	IEG Public Sector Evaluation
PPAR	Project Performance Assessment Report
PPP	Public Private Partnership
PSIA	Poverty and Social Impact Analysis
ROC	Regional Operations Committee
RSA	Regional Safeguards Advisor
SAL	Structural Adjustment Loan
SCD	Systematic Country Diagnostic
SEA	Strategic Environmental Assessment
SECAL	Sectoral Adjustment Loan
SORT	Systematic Operations Risk Rating Tool
TA	Technical Assistance
TTL	Task Team Leader

Director-General, Independent Evaluation	:	Ms. Caroline Heider
Director, IEG Public Sector Evaluation	:	Mr. Nicholas York
Manager, IEG Public Sector Evaluation	:	Ms. Marie Gaarder
Task Manager	:	Mr. William R. Sutton

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Preface

This is one of a series of learning products on Development Policy Financing (DPF) being undertaken by the Independent Evaluation Group (IEG), covering a range of issues such as results frameworks, macrofiscal frameworks, public expenditure reviews, and in this case environmental and social risk management. The series is designed to provide a timely independent perspective in relation to the World Bank's 2015 DPF Retrospective, itself one of a series of such reviews. In the past IEG has also conducted broader reviews of DPF, including a 2010 major evaluation of one type of operations—Poverty Reduction Support Credits (IEG 2010).

This learning product is intended to provide lessons that will help to strengthen the DPF instrument in a key area, by identifying opportunities to improve how environmental and social risks are handled. This is the first time that IEG has covered this subject. It is not a general assessment of DPF as an instrument, or of the efficacy of Development Policy Operations (DPOs) in achieving positive development impacts.

The focus of the Learning Product is on Bank actions, policies, procedures, and guidance. While IEG recognizes that DPF operations are designed to have positive development effects, this Learning Product focuses on the management of potentially adverse environmental and social effects of DPOs. The review does not attempt to assess the actual environmental or social effects of policy actions or mitigation measures on the ground; nor does it assess the performance of borrowers. As part of the series of Learning Products on DPF, IEG will conduct a separate review of DPOs that explicitly aimed to support environmental goals. It also does not assess whether the requirements of the Bank's Operational Policy 8.60 on DPF are adequate for managing environmental and social risks; instead it aims to learn from the experience of implementing these requirements.

As a Learning Product, this report does not contain formal recommendations. However, it is categorized as an IEG Category 2 learning product because it includes both accountability and learning elements, and therefore is subject to the same review and processing steps used for IEG major evaluations.

Acknowledgments

This report was prepared by a team led by William Sutton (Lead Economist, IEG), under the supervision of Nicholas York (Director, IEG) and Marie Gaarder (Manager, IEG). The core team members were Stephen Hutton, Richard Carroll, Gurkan Kuntasal, Daniel Gibson, Cyprian Fisiy, John Redwood, and William Mayville. Zeljko Bogetic provided helpful input. Data analysis was provided by Jesse Torrence. Program support was provided by Marie Charles.

Peer reviewers were Kirk Hamilton, Reidar Kvam, and Erwin Tiongson.

The team gratefully acknowledges the contributions of present and former World Bank Group managers and staff who cooperated with the Learning Product, including those who provided comments on the Concept Note.

Summary

Why environmental and social risk management in policy lending?

World Bank Development Policy Financing (DPF) differs markedly from Investment Project Financing (IPF). Whereas IPF typically finances specific, physical investments, DPF operations are designed to achieve development goals through policy reforms, including specific policies referred to as “prior actions.” Though the main effects of policy reforms will likely be positive, there is also the possibility of unintended negative effects, or “risks”: a policy aimed at increasing investment in mining by adjusting royalty rates could lead to expanded mining with associated damage to landscapes and pollution of waterways; reduction of energy subsidies might place a financial burden on the poor. The significant environmental and social effects of policies can be indirect and long-term, as well as direct and short term.

Effective environmental and social risk management in DPF is central to achieving the World Bank’s goals of ending extreme poverty and promoting shared prosperity in a sustainable manner (World Bank 2013a). If the World Bank is supporting far-reaching member country reforms that are intended to contribute to the twin goals, then it should seek to understand the impact of those reforms on the poor. It should also ensure that the country’s natural capital and long-term growth prospects will not be undermined.

The objective of this learning product is therefore to assess the application of the elements of the World Bank Operational Policy (OP) governing DPF (OP 8.60) related to the implementation of the environmental and social risk management requirements of the policy, and identify lessons learned and good practices. The focus of the study is on Bank actions, policies, procedures, and guidance for environmental and social risk management, based largely on a desk-based portfolio review of a large, random sample of Development Policy Operations (DPOs), complemented by assessment of other relevant documents, and interviews with key stakeholders. This review does not assess the adequacy of the OP 8.60 requirements in regards to environmental and social risk management; such an assessment would require a more in-depth review based on field evidence.

The World Bank manages environmental and social risks in DPF not through the system of environmental and social safeguards applied to IPF, but rather through a separate approach outlined in OP 8.60. This approach requires the Bank to determine whether specific policies supported by a DPO are likely to have significant poverty and social or environmental effects. If potential negative effects are identified, the Bank is required to summarize the following in the Program Document: relevant analytical knowledge; the borrower’s capacity for managing such effects; and, if gaps are identified, how they will be addressed.

The environmental and social requirements of OP 8.60 are quite general and stated very succinctly. There are other relevant OP 8.60 requirements for the Bank to assess the client country’s environmental and social policy and institutional framework, make environmental and social analytical work available to the public, and advise the client to

carry out stakeholder consultations. The policy is complemented by a set of Bank Procedures (BPs), guidance, and practices.

The Bank emphasized the potential of OP 8.60 to promote positive environmental and social development from the time the policy was approved in 2004. It stated that "The new OP/BP introduces a framework that for the first time sets out clear and unambiguous standards for environmental and social safeguards…in policy-based lending" by focusing on "a developmental approach to capacity building in the country's policies, institutions, and systems, rather than a ring-fenced focus on specific expenditures or physical investments" (World Bank 2004a).

What did the Independent Evaluation Group find?

The Independent Evaluation Group (IEG) carried out a portfolio review of a sample of DPOs approved over 2005-14. For this sample, IEG assessed whether specific policies had the potential for likely significant negative environmental or social effects, along with the other requirements of OP 8.60 that are relevant for environmental and social risk management. In carrying out the assessment, IEG endeavored to faithfully apply the Bank's existing policy, guidance, and advice to task teams. Multiple experts reviewed each policy to increase consistency.

IEG found multiple examples of good practice in managing environmental and social risks. For example, an electricity DPO in Georgia used a poverty and social impact analysis (PSIA) on the distributional impact of tariff reforms, and established a block tariff as a mitigation measure for the poor. An irrigation DPO series in Pakistan and an urban Development Policy Loan (DPL) in Colombia presented detailed matrices assessing the environmental and social consequences of each policy area, and noting mitigation measures where risks were present. An urban and environmental DPL in Brazil outlined a number of risks but determined that existing government systems were sufficient to manage them, so no further action was required. An electricity DPL in Tonga supporting an action plan built in a range of environmental mitigation measures. Such examples demonstrate that the risk management requirements of OP 8.60 are feasible to implement without creating an undue burden, and without discouraging Bank support for potentially risky policy areas.

Most prior actions in DPOs do not pose environmental or social risks. Even in the remaining cases where risks exist, this does not mean that a negative effect will necessarily occur—it means only that there is some potential for which additional due diligence is required. It also does not mean that risky actions or operations should be avoided—it is possible for reforms to be high-risk as well as high-reward. Rather, under OP 8.60 the risk of significant negative effects means that additional due diligence is required to reduce potential adverse effects and enhance positive effects.

Overall, however, IEG found significantly more actions to have the risk of negative environmental or social effects than were identified by World Bank task teams, indicative of underreporting of potential risks on the part of Bank teams. For the sample of prior actions reviewed, IEG found that Bank task teams identified environmental and social risks just over half as often as IEG's experts. There were also a number of cases where prior actions might have had risks, but the World Bank Program Document did not provide sufficient information on the content of the reforms to draw a conclusion.

As noted in World Bank guidance, some degree of expert judgment is required when identifying risks. Whether a particular policy action poses a risk can depend on the specific context of the policy action and country. However, the Bank's identification of risks was inconsistent. Policies that were identified as having risks in some operations were not identified as risky in other operations that supported similar policies—and without a clear justification based on context. In other cases, policies identified as having risk potential in the Bank's guidance were often not identified as risky in the Bank's operations, even when there were no clear factors in the policy or country context that would suggest that risks were unlikely.

Risks were not confined to DPOs mapped to sectors like energy, agriculture, and environment: the majority of both environmental and social risks were identified in poverty reduction and macro-economic management operations, which also feature the largest overall number of DPOs. While a relatively small minority of prior actions were identified as risky by IEG, they were spread across many of the operations in the sample.

When Bank teams identified prior actions as environmentally or socially risky, they typically discuss the client's capacity to manage these risks, and describe mitigation measures. However, capacity assessments are often perfunctory. The quality of mitigation measures was not assessed in this review. Analytic work (whether formal or informal) on environmental and social risks is usually not undertaken even when task teams identify the possibility of a risk. The Bank often does not describe in Program Documents the member country's arrangements for consultations and participation on relevant analytical work conducted by the Bank on poverty and social impact and on environmental aspects, as required by OP 8.60.

OP 8.60 focuses on the ex ante identification and mitigation of environmental and social risks, and does not explicitly address their ex post monitoring or evaluation. However, when OP 8.60 was approved, the Bank stated that monitoring of DPO progress and effectiveness "will be expected to give explicit attention to poverty/social, environmental, and fiduciary aspects," and this was also emphasized in the specific environmental and social guidance (World Bank 2004b; World Bank 2008; World Bank 2013). IEG finds that after a policy action is implemented, there is at present no formal system in place in the Bank to monitor and evaluate environmental and social risks and their mitigation in DPF. The Bank's monitoring documents seldom contain information on actual environmental or social effects or the efficacy of mitigation measures, except for positive environmental and social outcomes that were part of the program's objectives. In particular, Implementation Completion and Results Reports (ICRs) rarely discuss negative environmental or social issues for DPF. IEG's system of desk validation of these reports (the ICR Review), therefore, also does not provide an effective review of environmental or social issues for DPF.

What are the reasons behind the findings?

Bank policy and guidance are vague, and do not clearly define key concepts. A central question in OP 8.60 is whether a policy action will have "likely significant effects." But there is no formal definition of this concept in the policy or in the Bank Procedure 8.60 (BP 8.60). Interviews with Bank staff reveal that the meaning of "likely significant effects" is not well-understood by task teams, and in practice is frequently interpreted to mean only those policy actions with "direct, short-term effects." This is not stated in the policy, and sometimes causes task teams to leave out consideration of important indirect or longer-term effects—which the Bank recognized as important at the time OP 8.60 was approved. The sequencing of the requirements can also lead to confusion, requiring that the determination of "likely significant effects" be made before analytical work is carried out.

A range of guidance and training materials is available, but they vary in quality, usability, and relevance. The 2004 Environment Good Practice Note provides a good overview of the issues, and the 2008 Environment Toolkit provides detailed, practical instructions for task teams, but they would both benefit from updating with greater examples from actual experience and more widespread use by task teams. Guidance on the social side is focused on the PSIA tool and is dispersed, with a large number of guidance notes and toolkits produced by different Bank departments. Many documents are not very user-friendly, and the guidance on what types of policies present social risks is less comprehensive than on the environment side. The use of recommended analytical tools such as PSIA, country environmental analysis (CEA), and strategic environmental assessment (SEA) has been uneven, and trust fund resources for CEAs and SEAs were exhausted in 2012.

The lack of formal procedures and inconsistent practices in review of environmental and social aspects appears to have reduced incentives to fully comply with the policy. BP 8.60 does not mention environmental or social effects or their management. DPF operations generally have a high level of review within the Bank, but on the specific issue of environmental and social risk management there is no explicit requirement for input from qualified experts in the official processing instructions. Practices within the Bank to ensure that environmental and social risks are adequately managed have varied over time. This has led to inconsistent treatment across Regions and operations. Good practice examples often reflect initiatives on the part of individual Task Team Leaders (TTLs).

The pressure to deliver operations quickly, combined with the lack of a formal role for environmental or social specialists, provide incentives for task teams to deprioritize management of environmental and social risks in DPOs. Not all DPO TTLs are familiar with the environmental and social requirements of OP 8.60, and some others view the requirements as a burden rather than as a means of enhancing the value of the instrument and its overall development effectiveness.

The World Bank approach to environmental and social risk management in DPF focuses exclusively on the effects of policies rather than on the impacts of financing. This approach can be undermined if DPF funds are used in a manner other than general budget support. In a much smaller sample of recent DPL project evaluations and desk reviews, IEG has identified four cases—in Brazil, Cameroon, Ghana, and Vietnam—where World Bank funds were earmarked by the Borrower for specific investments. Although some Bank guidance discourages such practices, there is nothing in OP 8.60 that explicitly prohibits it. This could lead to environmental and social risks that are not fully addressed, and to associated reputational risks for the Bank.

Neither the Operations Policy and Country Services (OPCS) Vice Presidency's ICR Guidelines nor IEG's Handbook for ICR Reviews requires reporting on environmental and social risks or their mitigation in DPF. As a result, there is little incentive for task teams to monitor or evaluate them. The Bank's current grievance redress mechanism—the Inspection Panel—may not provide adequate opportunity for affected parties to register complaints with respect to DPF due to the shorter window between approval and closure in which complaints may be filed.

How to strengthen environmental and social risk management in policy lending?

Our review finds that there is scope for the Bank to strengthen its approach to environmental and social risk management in DPF in all aspects of the system: guidance, procedures, incentives, and accountability mechanisms. This would require bringing together the different elements that currently govern environmental and social risk management into a robust, well-coordinated system while preserving an adequate level of flexibility for the instrument, and without placing an undue burden on client governments.

Strengthening the system can be done in a way that supports the twin goals of the Bank Group without creating bottlenecks or discouraging Bank support for policy actions in sensitive areas. One of the benefits of having a strong system would be that potentially significant risks could be identified early and accurately so that they can be managed more effectively. This does not mean that the lending should not proceed. Rather, it means that the benefits of the lending for the client population are more likely to be maximized.

The review suggests that the following aspects of policy, procedures, and guidance could be strengthened to help the Bank achieve this goal:

- BP 8.60 could be revised to specify procedures to ensure that the provisions of OP 8.60 with respect to environmental and social risks are adequately applied.
- Environmental and social screening could be brought into DPOs from the concept note stage, and this and other roles for ensuring environmental and social due diligence could be included more explicitly as a requirement in the Development Policy Financing Processing Instructions.
- The template required for all DPO Program Documents could be adjusted to clearly indicate the potential environmental and social effects that have been identified, whether or how they have been assessed, and decisions reached as a result.

- Guidance provided to task teams and social and environmental specialists could be updated to reflect experience gained over the past decade. On the social side, the voluminous current guidance materials could be consolidated and made more user-friendly. Clear operational definitions of key concepts such as “likely significant effects” could be provided. Guidance on identifying and managing indirect, medium-, and long-term effects could be improved to assist in determining reasonable boundaries for responsibilities. This would ensure that important indirect effects are managed, while acknowledging that not all indirect effects of a reform will be “likely significant,” and that some effects will be too remote to be reasonably attributable. Efforts could be made to ensure that interpretations are consistent with the intent of the policy. Some expert judgment will be required under any scenario.
- Clearer guidance could be provided to task teams on the appropriate course of action once an environmentally or socially risky policy action is identified, including how to conduct a meaningful capacity assessment and gap analysis of country risk management systems, how the Bank could help client countries address gaps identified in country capacity, and how consultations with civil society could be used to enhance program design.
- The Bank could strengthen requirements to avoid the possible undermining of the OP 8.60 approach to environmental and social risk management through the actual or apparent earmarking of DPF proceeds by Borrowers.
- The quality of Program Documents could be improved to make clearer the details of policies being supported and when those policies are identified by task teams as posing environmental or social risks according to the OP 8.60 definition.

The review also suggests that incentives and capacity could be enhanced to promote good practice in environmental and social risk management in DPF:

- Incentives could be improved to encourage Bank staff to better balance management of environment and social risks in DPF with the demands of responsive and rapid delivery. This could include establishing a more formal role for input from environmental and social experts to ensure the appropriate level of independent and timely challenge during the preparation and review process.
- Bank Management could reduce the costs to task teams by providing adequate resources for involving specialists in DPF task teams from an early stage through “off the top” budget, and by increasing support for analytical work on the environmental and social impacts of policies through increased trust fund resources.
- Managers could send clear signals that environmental and social aspects are a priority in the design and preparation of DPF.
- An assessment of training needs could be conducted for different key target groups—team leaders, environmental and social specialists, management—to ensure adequate and appropriate coverage of policies, procedures, and the updated guidance.

- Greater provision could be made for monitoring and evaluation of environmental and social risks in DPFs, including adding sections to ICR and ICR Review templates and guidance.
- The window for potentially affected parties to be informed of the contents of a DPO and have their concerns addressed could be widened by extending the timeline between public disclosure of DPO documentation and disbursement, and by extending the deadline for Inspection Panel requests beyond the closing date of the operation in the case of DPF.

Going forward, the inclusion of environmental and social themes and risks in new World Bank tools like the Systematic Operations Risk Rating Tool (SORT), Systematic Country Diagnostics (SCD), and Country Partnership Frameworks (CPFs) is a positive step, and could be used to focus attention on operations with significant risks and to carry out or encourage upstream analytical work on a country's environment and social capacity; policy opportunities and challenges; and risks. In so doing, it would be helpful for the Bank to be cognizant of its risk appetite, and find a proper balance to allow for supporting policy reforms that may entail risks, but that also have the potential for important poverty reduction, equity, or sustainability benefits—as long as the risks are adequately understood and mitigated.

Management Response

Management welcomes the IEG learning product on *Managing Environmental and Social Risks in Development Policy Financing*. Management appreciates the active engagement with IEG during the preparation of the learning product, which provides important inputs for the 2015 Development Policy Finance (DPF) Retrospective. In response to the final learning product, management has the following comments.

It is unfortunate that this learning product only provides a partial assessment of the environmental and social effects of DPF-supported reforms. It looks at environmental and social "risks," that is, the potential for adverse effects, and does not examine the positive environmental and social contributions that many DPFs make. In addition, it downplays the fact that by far most prior actions do not pose any significant and likely risks. As a result, the learning product presents a biased picture of the environmental and social effects of DPF, which reduces the learning value of the product. Management welcomes IEG's plans for a separate learning product on environmental DPF, which will provide a more balanced perspective and should be considered in conjunction with this learning product. We expect that this additional learning product will take into consideration DPF-supported reforms that have had significant positive environmental effects.

At the same time, management agrees with IEG that implementation of the environmental and social requirements of the operational policy on DPF (OP 8.60) should be further strengthened. Therefore, in the forthcoming DPF Retrospective, management will recommend actions to strengthen the screening of prior actions for likely environmental and social effects in program documents; overhaul the guidance, toolkits, and training for staff; and enhance the corporate review process to provide greater clarity and ensure the consistent application of the environmental and social requirements of OP 8.60.

1. Addressing Environmental and Social Risks in Development Policy Financing

World Bank Development Policy Financing (DPF) operations are designed to achieve development goals through the positive effects of policy reforms. But policies may also have risks of negative environmental or social side effects. Effective environmental and social risk management in DPF is central to the World Bank's development agenda. The 2013 World Bank Group Strategy is guided by two goals: to end extreme poverty, and to promote shared prosperity (World Bank 2013a). The strategy also states that those goals should be achieved in a sustainable manner, noting that "environmental sustainability is essential to achieve the goals in a world of finite planetary boundaries and natural resources." As the World Bank uses DPF to support far-reaching national reforms that are intended to contribute to the twin goals, then it is necessary to understand the impact of those reforms on the poor. And if policy actions taken today to promote economic growth lead to the depletion of a country's natural capital, the long-term sustainability of the growth model will be undermined. The environmental and social requirements of the Operational Policy (OP) governing DPF – OP 8.60 – are therefore essential to achieving poverty reduction and sustainability in World Bank Member Countries through DPF. (See Appendix A for a summary of differences between DPF and Investment Project Financing, or IPF.)

The objective of this Learning Product is to assess the application of World Bank policy, and identify lessons learned and good practices related to the implementation of the environmental and social risk management requirements of OP 8.60. The focus of the Learning Product is on Bank actions, policies, procedures, and guidance. It is a rapid assessment based primarily on a review of existing documents and data, augmented by interviews with selected staff.

