

LESSONS FROM ENVIRONMENTAL POLICY LENDING

Messages for Bank Clients



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The Independent Evaluation Group has produced a Learning Product on the Bank's experience with environmental policy lending. Through the primary audience of the report is Bank operational teams working on environmental policy lending, the report also offers a number of findings relevant to Bank client governments.

World Bank environmental policy lending can help countries to improve their environmental policy frameworks. The instrument creates a platform for high level policy dialog on critical environmental issues that pose threats to the economy and livelihoods. It offers particular advantages in addressing environmental issues that span multiple sectors and ministries, such as climate change mitigation and adaptation, pollution abatement, and water resource management.

The instrument supports country-owned reform efforts. Policy reforms are more likely to be successful when they have high support and commitment from client governments.

Yet the instrument is intended to have an additional impact on policy. The Bank can help reform champions in a client government to pursue an agenda through technical policy dialog and support. It can sometimes help the client to achieve policy reforms that would not otherwise happen without the operation, or can influence reform programs by improving the technical quality of reform, hastening the timing of a reform, improving the sequencing of reforms, or increasing the

buy-in of stakeholders to a reform. However, policy lending is not intended to support policy actions that have already taken place or where there is not a clear rationale for how the Bank can offer added value.

The instrument can help both finance/planning ministries, and line ministries. The instrument provides budget support on IDA/IBRD terms, intended to help finance the general budget deficit. Though policy dialog may lead client governments to shift spending priorities towards needed areas, problems can be created if budget support financing is earmarked directly to line ministries or agencies. Earmarking can disrupt the relationship between the finance ministry and line ministry by placing the Bank in between the two, and earmarking of Bank financing can also undermine the Bank's approach to environmental and social risk management for policy lending, which focuses on the supported policies rather than on the financial support. Instead, the benefit to line ministries comes not from additional funding, but rather from the ability to use the Bank to help promote important policy priorities.

Technical assistance plays a key role in the effectiveness of policy lending, and the absence of technical assistance is a common cause behind unsuccessful policy lending operations. Bank staff note that the unwillingness of some client governments to borrow for small amounts of technical assistance has been a barrier to completing effective policy reforms.