

Concept Note
For an IEG Category 1 Learning Product on
Environmental Policy Lending

March 10, 2016



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For an IEG Level 1 Learning Product on Environmental Policy Lending

1. Background and Motivation

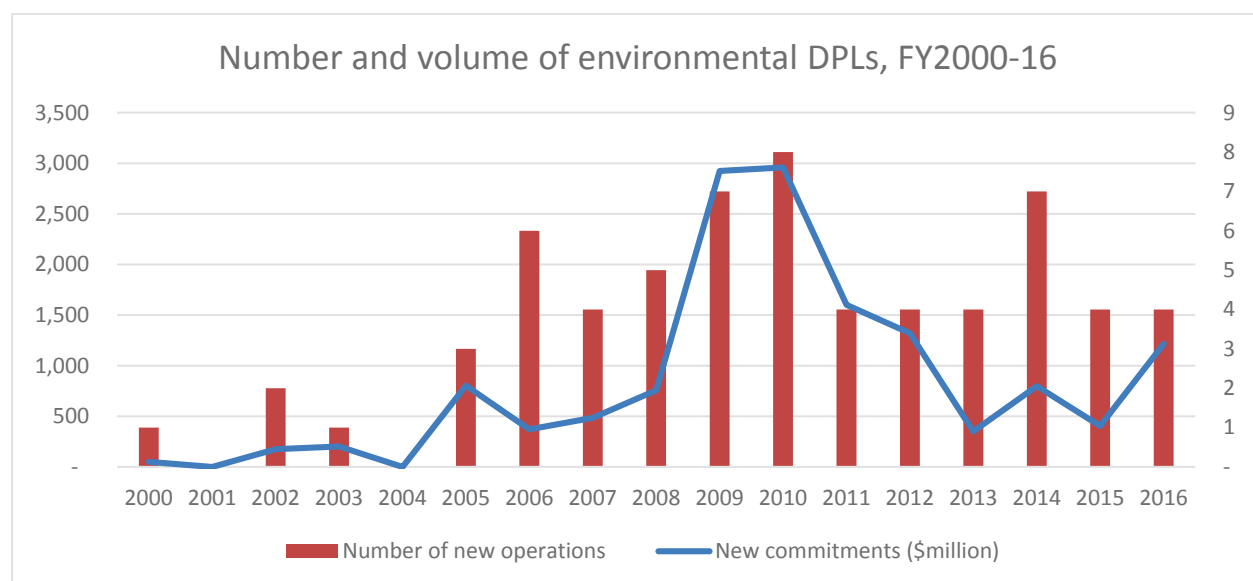
Environmental policy is a crucial driver of environmental outcomes and in terms development and poverty outcomes, as policy environments affect incentives and shift behavior by public and private sector agents. As noted in the World Bank Group’s [Environment Strategy](#), policies can be critical in enabling the private sector to use natural resources sustainably, to support inclusive and resilient decision-making, to improve governance risks, to remove perverse incentives, and to encourage sustainable growth policies. Supporting policy reforms remains a high priority for the strategy.

Policy lending has been a major part of the World Bank’s lending operations for decades, supporting economic policy and institutional reforms. Before 2004, policy lending occurred through a range of instruments, including Structural Adjustment Loans (SALs) and Sectoral Adjustment Loans (SECALS). Since 2004, policy lending has been consolidated through use of the Development Policy Operation (DPO), which changed the approach to emphasize fewer conditions and stronger country ownership. The DPO instrument has been used in different ways by the Bank. Many DPOs aim to support economy-wide, multi-sector reforms that include, for example, governance, financial sector, energy, and trade and competitiveness issues. In the past, most DPOs were multi-sector operations. However, over time the number of sectoral DPOs has grown substantially in number and commitment amounts over time. Lending through sectoral DPOs has grown particularly for policy lending with environmental goals. This Learning Product focusses on experience with DPOs in the Environment sector, broadly defined.¹ This experience covers a wide range of sectors, including climate change mitigation and adaptation, green growth, natural resource management, disaster risk management, forestry, environmental policy, and others.