Policy reforms can have significant effects on the environment and on the poor and vulnerable. The main effects will likely be positive—a policy that increases the profitability of poor farmers by removing trade barriers that raised the cost of inputs might have positive social effects, while a policy that removes energy subsidies might help to lower energy consumption and its associated pollution (in addition to providing better incentives for energy investments). But there is also a possibility for unintentional negative effects—the trade liberalization policy might expand agricultural production and use of fertilizers, pesticides, and herbicides, or land clearance; the energy subsidy reform policy might place a financial burden on the poor. For conciseness, in this Learning Product we will refer to the potential unintended adverse environmental and social effects of policy reforms as environmental and social "risks."

Concern for the potential for adverse environmental and social effects of policies has a long history in the development community and in the World Bank. For example, a World Bank retrospective on adjustment lending in 2001 noted with regard to environmental and social effects that "during the 1990s, adjustment lending gave increased attention to poverty-focused objectives and the mitigation of possible adverse impacts of reform measures" (World Bank 2001). It also noted external criticism of Bank policy lending on the grounds that it had high social costs.[1] A World Bank Policy Update communicated the concerns of both shareholders and Member Country stakeholders about the potential for adverse effects of DPF (World Bank 2004a).

The significant environmental and social effects of policies can be indirect and long-term, as well as direct and short-term. Many effects will be indirect, operating through changes in prices or other incentives. An agricultural policy change that increases the profitability of agriculture might indirectly encourage expansion of agricultural production, with potential environmental effects on land use, forest clearance, water consumption, or fertilizer and pesticide use. A trade policy that increases access to imports might indirectly harm workers in uncompetitive sectors. A policy that encourages hydropower development may indirectly contribute to the displacement of local people. Although a DPF operation is typically implemented over a very short period, there can be a substantial time lag before the effects of reforms it supports become apparent. For example, the approval of a new policy to increase the collection of electricity payments might take a year or more to implement, and even longer for the impacts on different segments of society to be measurable. Reforms that have side effects that increase groundwater consumption or deforestation may be detected only after a substantial time lag. Thus, considering only the direct or short-term impacts of policy lending might overlook important longer-term effects.

When the World Bank approved OP 8.60 in 2004, it introduced a new approach for managing environmental and social risks in budget support operations that was distinct from that for IPF. (See Appendix A for a summary of other differences between DPF and IPF.) One of the issues that OP 8.60 was intended to address was the treatment of social and environmental effects of budget support operations (World Bank 2004a). Before 2004, there were different World Bank budget support instruments: Structural Adjustment Loans (SALs) and Sectoral Adjustment Loans (SECALs). Starting in 1999, SECALs were required to apply the Bank's Environmental Assessment Policy, while SALs were not, and there were concerns that this could lead to "instrument arbitrage," whereby there would be a preference for using lending instruments with less onerous environmental and social requirements (World Bank 2004a). OP 8.60 consolidated all budget support under one instrument. In adopting OP 8.60, the Bank also affirmed that the environmental and social policies intended for investment lending were not appropriate for the fundamentally different nature of policy-based lending. Because DPF proceeds are not designed to finance specific investments, it is understood that there is no tangible investment footprint associated with DPFs. For an instrument designed to improve the development of countries through policy-measures, it was decided that the policies and procedures governing environmental and social risk management in IPF—the so-called "safeguards"—were not suitable.

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[1] The Retrospective noted (citing specific studies) that "many critics of adjustment programs maintain that the social costs are high, even while they accept that the costs of not adjusting can also be high. Several studies point to specific country experiences, particularly in Africa, with such adverse effects as increasing unemployment, real wage reductions, and deteriorating social indicators. They also suggest that adjustment is often associated with growing inequalities, and that many adjustment programs have neglected the distributional consequences and non-income aspects of poverty." (World Bank, 2001)

At the same time, one purpose for adopting OP 8.60 was to reinforce the principle that significant adverse environmental and social effects of policy support needed to be identified and addressed. Hence, specific environmental and social requirements for DPFs were spelled out in OP 8.60. The OP 8.60 paragraphs on “Poverty and Social Impacts” (“social” for short) and “Environmental, Forests, and other Natural Resource Aspects” (“environment” for short) are concise statements of what the basic requirements of the policy are. The two paragraphs that state OP 8.60’s social and environmental requirements (currently paragraphs 9 and 10, respectively) are reproduced in Box 1-1. They essentially mirror one another, and require the Bank to determine whether specific country policies supported by the operation are likely to have significant poverty and social, or environmental, effects. For policies with likely significant effects, the Bank is required to summarize in the Program Document relevant analytical knowledge of those effects and assess the borrower’s systems for reducing such adverse effects and enhancing positive effects. If there are significant gaps in the analysis or shortcomings in the borrower’s systems, the Bank is required to describe in the Program Document how such gaps or shortcomings will be addressed before or during program implementation. OP 8.60 does not address environmental or social effects of the use of the DPF funds by the borrower.

Box 1-1: Principal Environmental and Social Requirements of OP 8.60

9. *Poverty and Social Impacts*. The Bank determines whether specific policies supported by the operation are likely to have significant poverty and social consequences, especially on poor people and vulnerable groups. For policies with likely significant effects, the Bank summarizes in the Program Document relevant analytic knowledge of these effects and of the Member Country’s systems for reducing adverse effects and enhancing positive effects associated with the specific policies being supported. If there are significant gaps in the analysis or shortcomings in these systems, the Bank describes in the Program Document how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.

10. *Environmental, Forests, and other Natural Resource Aspects*. The Bank determines whether specific country policies supported by the operation are likely to cause significant effects on the Member Country’s environment, forests, and other natural resources. For policies with likely significant effects, the Bank assesses in the Program Document the Member Country’s systems for reducing such adverse effects and enhancing positive effects, drawing on relevant country-level or sectoral environmental analysis. If there are significant gaps in the analysis or shortcomings in these systems, the Bank describes in the Program Document how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.

Source: OP 8.60, OPCS, revised July 2014.

Other OP 8.60 requirements are also relevant for the management of environmental and social risks in DPFs. The most important of those passages are provided in Box 1-2. They include requirements for the Bank to assess the client country’s environmental and social policy and institutional framework, make environmental and social analytical work available to the public, and advise the client to carry out stakeholder consultations.

Box 1-2: Other Relevant OP 8.60 Requirements

Paragraph 3: Financing Criteria and Selectivity, which states: “The Bank’s decision to extend a DPF is based on an assessment of the Member Country’s policy and institutional framework—including its … environmental/natural resource management, and poverty and social aspects.”

Paragraph 5: Consultations and Participation, which states: “The Bank’s program document … describes the Member Country’s arrangements for consultations and participation relevant to the operation, and the outcomes of the participatory process adopted in formulating the Member Country’s development strategy. Relevant analytic work conducted by the Bank, particularly on poverty and social impacts and on environmental aspects, is made available to the public as part of the consultation process.”

Paragraph 15: Risk Management, which states: “The Bank independently identifies risks associated with the program supported and ensures, when possible, that the operation contains appropriate mitigation measures.”

Paragraphs 32 and 33: Countries affected by crisis or conflict may require an unusually quick response from the Bank. There may not be sufficient time or country capacity to adequately address design considerations (such as possible distributional effects, effects on natural resources and the environment, fiduciary arrangements), or to develop a strong policy program with stakeholder consultation. In such situations, DPF is justified on an exceptional basis. In such operations, the Bank describes in the Program Document when and how such design considerations would be addressed.

While OP 8.60 describes what is required with regard to identification of likely significant environmental and social effects and assessment of the Borrower’s mitigation capacity, guidance on how to implement the requirements is described elsewhere, in various Good Practice Notes, Guidance Notes, and Toolkits on the subject, training modules, and the new “Development Policy Financing Processing Instructions.” The result is a complex system of policies, procedures, guidance, and practices.

The Bank emphasized the potential of OP 8.60 to promote positive environmental and social development in client countries. When OP 8.60 was approved in 2004, the Bank argued that “countries need an overall adequate policy environment that covers poverty and social dimensions [and] environmental aspects…. A comprehensive diagnosis of development constraints that includes these aspects is a crucial underpinning of effective program design and possible Bank support” (World Bank 2004a, para. 29). Specifically, the Bank stated that “The new OP/BP introduces a framework that for the first time sets out clear and unambiguous standards for environmental and social safeguards…in policy-based lending. This approach represents a more systematic requirement…, while applying the principles of the Bank’s safeguard policies…. Its intent is thus to retain the same principles of promoting sustainable development…without weakening standards or creating undue burden for borrowers” (World Bank 2004a, para. 32). This would be achieved through DPF by focusing on “a developmental approach to capacity building in the country’s policies, institutions, and systems, rather than a ring-fenced focus on specific expenditures or physical investments” (World Bank 2004a, para. 33).

2. Performance in Identifying and Managing Environmental and Social Risks in DPF

One of the main activities under this Learning Product was an extensive portfolio review of DPF operations. The Independent Evaluation Group (IEG) conducted a desk-based portfolio review of a large sample of randomly selected DPF operations approved under OP 8.60. The sample covers the full period of the Bank's experience with DPF, from the effectiveness of OP 8.60 in 2004 until the end of calendar year 2014 (fiscal year 05-15). Appendix B contains details on the selection of the sample and the portfolio review process, and Appendix C contains the detailed results of the portfolio review. For the prior actions in operations in the sample, IEG assessed the application of the requirements of OP 8.60, including the identification of environmental and social risks, the extent to which analytic work on risks was carried out, the extent to which country capacity for managing risks was assessed, the extent to which gaps in capacity were addressed or risks were mitigated, and the extent to which risks were monitored over time. Results are reported primarily at the prior action level, because the number of prior actions with environmental or social risk implications can vary by operation.[2] For some questions where information at the operation level is of interest, that information is also presented.

Although DPOs support broad programs of policy and institutional reforms, the portfolio review focused on the "specific policies supported by the operation," as required by OP 8.60. The portfolio review was complemented by information gathered through meetings, interviews, and focus groups with several dozen people and Bank units, including environmental specialists, social specialists, safeguards specialists, macro-economists, the Operations Policy and Country Services (OPCS) Vice Presidency, and DPF task team leaders. It is important to note that without field missions, IEG was not able to verify whether risks actually materialized or whether mitigation measures were implemented.

IEG screened prior actions based on the Bank's policy and guidance. The core of the portfolio review was an assessment of whether prior actions in the operations were likely to pose significant environmental or social risks. This assessment was made using the existing requirements of OP 8.60 (as reported in Section 1) and the specific guidance provided by the Bank for environmental and social effects, supplemented by expert judgment as needed. The assessment did not entail the application of any new or additional requirements by IEG. As detailed below (Table 2-1, 2-3), in most cases the types of risks identified by the IEG team were also indicated by the Bank's guidance materials or were identified by Bank task teams in other operations in our sample. But as discussed in detail in Section 3, the policy is imprecise, there is a problem of sequencing in the requirement for analytical work, the boundaries of downstream effects to consider are not clear, and the guidance is not comprehensive. There are also inherent difficulties in predicting whether a policy action will have "significant" environmental or social effects, especially in cases where analytical work on the magnitude of potential effects has not been undertaken. As a result, it is sometimes

[2] The unit of analysis of environmental and social effects in the World Bank Development Policy Lending Retrospectives is at the prior action level.

difficult to ascertain whether a prior action will have the potential for significant adverse environmental or social effects, and ultimately a judgment call is required.[3] IEG minimized the potential for errors by having at least two environmental specialists and at least two social specialists review every prior action in the sample.

Acknowledging the potential for risks does not mean that the policies are undesirable or should not be implemented. Indeed, a policy or operation may have net positive environmental or social effects, but still have the possibility for some significant negative effects which could be mitigated or managed. Identifying the potential for adverse effects requires that some additional due diligence be conducted, but does not mean that negative effects will necessarily occur. It also does not necessarily mean that additional mitigation measures are necessary.

Findings on risk identification

The general finding of the portfolio review is that IEG's experts identified significantly more environmental and social risks than Bank task teams, indicating that there is an underreporting of environmental and social risks by the Bank in DPO Program Documents. IEG also identified significantly more risks than the Bank has been identifying in its Development Policy Financing Retrospectives, some of the reasons for which are explained in Box 2.9. Boxes C.1 and C.2 in Appendix C provide examples of the types of environmental and social risks, respectively, not identified by the Bank. At the same time, IEG identified examples of good practice in risk appraisal and identification by the Bank (see Boxes 2-3, 2-4, 2-5, 2-6, 2-7, 2-8). The majority of prior actions do not pose environmental or social risks. However, at least one risky action is present in a significant proportion of operations.

Policy actions and program logic are sometimes not clearly described in Program Documents, making it difficult to determine what exactly a DPF operation is supporting. This in turn makes it more challenging to predict environmental and social effects. For example, there are cases where a prior action required that an investment law be passed, or an energy action plan be implemented, or a trade reform be adopted, but the Program Document did not describe the contents of these in sufficient detail to understand the implications of the policy. These are most common in large, multi-sectoral DPLs with many policy actions. In these cases, IEG took a conservative (lower bound) approach and did not identify such prior actions as risky.

More than twice as many policy actions were identified as having social risks than environmental risks. This should not be interpreted as evidence that social risks are not addressed as well as environmental risks. Rather, it is due to the fact that the economic policy reforms of the type most often supported by DPF are more likely to have both winners and losers, whereas environmental risks tend to arise in the less common policy reforms related to sectors such as infrastructure, energy, mining, agriculture, or natural resources (see Tables 2.5 and 2.6). It does mean that due diligence on social risks is needed more frequently than on environmental risks. But our assessment found that staff working on environmental risks

[3] The Bank's guidance acknowledges this, stating for example that "The selection of policies for which PSIA is appropriate is inevitably a matter of judgment…" (World Bank 2004a), and "The degree of transmission of negative impacts will thus be a matter of judgment…" (World Bank 2008a).

tend to consider both direct and indirect effects while their colleagues working on social risks limit their coverage to direct and short-term effects. IEG did not find evidence that the identification of risks had improved over time.

The Bank's identification of potential environmental and social risks does not always follow its own guidance and is not always consistent across operations, without justification based on policy or country context.[4] Tables 2-1, 2-2, 2-3 and 2-4 provide detailed typologies of the types of prior actions identified by the Bank and/or IEG as entailing risks from environmental and social perspectives. The tables show the distribution of policy actions identified in IEG's portfolio review as posing environmental or social risks, grouped under broad typologies. In nearly all cases, IEG is not the sole source identifying that this type of action could pose risks; most policy types were also identified explicitly in Bank guidance, or were sometimes identified by Bank task teams in the Program Document. These categories are a useful way of seeing that most types of policy risks identified by IEG were also identified by other sources in some cases. But these typologies are used only as a way of organizing and presenting the results; they were not used as part of the methodology for identifying risks (described in Appendix B). Columns show, for those actions identified by IEG, how many of these were also identified by Bank task teams.

While all types of environmental risks in the sample bar one were identified by Bank task teams in at least one instance (see Table 2-1), often there were other instances of the same risk types which were not identified. For example, in a Poverty Reduction Support Credit (PRSC) in Tanzania that supported reforms for encouraging Public Private Partnerships (PPP) in infrastructure, the Program Document noted, "The promotion of PPPs could also have significant effects if compliance with national laws and regulation is not ensured." Yet other operations supporting similar reforms did not mention environmental risks (in Brazil, Niger, Tajikistan, Guinea-Bissau, Mexico, and Sierra Leone) despite indications that the goal was to increase private sector investment in infrastructure. More detailed examples of environmental risks not identified by the Bank in the sample are provided in Box 2-1.

On the social side, the Bank identified social risks in a high percentage of some policy types listed in this note, as summarized in Table 2-3. For example, a Morocco housing DPO did not identify risks associated with establishing an urban code that would affect where people could live, while a Brazil Housing DPO did identify the risk of people being excluded by similar reforms. More detailed examples of environmental risks not identified by the Bank in the sample are provided in Box 2-2.

IEG identified some policy types not specifically identified by guidance or Bank task teams as posing risks, but where IEG concluded that a risk exists based on expert judgment. It would not be surprising for this to occur in some cases, as no guidance system can identify

[4] It is not necessarily inconsistent for a policy reform to be identified as posing a risk in one operation but not another. The specific details of the policy reform, and the detailed country context can mean that a risk that exists in one case does not in another. The actions listed in the tables are only those that IEG identified as posing risks after considering these details. For example, one energy sector tariff reform might pose a risk of encouraging some energy users to switch to a dirtier fuel, but another in a different operation may not because of different patterns in energy use. But in most cases, differences in country context are in the ability to manage risks, rather than the determination of whether negative effects could occur.

all possible risky actions. However, as discussed in Section 3, the social guidance is less comprehensive than the environmental guidance. Indeed, on the environment side, there were four policy types not covered by guidance in IEG's sample (see Table 2-1, 2-2), while on the social side there were eight (see Table 2-3, 2-4).

Table 2-1: Types of Environmental Risks Identified by World Bank Guidance or Task Teams and Present in IEG Sample

Type of Risk Identified by IEG	*Number of Times Identified by Bank*	*Number of Times Not Identified by Bank*	*Total*
Identified by World Bank guidance			
Support for agricultural trade liberalization	1	0	1
Support for Irrigation or water investments or expansion	3	1	4
Support for agricultural market development	1	0	1
Support for increasing industry or manufacturing in special economic zones	3	1	4
Support for PPP or PSD/concessions legal/regulatory reforms to encourage investment in infrastructure sectors*	3	9	12
Support for privatization in environmentally sensitive sector	1	1	2
Support for encouraging FDI in infrastructure	1	0	1
Support for policies that encourage agricultural investment expansion	1	2	3
Support for electricity market development	3	2	5
Support for agriculture sector (e.g. cotton) restructuring	2	1	3
Support for road expansion or expenditure increase	1	1	2
Support for improving mining legal framework	1	3	4
Energy tariff reforms that could lead to fuel switching**	2	3	5
Sub-Totals	**23**	**24**	**47**
Not specifically identified by World Bank guidance, but identified by task teams			
Support for electricity sector action plans or other investments	6	2	8
Support for urban redevelopment, housing, or urban densification	5	4	9
Support for climate change adaptation measures including infrastructure	1	0	1
Sub-Totals	**12**	**6**	**18**

Totals	**35**	**30**	**65**

Note: This table summarizes the types of prior actions with likely significant environmental effects, or "environmental risks," identified by IEG in its sample of 100 DPF operations which were also covered by World Bank guidance or were sometimes identified by Bank task teams. The numbers indicate how many times they were also identified by Bank teams in the Program Documents for the relevant operations out of the total number of times where they were identified by IEG. Risks were deemed to be identified by World Bank guidance if they were assigned a moderate or high possibility of negative environmental effects in the Toolkit on Assessing the Environmental, Forest, and Natural Resource Aspects in DPLs (World Bank 2008).
* Note that other cases of PPP reforms that did not support infrastructure investment were not identified as posing an environmental risk.
** Note also that there were roughly a dozen other cases of energy tariff reform where the Program Document discussed the possibility of a risk but made a plausible argument that the specific context of the policy and country meant that no risk of negative environmental effects through fuel switching existed, hence were not identified by IEG as posing an environmental risk.

Table 2-2: Types of Environmental Risks Identified only by IEG

Type of Risk Identified by IEG	***Reason for Identifying***	***Number of Times Identified by IEG***
Support for groundwater well ownership and governance reform	Groundwater is a common pool resource; decentralizing control may lead to resource overexploitation.	1
Total	—	1

Note: This table summarizes the types of prior actions with likely significant environmental effects, or "environmental risks" identified by IEG in its sample of 100 DPF operations but which were not specifically identified by World Bank guidance and were not identified by Bank task teams.

Table 2-3: Types of Social Risks Identified by World Bank Guidance or Task Teams and Present in IEG sample

Type of Risk Identified by IEG	*Number of Times Identified by Bank*	*Number of Times Not Identified by Bank*	*Total*
Identified by World Bank guidance			
Electricity tariff reforms including price increases	10	2	12
Liberalization of cotton prices/Establishment of a Regulatory authority	1	2	3
Downsizing of civil service/Salary cuts	7	4	11
State-Owned Enterprise privatization/Public sector restructuring	6	2	8
Policies that affect Social Spending including Rationalizing health and education sectors	5	2	7
Tax policy/Changing or simplifying rate structure	3	0	3
Trade including import liberalization	0	1	1
Sub-total	32	13	45
Not specifically identified by World Bank guidance, but identified by task teams			
Land use change/displacement of people such as might result as part of Power Sector Study/Energy sector plan, or Irrigation Sector/Agriculture sector plan or Environmental/Housing policies	13	9	22
Contracting private operators/Social orgs. to deliver social services or Decentralization of services-quality of service issues, access	4	11	15
Streamlining business environment, including registration that could mean reducing social/labor requirements	1	1	2
Housing Policy and Standards affecting housing quality, availability and affordability	1	2	3
PPP's, Investment Code, Mining Code affecting labor conditions	3	4	7
Sub-total	22	27	49
Totals	54	40	94

Note: This table summarizes the types of prior actions with likely significant social effects, or "social risks," identified by IEG in its sample of 70 DPF operations which were also covered by World Bank guidance or were sometimes identified by Bank task teams. The numbers indicate how many times they were also identified by Bank teams in the Program Documents for the relevant operations out of the total number of times where they were identified by IEG. Risks were deemed to be identified by World Bank guidance if they were mentioned in the Good Practice Note on Guidance Note on using PSIA in DPLs (World Bank 2013).

