LESSONS FROM ENVIRONMENTAL POLICY LENDING

Summary

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WHAT WORKS

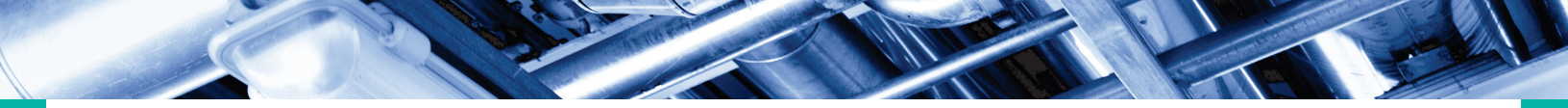
Sustainable development, including environmental sustainability, is at the core of the World Bank Group's strategy. Environmental policy is a crucial driver of environmental outcomes and of development and poverty outcomes, because policy frameworks affect incentives and alter the behavior of public and private sector agents. Policy lending has been a major part of the World Bank's lending operations for decades, supporting economic policy and institutional reforms. In the past most policy lending operations were multi-sector, but over time the number of operations in specific sectors has increased, particularly for policy lending with environmental goals.

A recent IEG recent IEG report reviews the World Bank's experience with Development Policy Financing (DPF) in the Environment sector, broadly defined. This product seeks to offer lessons from evaluation of this experience and inform stakeholders on how to design and implement this instrument, outlining some of the tensions and tradeoffs that must be grappled with during design. The main audience is Bank teams helping governments to prepare and implement DPF with environmental goals, but other audiences include other development partners who support environmental policy reform, client government finance ministries and environment agencies, and other stakeholders in environmental policy.

The World Bank's environmental policy lending has grown rapidly since 2005. These operations have supported policy actions across a broad range of subsectors, including climate change mitigation, climate change adaptation and disaster risk management, environmental protection, pollution management, institutional strengthening, and specific sectoral reforms in energy, transport, water, agriculture, forestry, and other sectors. Many operations are multi-sectoral but use an environmental lens. Despite the variation in the types of policies supported, environmental policy lending operations have tended to generate lessons focusing on a common set of issues. These center around issues of political economy, of operation design and preparation, and of institutional strength and capacity. Many of these lessons are not unique to environmental policy lending but rather to the instrument, and may apply to other sectoral DPF operations or even to multi-sectoral operations.

Key insights

Environmental development policy lending is most effective when used in a way that plays to the strengths of the instrument. Environmental policy lending can be most effective when policy issues are the main barrier to improving environmental outcomes, rather than capacity or other issues. It offers advantages for achieving sector-wide or multi-sectoral goals across many ministries. It can be most effective when the Bank has prior knowledge of the country and sector and strong institutional relationships, which may be developed through use of other instruments. It is useful for those policy issues that need attention from high-level decision makers, especially in financing and planning ministries. Its flexibility allows the Bank to take advantage of opportunities as they arise, when the timing for reform in a country is particularly promising, given the presence of a reformist government or champion; but this can be



a risky approach. It can be most effective when used in combination with other instruments.

A few key design and implementation considerations tend to determine the extent to which environmental policy lending can be effective. Policy lending is most effective when there is a clear political theory of change for how the operation will influence policy outcomes. Examples include supporting policy reforms that would not happen without the World Bank operation, or in other cases, influencing prioritization, timing, or technical quality. Policy lending is more effective with a strategy for achieving institutional buy-in and complementary use of other instruments.

The design of results frameworks lies at the core of DPF design. This process requires intensive dialog and debate between Bank teams and governments. It involves a number of tradeoffs and tensions: between ambition and realism, between additionality and country ownership, between depth and breadth. The strongest policy actions are those that are relevant, critical, additional, and measureable, as described in a separate IEG Learning Product on Results Frameworks in DPF. Programmatic series offer a number of advantages, including the ability to induce or support longer-term government commitment to reforms. But they can be more effective if they endeavor to include substantial policy actions from the first operation, if they ensure that spacing between operations matches the time needed to complete reform actions, and if careful considerations are made about decisions to drop indicative triggers from future operations.

Monitoring and evaluation systems for environmental DPF have often been weak. Policy lending faces inherent difficulties in designing monitoring and evaluation frameworks because of the disconnect between the substantial length of time needed to observe results and the brief time after which operations are evaluated. Yet even given this challenge, there are ways in which the quality of monitoring and evaluation in environmental DPF could be improved. Objectives have often been imprecise or unclear, and indicators have not provided a direct or adequate reflection of the objectives or sub-objectives with which they were associated. Results frameworks sometimes end up measuring processes rather than results or impact. This review offers advice on selection of objectives and indicators, and notes some pitfalls to avoid.

Analytical work and technical assistance are important to the success of environmental policy lending operations. Analytical work plays a key role as a diagnostic and in providing the evidence base on which to persuade decision makers. Technical assistance is often critical for development of reforms and completion of policy actions. Yet despite unanimous agreement on its importance, sufficient analytic and advisory work is not always present. One cause of this has been tightening budgets and declining availability of trust funds. Another has been the issue of timing and the reliance on previous analytical work rather than new work commissioned specifically for the operation. And a third has been the unwillingness of many governments to borrow for technical assistance.

The full report is available at **http://ieg.worldbankgroup.org/learning-envidpo**