Environmental policy lending represents an important commitment on the part of the Bank. Environmental policy lending began with a small number of operations during the 1990s, but commitments grew rapidly in the 2000s to a peak at the time of the global financial crisis (as did the Bank’s overall lending portfolio) of nearly US\$ 3 billion in both 2009 and 2010 (see figure below). Though commitments declined after the crisis, the numbers of environmental DPOs have remained high by historical standards. Bank lending through environmental DPOs has totaled over US\$14 billion since 2000. And although the environment sector was the second smallest in terms of total lending commitments in the former Sustainable Development Network (SDN), it was the second largest sector in terms of SDN DPO commitments in the more recent DPOs, and of SDN sectors has highest proportion of commitments coming from policy lending (39% of ENR global practice commitments since 2000). Since 2000, environmental DPLs have accounted for roughly 9 percent of the Bank’s development policy lending commitments. Environmental policy lending therefore represents an important commitment on the part of the Bank.

¹ For the purposes of this Learning Product, we define World Bank “Environmental policy lending” as policy lending operations mapped either to the Environment and Natural Resources Global Practice, or with either a primary or secondary theme in the [Environment and Natural Resource Management Themes](#), or Natural Disasters Management theme. Catastrophe Deferred Drawdown Options are specifically excluded, as these contingent credit lines function differently and will be considered by a forthcoming IEG product on Deferred Drawdown Options.

Although the first DPOs with an environment theme emerged in 1990,² they were used only sporadically until the 2000s, when the Bank significantly ramped up environmental policy lending via a series of environmental DPOs in several LAC countries (Mexico, Brazil, Colombia). Since then, they have spread across Bank regions, including environmental DPOs for hundreds of millions of dollars to large middle-income borrowers like Indonesia, Turkey, India, and Morocco, and smaller operations in places like Ghana, Gabon and Cameroon. Starting with Mexico in 2003 there have been 25 operations individually exceeding US \$200 million, covering themes such as environment, climate change and now green growth.



The rapid recent growth in environmental policy lending has led to a growing demand for learning from Bank staff and management. It also represents a credible example of sectoral policy lending, and so can offer some lessons for design of policy lending relevant for DPOs in other sectors. When the topic was presented to the World Bank Environment Sector Board in 2014, it elicited broad interest and support from the Director and from Managers around the Bank. Currently, there is no other effort to evaluate environmental or other sectoral DPLs across countries and over time to understand what is working and what is not, and how their outcomes can be improved.³

This learning product is one of a series of reports produced by IEG on World Bank Development Policy Financing. IEG has published learning products on the quality of macro-fiscal frameworks in DPOs, the quality of results frameworks in DPOs, environmental and social risk management in DPOs, and the integration of knowledge on public expenditures into DPO design. Forthcoming products will cover the use of political economy analysis in DPO design and implementation, and the role and use of poverty and social impact assessments on DPOs.

² According to the portfolio data available, the first two with environment themes were in Malawi and Mauritania in 1990.

³ An analytic piece on lessons from environmental DPOs was drafted by the Bank in 2010 as a background paper for the Environment Strategy but was not externally published.

2. Objectives and Questions

The objective of this Learning Product is to provide operationally relevant lessons to inform the design of environmental and other sectoral development policy lending, building on experience from IEG's evaluations of what works and what does not.

Specific questions include:

1. How has policy lending been used for environmental goals? The product will lay out a review of the existing portfolio in order to help users identify cases most relevant to their work.
2. In what context can policy lending for the environment be most effective? Aspects to be discussed include the political economy setting, the macroeconomic setting, the environmental policy setting, the role and comparative advantage of the Bank, the availability and conclusions from analytic work, complementarity with other Bank operations including technical assistance, and the presence and role of other donors.
3. What constitutes high-quality design? This will include the structuring of the DPO, the selection of objectives, design of theory of change, selection of prior actions and triggers, implementation of accompanying policy dialog and support, and others, using examples of successful and unsuccessful practice.
4. What have we learned about supporting reforms in different environmental sub-sectors? For example, which environmental reforms made sufficient progress and produced results, and which did not? What specifically has contributed to success or failure in developing environmental regulatory institutions; promoting good environmental natural resources management and governance; mitigation of, and/or adaption to, climate change; improving forestry governance, and others? What has been learned about the challenge of multisectoral coordination?
5. What contributes to high quality monitoring and evaluation? Aspects to be examined include the issues of setting appropriate objectives, quality of indicators and data collection arrangements; whether baselines were established; whether outcomes as well as outputs were monitored; how information from the M&E system was used to inform the reform process and the Bank's supervision.