Table 2-4: Types of Social Risks Identified only by IEG

Type of Risk Identified by IEG	***Reason for Identifying***	***Number of Times Identified by IEG***
Privatization policy	Privatization policy will likely affect lay-offs related to SOE privatization	1
Labor law/Labor code passage	Labor legislation, particularly that increasing labor market flexibility will affect working hours, hiring and firing, contract arrangements, etc.	1
Compulsory Secondary Education	Compulsory secondary education may impose burdens on families to transport children long distances and sacrifice household labor	1
Total	**—**	**3**

Note: This table summarizes the types of prior actions with likely significant social effects, or "social risks" identified by IEG in its sample of 70 DPF operations but which were not specifically identified by World Bank guidance and were not identified by Bank task teams.

Box 2-1: Georgia PRSO Series

The Georgia Poverty Reduction Support Operation series does well in dealing with a social risk at several levels, especially with respect to role of the PSIA. In this case the prior action was the satisfactory implementation of an Energy Sector Medium-term Strategic Action Plan. The Program Document succinctly describes the PSIA that was done prior to this series of four operations. As with other PSIAs, it addressed a single issue, the distributional impact of electricity tariff reform, which was part of the action plan. The PSIA determined that the reform would impact poor people outside of the capital. A mitigation measure was proposed and put into place to establish a "block tariff"—a separate lower rate for low levels of electricity consumption. Thus, this is a case in which the risk was identified early on, a PSIA was commissioned, a social impact confirmed and a mitigation measure proposed.

It is not the case that risks are concentrated in sectoral DPOs. While it is sometimes presumed that the potential for environmental or social risks lies primarily in DPOs in sectors like energy or environment, [5] rather than in multi-sectoral economic management DPOs, IEG's portfolio review suggests that risks exist in a range of operations (see Tables C.1 through C.4 in Appendix C). Most risks are in operations mapped to poverty reduction and economic management sectors (the former PREM Network), which also has the highest number of DPO operations. Social risks occur across a range of sectors, while environmental risks tend to be concentrated in agriculture, water, energy, urban, or environment sectors (the

[5] See for example World Bank 2004a.

former Sustainable Development Network (SDN)). SDN sector-mapped operations identify a larger share of risks identified by IEG than PREM-mapped operations.

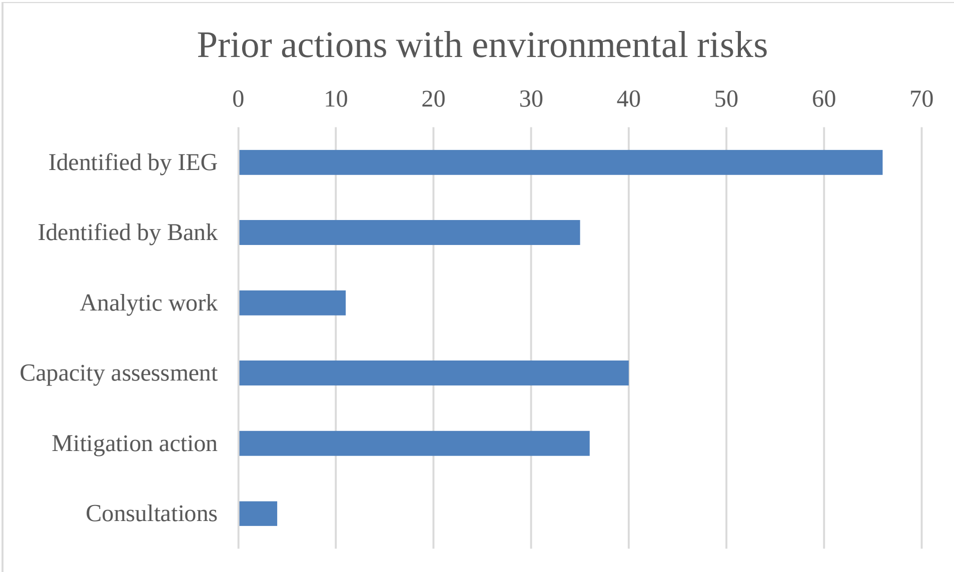
Box 2-2: Punjab, Pakistan Irrigation DPL series

An irrigation DPL series in Pakistan offers a good example of environmental and social risk screening. The Program Document contains detailed annex matrices which assess the environmental consequences of each policy area over the course of the series, noting mitigation measures where risks were present. For example, the series supported increases in maintenance and repair budgets of irrigation works. The Program Document noted both the potential that better asset maintenance would increase water efficiency and reduce water-logging and salinization, but also that increased construction activities could have local environmental effects, and that there would be risks from changes in water flows, particularly to environmentally sensitive wetlands. To mitigate this, the operation supported preparation of environmental guidelines to institute environmental safeguards for irrigation activities.

Findings on other due diligence requirements

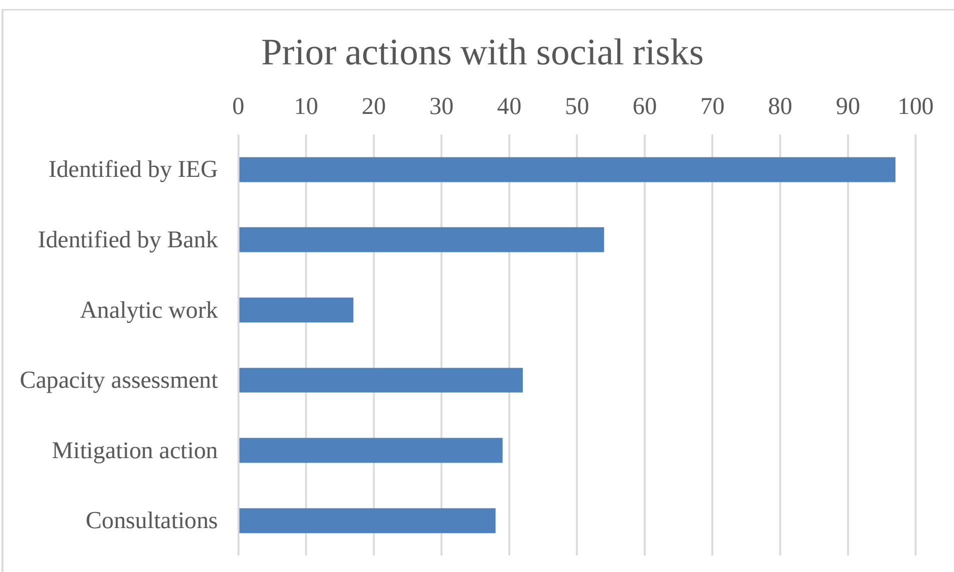
Other requirements of OP 8.60, where there was less room for interpretation than for the initial identification of risks, were also not fully implemented. There is wide variation in the degree to which operations assess country capacity or gaps in this capacity (see Figures 2-1 and 2-2). As presented in Section 1, when a policy action is identified as having likely significant environmental or social effects, additional due diligence is required. IEG found that when task teams identified a risk, a capacity assessment was usually carried out. However, the treatment was often perfunctory, such as stating that the country's legislation required environmental impact assessments to be carried out, without considering whether such assessments were adequate or led to implementation of mitigation measures. Detailed assessments based on evidence were rare.

Figure 2-1: Implementation Frequency of Due Diligence Requirements for Environmental Risks Identified by IEG



Note: A mitigation action is not required in cases where a capacity assessment was carried out and existing country capacity systems are found to be adequate for risk management. Even when Bank task teams did not identify an environmental risk, they sometimes included a general assessment of environmental management systems.

Figure 2-2: Implementation Frequency of Due Diligence Requirements for Social Risks Identified by IEG



In cases where the Bank has identified gaps in the analysis or shortcomings in the member country's systems for environmental risks, Program Documents usually include a mitigation measure. For those cases when mitigation measures were not described, the main reasons were because the risk was not identified in the first place, or because the capacity of the country to manage the risks without further mitigation was not assessed. IEG cannot draw any conclusions on whether the mitigation measures were sufficient within the scope of this Learning Product (particularly given the gaps in monitoring and evaluation discussed below). The most substantive cases of mitigation were those where mitigation measures were deliberately built into the design of the operation or a parallel operation. For example, negative effects from energy tariff reform would be mitigated by supporting a prior action establishing a social tariff at a low price for initial levels of consumption; the potential for negative environmental and social effects from a new mining code would be mitigated by building improved environmental and labor regulations into the code; implementation capacity-related risks in a prior action aimed at decentralizing provision of social services can be mitigated through a separate prior action that aims to attract and retain technical staff in local agencies; weaknesses in environmental management agencies would be mitigated by supporting capacity building in those agencies through the operation, related technical assistance, or by the Borrower.

Weaker examples of mitigation were in cases where Program Documents argued that risks would be managed through the environmental plans of parallel investment lending projects, but where those plans do not cover the specific risk posed by the DPO; in cases where it was unclear whether mitigation actions recommended by the Bank (such as increasing the capacity of environmental agencies) had been agreed on by the Borrower because they were not formally part of the operation; or where the Program Document stated that existing policies and mechanisms of the Borrower would mitigate the policy but without a rigorous capacity assessment of those systems.

Box 2-3: Colombia Productive and Sustainable Cities

A standalone urban development DPL in Colombia offers a good example of environmental and social risk appraisal, capacity assessment, and risk mitigation. The operation supported a range of urban policy changes, including urban redevelopment, public housing, and infrastructure concessions and public private partnerships. These policies posed environmental risks (from construction in sensitive areas, or large scale infrastructure) and social risks (from potential for displacement of people, or effects on service delivery).The Program Document contained substantial sections on environmental and social aspects, highlighting the expected positive elements of some policies, but also the risks. The risk assessments were linked directly to the prior actions supported by the operation. For each of the three policy areas with environmental risks or four areas with social risks, the document explained the risk, the existing systems and capacity for managing that risk, and recommended mitigation measures. For example, the operation identified the environmental risks from road infrastructure concessions, described the distribution of environmental management responsibilities between the infrastructure agency, the concessionaire, and the environment agency, and described measures that had been taken to improve the capacity of environmental management systems. On the social side, the operation identified that PPPs in health and education could have distributional effects and that these had not been addressed in the general framework for the PPP process (a prior action). The operation specified as a mitigation measure a follow-on regulation providing more detailed guidelines that would require social issues to be taken into account. The Program Document also contained a well-organized annex on risks and mitigation measures, which included social and environmental risks; this type of annex could be beneficial for presenting risks in most operations.

Program Documents sometimes relied on the operation's overall positive impacts as a substitute for identifying specific potential negative impacts of the prior action and associated mitigation measures. The implicit argument is that if the prior action has, on balance, a positive impact, then mitigation is not necessary.

Box 2-4: Brazil, Rio de Janeiro Urban and Housing DPL

An urban and housing DPL in Brazil offers an example where the Bank determined that environmental risks existed, but mitigation measures were not necessary as existing environmental management capacity was adequate. The program supported a range of policy reforms aimed at providing housing for the poor including through titling programs, noting that environmental risks existed from the possibility of unplanned occupation and housing construction in environmentally sensitive areas. However, the Program Document described the existing legislative and regulations designed to prevent this, and then discussed the ability and capacity of the state institutions to implement these rules and to supervise environmental aspects of the policy reforms.

When significant environmental and social risks are present, Program Documents are rarely adequately informed by analytical work.[6] Without this, it is difficult to know the magnitude of a potential risk and how it might affect different segments of society, or to identify appropriate mitigation measures. On the social side, although Poverty and Social Impact Analysis (PSIA) is available as a standard tool, IEG found that relevant analytical work on the specific social risks of prior actions was referenced in only a few cases.[7] No equivalent standard analytical tool is available for assessing environmental risks of reforms. In some cases, IEG found that Program Documents referred to some environmental analytic work that was not clearly relevant to the operation, and in other cases it referenced analytic work that was relevant to the operation but not the specific prior action.

[6] IEG did not conduct an in-depth assessment of the quality of the analytical work conducted on either the environmental or social side.

[7] IEG's definition of social analytical work for the portfolio analysis was relatively generous, giving credit for any sort of analysis cited of the poverty and social impacts of a prior action, as long as it was relevant. However, generic poverty assessments and technical analyses not addressing the prior actions of the operation, even though relevant in the broader country context, would not necessarily be considered as addressing the poverty and social risks of the instrument on poor and vulnerable groups.

Box 2-5: Jamaica Fiscal Sustainability DPO

The Jamaica Fiscal Sustainability DPO represents good performance in assessing, addressing, and reporting on social risks. The loan contains several actions posing social risks: i) a restructuring of the public sector; ii) shifting authority to approve the annual budget of Public Bodies; iii) approving a wage/salary freeze for all public sector employees; and iv) tax reforms that include reducing exemptions and increase excise rates. All of the social risks of these actions identified by IEG were also identified by the Bank. The social risks range from downsizing the public sector and to imposition of consumption and fuel taxes. Mitigation measures were identified and include use of the country's social protection system, including retraining and placement services and conditional cash transfers. The ICR refers to a PSIA that assessed impacts of increased taxes as well as privatization and provides updates on the effects of mitigation measures.

IEG identified few cases in its portfolio review where a Program Document discussed the Borrowing government's consultations with non-government stakeholders on environmental and social risks or on relevant analytical work. Program Documents often discuss consultations on the operation more generally with government, the International Monetary Fund (IMF), and other development partners, and sometimes discuss consultations with other stakeholders. But it is rare that they record consultations on environmental risks, though consultations that included social risks were sometimes discussed.

Box 2-6: Tonga Energy DPL

A standalone energy sector DPL in Tonga is a case where the Bank did a good job of addressing a number of environmental aspects. The main action was to support development of an energy road map, which consisted of a set of policy measures and investments intended to address major energy sector weaknesses. Environmental sustainability was included as a core design principle of the operation, in its support for renewable energy development and energy efficiency. The Program Document noted the possibility that infrastructure development could lead to negative environmental effects if not well designed, and built a number of mitigation measures into the design of the operation. The operation was based on technical reports on grid energy supply options and the petroleum sector, each of which included specific analysis on potential environmental impacts. Renewable energy investments were all screened for environmental risks, and any options with significant environmental risks that could not be mitigated or avoided were discarded. The road map built in requirements for environmental impact assessment and mitigation plans for new energy investments, with the goal of making these routine requirements for other infrastructure sectors in Tonga. The operation also built in significant public consultation including on environmental aspects, and described these in the Program Document, noting the government's intention to establish an ongoing program of public communication and consultation with citizens and public stakeholders. One reason for the prioritization of environmental aspects was that the TTL was an energy economist with prior experience in the environmental aspects of the energy sector.

DPF task teams often lack specialists with appropriate environmental and social technical skills. IEG recorded whether or not a specialist (as defined by whether "Environment" or "Social" was in their job title) was present for the operations where environmental and social risks were identified.[8] The lack of appropriate technical skills to assess environmental and social risks on DPO teams was a common concern cited in interviews with IEG.

Although various Bank documents discuss the importance of monitoring and evaluating of environmental and social risks in DPF,[9] the Bank's Implementation Completion and Results Reports (ICRs) did not report on environmental aspects, and rarely reported on adverse social effects, in the sample of DPFs reviewed by IEG. Any monitoring of environmental and social risks that was undertaken by the task team was not formally documented. Implementation and Supervision Reports (ISRs) focus on tracking achievement of intended goals rather than assessing unintended side effects. Subsequent Program Documents for programmatic series rarely report on monitoring of environmental and social effects, and often repeat verbatim the text from the Program Document for the first operation in the series. In a few cases, risks that were identified in an original Program Document did not appear in those for subsequent operations in the series—even though the actions with risks identified in the first operation had additional similar follow up actions.[10] The sections on social and poverty effects tend to provide a general treatment of broader impacts that may not even be attributable to the program. One case in which the ICR considered the social risks of the program was the ICR for a Vietnam Higher Education DPF. This ICR provides an update on mitigation measures that were called for in the Program Document and provides results attributable to those measures. Two other ICRs addressed social risks, in Brazil and Jamaica.

IEG also did not assess environmental and social risks or their management in most of its validations of ICRs in the sample. As part of its normal operations, IEG conducts a desk review validation of all ICRs, called an ICR Review, but this system does not provide meaningful coverage of environmental and social risks in DPOs. This is largely because IEG's ICR Review is a validation of the Bank's ICR self-assessment, and this information was not available in the ICR.

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[8] The use of job title is a weak proxy, as environmental or social specialists may take on jobs with different titles, and as a range of sectoral specialists may have environmental or social skillsets (e.g., energy specialists, urban specialists, poverty specialists, social protection specialists, etc.). The team composition could not be determined for the full sample, as titles and full team lists are usually present only in ICRs not in Program Documents.
Also, team composition as listed in ICRs may be inaccurate. IEG has also identified two cases (one in this sample, one external) where environmental specialists listed as team members in task teams reported that they were unaware of the operation and had not been involved. But in other cases TTLs reported participation of or consultations with environmental or social specialists who were not listed as team members in the respective ICRs.

[9] See World Bank 2004a.

[10] For example, in a power sector series in Vietnam that supported electricity market development, the initial Program Document noted analysis carried out showing that while the overall long term effects would be positive for the environment, there would be some risk of fuel-switching from gas to coal in the short term. Subsequent Program Documents did not mention this negative risk, and discussed only positive aspects.

Box 2-7: How do IEG's Findings Compare to Other Analyses?

The World Bank has also carried out its own assessments of the potential for negative environmental and social effects from policies in its 2012 DPL Retrospective, and has presented preliminary findings from its 2015 DPL Retrospective. The 2012 Retrospective identifies 8 percent of prior actions as having direct negative poverty and social consequences in the short term or on certain groups, and 0.3 percent of prior actions as having possible but not substantial negative environmental effects. The 2015 Retrospective preliminary findings identifies 4 percent of prior actions as having negative social effects in the short run, and 1 percent of prior actions as having negative environmental effects (along with 6 percent "can't say" that might have positive or negative effects). In this review, IEG conducted an independent assessment of risk identification in DPOs over 2004-14 which identified a higher number of prior actions as having potential negative environmental and social effects. These results differ for a number of reasons based on the methodologies applied and the interpretation of policy requirements and guidance.

- The underlying prior actions are not the same. The World Bank Retrospectives cover the full portfolio of DPOs approved over FY08-11 and FY12-14, while IEG considers a sample of DPOs approved over FY05-14.
- According to the published methodology, the World Bank DPL Retrospectives consider indirect environmental effects but only direct social effects[11], while IEG considers both direct and indirect effects for both environmental and social effects so long as they are attributable to the policy change. For IEG this includes the effects from downstream investments, including investments by third parties, if those investments were attributable to the policy reform.
- According to the published methodology, World Bank DPL Retrospectives consider short-term effects[12], which according to interviews with Bank management is interpreted as meaning effects that will occur by the time of the closure of the operation (or completion of the Bank's ICR). IEG also considers likely significant effects that may take longer to manifest.
- The quantitative analysis in the World Bank Retrospectives (except for environmental effects in the 2015 preliminary results) concludes that the effects of a policy action are either positive or negative, and not both at once. IEG presumes that a policy may have overall positive effects but still have significant negative effects on some particular groups that should be identified and mitigated, and does not analyze whether or not positive effects may occur.
- With regard to social effects, the World Bank Retrospectives focus primarily on poverty or income/financial related effects, such as loss of access to benefits/subsidies, higher fees/taxes/tariffs, changes in employment policies, or job loss through redundancies. IEG also considers the possibility of other types of social effects such as displacement of people, loss of access to resources or services, or labor effects that may be attributable to policy reforms.
- The World Bank expert teams and IEG expert teams came to different judgments about what constituted a likely effect or a significant effect. IEG assessed the rate at which Bank task teams identified environmental or social risks as compared to IEG's expert teams. The 2015 DPF Retrospective conducts a similar analysis for environmental effects, but for social effects it assesses only whether or not a PSIA was carried out. It is worth noting that the rate at which IEG recorded Bank task teams as identifying risks was significantly higher than the rate at which the Retrospective's analysis identified task teams as identifying risks or carrying out a PSIA, and was also higher than the rate at which the Retrospective's expert team identified risks or concluded that a PSIA should be conducted. This occurs in part because there is no "box to tick" that signifies that a task team has identified a likely significant negative effect, so experts can disagree on whether or not the task team identified a risk.