The report will target the intersection of the DPL instrument and environmental policy reform, considering both lessons about use of the instrument and lessons about performance in particular sub-sectors.

The report will include:

- An assessment of how and when the DPO instrument can be used to achieve better environmental results.
- Highlights of good practice, especially in operational design and implementation and good quality monitoring and evaluation performance (design, frameworks, implementation and utilization).
- Identification of lessons for designing DPO operations (such as on selection of policy actions and design of monitoring and evaluation frameworks), lessons for particular environmental subsectors covered by the portfolio (such as natural resource management, environmental institutions, climate change mitigation and adaptation, and others), and lessons on other aspects

of DPOs (donor harmonization, financial management, complementarity with other instruments, use of background analytical work, improving intra-government coordination, etc.).

- Identification of some pitfalls that have reduced the impact of environmental DPO operations.

The question of whether DPLs should or should not be used in the environment sector is beyond the scope of the learning product. Similarly, the issue of potential negative effects from policy reforms is discussed in a separate Learning Product and so will not be further addressed here. The review will draw most intensively on field-based independent evaluations in 4 countries, so lessons from these will be illustrative rather than representative.

3. Scope

The relevant portfolio includes World Bank development policy lending for environmental policy reforms broadly defined. That is, “environment” will also include closely related topics such as climate change, natural resources management, and green growth. In practical terms, this will be interpreted as operations having either a primary or secondary thematic mapping to environment or to natural disaster management⁴, along with any DPLs mapped to the Environment and Natural Resources Global Practice (see Annex 1 for list of operations). A consequence of this scoping decision is that environmental policy actions that appear in multisectoral DPL operations where environment is not a major pillar will not be captured by the review. This excludes a portion of environment policy lending, especially in smaller or poorer countries where environment is not a high enough priority to receive environmentally focused link. The rationale for this is largely one of practicality; evaluations of these multisectoral operations are less likely to contain environmentally-relevant material, so analysis will be more productively targeted on the more environmentally focused operations.

“Policy lending” will include budget support operations prepared under OP 8.60 on Development Policy Lending, or precursors such as SECALs and SALs. The product will consider operations approved since FY2000, which captures early operations especially in Latin America whose design informed subsequent operations, but excludes 1990s which are less likely to offer lessons that remain relevant for the DPL instrument.

Since 2000, a total of 39 operations across 21 countries have been closed and evaluated as of January 2016, with total commitments of US\$ 10.7 billion. Given that the total number of operations is not large, all 39 will be included in the portfolio to be examined as part of the study. This will allow insights and lessons to be generated from changes in approaches over time.

A further 25 operations with commitments of US\$3.7 billion have not been evaluated because the operations are still active, have recently closed, or are part of ongoing programmatic series. The study will also seek to draw lessons from these operations in order to obtain the most up-to-date information possible on questions related to design and preparation.

⁴ Catastrophe Deferred Drawdown Operations will be excluded, as they differ from standard DPLs, and will be covered under a separate IEG product on deferred drawdown options.

4. Methodology

The Learning Product is designed to look at environmental DPOs as a case study of sectoral DPO operations. The product will draw largely on existing evaluative material but with some new analysis. To develop the report the team will use:

1. A portfolio review of all 64 Environmental DPOs (broadly defined) over 2000-2016, with the focus on the 39 operations that are closed and evaluated.
2. A synthesis of lessons from existing self-evaluations and IEG validations (ICRs and ICR Reviews).
3. Detailed case studies based on already completed evaluations with field visits (PPARs) for operations in Brazil, Ghana, Turkey, and Indonesia. Desk-based case studies with additional analysis and potentially interviews will also be carried out for DPOs in Mexico and Colombia.
4. Document analysis and interviews with Bank staff for active and un-evaluated operations.
5. Additional interviews with key stakeholders, including Bank staff and managers who have worked on Environmental DPO operations, Global Practice and Country Management, OPCS, other donors and civil society representatives.

Interviews and report drafting will build in particular on the experience of TTLs and the principle of peer learning. The report will also draw on results and evaluative frameworks from IEG's existing learning products, particularly on the quality of results frameworks.

5. Audience

The main audience for this Learning Product will be World Bank staff and management in the Environment and Natural Resources Global Practice and other practices working on environmental DPOs. Other audiences include staff and management in other GPs who design sectoral DPOs, Country Management Unit staff who have or are considering environmental DPOs in their portfolios, OPCS staff who monitor DPOs, other multilateral and bilateral development agencies who carry out sectoral policy lending, and CSOs with an interest in World Bank support for the environment.

The portfolio analysis and product analysis will also be designed to feed into IEG's Major Evaluation on Air and Water pollution and resource management.

6. Dissemination

Dissemination and learning will be focused on the primary audiences (operational staff working on environmental DPOs), and will be largely carried out in partnership with Bank management and operational staff, including a learning event to be hosted by the ENR GP. A more complete learning plan will be produced in parallel with the report and discussed at the one-stop review meeting. This plan may include: spinoff products (IEG Briefs) designed to present messages to particular audience targets in an accessible manner, presentation at the FY17 ENR GP Global Business Meeting, presentation to other MDBs that do policy lending for environmental goals, and inclusion in dissemination of the larger package of IEG DPL Learning Products. The report will be disclosed following IEG's access to information guidelines and made available on IEG's website.

7. Timeline

Milestone	Date
Draft Concept	January 2016
One-stop review of concept note	25 February 2016
Complete portfolio review	April 2016
Complete interviews and review of documents	April 2016
Complete draft report	May 2016
One-stop review	June 5 2016
Esubmit main report	June 30 2016
Produce spinoff products	August 2016
Ongoing dissemination work	Throughout FY17

8. Human Resources

Role	Name	Time
Team Leader	Stephen Hutton	12 weeks
Advisor	John Redwood	1 week
Contributing evaluator	John Eriksson	1 week
Portfolio review	Maria Shkaratan	6 weeks
Data Analysis	TBD	1 week
Administrative support	Vibhuti Khanna	As required
Communications	TBD	TBD

The report will be peer reviewed by Kirk Hamilton and by Giovanni Ruta. In addition the report will benefit from advice and engagement with ENR GP DPO experts nominated by Bank Management, notably Carter Brandon and Fernando Loayza.

Annex 1: Portfolio contents

The following are the 64 operations identified under the working definition of an environmental DPL; those policy lending operations either mapped to the ENR GP, or with an environment and resource management or natural disaster management theme as their primary or secondary theme.

Table 1a: Operations mapped to the ENR GP, with a published ICR:

Project ID	Name	Country	Approval FY
P057927	ENV/PRIV SUPPORT SAL	Bulgaria	2000
P070196	GA-Natural Res Mgmt DPL (FY06)	Gabon	2006
P074539	MX Programmatic EnvSAL	Mexico	2003
P079748	MX ENVDP II	Mexico	2006
P080829	BR 1st. PRL for Environmental Sustainab.	Brazil	2005
P081397	CO Prog Dev Policy Ln for Sust. Dev	Colombia	2005
P095205	BR 1st Prog. DPL for Sust. Env Mgmt	Brazil	2009
P095510	MX Environmental Sustainability DPL	Mexico	2009
P095877	CO 2nd Sustainable Dev DPL	Colombia	2007
P101301	CO 3rd Sust. Dev DPL	Colombia	2009
P102971	GH-Environmental Governance (FY07)	Ghana	2008
P110849	MX Climate Change DPL/DDO	Mexico	2008
P113172	GH-NREG DPO	Ghana	2009
P118188	GH:Natural Resources Env Governance DPO3	Ghana	2010
P120313	Indonesia Climate Change DPL	Indonesia	2010
P126449	BR MST Piaui Green Growth and Inclus DPL	Brazil	2012