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[11] The methodology for the Retrospective analysis made publicly available as part of the consultation process on the report described the methodology as the "Methodology for analysis of short-term social and

3. What Explains the Risk Management Performance?

As the portfolio assessment described in Section 2 revealed, there is ample room for strengthening the Bank's application of the environmental and social risk identification and management requirements of OP 8.60. OP 8.60 does not contain an elaborate set of formal rules and procedures but rather is intended to enable greater application of judgment in context, as is consistent with a risk-based management approach. Effectively implementing such an approach, however, requires a strong support system to ensure that proper judgments are made.

Bank policy and key concepts

Key concepts in the policy require further clarification. As presented in Section 1, the descriptions of the environmental and social risk management requirements of OP 8.60 are concise and at the level of general principles, and related requirements are presented in various places in the OP. A key concept in OP 8.60 for determining whether additional due diligence is required for a policy action is "likely significant effects." But there is no formal definition of this concept in the policy or in BP 8.60. The Environment Good Practice Note from 2004, states in a footnote that "Significant effects are environmental changes of sufficient magnitude, duration and intensity as to have non-negligible effects on human welfare" (World Bank 2004). But "non-negligible" is not the same as "significant," and does not provide an operationally useful definition. Social guidance documents do not define significant social or distributional effects. Similarly, there is no guidance on what effects should be considered to be "likely." This leads to a gap in clarity on determining when downstream economic effects should be considered as consequences from upstream policy interventions.

Lack of clarity on key concepts has led in some cases to practices that are not consistent with policy and guidance. IEG's review of documents and interviews with Bank staff has revealed that "significant effects" are often interpreted to mean only those policy actions with "direct, short-term effects" (see Box 2.7). This is not stated in the policy, and can lead task teams to not consider many DPF-supported policies that may have important indirect environmental or social effects, or those whose effects take some time to become fully apparent. Indeed, it is inconsistent with the Bank's guidance on these issues. The 2004 OPCS Policy Update states that "the nature of poverty/social, environmental, and fiduciary aspects in policy-based operations is typically related to policies and institutions, with effects that are not geographically circumscribed, but are indirect, uncertain, lagging, and difficult to predict" (World Bank 2004a). The OPCS Good Practice Note on Environmental and Natural Resource Aspects of DPFs notes that "the effect of policy reforms on the environment is often felt only indirectly (mostly through changing consumption and production patterns),"

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distributional effects," and noted that "Following the 2012 retrospective, it classified each prior action's direct and short-term distributional effects on the poor and vulnerable." (World Bank 2015) In interviews, Bank Management state that indirect and long-term effects were also considered for the 2015 Retrospective when they carried out their review.

[12] See previous footnote.

and the Bank's Environment Toolkit for DPLs is designed to facilitate "systematic analysis of direct and indirect effects of development policy reforms" and presents tools for analyzing indirect, as well as direct, effects.

Similarly, the OPCS Guidance Note on Using Poverty and Social Impact Analysis to Support Development Policy Operations (2013) provides guidance that encourages analysis of longer-term and indirect impacts. It notes that making distinctions between short-term and long-term effects is important in devising mitigation strategies (para. 12) and provides guidance for addressing indirect effects that cannot easily be measured (para. 23).

In considering the boundaries of which indirect or downstream effects should be considered, a useful comparison could be drawn to World Bank support for technical assistance (TA). Some activities supported by TA operations—such as development of a sector regulatory framework or feasibility studies for proposed investments—are similar to actions supported by DPF in the sample reviewed by IEG. It is highly unlikely that activities supported by a TA operation would have direct environmental or social impacts. Yet TA loans are subject to the same safeguard policies as World Bank IPF. The rationale is that activities supported by TA operations could lead to investments or other actions that may entail environmental or social risks, so it is important to consider the intended outcomes of the activities supported. For example, a TA loan financing the preparation of a feasibility study for a hydroelectric dam would likely be subject to OP/BP 4.01 on Environmental Assessments, which would require the terms of reference for the study to include the screening of environmental and social risks of the future investment in line with World Bank Group operational policies (whether or not the World Bank is planning to finance the investment). Though it would not be appropriate to apply the current IPF safeguard policies to DPF, similar principles on determining the scope of indirect impacts could be used.

There are issues with the sequencing of the requirements of the policy. According to OP 8.60 (paragraphs 9 and 10), the Bank is supposed to first determine if policies supported by a DPO are likely to have significant social or environmental effects. If they do, the Bank is supposed to next draw on and summarize in the Program Document relevant analytical work on the effects and the member country’s systems for managing them. But it is unclear how one is meant to make the determination of “likely significant effects” without first conducting or drawing on relevant analytical work.

DPLs are also more than a collection of prior actions. As explained in Appendix A, they support broader development objectives and a program of reforms that are intended to be fulfilled through policy areas, which are a function of more than prior actions. OP 8.60 considers only environmental and social effects of specific policy actions.

Effects of procedures and practices

Since the approval of OP 8.60, there have not been standardized procedures across the Bank for addressing the environmental and social requirements. Bank Procedures accompany Operational Policies, and describe procedures for implementing the requirements of the OP. However, the Bank Procedure 8.60 (BP 8.60) that accompanies OP 8.60 does not mention environmental or social effects or their management. BP 8.60 does not specify the procedures to be followed by the Bank in order to determine likely significant effects, or how the Bank will ensure that this is made in a consistent way. Previous versions of OP 8.60 referred in a footnote to Good Practice Note No. 4 on Environmental and Natural Resource Aspects of Development Policy Lending, which in turn indicated (also in a footnote) that "each region will develop its own procedures to ensure that environment and natural resource aspects are addressed adequately in accordance with OP 8.60." Unlike the situation with respect to the Bank's IPF safeguard policies, no central mechanism to oversee and ensure consistent application across Regions of OP 8.60's provisions concerning its prescribed social and environmental risk identification and management measures was established.

Practices within the Bank to ensure that environmental and social risks are adequately managed have varied across regions and over time. The Latin America and Caribbean (LAC) Region, at the direction of its Vice President, established in 2006-07 a formal review process led by the Regional Safeguards Advisor (RSA) for all proposed new DPFs to help identify environmental and social risks. Under this process the RSA provided advice and comments on all DPOs, though unlike for IPF they had no formal clearance function, and there was no requirement for task teams to implement their advice. In other Regions, review of such potential impacts of DPFs was done inconsistently. . The systematic review of DPFs in LAC was discontinued in July 2014 when the Bank was restructured and the former RSAs were centralized into OPCS. The Africa Region reportedly puts application of OP 8.60 environmental and social risk requirements on the agenda for all Regional Operations Committee (ROC) decision meetings for DPF at present, but this is not a Bank-wide procedural requirement.

While the overall corporate review process for DPF requires a higher level of review than for IPF (see Appendix A), current requirements and practices for the corporate review of environmental and social risks in DPF do not ensure sufficient input from relevant experts. According to interviews, at times in the past the former Bank Environment Department and Social Development Department (or "anchors") would provide corporate-level input for review meetings on DPF operations. But the Environment Department stopped doing this when it was dissolved in 2012 (though some functions were transferred to the SDN anchor), and the Social Department's role has been uncertain since the July 2014 Bank-wide restructuring. According to OPCS, today the formal processes governing all stages of the DPF operational lifecycle are described in the new "Development Policy Financing Processing Instructions."[13] The DPF Processing Instructions indicate that for Concept and Decision Reviews, the Directors of all Global Practices should be copied, including the new Environment and Natural Resources Global Practice (GP), which is responsible for environment, and all of the GPs responsible for social issues and PSIA. But copying the GP Directors is not the same as ensuring that adequate environmental and social input is provided. The Processing Instructions note that "key advisors" for review meetings should include relevant GPs/CCSAs as determined by the chair of the meeting. There is no explicit reference to either environment or social input. By comparison, when OP 8.60 was approved the Bank stated that all DPF operations would be reviewed by the Bank's Environment and Social Departments (World Bank 2004a).

[13] World Bank, November 2014.

Good practice examples often reflect initiatives on the part of individual Task Team Leaders (TTLs). One factor appears to be the background and experience of the task team leader. In IEG's portfolio review, operations mapped to Energy, Agriculture, Transport, Water, Urban and Environment sectors were more likely to identify the environmental risks noted by IEG than were operations mapped to other sectors. Similarly, Program Documents for operations mapped to economic management sectors were less likely to identify the social risks noted by IEG than were operations mapped to other sectors. One possible explanation for this may be that TTLs working on Energy, Agriculture, Transport, Water, Urban and the Environment are often more familiar with environmental and social issues because they have more experience addressing them in investment operations than do TTLs from economic or financial management sectors.

Effects of guidance and training

Guidance materials vary in quality, usability, and relevance, and is non-mandatory. [14] Unlike the case for IPF (including TA, as noted above), where environmental and social risks are governed by a separate set of mandatory OPs and BPs, there is no equivalent for DPF. In addition to the above mentioned Good Practice Note for Environmental and Natural Resource Aspects of DPFs, a Toolkit entitled *Assessing the Environmental, Forest and Other Natural Resource Aspects of Development Policy Lending* was published in 2008 to provide more detailed guidance to Bank task teams. The 2004 Environment Good Practice Note provides a good overview of the issues, although it focuses primarily on the potential for generating positive environmental effects, and would benefit from an update to reflect experience gained since then. The 2008 Environment Toolkit provides very practical and fairly comprehensive guidance for Bank teams to determine the potential direct and indirect environmental effects for a wide variety of types of policy reforms. The toolkit could also benefit from an update to reflect actual experience with the use of Country Environmental Analyses (CEAs), Strategic Environmental Assessments (SEAs), and other analytical tools, and to better integrate climate change-related risks.

Guidance on the social side is more dispersed. The first Good Practice Note on the preparation and use of a Poverty and Social Impact Analysis (PSIA) was prepared in 2004. This was updated in 2008 with a more ambitious note aimed at understanding the potential distributional impacts of specific policy reforms on different social groups, especially the poor. Its intention was to provide a platform for the identification and analysis of policy alternatives and trade-offs as well as implementation risks. In contrast to the environmental guidance, its primary focus was on the PSIA tool, rather than on the identification and mitigation of social risks in DPF. A new Guidance Note on PSIA was produced in 2013. It is more focused on identifying social risks in DPF, but at the same time broadened the definition of PSIA to include almost any analytical work on social effects. According to OPCS, the 2013 Guidance Note replaced the 2008 Good Practice Note, and after OP 8.60

[14] A footnote to OP 8.60 states: "For guidance to assist in the application of OP and BP 8.60…staff may refer to the *Guidance Note on Using Poverty and Social Impact Analysis to Support Development Policy Financing.*" The 2013 PSIA Guidance Note states: "This note is neither operational policy nor mandatory. For operational policy and mandatory procedures please see OP8.60, BP8.60 and DPL processing Instructions" (World Bank 2013).

was updated in July 2014, it referred only to the 2013 Guidance Note. But those working on PSIA consider the Notes to be complementary, and still have the 2008 Good Practice Note posted on the World Bank PSIA website. In addition to these notes, there are multiple PSIA toolkits produced by different World Bank departments, including Social, Poverty, and the Development Economics Department (DEC) (see Table 3.1). The large collection of social guidance materials exists in part because the identification of poverty and social risks spans several disciplinary boundaries. Unlike the user-friendly tables in the Environment Toolkit, the social toolkits contain hundreds of pages of case studies of PSIAs. As the portfolio review results in Section 2 demonstrate, more guidance does not necessarily lead to better guidance: there were fewer cases where there were gaps in the environmental guidance than the social guidance (see Tables 2-1, 2-3).

While there is a range of guidance on risk identification and assessment, there is little guidance on how to conduct a meaningful and useful capacity assessment and gap analysis of country risk management systems. Guidance notes and toolkits focus primarily on how to identify risks, without providing support on what to do if a risk is identified. Country Environment Assessments may describe the main features of environmental management in a country, but these will not necessarily cover the risks associated with the specific policy actions supported by a DPO. For social risks, the task can be complicated because unlike for environmental risks with established counterpart environment departments, similar poverty/social departments or line agency counterparts often do not exist except through the creation of multi-disciplinary committees managed by some oversight ministry. The lack of clarity and guidance on OP 8.60 requirements on consultations and participation of civil society may contribute to the infrequent discussion of such consultations in Program Documents. OP 8.60 (paragraph 5) generally indicates that consultations and participation are the responsibility of the member country. But it also states that relevant analytical work conducted by the Bank on environmental and social aspects should be made available to the public as part of the consultation process. The Bank published separate guidance in 2004 on participation in the DPL process (World Bank 2004c). That good practice note suggests that task teams should involve civil society during preparation and discussion of analytic work on environmental and social issues. However, the note is no longer available as part of the set of good practice notes provided by OPCS on their website.

Table 3-1: Guidance Available for Environment and Social Aspects of OP 8.60

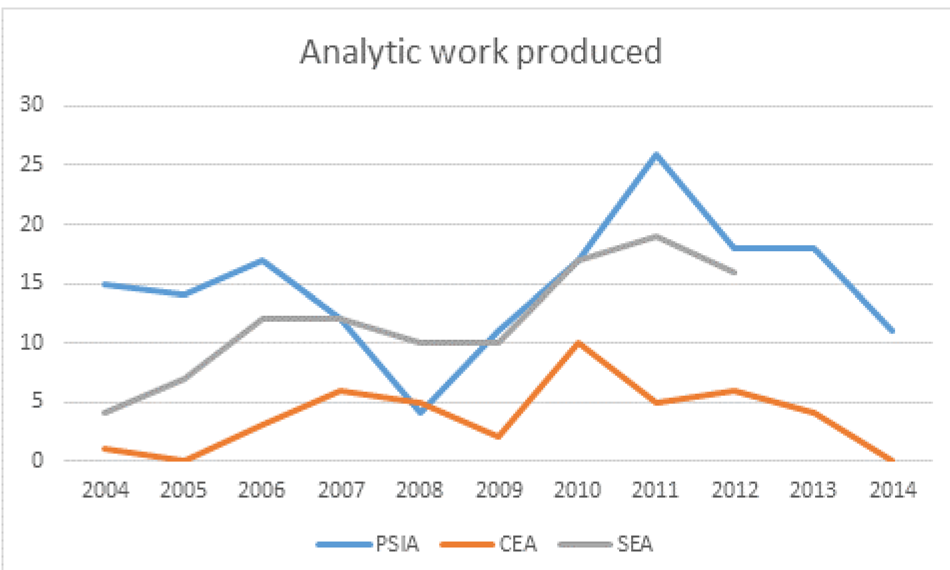
Type of Guidance	*Environment*	*Social*
OP	OP 8.60, paragraph 10	OP 8.60, paragraph 9
BP	No reference in BP 8.60	No reference in BP 8.60
Guidance/Good Practice Notes	Good Practice Note 4 – Environmental and Natural Resource Aspects of Development Policy Lending (2005)	Good Practice Note: Using Poverty and Social Impact Analysis to Support Development Policy Operations (2008) Guidance Note: Using Poverty and Social Impact Analysis to Support Development Policy Operations (2013)
Toolkits	Assessing the Environment, Forest, and Other Natural Resource Aspects of Development Policy Lending – A World Bank Toolkit (2008)	A User's Guide to Poverty and Social Impact Analysis (2003) The Impact of Economic Policy on Poverty and Income Distribution: Evaluation Techniques and Tools (2003) Tools for Institutional, Political and Social Analysis of Policy Reform: A Sourcebook for Development Practitioners (TIPS) (2005) Analyzing the Distributional Impact of Reforms, Vol I (2005), Vol II (2006) Stakeholders, power relations, and policy dialogue : social analysis in agriculture sector poverty and social impact analysis (2006) Poverty and Social Impact Analysis of Reforms: Lessons and Examples from Implementation Poverty and Social Impact Analysis – Linking Macroeconomic Policies to Poverty Outcomes: Summary of Early Experiences Toolkit for Evaluating the Poverty and Distributional Impact of Economic Policies

Training is available to task teams, but it its effectiveness is unclear. Participation in such training is voluntary and the number of TTLs of DPFs who have taken such training and how it has been applied in actual operations is not tracked. On the environment side, the training course utilizes the Toolkit mentioned above. It identifies as among the elements of good practice the need to select and use a sound body of analytical work to guide design, to assess the Borrower's systems for reducing adverse effects, and to involve environmental and natural resource specialists who are familiar with the Borrower's capacity and safeguards.

The use of analytical tools has been uneven, with many operations with environmental or social risks lacking sufficient analytic work on these risks. When OP 8.60 was approved, the

Bank committed to increasing the quantity and quality of its environmental analytical work—specifically CEA and SEA (World Bank 2004a). In some operations CEA is mentioned in Program Documents, but often it is not specifically relevant to the environmental risks of individual prior actions, though it can help to inform an assessment of the country's capacity to manage risks. SEAs of relevant sectors would be a useful input to DPFs with environmental risks, but these are rarely carried out and it is not known how many of those that were implemented were associated with specific DPFs. The number of SEAs and CEAs produced has declined in recent years (see Figure 3.1). One reason for this is that there is currently no trust fund for CEAs or SEAs; the previous Country Environmental Analysis trust fund closed in FY12. The use of PSIA has been much more common, supported by a Multi-Donor Trust Fund that has resulted in the production of a total of more than 100 PSIAs across the World Bank.[15] PSIAs are used not only for assessing potential adverse consequences, but also for assessing the positive poverty, social and distributional impacts of reforms to maximize their benefits on the poor and the vulnerable; analysis of potential social effects may also be conducted through reports not formally labeled as PSIA. However, production of PSIAs declined in 2014, and with the MDTF scheduled to close in a year, their future is uncertain. The original intention for CEAs, SEAs, and PSIAs was that trust fund resources would be a temporary measure used to demonstrate the value of these analytic tools, and that these tools would then be mainstreamed and funded by regular Bank budget, but the extent to which this is occurring is not clear.

Figure 3-1: Environmental and Social Analytic Work Produced by the Bank Over Time (number of reports)



Note: Data on PSIA from E-resource center. Data on CEA from World Bank Imagebank. Data on SEA from World Bank 2011. Reliable data is unavailable for SEA after 2012.

[15] These data reflect the total numbers of analytical products carried out by the Bank since 2004 and are not limited to the sample of operations used for the portfolio analysis described in Section 2.

Effects of incentives and monitoring and evaluation

The incentives faced by task teams place a premium on preparing operations rapidly, sometimes at the cost of careful treatment of environmental and social issues. Lending and disbursement targets shape decisions and prioritization made during preparation (IEG 2014). As explained in Section 1, DPF operations are often prepared quite quickly, in a matter of months. Based on interviews carried out by IEG, task team preparation budgets are limited, and pressure from management to deliver operations quickly is intense. For example, at the point of ROC or Corporate Review of a DPF, there is an expectation that the Program Document will be finalized and submitted to the World Bank's Board for approval within a matter of weeks. It is therefore often too late to carry out additional environmental or social analytical work or capacity assessment at this stage, or to encourage the Borrower to adopt mitigation measures. In interviews, environmental and social specialists also reported that when they are included in DPF teams, it is often at a stage in the process too late to meaningfully influence the design of the operation.

The lack of a formal role for environmental or social experts, and the absence of an effective post-approval monitoring system, are likely contributing to TTLs and approving managers not prioritizing due diligence in these areas. Environmental and social experts interviewed by IEG report that their advice on potential risks is frequently not heeded by Bank Management or TTLs, and that they have no leverage to ensure that relevant risks are noted. At the same time, some TTLs report that environmental and social specialists do not always show up to review meetings when invited or provide comments in a timely fashion. These TTLs are concerned that formal roles for environmental and social experts would slow DPO preparation. They also note that some specialists with expertise in IPF safeguards are not necessarily the best candidates to offer advice on the effects of policy actions. Some DPO TTLs are also unfamiliar with the environmental and social requirements of OP 8.60; others see the requirements as a compliance burden that is ancillary to the goals of the DPO. This is particularly true when DPFs are used in response to exogenous shocks when resources are needed urgently to provide short-term relief to the Borrower—such as during the 2008-2009 global financial crisis.

The quality of environmental and social specialist input also depends on the skillset of specialists providing advice. DPF is policy-oriented and has results chains and effects that are quite different from IPF. Traditional safeguards specialists, whose focus is on the direct effects of physical investments financed under IPF, do not necessarily have the right expertise to conduct an assessment of the effects of policy reforms. Reviewers may provide better advice if they also have backgrounds in environmental economics, macroeconomics, poverty analytics, or similar fields.

The World Bank approach to environmental and social risk management in DPF that focuses exclusively on the effects of policies rather than on the impacts of financing can be undermined if DPF funds are used in a manner other than general budget support. As mentioned in Section 1, the logic for this is that funds are not intended to finance specific investments and so have no delineated "footprint" on which to apply environmental or social safeguards. But if DPF funds are used to finance specific investments then this could lead to environmental and social risks that are not fully addressed by the requirements of OP 8.60, and to reputational risks for the Bank. IEG has identified four cases through recent DPL project evaluations and desk reviews where World Bank funds were earmarked by the Borrower for specific investments. Appendix D provides more details on these three cases. The cases are drawn from a small sample of recent cases (not from the larger sample used for the portfolio review conducted for this Learning Product), so IEG cannot determine how common this practice is in the wider portfolio.[16] World Bank non-mandatory guidance indicates that funds should not be used to finance specific investments: the DPF Financial Management Good Practice Note (2010) states that "once [DPF] funds enter the country's foreign exchange reserves and the budget, they are commingled with the government's other funds….DPL funds are also therefore not earmarked for specific line items in the budget" (para. 12). However, there is nothing in OP 8.60 that explicitly prohibits such earmarking.

There is no system to determine whether possible negative environmental or social effects of DPFs actually occurred after a policy action has been implemented, whether capacity to manage risks was sufficient, or whether proposed mitigation actions were implemented. When OP 8.60 was approved, the Bank stated that monitoring of DPO progress and effectiveness "will be expected to give explicit attention to poverty/social, environmental, and fiduciary aspects," and this was also emphasized in the specific environmental and social guidance (World Bank 2004b; World Bank 2008; World Bank 2013).[17] However, OP 8.60 focuses on the ex ante identification and mitigation of environmental and social risks, and does not explicitly address their ex post monitoring or evaluation. Although both the Environment Toolkit and the 2008 PSIA Good Practice Note emphasize the importance of monitoring and evaluating actual impacts, neither the OPCS ICR Guidelines nor IEG's Handbook for ICR Reviews require reporting on environmental and social risks or their mitigation in DPF. Similarly, the ICR and ICR Review templates for DPFs do not include sections for reporting on potential adverse environmental or social effects analogous to the Safeguards section used for environmental aspects in investment lending. There is a section on Poverty Impacts, Gender Aspects and Social Development, where a discussion of social risks and their mitigation might appear, but it usually focuses on the positive outcomes supported by the operation. The 2013 OPCS PSIA Guidance Note places less emphasis on monitoring and evaluation of social effects. It mentions them only in the context of "country based monitoring and evaluation systems," with no reference to the Bank's responsibilities. The absence of an effective monitoring system contributes to TTLs and approving managers not prioritizing due diligence on environmental and social risks.

IEG's validation of ICRs—the ICR Review—does not provide an effective check or review of the system. This occurs because ICR Reviews of DPFs are not normally carried out by an environmental or social specialist having the expertise needed to critically assess risks, because it is fundamentally a validation of the ICR and not an independent project evaluation, and because the ICR Review guidance and training does not make clear to

[16] Typically any earmarking is not described in the principle program documents and so may only be observed in project evaluations with field visits and not in desk reviews.

[17] In the case of single-tranche, non-programmatic DPF operations, there is no period of implementation or supervision after Board approval during which environmental and social risks could be addressed or even monitored.

evaluators the environmental and social requirements of OP 8.60. The ICR Review template for DPF does not include an environmental and social risks section, analogous to the Safeguards section for IPF ICR Reviews. IEG is in the process of addressing this, however if the Bank does not make parallel changes to its ICR template and guidance, there will be little for IEG to validate.

A robust grievance redress mechanism is an important part of any environmental and social risk management system, and the current World Bank grievance redress mechanism may not provide adequate opportunity for affected parties to register complaints with respect to DPF. The World Bank Inspection Panel has jurisdiction over DPF, as well as IPF and other World Bank instruments. But in the context of IPF, the Bank is required to prepare an Integrated Safeguards Data Sheet (ISDS) at the time of Concept Review for an operation, and to publicly disclose the ISDS once the Concept Note is approved. There is no analogous requirement for environmental and social management in DPF. Therefore, potentially affected civil society members in a DPF borrowing country would have little opportunity to learn of the specific policies supported and their likely effects until the Program Document is approved by the World Bank's Board, because it is not made public until after Board approval. As noted by World Bank Management, "most DPF implementation happens before Board presentation." Therefore, by the time the Program Document is made public, it would be too late for affected parties to influence DPF implementation or understand its potential impacts on them. The Inspection Panel is only able to consider requests filed before an operation is closed and has not disbursed more than 95 percent of the loan.[18] That would normally provide a much narrower window within which to file a request than in the case of IPF, which typically provides a window of several years. There has only been one case of a DPF operation being investigated by the Inspection Panel since OP 8.60 was approved in 2004, and that was in the Democratic Republic of the Congo (DRC). In that case, the meaningful window for accountability was 20 days (Inspection Panel 2013). The Inspection Panel report from that investigation states: "the Panel finds that the system for determining whether there will be significant effects on the environment and natural resources is flawed. Little time is available for the initial assessment, and it would be difficult to reverse an initial assessment that there are no significant effects" (Inspection Panel 2007). In cases related to other DPOs, potential requestors have contacted the Inspection Panel, only to be told that the window had already closed. The narrow window for the Bank Inspection Panel to look into complaints by communities in the case of DPF is a concern that has been raised by civil society organizations (see for example Bank Information Center and Global Witness, 2013).

[18] See Inspection Panel:
http://ewebapps.worldbank.org/apps/ip/Documents/Guidelines_How%20to%20File_for_web.pdf

4. Strengthening the Bank’s Approach to Environmental and Social Risk Management in DPF

There is ample scope for the Bank to strengthen its approach to environmental and social risk management in DPF and attain the goals it aspired to when OP 8.60 was approved. Those goals included establishing clear and unambiguous standards for DPF that are on a par with those for IPF, but more appropriate for the type of instrument; taking a systematic approach; underpinning program design with rigorous analytics; and aiming beyond the confines of an operation to improve capacity for environment and social risk management at the country level. But as discussed in Section 3, the current environmental and social risk management system for Bank DPF is characterized by shortcomings in multiple areas. The policy, procedures, guidance, and practices are characterized by a number of gaps and inconsistencies, vaguely defined concepts, a lack of accountability, and misaligned incentives. Strengthening environmental and social risk management in DPF would require bringing together the disparate elements that currently govern environmental and social risk management into a robust, well-coordinated system, and addressing gaps and shortcomings in all aspects of the system. This would best be accomplished while preserving an adequate level of flexibility for the instrument, and without placing an undue burden on client governments. The following are lessons that could contribute to achieving these goals.

BP 8.60 could be revised to specify Bank procedures for management of environmental and social risks in DPOs. The goal would be to ensure that the provisions of OP 8.60 with respect to likely significant direct and indirect effects of a DPO in social or poverty terms, or in relation to the environment, forests and other natural resources, are adequately applied for the identification and proper management of any such impacts in all DPF operations. Procedures could include requirements for the Task Team to obtain substantive input from qualified social and environmental specialists, and for informed deliberations at both the concept and final decisions stages for these operations. A central mechanism could also be established to oversee and ensure consistency across Regions in the application of the social and environmental provisions of OP 8.60. Specific referral to the Good Practice Note on Environmental and Natural Resource Aspects of Development Policy Financing and the Environmental Toolkit, as well as the PSIA Guidance Note, could also be included in BP 8.60.

Environmental and social screening could be brought into DPLs from the concept note stage. DPO design is heavily frontloaded. By the time of approval and ROC meetings, the operation has already been designed and the prior actions carried out; it is generally too late to add substantive environmental and social analysis or mitigation measures. In some cases (for example, an energy-environment DPL series in Turkey) the analytical work assessing policy effects was completed part way through the series, after actions with social risks had already been carried out. These and other processing roles for ensuring environmental and social due diligence could be included in the Development Policy Financing Processing Instructions to help ensure that they are regularly applied.

It frequently is difficult to determine whether potential issues have been identified and, if so, how or whether they have been assessed. Many program documents simply assert that environmental and social effects are expected to be beneficial, and that no potentially significant adverse effects are likely. No basis for that assertion is provided. To strengthen risk management and program accountability, program documentation could provide a basis for judgments made. Specifically, OPCS could add a template for all DPO program documents, indicating potential environmental and social risks or impacts that have been identified, whether or how they have been assessed in the course of program preparation, and a summary of the decision reached regarding the need for mitigation measures as a result. A screening approach such as the one used for this review, as described in Appendix B, could form a useful framework for capacity building. A similar template could be considered to document agreed measures to address any significant environmental or social risks or impacts. The quality of the descriptions of policy actions in Program Documents could also be improved to ensure that readers—including potentially affected populations—can better determine the likely effects of policies supported.

Guidance provided to Task Teams and social and environmental specialists could be revised and updated. Good Practice Note 4 – Environmental and Natural Resource Aspects of Development Policy Lending – of 2004 is out of date. Similarly the Environment Toolkit presently titled could be updated to reflect Bank experience over the past decade with the use of Country Environmental Analyses (CEAs) and Strategic Environmental Assessments (SEAs), and provide advice on upstream analytical tools in connection with DPF. Operational definitions of key concepts such as "likely significant effects" could be provided, as well as clearer guidance on identifying and managing indirect and long-term effects, and on determining reasonable boundaries for responsibilities in this regard. The toolkits could also include additional types of risky policy reforms such as those identified in IEG's portfolio review, and give greater attention to possible significant development policy impacts in relation to climate change. Guidance could also be broadened to promote the strengthening of country systems and capacity for managing environmental and social risks, as envisaged when OP 8.60 was approved. A set of overarching principles for the environmental and social risk analysis, to be applied upfront, including the analysis of direct and indirect impacts, might be helpful for staff.

On the social side, the guidance could be consolidated and made more user-friendly and practical. The voluminous current guidance materials reflect the complexities often embedded in social issues but do not lend themselves to clear and simple means to decide upon a course of action for a particular program. Though this guidance has reference value, it provides limited utility for program screening. The many PSIA guidance notes, good practice notes, and toolkits could be consolidated into one Guidance Note and one Toolkit that provides accessible advice on how to identify and manage social risks, along the lines of the Environment Toolkit. The various Bank units involved in PSIA could work together on these documents to ensure coordination.

More broadly, the Bank could provide better guidance on determining the boundaries of the Bank's role for environmental and social issues within the broader program of reform supported by DPF. Many DPOs support upstream policy reforms with downstream effects, but there is little guidance on how far downstream the Bank's responsibility lies. Indirect, medium- and long-term effects can clearly have significant environmental and social effects, and these should also be considered as long as they are attributable to the policy actions supported by an operation. At the same time, it is important to recognize that not all indirect effects of a reform will be "likely significant." Some potential downstream effects may be too remote from the policy action to be reasonably attributable. If the Bank's analysis determines that adverse effects will not be significant or that existing country systems are sufficient for managing risks, then task teams can state this in the Program Document and no further actions are needed. This kind of due diligence would fulfill the Bank's goals of using DPLs to engage with country systems to manage likely effects of policy reforms.

The stated objectives of policy areas, and their indicators, can serve as a useful guide when considering the likely effects of a policy. If particular outcomes are seen as attributable to the DPO when considering the impact of the operation, any negative effects of those outcomes could also be seen as attributable. It would be helpful for Bank teams to be encouraged to conduct or draw on relevant analytical work for prior actions that have been identified as potentially risky in guidance, before deciding whether "likely significant effects" exist in the context of a particular operation. While the Bank cannot and should not be expected to conduct environmental or social due diligence on entire government programs, it could conduct analytic work, risk assessment, and mitigation measures on the clearly foreseeable effects of the policy that were the motivation for selecting the prior action. For example, if a prior action is to approve a policy that is aimed at increasing infrastructure investment in particular subsectors, the Bank could assess the environmental management capacity for those subsectors.

Once an environmentally or socially risky policy action is identified, there is a need for guidance on how to implement the subsequent requirements of OP 8.60. Guidance on how to conduct a meaningful and useful capacity assessment and gap analysis of country risk management systems would be helpful to task teams, as would advice on good practice in carrying out civil society consultations, include clearly delimiting the responsibilities of the member country and the Bank with regard to environmental and social risks and analytical work.

As the guidance is improved, it could be shared with the main players through training. This could begin with a careful assessment of current training approaches to ensure adequate and effective coverage of the social and environmental risk identification and management requirements of OP 8.60 and the associated procedures to be added to BP 8.60, as well as the guidance materials. The training could distinguish between three different audiences: in-depth technical training for environmental and social specialists; more general training on these aspects for task team leaders; and a discussion or training with management to ensure that the right decisions are taken, and different considerations within DPF designs be weighted in an informed manner. The training could be enhanced by working through case study examples of actual analytical tools (e.g., PSIAs, CEAs, SEAs, etc.) employed in connection with previous DPOs.

Incentives could be improved to encourage Task Team Leaders, Country Directors, and other Bank staff to better balance management of environmental and social risks in DPF with the demands of responsive delivery. Administrative changes on guidance and systems may not be enough to change behavior; the Bank could consider other steps to ensure that environmental and social specialist knowledge is utilized for every DPF—at a minimum for the initial screening of the operation for environmental and social risks—and that all significant risks including indirect and downstream negative effects are identified and followed up. A change in culture may also be required; managers could model behavior by demonstrating in review processes—starting from the Concept stage—that they see environmental and social risk management as a priority. There is a clear need for leadership from OPCS on these issues, but it would be important to work closely with relevant GP management as well. A simple measure that could contribute to increased accountability would be to require DPF Program Documents to list all team members that contributed to preparation of the operation, along with their titles (as is done for IPF in Project Appraisal Documents).

The Bank could also work to ensure that there are adequate resources available to conduct analytical work and to incorporate environmental and social specialists into task teams when needed. This could include reestablishing or continuing trust funds or more sustainable sources of support for PSIAs, CEAs, and SEAs. Bank Management could also establish budgets for environmental and social specialist inputs "off the top," apart from task budgets, as interviewees report is the current practice for covering the cost of safeguard specialist input in IPF.

Clearer guidance could be provided on supervision, monitoring and evaluation of specifically environmental and social risks in DPFs. A section could be included in the ISR and ICR templates for DPF, as well as in IEG's ICR Review template. Instructions could be added to the harmonized ICR Guidelines and IEG's ICR Review Manual on how to assess environmental and social issues.[19] Including environmental and social effects in the Bank's monitoring and evaluation of DPF would also increase the incentives for TTLs and approving managers to prioritize due diligence in these areas. For FY15, OPCS extended the deadline for submission of ICRs for DPF from six months to one year, which could provide more opportunities to assess the longer-term effects of policies.

The Bank could strengthen requirements to avoid the possible undermining of the OP 8.60 approach to environmental and social risk management through the actual or apparent earmarking of DPF proceeds by Borrowers. This could be achieved by including a specific prohibition in policy, as well as the inclusion of standard language in Legal Agreements for operations. At the same time, given the fungibility of DPF resources, Bank efforts could be broadened beyond individual DPOs to improving country systems for managing environmental and social risks more broadly, as was intended when OP 8.60 was approved (World Bank 2004a).

The window for requesting an Inspection of an operation from the World Bank Inspection Panel could be extended beyond the closing date in the case of DPF—as it was for submission of ICRs—to allow for a more realistic timeframe for affected people to have their concerns addressed, including regarding potential adverse environmental and social effects. Other International Financial Institutions (IFIs) allow up to two years after an operation

[19] IEG has a safeguards working group and a DPF working group that are currently looking into this question.

closes for complaints to be filed.[20] That would increase the credibility of the mechanism and allay some of the concerns of civil society organizations about the instrument. The timeline between disclosure of sufficiently detailed DPO documentation (including at least the proposed policy matrix) and disbursement could also be extended.[21]

The inclusion of environmental and social themes and risks in the World Bank's new country engagement model and risk management tool is a positive step (see Appendix F). The country engagement model is based on a Systematic Country Diagnostic (SCD) designed to feed into the Country Partnership Framework (CPF). The SCD will include analysis of environmental and social sustainability as a key function, and will recommend an action plan for knowledge gaps to be filled as part of the CPF. This process could be used to carry out or encourage upstream analytical work on a country's environmental and social capacity, policy opportunities and challenges, and risks, and also to help improve country systems. Greater support for upstream country-level analytical work on capacity for managing environmental and social risks outside the boundary of any specific operation could help to provide a pre-existing knowledge base that could then be drawn upon when rapid preparation is needed for a DPF.

The Systematic Operations Risk Rating Tool (SORT) is a new tool for managing risks in operations and strategies. Every operation will assign a risk rating for each of 8 risk types including environmental and social risks, and these risks will be tracked and reported over time (see Appendix F). SORT by itself does not change the process used for identifying risks, but the tool could offer a useful way of directing management attention and resources to operations that need them most if the higher risk ratings are used in practice. It is still too early to determine how effective these new tools will be, but encouragement from Bank management—by providing adequate resources, time, and attention to environmental and social aspects—could increase their benefits for these purposes. In this context, it would be helpful for the Bank to consider its risk appetite. A proper balance is required so that Bank teams do not avoid supporting policy reforms with the potential for important poverty reduction, equity, or sustainability benefits because there may be risks involved—as long as those risks are adequately understood and mitigated.

[20] See for example the Asian Development Bank: http://www.adb.org/site/accountability-mechanism/problem-solving-function/filing-a-complaint

[21] The restriction that the Inspection Panel cannot conduct investigations beyond the closing date of an operation is enshrined in the Board resolution that established the Panel, so changing this is beyond the power of Bank Management and would require a Board resolution.

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[22] These references are in addition to the many documents review by IEG for the operations in the portfolio review sample.

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Appendix A. Some Differences between DPF and IPF

World Bank Development Policy Financing (DPF) differs markedly from Investment Project Financing (IPF). The two instruments diverge in terms of what is supported by the loan, how development impact is intended to be achieved, the mechanism for disbursement of funds, and many of the specific requirements that govern the design and implementation of operations. For example, a World Bank-financed agricultural IPF might reimburse a borrower for eligible expenditures related to construction of a new irrigation system, equipment and training for research and extension services, and fertilizer for farmers. DPF operations are designed to achieve development goals through the positive effects of policy reforms. An agricultural DPF might disburse funds to a borrower that had implemented a program of policy reforms such as removing tariffs on the export of crops or the import of farm equipment, or increased budget allocations to public agricultural research and extension services.

DPF and IPF differ in other ways as well. While investment loans are typically implemented over a period of five years or more, individual DPFs occur over a much shorter time period; single-loan DPFs typically go to the Board, become effective, disburse, and close in a matter of months. However, DPFs are often combined into programmatic series that can span several years.

DPF is governed by a Bank Operational Policy (OP 8.60) that describes it as "rapidly disbursing policy-based financing, which the Bank provides in the form of loans or grants to help a borrower address actual or anticipated development financing requirements that have domestic or external origins." According to OP 8.60, DPFs are designed to support programs of "policy and institutional actions that promote growth and sustainable poverty reduction." Most DPFs are designed to help alleviate poverty or have other positive social impacts through macroeconomic or sectoral policy reforms, and some are designed to have positive environmental effects by strengthening environmental policies or by improving incentives in environmentally sensitive sectors.

The Bank introduced the current approach to Development Policy Financing in 2004, when OP 8.60 replaced existing adjustment lending instruments. According to OP 8.60, DPF operations are structured around a set of agreed actions determined to be "critical for the implementation and expected results of the program supported" by the Bank (para. 12). These include "prior actions" that are to be implemented by the borrower before the operation is submitted to the Bank's Board for approval, along with "triggers" for future policy actions when the loan is programmatic (or occasionally, in tranches). The actions are all summarized in a Policy Matrix, which is organized into policy areas. While disbursement is based on the prior actions, Development Policy Operations (DPOs) are designed to support broader objectives and a program of reform agreed with the member country. According to World Bank guidance, there is not supposed to be a direct relationship between the implementation of the policy actions supported by the loan and the use of the funds. Indeed, while investment operations finance specific investments and activities, under development policy financing (or DPF) "the Bank normally disburses the proceeds of the Bank Loan into an account that forms part of the country's official foreign exchange reserves" (OP 8.60, para. 18).

World Bank processing of DPF operations differs from that of IPF operations. For the Decision Review, the DPF Processing Instructions state that all DPF operations have either a Regional Operations Committee meeting chaired by the relevant Regional Vice President or, for certain types of operations (for example, high risk), a Bank Operations Committee meeting chaired by a Managing Director (World Bank 2014b). For IPF operations, the Decision Review is normally chaired by the relevant Country Director, which is a lower level of decision-making (although in exceptional cases, the Decision Review for IPF can also be chaired by the Regional Vice President or even the Managing Director).