Table 1b: Operations mapped to the ENR GP, with no ICR

Project ID	Name	Country	Approval FY
P101471	PE DDO First Prog. Environ DPL	Peru	2009
P115101	MX Supplement to Env Sustain. DPL	Mexico	2009
P116152	PE 2nd Prog. Env DPL	Peru	2010
P118713	PE 3rd Prog. Environmental DPL	Peru	2011
P122667	VN-Vietnam Climate Change DPL	Vietnam	2012

Project ID	Name	Country	Approval FY
P124041	IN: HP DPL Green Growth	India	2013
P127201	VN-Climate Change DPL II	Vietnam	2013
P127956	MA-Inclusive Green Growth DPL	Morocco	2014
P128434	MZ:Climate Change DPO	Mozambique	2013
P131775	VN-Climate Change DPL III	Vietnam	2014
P143032	DPL 2 - Inclusive Green Growth in HP	India	2014
P146398	Second Climate Change DPO	Mozambique	2015
P146981	BR Piaui Productive and Social Inclusion	Brazil	2016
P149747	MA- Inclusive Green Growth DPL2	Morocco	2016
P150475	Colombia DPL for Sustainable Development	Colombia	2016

Table 1c: Operations mapped to other GPs, with published ICR

ProjectID	Name	Country	Approval FY
P071103	KH-Poverty Reduction and Growth-1 (DPL)	Cambodia	2008
P074073	TZ-PRSC2 (intermediate)	Tanzania	2005
P082412	CL -Santiago Urban Transport Adj	Chile	2006
P091990	DRC - Transitional Support Credit (DPL)	Congo, Democrat	2006
P095575	SL-GRGG (DPG 1)-Programmatic Series	Sierra Leone	2007
P104937	MA-SOLID WASTE SECTOR DPL	Morocco	2009
P104990	RW- PRSG 4 DPL FY08	Rwanda	2008
P105287	VN - PRSC 7	Vietnam	2008
P115608	MX Framework for Green Growth DPL	Mexico	2010
P121651	ESES DPL 3	Turkey	2012
P065351	COAL ADJ 2	Poland	2002
P070656	CM-Forestry & Env DPL (FY06)	Cameroon	2006
P073020	CM GEF Forest & Env DPL (FY06)	Cameroon	2006
P095840	MA-Water Sector DPL	Morocco	2007
P101724	Vietnam PRSC 6	Vietnam	2007
P112625	ECONOMIC RECOVERY DPO	Moldova	2010
P115426	ENERGY EFFICIENCY DPL	Poland	2011
P117651	ESES DPL2	Turkey	2010
P120134	MX DPL Adapt. Climate Change in WtrSct	Mexico	2010
P120170	MX Strengthening Social Resilience to CC	Mexico	2012
P121800	MX MEDEC Low-Carbon DPL	Mexico	2011
P076830	Jamaica Emergency Recovery Loan	Jamaica	2002
P118636	Economic Crisis Recovery Support Credit	Samoa	2010

Table 1d: Operations mapped to other GPs, with no ICR

ProjectID	Name	Country	Approval FY
P117279	LR- RRSP 3 - Budget Support	Liberia	2011
P127955	MA-Solid Waste Sector DPL3	Morocco	2013
P147166	HT Strengthening Governance	Haiti	2014
P150941	BI Eight Economic Reform Support Grant	Burundi	2015
P148083	RS:Strengthening Fiscal & Water Mgmt DPL	Brazil	2014
P148642	MA-Solid Waste Sector DPL4	Morocco	2015
P144377	Samoa Development Policy Operation	Samoa	2014
P150751	BO DRM DPC and DPL	Bolivia	2015
P147152	1st Programmatic Resilience Building DPC	Grenada	2014
P151821	Grenada Resilience Building DPC 2	Grenada	2016