The DPF instrument has been used in different ways by the Bank. Many DPFs support economy-wide reforms, with the theme of Public Sector Governance being the most common for prior actions, followed by Financial and Private Sector Development (World Bank 2012). Though less common, in other cases, DPFs support policy reforms on specific themes, such as Human Development, Energy Sector Development, or Environment and Natural Resources Management. Although the amounts transferred through DPF have fluctuated substantially over time—peaking at times of international financial distress—development policy lending commitments generally account for about one third of the World Bank's overall lending portfolio.

There is also a requirement for the Bank to identify and manage operational risks in OP 8.60. The latest version of OP 8.60 (revised in July 2014) does not refer to specific types of risks. However, the Bank recently introduced the Systematic Operations Risk-Rating Tool (SORT), which applies equally to DPF and IPF operations, and includes "environment and social" as one of nine risk categories. See Appendix F for more on recent developments.

Both OP 8.60 and BP 8.60 discuss requirements for monitoring and evaluation of DPFs. OP 8.60 states that "The Member Country monitors progress…and evaluates results…. The Bank assesses and monitors the adequacy of the arrangements by which the Member Country will carry out these responsibilities" and "reviews implementation progress during supervision" (paragraph 16 in the July 2014 version). Neither OP 8.60 nor BP 8.60 mention monitoring and evaluation of environmental and social effects explicitly, though BP 8.60, in the Supervision, Monitoring & Evaluation paragraph, refers to the need to "identify the key risks to program sustainability and recommend appropriate risk management strategies and actions to the Member Country" (paragraph 22 in the July 2014 version). An OPCS overview of the transition From Adjustment Lending to Policy Lending states that DPO's "arrangements to manage program implementation, monitor progress and effectiveness, and identify risks will be expected to give explicit attention to poverty/social, environmental, and fiduciary aspects" (World Bank 2004a).[23]

[23] See World Bank 2004a: http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2005/03/31/000090341_20050331152108/Rendered/PDF/318130PAPER0OP1r0official0use0only1.pdf

While in most respects the approach to environmental and social risk management in DPF is distinct from that in IPF, the Bank uses the same grievance redress mechanism. The Inspection Panel is an independent complaints mechanism for people and communities who believe that they have been, or are likely to be, adversely affected by a World Bank-funded operation, whether IPF or DPF.

Appendix B. Portfolio Review Methodology

One of the main activities under this Learning Product is an extensive portfolio review of DPF operations over time. IEG conducted a desk-based portfolio review of randomly selected DPF operations approved under OP 8.60. The sample covers the full period of the Bank's experience with DPF, from the effectiveness of OP 8.60 in 2004 until the end of CY 2014 (FY05-15). A randomly selected sample of 70 operations covering 692 prior actions was used for assessing social risks. Because environmental risks are less common (see below), IEG casted a somewhat broader net and randomly selected an additional 30 operations for a total of 100 operations and 970 prior actions to assess environmental risks. The sample was drawn from the full population of DPOs which were required to comply with OP 8.60 (i.e., all DPOs since FY05 excepting those that were prepared under previous operational directives and were not required to comply with OP 8.60). The population contains 616 operations.

The characteristics of both samples are very similar, and they both look very much like the full population of DPOs. Results are reported primarily at the prior action level, because the number of prior actions with environmental or social risk implications can vary by operation.[24] For some questions where information at the operation level is of interest, that information is also presented.

The sampling was designed such that if an operation was part of a series of DPOs (under a single ICR), then the other operations in the series would also be selected. To do this while making sure that each operation was still equally likely to be selected, random sampling was conducted at the series level (with standalone DPOs effectively treated as a one operation series), with each series weighted by the number of operations it contained. This left each operation equally likely to be selected, while keeping series together.

Sample representativeness

The two samples are very similar to each other and both are similar to the population in terms of temporal and regional coverage. The only unusual feature of the samples is that they have a slightly higher than expected proportion of operations that are in programmatic series rather than standalone operations (75 percent of the environment sample and 77 percent of the social sample is from programmatic series, vs. 61 percent of the population). There is no clear expectation that risks would be handled better or worse in programmatic series, so it is unlikely that this biases the results.

[24] The unit of analysis of environmental and social effects in the World Bank Development Policy Lending Retrospectives is at the prior level.

Table B-1: Environmental and Social Risks in the IEG Sample

Distribution over time (% of total approved in each FY)			
Approval FY	Population	Sample of 100 (environment)	Sample of 70 (social)
2005	3	2	3
2006	8	10	7
2007	9	12	11
2008	8	8	7
2009	13	10	9
2010	14	12	17
2011	12	14	16
2012	9	11	9
2013	10	11	11
2014	10	10	10
2015	4	0	0
Grand Total	**100**	**100**	**100**

Table B-2: Environmental and social risks in the IEG sample

Distribution over regions (% of total approved in each region)			
Region	Population	Sample of 100 (environment)	Sample of 70 (social)
AFR	35	33	31
EAP	13	15	19
ECA	15	21	19
LCR	21	18	21
MNA	7	3	3
SAR	8	10	7
Grand Total	**100**	**100**	**100**

Risk identification methodology

IEG conducted separate screening processes for the environmental and for social risks. Environmental risk screening was conducted for the full sample of 100 operations, covering 970 prior actions. Social risk screening was conducted for a randomly selected subsample of 60 operations, covering 603 prior actions. Screening took place at the prior action level, using the World Bank's Development Policy Actions Database (DPAD). In carrying out the portfolio review, IEG noted a few cases where prior actions included in the Program Document were not included in the database, including some with likely environmental or social effects (such as a prior action in Mozambique requiring investments in irrigation systems). But IEG did not conduct a systematic audit of the database, so the results used in this review are based on analysis of only those prior actions included in the database.

For each prior action, IEG conducted a multi-stage stage process to assess risk management. The process for identifying both social and environmental risks began with a review of the language of the prior action. If the prior action could not plausibly have the potential for significant adverse environmental or social/distributional effects, then it was not considered further. If, however, the action could pose an environmental or social risk, then it was further assessed based on the Program Document for the operation, and a decision would be made on whether or not a risk was present.

The screening process followed parallel approaches on the environmental and social sides, with in each case an iterative and collaborative approach between an initial specialist and a secondary reviewer. All prior actions were reviewed by at least two environmental specialists and at least two social specialists. In most cases these specialists would come to a consensus on whether a prior action posed a risk. In the few cases where agreement between the initial evaluator and the second specialist could not be reached, a third specialist was consulted. Other specialists in IEG were drawn on in a few cases for their sectoral knowledge (e.g., public finance, energy, and urban specialists).

The process of risk identification was based primarily on the available guidance (such as the Good Practice Notes on environmental aspects of DPOs and on PSIA, and the Toolkit on environmental aspects in DPLs) which indicate that some types of policies have the potential for negative social or environmental effects. However, the fact that a type of policy action was identified as risky or potentially in the guidance was not a sufficient condition for IEG to conclude that a particular policy action posed a risk – the specific context and content of the policy action were also considered. For example, if there was analysis discussed in the Program Document that made a credible case that no significant negative effects were likely (e.g., that a specific tariff reform policy would be unlikely to trigger fuel switching behavior), then the prior action would not be identified as posing a risk. Similarly, not all PPP reforms would be identified as posing an environmental risk – only those that were designed to support PPP in infrastructure investments or other environmentally sensitive sectors. On the social side, one operation reviewed included a prior action that increased the budget allocation for feeder roads and irrigation. IEG identified this as posing social risks due to changes in land or water use that commonly result from the kinds of infrastructure investment promoted by this action. By contrast, IEG did not identify as socially risky an action in the same operation that was to simplify processes of obtaining construction permits, as likely significant social effects—such as adverse poverty or accessibility outcomes—could not be clearly attributed to streamlined bureaucratic processing.

The available guidance does not (and cannot be expected to) cover all possible types of policy reforms, so some types of policies not specifically covered by guidance were also assessed by IEG to have the potential for negative effects. In most cases these types of policies were also sometimes identified by Bank task teams. But there are also inherent difficulties in predicting whether a policy action will have "significant" environmental or social effects, especially in cases where the Bank has not presented the evidence or analytical material to substantiate their decisions in the Program Documents. As a result, ambiguities can arise when trying to determine whether a prior action will have the potential for significant adverse environmental or social effects, and ultimately a judgment call may be required. This is in part a result of the lack of clarity and comprehensiveness in Bank policy and guidance, but is also a result of the risk-based management approach the Bank has taken in DPF, which the Bank has stated relies to a certain degree on judgment, as discussed in Section 3. Consistent with this, IEG's approach relied to a certain degree on expert judgment. The possibility for inconsistencies was minimized by having multiple qualified experts review each prior action in IEG's sample. IEG also took into consideration the specific country and reform context for each prior action reviewed. The numbers and types of these cases are described in Tables 2-1, 2-2, 2-3, 2-4. Largely because the Bank's guidance on identification of social risks is less comprehensive and less user-friendly than on the environmental side, there are more social than environmental risks that were identified primarily based on expert judgment.

In determining the potential effects of a policy reform, indirect and downstream effects of policies would be included. Though existing guidance makes clear that indirect effects should be considered, it provides little support on how to set the boundaries of how far downstream an effect should be to be still considered attributable to the policy action. Thus, IEG relied on expert judgment in making this assessment, supplemented by evidence in the Program Document and its annexes such as the stated objectives or goals of the policy or the indicators used to assess the impact of the policy. As a rule of thumb: if a given effect was part of the results chain of the operation, and would be attributed to the policy action as evidence of positive impact of the operation, then the potential negative consequences of that effect would also be included. However, if some effects of the policy were too remote from the policy to be attributable, then the related negative effects would not be included. For example, if a policy reform on PPP legal and operational frameworks was designed to increase infrastructure investment (as demonstrated by for example the use of an indicator on the number of PPP investments approved) then the environmental consequences of the infrastructure investments would be considered to be likely effects of the policy reform. In contrast, if a policy was aimed broadly at encouraging economic growth by simplifying business registration procedures, the environmental consequences of growth would be too remote to be attributable to the policy.

Assessment of other requirements

For policy actions determined to have the potential for significant adverse effects, IEG assessed the operation against the requirements of OP 8.60. Specifically: whether the Program Document had identified the risk, whether relevant analytic work had been conducted on environmental or social/distributional aspects, whether consultations on environmental and social aspects were reported in the program document, whether the capacity of country systems to manage any adverse effects had been assessed, whether any gaps in these systems had been identified, and whether any actions had been or were planned to be taken to help address these gaps. A relatively low bar was set for each of these steps: if the Program Document mentioned a possible negative effect, this would be coded as an identification of the risk, even if the discussion was not specifically in the Environmental

Aspects or Poverty and Social Aspects sections of the document; if government systems for management of a specific risk were discussed, this was coded as a capacity assessment; if a weakness in capacity was discussed (or a statement that capacity was sufficient was made) this was coded as a capacity gap analysis; if a mitigation measure was proposed, this was coded as a mitigation measure. Thus, coding that there was some comment on these requirements does not establish that the assessments or mitigation measures undertaken were adequate (see Appendix E).

IEG also assessed whether there had been any monitoring or reporting on environmental and social aspects over time, including in subsequent program documents (for programmatic series) and in the Implementation, Completion and Results report produced after the operation closed.

The specific questions answered by the reviewer for each prior action were:

1. Based on the text of the policy action, could the policy action plausibly have significant negative environmental/social effects?
2. Under OP 8.60 environmental and social analysis is not required in the program document in countries affected by crisis or conflict, where an unusually quick response required by the Bank and there may not be sufficient time or country capacity to address issues like distributional or environmental effects? Does the program document use this rationale to defer the requirement for analysis?
3. Based on the reading of the program document and if needed other documents (ICR, etc.), is there a risk of significant negative environmental/social effects from the policy actions in this operation?[25]
4. If yes, does the program document identify any risk of significant negative environmental/social effects from any of the policy actions?
5. Does the program document mention any evidence or analytic work done which may help to assess the potential for negative environmental/social effects? From a brief review of this analytic work, is it relevant and useful for assessing risks?
6. Is there any evidence in the program document of consultation with non-government stakeholders on negative environmental and social risks?
7. Is there any evidence in the program document that the Bank assessed the capacity for country systems to mitigate risks of negative impacts?
8. Were any gaps identified in the capacity of country systems for mitigating risks of negative impacts?
9. Were any mitigation actions identified in the program document?
10. Was there any mention in ISRs or subsequent program documents in the series on monitoring of whether or not environmental risks occurred?
11. Were there any environment/social specialist staff listed in the program document or the ICR as part of the team?
12. Is there an ICR for the operation? Did it discuss any environmental or social risks?

[25] This was the language as provided to reviewers, however the intent and practice of the review was to be consistent with the OP 8.60 requirement to consider "likely" significant effects, which requires a subjective judgment on likeliness.

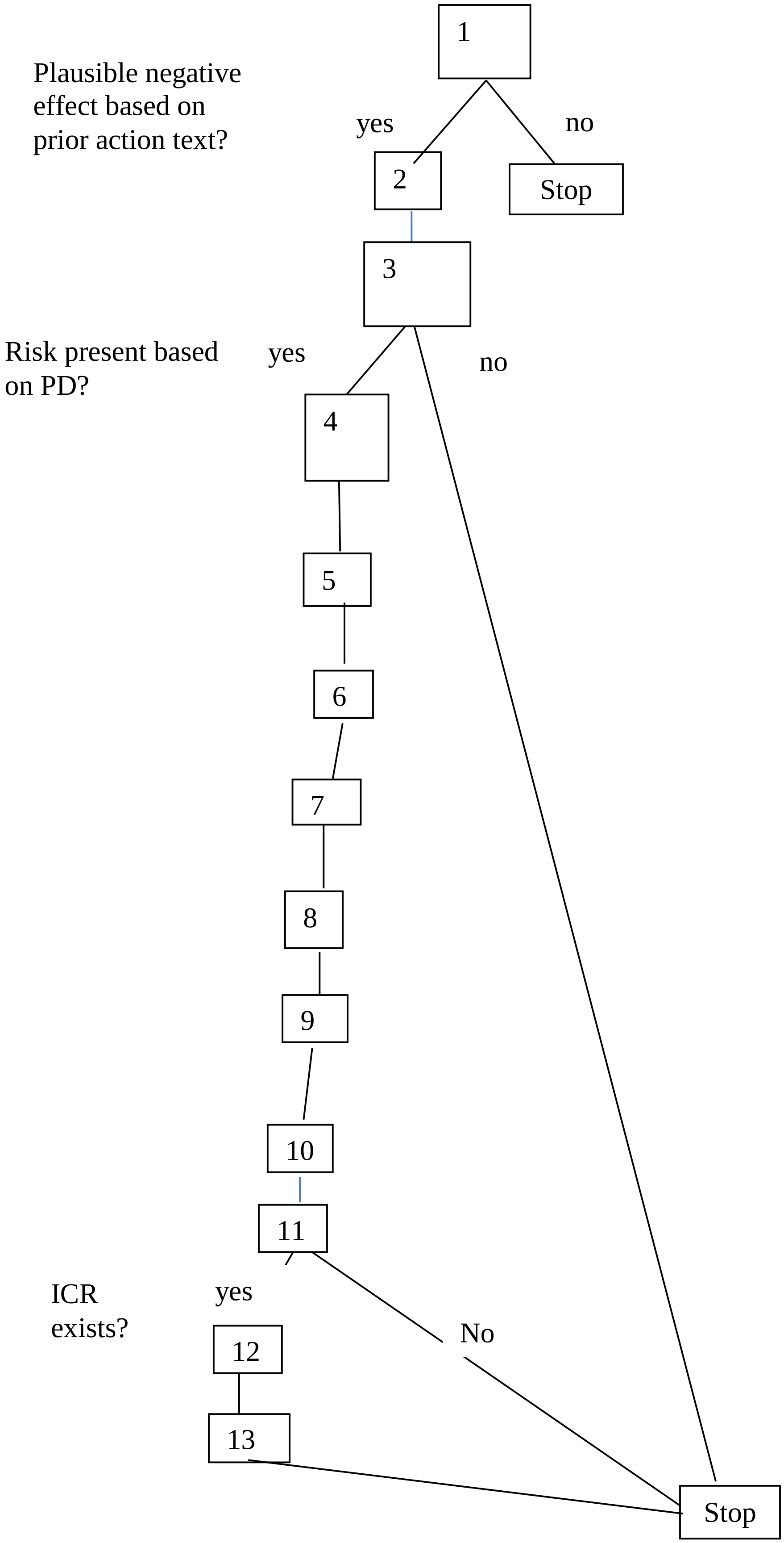
13. Did the IEG ICR Review report on any environmental or social risks?

See below for a flowchart illustrating the process utilized for reviewing individual policy actions.

In addition to the portfolio review as described in Appendix A, this review is based on a variety of sources.

- Desk reviews of policies, guidance notes, toolkits, and other materials.
- Interviews and focus groups with Bank staff, including current and former TTLs, managers, safeguard advisors, and sector specialists.

Field evaluations (Project Performance Assessment Reports, PPARs) carried out by IEG, which in turn draw on document reviews, interviews, and field missions.


1
Plausible negative effect based on prior action text?
yes
no
2
Stop
3
Risk present based on PD?
yes
no
4
5
6
7
8
9
10
11
ICR exists?
yes
No
12
13
Stop

Appendix C. Detailed Results of the Portfolio Review

One of the main activities under this Learning Product is an extensive portfolio review of DPF operations over time. IEG conducted a desk-based portfolio review of randomly selected DPF operations approved under OP 8.60. The sample covers the full period of the Bank's experience with DPF, from the effectiveness of OP 8.60 in 2004 until the end of CY 2014 (FY05-15). Appendix B contains details on the selection of the sample and the portfolio review process. For the prior actions in operations in the sample, IEG assessed the application of the requirements of OP 8.60, including the identification of environmental and social risks, the extent to which analytic work on risks was carried out, the extent to which country capacity for managing risks was assessed, the extent to which gaps in capacity were addressed or risks were mitigated, and the extent to which risks were monitored over time. A randomly selected sample of 70 operations covering 692 prior actions was used for assessing social risks. Because environmental risks are less common (see below), IEG cast a somewhat broader net and randomly selected an additional 30 operations for a total of 100 operations and 970 prior actions to assess environmental risks. As described in detail in Appendix A, the characteristics of both samples are very similar, and they both are broadly similar to the full population of DPOs. Results are reported primarily at the prior action level, because the number of prior actions with environmental or social risk implications can vary by operation.[26] For some questions where information at the operation level is of interest, that information is also presented.

IEG screened prior actions based on the Bank's policy and guidance. The most fundamental aspect of the portfolio review was an assessment of whether prior actions in the operations were likely to pose significant environmental or social risks. This assessment was made using the requirements of OP 8.60 and the specific guidance provided by the Bank for environmental and social effects, supplemented by expert judgment as needed. As detailed earlier (Table 2-1, 2-3), in most cases the types of risks identified by the IEG team were also indicated by the Bank's guidance materials or were identified by Bank task teams in other operations in our sample. But as discussed in detail in Section 3, the policy is imprecise, there is a problem of sequencing in the requirement for analytical work, the boundaries of downstream effects to consider are not clear, and the guidance is not comprehensive. There are also inherent difficulties in predicting whether a policy action will have "significant" environmental or social effects, especially in cases where analytical work on the magnitude of potential effects has not been undertaken. As a result, it is sometimes more difficult to ascertain whether a prior action will have the potential for significant adverse environmental or social effects, and ultimately a judgment call is required.[27] IEG minimized the potential for errors by having at least two environmental specialists and at least two social specialists

[26] The unit of analysis of environmental and social effects in the World Bank Development Policy Lending Retrospectives is at the prior level.

[27] The Bank's guidance acknowledges this, for example stating that "The selection of policies for which PSIA is appropriate is inevitably a matter of judgment…" (World Bank 2004a), and "The degree of transmission of negative impacts will thus be a matter of judgment…" (World Bank 2008a).

review every prior action in the sample (see Appendix B for more details on the methodology).

Findings on risk identification

The general finding of the portfolio review is that IEG's experts identified significantly more environmental and social risks than Bank task teams, indicating that there is an underreporting of environmental and social risks by the Bank in DPO Program Documents. Of the 970 prior actions in the sample, IEG determined that 66 (6.8%) posed potential significant adverse environmental effects.[28] Of these 66 cases, the potential for some risk was identified by the Bank task teams in 35 cases (53%).[29] In many of these 35 cases, the identification of risk by the Bank was not unambiguous. That is, the Program Document mentioned a risk but did not make clear whether it believed that this risk was a possible result of the policy actions of the operation, and so would trigger the due diligence requirements of OP 8.60. For example, in 15 of the 35 cases where an environmental risk was mentioned, the Program Document also commented that "there is no potential for negative environmental effects from the specific policies supported by the operation" or used similar language. Some documents stated that there was no potential for "direct" adverse environmental effects, but possible significant indirect effects were not considered. For the 692 prior actions screened for likely significant adverse social effects, IEG identified such risks for 97 actions (14.0%). Of these 97 actions, the Bank mentioned the potential for social risk in 54 cases (56%). There were some good examples of risk appraisal and identification by the Bank, such as in Georgia (Box 2-3), and Colombia (Box 2-4). IEG's analysis also identified significantly more risks than have been identified in the Bank's Development Policy Financing Retrospectives; some of the reasons for this difference are explained in Box 2-9.

The majority of prior actions do not pose environmental or social risks – in IEG's sample 93.2 percent of prior actions were not assessed to have environmental risks, and 86.0 percent of prior actions were not assessed to have social risks. However, risks are present in a significant portion of the portfolio. The 66 prior actions with environmental risks are spread across 44 of the 100 operations in the sample, and the 35 actions with environmental risks identified by the Bank are spread over 27 operations. On the social side, the 97 prior actions with social risks are spread over 49 of 70 operations, while the 54 actions with social risks

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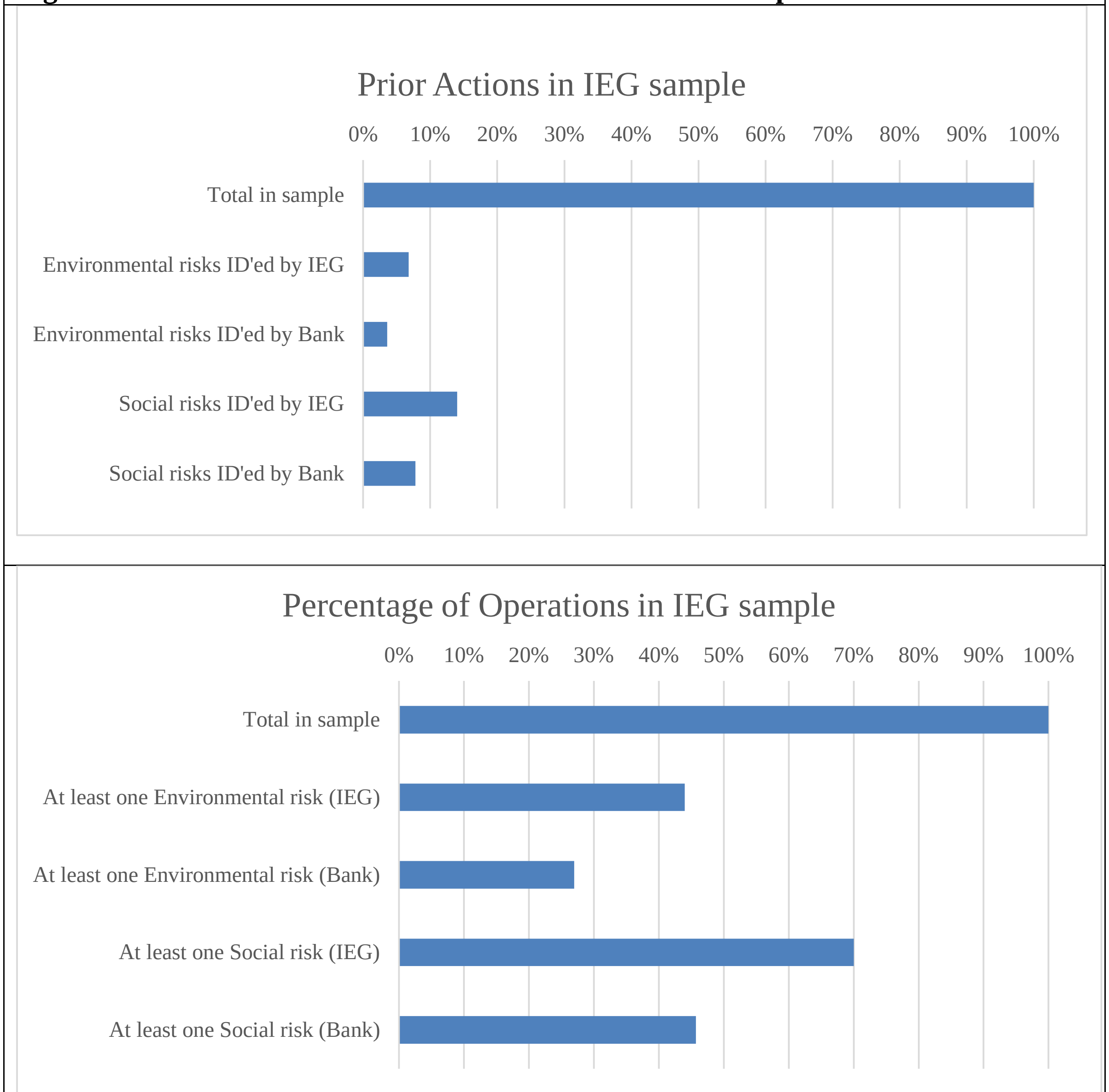
[28] Policy actions and the program logic are sometimes not clearly described in Program Documents, making it difficult to determine what exactly a DPF operation is supporting. This in turn makes it more challenging to predict environmental and social effects. For example, there are cases where a prior action required that a law be passed, or an action plan implemented, or a trade reform be adopted, but the Program Document did not describe the contents of these in sufficient detail to understand the implications of the policy. These are most common in large multi-sectoral DPLs with many policy actions. In addition to the 66 cases with environmental risks identified by IEG, a further 13 cases could in principle have had significant environmental effects but were not identified as having risks because project documentation did not provide sufficient information on the details of the action.

[29] IEG gave Bank teams the benefit of the doubt wherever possible, crediting them with identifying environmental risks if they were mentioned as such anywhere in the Program Document (even if not explicitly discussed in the "Environmental Aspects" section).

identified by the Bank come from 32 operations. More than twice as many policy actions were identified as having social risks (14.0%) than environmental risks (6.8%).

Figure C-1: Environmental and Social Risks in the IEG Sample



Note: IEG bars are those risks identified by IEG; Bank bars are those risks identified by Bank task teams in the Program Document.

IEG's identification of environmental risk is based largely on the detailed typology of policies and potential for negative environmental effects as laid out in the Bank's Toolkit for Assessing the Environmental, Forest, and Other Natural Resource aspects of Development

Policy Lending, or “Environment Toolkit” for brevity (World Bank 2008). Box C.1 provides examples of some of the environmental risks not identified by the Bank.

Box C-1: Examples of Environmental Risks Not Identified

IEG identified environmental risks that were not considered in Bank Program Documents; some examples are discussed below.

In a municipal DPL in Rio de Janeiro, a prior action supported the establishment of a framework for public-private partnerships in infrastructure and service delivery. The goal of this aspect of the operation was to support PPP development; the relevant indicator required that at least one project be prepared by the PPP unit established under the policy reform. The Borrower's ICR, which is annexed to the Bank ICR, notes that the operation was successful in helping to trigger PPPs, and indicates that these PPPs involved major infrastructure investments - including the largest basic sanitation concession in Brazil, building an express transit corridor, construction of a 28 km light rail system, and construction of the Olympic Park over an area of 1.2 million square meters. These investments would clearly pose some environmental risks, but the environmental aspects section of the Program Document made no mention of the PPP action, and there was no assessment of the capacity of existing institutions to manage the environmental or social effects of these investments. There are a number of other similar cases in IEG’s sample in which the Bank supports PPP legal frameworks, often with a performance indicator on the number of PPPs prepared and language suggesting that the goal is to attract private sector financing of infrastructure, but with no identification of environmental risks (Niger, Tajikistan, Guinea-Bissau, Mexico, Sierra Leone) while risks were identified in similar cases in Tanzania and Colombia.[30]

In Lao PDR a Poverty Reduction Support Credit (PRSC) programmatic series supported implementation of a Minerals Law, which would improve transparency and predictability in granting exploration/mining licenses to investors, clarify regulations regarding the transfer of mining rights, clarify government’s equity rights in mining projects, clarify and improve the competitiveness of the fiscal regime, and propose standard mineral exploration and mining agreements. The Program Document argued that the law would lay the foundations for the long term development of the mining sector. The planned version of the trigger included issuing of regulations on environmental standards, but this was deemed to be too ambitious to achieve and was dropped from the final formulation. The goal of the policy was to encourage minerals sector development and investment, but no environmental risks were identified and no assessment of environmental management capacity was made.

In a private and financial sector development DPL in Serbia, a prior action supported a law on mining incorporating a new royalties framework. The Program Document noted that the goal of the law was to improve the legal and regulatory framework for the mining industry so as to attract green field FDI. No environmental risks were identified and no assessment of environmental management capacity was carried out.

An economic recovery operation in Togo supported adoption of a strategy for managing the cotton sector. Indicators for the policy action included tracking implementation of a strategy to stimulate fertilizer use, and tracking whether farmers received a pre-agreed share of the world market price. Increased fertilizer use can contribute to water pollution, and higher prices can encourage farmers to expand production, which would often be accompanied by increased use of pesticides and herbicides, and land conversion. The Program Document did not consider any possible negative effects from the policy, noting that the prior action did not support any investments.

A PRSC in Ghana supported implementation of rural and urban water investment plans. The goal of the policy area and relevant indicator in the DPF was to increase the access rate to safe water and sanitation,

[30] IEG did not identify likely significant effects in all PPP-related prior actions. Rather they were primarily those that intended to promote increased infrastructure investments.

which would require major water infrastructure investments. No potential for environmental risks was identified and no assessment of environmental management capacity was made.

The common element behind these cases is a narrowly crafted prior action intended to support wider goals, with the consideration of environmental risks limited to the direct effects of the policies, rather than the indirect effects associated with the ultimate goals of the policy reforms.

IEG's identification of social risks is drawn from a range of guidance but primarily the Bank's Guidance Note on Using Poverty and Social Impact Analysis (PSIA) (World Bank 2013). However, as discussed in Section 3, the Bank's guidance on social risks in DPF is less comprehensive than for environmental, so there are many fewer social risks covered by guidance (see Table 2-3). In most of those cases encountered in IEG's sample, Bank teams still identified the risk type in at least one case, but not necessarily in others. Box C.2 provides examples of some of the social risks not identified by the Bank.

Box C-1: Examples of Social Risks Not Identified

A Pakistan PRSC supported a range of actions including support for electricity tariff reform, privatization of a refinery, an electric company and a telecommunications company, and amendments to labor laws to improve labor market flexibility. These posed some potential for social risks: higher electricity tariffs could burden the poor, privatization of large companies could lead to job losses, and the amendments to the labor laws to achieve labor market flexibility made it easier to fire employees, and called for longer working hours. However, the Program Document did not identify any social risks from these actions. The document proceeds from the premise that this flexibility is needed and therefore justified, but this does not rule out the possibility of negative effects. The analytical work for this operation was ample but did not address the social risks of these three prior actions. The Program Document referred to consultations with respect to the labor law amendments, but did not specify the outcome of those consultations.

A three-operation series of sustainable development DPLs in Colombia did not identify the social risks of environmental actions that included: i) drafting a law for water resources management; ii) supporting natural resource management action plans that would address rationalization and optimization of consumption of renewable natural resources; and iii) an action plan for the management of the integrated urban environmental policy. Each of these actions might pose land use/settlement-related social risks or natural resource access risks, as well as risks of higher financial costs of cleaner transportation, energy and water. The Program Document indicated that the poor would benefit disproportionately from environmental benefits of the policy reforms because they are most affected by, for example, polluted air and water, which the program addressed. However, even if the net social impact of the program is positive, this does not mean that the possibility of increased costs on the poor should not be identified or assessed. Sometimes it is the negative social side effect of environmental actions that opponents of environmental improvements use to undermine support for such initiatives.

A Mali PRSC series offers examples where the Bank did not identify social risks from changes in the delivery of social services. The prior actions included: i) the execution of contracts between the government and private operators for management of a number of drinking water supply systems and ii) adopting operational guidelines on decentralization in the health sector, including a framework for the transfer of financial resources to the local communities. In these instances, the social risk is that water supply and health service delivery may be of poor quality or could exclude poor and vulnerable groups. The program document did not address whether the capacity of those parties taking on the responsibility for these social services was adequate. The operations did not have analytic work or consultations specific to these risks.

A Togo DPO did not address a number of significant social risks. The relevant prior actions include: i) a strategy for the cotton sector that covers transfer of assets, pricing mechanisms and price risk management; ii) evaluating investments for scaling up phosphate mining; and iii) reviewing the adequacy of the electric company's electricity tariff. In each case, the Program Document cited only the positive aspects of the action, despite the fact that each posed a social risk, even if indirectly. A strategy that could lead to far reaching measures in the cotton sector could adversely affect cotton farmers. If investments in phosphate mining are approved, risks associated with settlement as well as labor conditions are posed. Supporting an electricity tariff sufficient to attract investors indicates that higher tariffs are required and thus there is a distributional risk for poorer consumers.

IEG identified some policy types not specifically identified by guidance or Bank task teams as posing risks, but where IEG concluded that a risk exists based on expert judgment. In some cases, this reflects gaps or a lack of clarity in the Bank's policy and guidance. On the environment side, there was only one such case (see Table 2-2), while on the social side there were several (see Table 2-4). Labor law changes are not specifically covered by Bank guidance on PSIA and were not identified by Bank task teams in the IEG sample. DPOs in Pakistan and Bhutan supported changes to labor laws or codes aimed at increasing flexibility in the labor market – which may have positive effects on growth of enterprises, but could also adversely affect workers by reducing job security. In another example of risk not covered by Bank guidance, mandating compulsory secondary education could have a negative effect on poor households who rely on family labor.

There were other cases where IEG did not identify policy actions in the sample as having likely significant environmental or social risks after taking into consideration the specific country and reform context, even when those policy types were identified as potentially risky in Bank guidance. For example, IEG's sample contained a number of cases of simplifying business registration and permitting and licensing requirements, none of which, in IEG's view, appeared to have the potential for significant negative environmental effects. Similarly, there were a number of trade-related policies in the sample which IEG did not assess as having environmental risks, such as policies improving the operation of customs and border control services.

IEG did not find evidence that identification of risks has improved over time. The Bank identified social risks for 21 of 38 cases (55%) identified by IEG for operations approved over FY05-09, as compared to 33 of 59 cases (56%) for operations approved over FY10-14. Similarly, the Bank identified environmental risks for 15 of 26 prior actions (58%) for operations approved from FY05-09, while environmental risks were identified for 20 of 40 prior actions (50%) for operations approved from FY10-14.

It is sometimes argued that environmental and social analysis is overly burdensome for DPOs aiming to provide urgent crisis response. However, as described in Box 1-2, OP 8.60 acknowledges the possibility of a need for quick response, and allows for design considerations such as environmental or distributional design considerations to be deferred, as long as the Program Document describes how and when those considerations will later be addressed. In IEG's sample, though some DPOs were aiming to respond to crises, none of the Program Documents invoked this option to delay.

It is not the case that risks are concentrated in sectoral DPOs. While it is sometimes presumed that the potential for environmental or social risks lies primarily in DPOs in sectors like energy or environment,[31] rather than in multi-sectoral economic management DPOs, IEG's portfolio review suggests that risks exist in a range of operations. Tables C-1 and C-2 show the distribution of environmental and social risks, respectively, based on the Sector Board of the operation they were mapped to. These tables show that most risks are in operations mapped to poverty reduction and economic management sectors (the former PREM Network), which also feature the largest overall number of DPOs. Tables C-3 and C-4 show the distribution of risks based on the sector of the specific policy action. These show that social risks occur across a range of sectors, but environmental risks are concentrated in agriculture, water, energy, urban, or environment sectors (the former SD Network). SDN sector-mapped operations identify 16/25 environment risks (64%) and 18/26 social risks (69%) which is better than PREM-mapped operations, which identify 19/36 environment risks (53%) and 32/63 social risks (51%).

Program Documents for operations mapped to Energy, Agriculture, Transport, Water, Urban and Environment sectors were more likely to identify the environmental risks noted by IEG than were operations mapped to other sectors. Of the 66 actions with environmental risks identified by IEG, the risk was identified in the Program document 64 percent of the time (16/25) for operations mapped to Agriculture, Water, Environment, Transport, Energy, or Urban sectors. In contrast, these risks were identified in the Program Document 46 percent of the time for operations mapped to other sectors (19/41). Similarly, Program Documents for operations mapped to economic management sectors were less likely to identify the social risks noted by IEG than were operations mapped to other sectors.

Table C-1: Distribution of Environmental Risks by Sector Category, Using Operational Mapping

Network	*Number of prior actions in sample*	*Number of prior actions with environmental risks (IEG)*	*% of prior actions with environmental risks (IEG)*	*Number of prior actions with environmental risks ID'ed by Bank*	*% of prior actions with environmental risks ID'ed by Bank*
SDN	161	25	15.5%	16	9.9%
PREM	613	36	5.9%	19	3.1%
HDN	141	0	0%	0	0%
FPD	57	5	8.8%	0	0%

[31] See for example World Bank 2004a.

Table C-2: Distribution of Social Risks by Sector Category, Using Operational Mapping

Network	*Number of prior actions in sample*	*Number of prior actions with social risks (IEG)*	*% of sample prior actions with social risks (IEG)*	*Number of prior actions with social risks ID'ed by Bank*	*% of sample prior actions with social risks ID'ed by Bank*
SDN	90	26	29.0%	18	20.0%
PREM	472	63	13.3%	32	6.8%
HDN	83	3	3.6%	2	2.4%
FPD	47	5	10.6%	2	4.3%

Note: Prior actions are categorized based on the sector they were mapped to. An operation may be mapped to one sector but contain policy actions relevant to other sectors.
The networks are the organizational groupings of sectors that the World Bank used to operate under. These structure was superseded by Global Practices on January 1 2014, but the Networks were the structure under which all operations in the sample were approved, and provides a convenient way of bundling similar types of sectors. The Sustainable Development Network (SDN) includes infrastructure sectors (such as energy and mining, and transport) and landscape sectors (agriculture and environment), while the Poverty Reduction and Economic Management Network (PREM) includes public sector management and governance, the Human Development Network (HDN) includes health and education, and the Financial and Private Sector Development Network (FPD) includes private sector development.

Table C-3: Distribution of Environmental by Sector Category, Classified at Prior Action Level

Network	*Number of prior actions in sample*	*Number of prior actions with environmental risks (IEG)*	*% of prior actions with environmental risks (IEG)*	*Number of prior actions with environmental risks ID'ed by Bank*	*% of prior actions with environmental risks ID'ed by Bank*
SDN	188	35	18.6%	20	10.6%
PREM	439	12	2.7%	6	1.4%
HDN	221	3	1.4%	3	1.4%
FPD	122	16	13.1%	6	4.9%

Table C-4: Distribution of Social Risks by Sector Category, Classified at Prior Action Level

Network	*Number of prior actions in sample*	*Number of prior actions with social risks (IEG)*	*% of sample prior actions with social risks (IEG)*	*Number of prior actions with social risks ID'ed by Bank*	*% of sample prior actions with social risks ID'ed by Bank*
SDN	105	29	27.6%	18	17.1%
PREM	325	40	12.3%	22	6.8%

HDN	156	16	10.3%	7	4.5%
FPD	106	12	11.3%	7	6.6%

Note: Network definitions are as for previous table. Prior actions are categorized based on the sector of the individual prior action as coded by OPCS, regardless of which sector their operation was mapped to.

Findings on other due diligence requirements

There is wide variation in the degree to which operations assess country capacity or gaps in this capacity. As presented in Section 1, when a policy action is identified as having likely significant environmental or social effects, additional due diligence is required. The requirement to assess the country capacity is not always carried out. For the 66 prior actions identified by IEG as having environmental risks, a comment on country capacity was made in 40 cases, or 61 percent.[32] For the 35 prior actions where the Bank had noted an environmental risk in the Program Document, a comment on capacity assessment was made in 25 cases, or 71 percent. For the 97 prior actions identified by IEG as having social risks, a comment on country capacity was noted in 42 cases (43%). For the 54 prior actions where the Bank identified a social risk in the Program Document, a comment on capacity assessment was made 33 times, (61%). However, the treatment was often perfunctory, such as stating that the country's legislation required environmental impact assessments to be carried out (without considering whether such assessments are adequate or lead to implementation of mitigation measures). Detailed assessments based on evidence were rare. In some cases the Program Document gives a general description of environmental management systems in the country rather than addressing the capacity to manage the specific risks posed by the DPF. Environmental capacity assessments were more detailed and evidence-based in cases where a Country Environmental Analysis (CEA) had been carried out, but those were rare (see below). The main reason for a lack of capacity assessment is that an environmental or social risk was not identified in the first place. However, there were also some cases in which there was no assessment of capacity even when a risk was mentioned in the Program Document, especially for social risks (21 of 54 cases).

Of the 40 cases where some environmental capacity assessment was made, gaps in the borrower's capacity to manage the risks were identified in 20 cases. For the 42 prior actions where some social capacity assessment was made, gaps in the borrower's capacity to manage the risks were identified in 23 cases. In some cases this identification of gaps was implicit rather than explicit; no gap was formally identified, but some form of mitigation measure to support the capacity to manage risks was supported. If there are no gaps in the capacity of country systems to manage a risk, then mitigation measures are not required. But in cases where gaps are not identified, Program Documents usually do not present evidence as to why the Bank determined that country systems will be adequate.

[32] In some cases some form of capacity assessment was mentioned in the Program Document for prior actions identified as risky by IEG, even when no risk had been identified by the Bank team. For example, an operation might not identify any environmental risks from PPP reforms aimed at supporting infrastructure investment, but might still include an overview of the Environmental Impact Assessment process.

In cases where the Bank has identified gaps in the analysis or shortcomings in the member country's systems for environmental risks, Program Documents usually include a mitigation measure. Overall, some mitigation action was discussed for 36 of the 66 prior actions where IEG identified an environmental risk. In cases where the Bank has mentioned an environmental risk, carried out a capacity assessment, and identified gaps in capacity, a mitigation action is described in 19 of 21 cases. Thus, the main reasons for a lack of mitigation measures are because the risk was not identified, or because the capacity of the country to manage the risks without further mitigation was not assessed. The mitigation measures mentioned were a mix of support through environmental management plans of related Bank investment lending operations (6 cases), technical assistance to be provided by the Bank (9 cases) or IFC advisory services (1 case), mitigation actions built into the DPO itself (18 cases), actions taken by the government to improve environmental management capacity (8 cases), or using existing governmental systems such as environmental assessments (2 cases).[33] Mitigation measures were identified for 39 of the 97 prior actions with social risks. Where the Bank identifies social risks, there is some sort of mitigation referenced in most but not all cases (34 out of 54).

The Bank does not always ensure adequate analytical work on environmental and social risks. Analytic work is required to assess significant environmental and social risks.[34] Otherwise, it is difficult to know the magnitude of a potential risk or to identify appropriate mitigation measures. While Poverty and Social Impact Analysis (PSIA) is used regularly (though not universally) for analyzing social risks, no equivalent standard analytical tool is applied regularly for environmental risk. In IEG's sample, of the 66 actions assessed as having environmental risk, analytic work relevant to the environmental risks posed by the specific prior action was discussed for 11 actions (17%).[35] In addition, for 6 actions the Program Document referred to some environmental analytic work that was not clearly relevant to the operation, and 10 referenced analytic work that was relevant to the operation but not the specific prior action.

On the social side, of the 97 actions with social risks, analytical work on the specific social risks of the prior action was referenced in 17 cases (18%). An additional 17 cases refer to some analytic work relevant to social risks in the policy areas but not those specifically relevant to the prior action. PSIA is the main tool for assessing social risks of DPFs, but IEG's definition of analytical work for the portfolio analysis was relatively generous, giving credit for any sort of analysis cited of the poverty and social impacts of a prior action. However, while poverty assessments and other, mostly technical analyses are fairly common

[33] Note, some actions have multiple mitigation measures, so the total sums to more than 34.

[34] IEG did not conduct an in-depth assessment of the quality of the analytical work conducted on either the environmental or social side

[35] Of these 11 cases of relevant analytic work, two are reviews of the country's environmental assessment system, 3 are some unpublished analysis done on the environmental effects of adopting an electricity market, 1 is technical reports considering the environmental effects of an energy action plan (Tonga), 1 is a PSIA looking at the effects of energy tariff changes, 3 are on environmental effects of irrigation changes (Pakistan), and 1 is on the environmental effects of removing fuel subsidies.

underpinnings for DPF preparations, PSIAs are not. [36] Even in the minority of DPFs that are informed by PSIAs, the analysis often does not address all of the prior actions under the operation that pose social risks. Thus, the risks of other actions in the program are not evaluated. This omission of PSIA work also includes prior actions with potentially adverse indirect impacts, such as power sector studies, energy strategies, and agriculture and irrigation strategies.

IEG identified few cases in its portfolio review where a Program Document discussed the Borrowing government's consultations with non-government stakeholders on environmental and social risks or on relevant analytical work. Program Documents often discuss consultations on the operation more generally with government, IMF, and other development partners, and sometimes discuss consultations with other stakeholders. But it is rare that they record consultations on environmental or social risks. IEG identified only four cases where Program Documents discussed consultations on potential negative environmental effects or systems for mitigating them (Tonga, Mexico, Bhutan, and Ghana), and ten cases where the Program Documents discussed relevant consultations on social risks.

DPF task teams appear to often lack specialists with appropriate environmental and social technical skills. IEG recorded whether or not a specialist (as defined by whether "Environment" or "Social" was in their job title) was present for the operations where environmental and social risks were identified.[37] Of the 44 operations with at least one environmental risk, relevant staffing could be determined for 28 operations. Of those 28 operations, the task team included an environment specialist in 15 cases (covering 20 prior actions with environmental risks), while the task team did not include an environmental specialist for the other 13 cases (cover 24 environmental risks).[38] For the 24 actions where no environment specialist was on the team, the environmental risk was identified in 5 cases (21%). Of the 20 actions where an environment specialist was on the team, the program document identified an environment risk for 14 actions (70%). This could either be because environment specialists are more likely to be assigned to teams for operations where the

[36] It is important to keep in mind that the unit of account for the analysis of poverty and social risks is the prior action. The PSIA tool was introduced as an approach to address the risks associated with prior actions. So other generic poverty assessments and technical analyses not addressing the prior actions of the operation, even though relevant in the broader country context, would be considered as addressing the poverty and social risks of the instrument on poor and vulnerable groups.

[37] The use of job title is a weak proxy, as environmental or social specialists may take on jobs with different titles, and as a range of sectoral specialists may have environmental or social skillsets (e.g., energy specialists, urban specialists, poverty specialists, social protection specialists, etc.). The team composition could not be determined for the full sample, as titles and full team lists are usually present only in ICRs not in Program Documents.
Also, team composition as listed in ICRs may be inaccurate. IEG has also identified two cases (one in this sample, one external) where environmental specialists listed as team members in task teams reported that they were unaware of the operation and had not been involved. But in other cases TTLs reported participation of or consultations with environmental or social specialists who were not listed as team members in the respective ICRs.

[38] For the other 22 actions with environmental risks, the team composition was not listed or staff were listed without titles.

Bank identifies the presence of an environmental risk, or because having an environment specialist on the team improves the ability to identify potential environmental risks in the first place.[39] On the social side, it was less common for teams to include social specialists, with a social specialist present for 7 of the 43 operations in the sample for which team composition could be determined. [40] The lack of appropriate technical skills to assess environmental and social risks on DPO teams was a common concern cited in interviews with IEG.

Although various Bank documents discuss the importance of monitoring and evaluating of environmental and social risks in DPF,[41] the Bank's Implementation Completion and Results Reports (ICRs) did not report on environmental aspects, and rarely reported on adverse social effects, in the sample of DPFs reviewed by IEG. Any monitoring of environmental and social risks that is undertaken by the task team was not formally documented. Implementation and Supervision Reports (ISRs) focus on tracking achievement of intended goals rather than assessing unintended side effects. Subsequent Program Documents for programmatic series rarely report on monitoring of environmental and social effects[42], and often repeat verbatim the comments from the Program Document for the first operation in the series. In a few cases, risks that were identified in an original Program Document did not appear in those for subsequent operations in the series—even though the actions with risks identified in the first operation had additional similar follow up actions.[43] An ICR was available for 41 of the 66 actions with environmental risks.[44] Of those 37 cases, in 2 cases there were comments on negative environmental aspects or their mitigation measures.[45] The ICRs in the sample rarely addressed social risks or their mitigation either– for the 36 prior actions with a social risk where an ICR was available, the ICR discussed the social risk in 13 cases (across 3 ICRs). The sections on social and poverty effects tend to provide a general treatment of broader impacts that may not even be attributable to the program. One case in which the ICR considered the social risks of the program was the ICR for a Vietnam Higher Education DPF.

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[39] It was beyond the scope of this review to determine which of the two. Given the approach used, IEG could only get an idea of correlation, but not the direction of causation.

[40] The presence of social specialist was determined by having a team member listed in the ICR with "Social" in their title. This was possible to determine for 82 prior actions with social risks; for the 63 prior actions where no social specialist was on the team, in 27 cases the Bank identified the social risk (43%). Of the 19 prior actions where a social specialist was on the team, in 12 of the cases the Bank identified the social risk (63%).

[41] See World Bank 2004a.

[42] Of the 62 policies where an environmental risk was identified, 5 cases (across two series) included some discussion on monitoring of the potential for negative environmental effects in subsequent Program Documents.

[43] For example, in a power sector series in Vietnam that supported electricity market development, the initial Program Document noted analysis carried out showing that while the overall long term effects would be positive for the environment, there would be some risk of fuel-switching from gas to coal in the short term. Subsequent Program Documents did not mention this negative risk, and discussed only positive aspects.

[44] An ICR will not be available for active operations, recently closed operations, or incomplete programmatic series.

[45] In Bhutan the ICR reported that some capacity building activities in the environmental management agency had been carried out; in Pakistan the ICR reported that environmental monitoring had been carried out.

This ICR provides an update on mitigation measures that were called for in the Pprogram Document and provides results attributable to those measures. Two other ICRs addressed social risks, in Brazil and Jamaica.

IEG also did not assess environmental and social risks or their management in most of its validations of ICRs in the sample. As part of its normal operations, IEG conducts a desk review validation of all ICRs, called an ICR Review, but this system does not provide meaningful coverage of environmental and social risks in DPOs. This is largely because IEG's ICR Review is a validation of the Bank's ICR self-assessment, and this information was not available in the ICR. For the operations present in the portfolio review sample, ICR Reviews did not report the Program Document's mention of environmental risks except in one case, and in none of the cases was identification of risks critically assessed. Similarly, there were only two ICR Reviews that addressed any aspects of social risks, and this occurred because social risk management was directly part of the prior action. Even in the few cases where the Bank has done a good job in assessing and addressing social risks, IEG's ICR Review still did not reflect that performance.

Appendix D. Cases Where DPF Funds Were Channeled to Specific Investments

In a forest and environment development program DPO in Cameroon active from 2006 to 2011, the Bank specifically required in its legal agreement with the client (the Development Grant Agreement) that DPO grant funds be used to finance the government's Forest and Green Environment Sectoral Annual Budget, which supported a range of activities that could have positive and negative environmental effects. The government's budget plans made clear that it intended to use IDA and GEF grants to finance a number of specific activities in its environmental and forest ministry. The operation "included both aspects of DPOs and SILs [investment loans]," even though it was identified as purely a DPO in the Bank Program Document, and no investment lending safeguards were applied (though the government did voluntarily prepare environmental and social studies and an indigenous peoples development plan for its forestry program).

A programmatic DPL for Sustainable Environmental Management in Brazil approved in 2010 had objectives to strengthen environmental management in Brazil, and it included prior actions that targeted a number of key environmental sub-sectors. In addition to the Ministry of Environment and its agencies, the DPL also included the Brazilian National Bank for Economic and Social Development (BNDES) as an implementing agency. BNDES primarily finances large infrastructure and energy projects, such as hydroelectric dams, stadiums, roads, ports and mines across Brazil and increasingly in developing countries around the world, and its lending volume is several times that of the World Bank's.

According to the SEM DPL Program Document, both the World Bank and the Government of Brazil recognized that BNDES's environmental and social safeguards needed strengthening, and one of the nine policy areas of the operation included actions to improve BNDES's system. The first loan in the SEM DPL series was fully disbursed to the Brazilian Treasury in two tranches, for a total of US$ 1.3 billion (at the time, the World Bank's largest ever loan to Brazil). Evidence gathered by IEG from multiple sources confirmed that the US$ 1.3 billion were then on-lent by Brazil's Treasury to BNDES with the express intent of financing BNDES's investment projects. Because this was done in the context of DPF, World Bank investment lending safeguards were not applied. Moreover, there has been little if any discernible improvement in the performance of BNDES's own environmental and social management system. High-profile investments financed by BNDES—including hydroelectric dams in the Amazon rainforest—continue to experience an array of environmental and social problems, and a lack of transparency on safeguards by international standards.

A programmatic DPO series on Natural Resources and Environmental Governance in Ghana approved in 2008 supported a range of policy reforms in the forestry, mining, and environmental management agencies. The policy actions of the program had a number of positive effects: major elements of the program included increased revenue collection from forestry royalties, creation of a system for tracking the legal origin of timber consignments, benefit sharing schemes with land users and investors, mining regulatory reform, more collaborative forest management, a social conflict tracking tool, increased use of environmental impact assessment and strategic environmental assessment tools, and development of a climate change strategy. However, the government chose to earmark DPO funds directly to implementing agencies. This meant that the Bank and other co-financers were indirectly financing up to 40-60 percent of the budgets of the forestry, mining, and environmental agencies and so were effectively financing their core operations, which could have a range of positive and negative environmental and social effects. One goal of budget support is to encourage regular budget processes between the finance ministry and line ministry, but this was undermined as line agencies perceived funds as flowing from the donors rather than the government.

The fact that these three examples are from forestry and environmental should not be read to presume that earmarking is more likely in these sectors; these simply represent an area where IEG has been recently carrying out evaluations of DPOs.

In Vietnam the Bank has provided budget support through a series of PRSCs and through sectoral DPOs including a rural development program, a power sector reform program, and a climate change reform program. In some cases the government chose to earmark DPO funds to support implementation of specific sectoral programs. In the case of the rural development program, the operation had originally been designed as investment lending, but during preparation the design was changed to use a DPO instead. The DPO funds were earmarked to fund implementation of the government program, which primarily financed rural infrastructure including roads, irrigation works, and other facilities. These works could potentially have environmental or social impacts including possible resettlement. The Program Document for the second operation in the series noted that resettlement issues would be covered through parallel policy dialog, but the environmental and social issues were not fully identified and mitigation measures were not proposed.

Sources:

Implementation Completion and Results Report Review for the Cameroon Forest and Environment Development Program. IEG, 2015. Available soon at http://ieg.worldbankgroup.org/

Project Performance Assessment Report for the Brazil First Programmatic Development Policy Loan for Sustainable Environmental Management. IEG, 2015. Available at: https://ieg.worldbankgroup.org/Data/reports/brazil-sem-dpl-ppar.pdf

Project Performance Assessment Report for the Ghana First, Second and Third Natural Resources and Environmental Governance Development Policy Operations. IEG, 2014. Available at: http://ieg.worldbankgroup.org/Data/reports/Ghana_NRM_PPAR_889590PPAR0P1000Box385285B00PUBLIC0_0.pdf

Project Performance Assessment Report for the Vietnam Poverty Reduction Support Credits 6-10, Program 135 Phase 2 Support Credits, Public Investment Reform 1-2. IEG, 2015. Available at http://ieg.worldbank.org/Data/reports/VIETNAM_PPAR.PovtyReduction.pdf

Appendix E. Limitations and Possibilities for Future Work

This review was designed to provide rapid and just in time support to complement the 2015 World Bank DPL Retrospective. As such, limited time and resources imposed a number of constraints.

- The review focused on how OP 8.60 was applied in Bank DPF operation documents; it did not assess whether the requirements under OP 8.60 were sufficient to provide an effective level of risk management and mitigation (although to the extent that the desk review and accompanying interviews could shed light on the policy, this is reflected in the review). For example, OP 8.60 covers only environmental and social aspects from specific policies supported by the operation, and not from other aspects of the Policy Areas or areas of policy dialog. The OP also does not cover environmental and social aspects from the funds disbursed under the operation.
- The review focused narrowly on the prior actions specified in Program Documents, as required by OP 8.60, rather than on the broader objectives and reform programs that DPF operations are supposed to support.
- The review did not assess environmental or social aspects of "benchmarks" (policies included in the policy matrix but not legally required prior actions) or "triggers" (indicative policies in the policy matrix for future operations in a programmatic series, which may later become prior actions). Bank management argues that the "specific policies" language of OP 8.60 does not apply to benchmarks or triggers, as they are not legally required or monitored policies. Use of benchmarks is now discouraged and is being phased out, but past benchmarks could have had environmental or social implications. The Bank guidance materials are not clear on this subject.
- The review was purely desk-based; it did not carry out field missions, to consult with clients, to assess the adequacy of mitigation measures, or to assess whether negative environmental or social effects had actually occurred. It drew only on a limited pool of existing field work, as many existing field evaluations do not thoroughly assess adverse environmental or social effects.
- The review was based on a limited level of stakeholder consultation; though the review drew on interviews with a number of Bank staff, it did not carry out wider stakeholder engagement, including with civil society organizations.
- The review did not assess the quality of analytic work being conducted, or provide a detailed assessment of the links between analytic work and risk management.
- For the most part, the review did not assess the quality, appropriateness, or efficacy of mitigation measures. The latter would require fieldwork.

These and other tasks could be carried out in a future assessment.

Appendix F. Recent Developments

Following the World Bank's 2015 reforms, a number of new developments are in progress that offer opportunities to improve management of environmental and social risks in DPLs. Under the new country engagement model, the Bank will carry out a Systematic Country Diagnostic (SCD). The SCD is designed to support an evidence-based and selective approach to country prioritization, and to inform the development of the Country Partnership Framework. The SCD is built to answer five main sets of questions, one of which is "how sustainable (environmentally, socially and fiscally) is the current pattern of growth, distribution and poverty reduction?," and will draw upon and synthesize existing knowledge products and evidence with additional analysis as needed.

The approach to the SCD and CPF offers an opportunity to help to provide upstream analytical support that could help task teams to meet some of the requirements of OP 8.60. The SCD can serve as an entry point to make sure that analytical work on critical environmental and social aspects is completed, such as assessment of the adequacy of social safety nets or the effectiveness of environmental impact assessment processes. If capacity assessments of key management systems are carried out up front, this will reduce the burden on the preparation process and budget of any individual DPO, which can then draw on pre-existing work. It can also serve as a gap analysis to guide capacity building and other support in generation of the CPF. However, there are risks that upstream analysis will be too general to inform risks surrounding specific policy reforms; some additional work will still be required within the DPO preparation to ensure that social and environmental risks posed by specific policy actions are addressed appropriately.

The Bank will also adopt a new tool for tracking and managing risks, the Systematic Operations Risk-rating Tool (SORT). This tool will require all operations (including DPF and IPF) and country programs to assign a risk rating (High, Substantial, Moderate, Low) to each of eight categories (plus potentially an "Other" rating), one of which covers environmental and social risks. The intention is that this will cover both risks that may affect implementation of the operation, and risks of potential negative effects that stem from the operation. Risks that are deemed to be significant will be discussed in the Program Document and elsewhere, but discussion is required only for the highest risks, as one goal of SORT is to reduce the compliance costs of risk tracking and reduce low-value commentary.

The SORT could help to improve management of environmental and social risks in DPOs by providing a way of acknowledging the presence of risks more formally (as the risk will require a rating), of tracking risks over time, and of focusing attention and resources on the operations to where they are needed most. But in order for it to do this, it must be that significant risks are identified and rated appropriately. The adoption of SORT does not directly address the majority of issues discussed in this review that contribute to a lack of risk identification, including gaps in guidance, oversight, and incentives. One distinctive feature of the SORT is that it tracks net risks, after mitigation elements have been applied – so the due diligence requirements of OP 8.60 (which apply before risk mitigation) may need to be applied even to operations that end up with Moderate risk ratings. There is some danger that if higher risk ratings are not used, resources will not be allocated appropriately to risk management issues.

The SORT and the CPF are in their early stages, and use of these tools is too early for IEG to meaningfully assess. IEG examined one completed SCD, for Myanmar. The SCD discussed a range of relevant issues, including the need for a nationally agreed environmental and social safeguards framework, a framework for managing natural resources, and the adequacy of safety nets. The proposed analytical work program included work on improving poverty data and diagnostics, but did not include environmental issues.

IEG also examined the 7 DPOs approved by early March 2015 that had used the SORT system, including cases that likely had no potential for negative environmental or social effects. In all 7 cases environmental and social risks were rated as Low or Moderate, and there was no discussion of environmental or social risks except to state that no significant risks were present. One Program Document interpreted environmental risks to mean the risks that natural disasters could pose to the macroeconomic situation and reforms.