FAST TRACK BRIEF

June 28, 2010

The IEG report "Safeguards and Sustainability Policies in a Changing World," was discussed by CODE on June 28, 2010

Safeguards and Sustainability Policies in a Changing World

- **Recent global experience in the financial and environmental arenas demonstrates clearly the need to put in place and enforce regulatory frameworks that balance costs and benefits, both private and social. This remains critical given current environmental and social trends. This evaluation looks for the first time at the full set of safeguards and sustainability policies used in the World Bank Group. The findings are intended to inform ongoing reviews of policies and strategies across the WBG with an eye toward greater effectiveness in achieving environmental and social outcomes.**
- **Overall the evaluation finds that WBG safeguards and sustainability policies have helped to avoid or mitigate large-scale social and environmental risks in the projects financed by the WBG during the review period FY99-FY08. Categorization of risks has not been consistent across the WBG, however, and supervision or monitoring of results has not been thorough. Implementation, particularly in World Bank projects, has meant enforcing compliance with mandatory policies and procedures, which has not engendered strong client ownership.**
- **The Bank's compliance-based approach is becoming less effective as its portfolio moves beyond traditional investment projects (which now constitute less than half of new lending across the WBG). Greater emphasis on developing client ownership and systems is needed going forward. Ownership among private sector clients and business partners has improved with the introduction of a new Performance Standards approach at IFC and MIGA, but verification, disclosure, and community ownership have been lacking, and impacts on environmental and social outcomes are not yet known.**
- **The evaluation makes recommendations in five areas: (1) policy frameworks to harmonize thematic coverage across the Bank Group and enhance their relevance to client needs; (2) client capacity, responsibility, and ownership; (3) guidelines, instruments, and incentives to strengthen supervision; (4) monitoring, evaluation, completion reporting, verification, and disclosure; and (5) systems and instruments for accountability and grievance redress.**

Although the policies that are the foundation of today's safeguards were promulgated in the 1980s, they gained more prominence after the Morse Commission's 1992 report on the Sardar Sarovar Dam highlighted significant failures in enforcing social and environmental policies. To ensure that such errors were not repeated, the World Bank established the Inspection Panel, a permanent body reporting to the Board of Directors to investigate complaints, and created a separate Quality Assurance and Compliance Unit in 1999 to provide additional oversight of safeguards quality in Bank projects. In 1998 an accountability mechanism — the Compliance Advisor and Ombudsman (CAO) — was created for IFC and MIGA. The CAO, which reports to the WBG president, acts as a mechanism for grievance redress and, if cases are not resolved, then investigates projects to verify if they are in compliance with relevant policies.

World Bank safeguards consist today of 10 separate policies — 6 environmental, 2 social, and 2 legal. IFC replaced the safeguards in 2006 with a single policy on social and environmental sustainability and eight Performance Standards divided equally among social and environmental standards; MIGA followed suit in 2007. The new policy has clarified roles and responsibilities for the private sector clients of IFC and MIGA and is accompanied by a range of advisory services intended to strengthen their clients' institutions and capacities. Environmental and social skills among Bank Group staff have been enhanced in varying degrees and, as evidenced by findings from the Quality Assurance Group, the quality of safeguards design and appraisal has improved significantly since the mid-1990s. However, substantial challenges in supervision, monitoring, and follow-up remain.

The Scope of the Evaluation

This is the first comprehensive evaluation of all the safeguard policies and Performance Standards of the World Bank Group. IEG has previously evaluated individual safeguard policies, including involuntary resettlement (1998) and indigenous peoples (2003). More recently, IEG undertook an evaluation of environmental sustainability (2008) that covered the whole of the Bank Group.

This evaluation aims to inform ongoing reviews of the environmental strategy of the World Bank and Performance Standards of IFC to enhance the effectiveness of future support. The evaluation also aims to inform the ongoing reform of World Bank investment lending. It covers the period from fiscal year 1999 to 2008 and is based on desk reviews of the portfolio, background studies, field studies, staff and NGO surveys and focus group discussions, and interviews with WBG clients and managers.

Development policy lending is excluded from the analysis because it is not subject to the same environmental and social requirements. Considering the sizable share of development policy lending, the nature and quality of its environmental and social impacts need to be looked at separately from the current evaluation.

This evaluation focuses on the relevance of the safeguards and Performance Standards, the effectiveness of the implementation process during preparation and supervision, and the environmental and social performance at the project level. It applies a model to rank safeguards risks and estimate benefits. The model also provides a means to assess the robustness of the Bank Group's project categorization system and the efficiency of resource use by comparing the benefits and costs of applying the safeguards and Performance Standards. This analysis is constrained by data limitations but provides some useful insights in addition to serving as a guide for further work.

Context

The context in which the Bank Group operates has seen several significant shifts over the past two decades. First, the Bank Group's borrowers have diversified and now range from middle-income countries with well-developed institutions and capacities to countries with weak institutions, as well as fragile and conflict states. Second, the private sector has become an important development partner of the Bank Group, as business clients and financiers of development projects, increasing the importance of IFC and MIGA in the Bank Group's overall portfolios. Third, the Bank Group's lending portfolio has steadily evolved from heavy reliance on stand-alone investment projects toward greater use of other financial instruments. Fourth, the services offered by the Bank Group now include a wide range of analytical and advisory services to build client institutions and capacities, such as Bank-supported Country Environmental Analyses and technical assistance and IFC Advisory Services. The safeguards and sustainability frameworks need to evolve to stay relevant to this changing context.

The volume of infrastructure and agricultural lending, the sectors with the most significant environmental and social risks, fell significantly in the 1990s. Infrastructure and agricultural lending started growing again at the World Bank and IFC after 2003, and has increased even more rapidly during the recent crises, resulting in renewed demand for safeguards expertise. The World Bank's portfolio has seen an even more rapid increase in types of lending to which safeguards and Performance Standards are not well suited; development policy lending for institutional and policy reforms, programmatic or sectorwide lending, and lending through financial intermediaries now comprise more than half the portfolio. Managing environmental and social effects is more challenging in financial intermediary and decentralized projects and in sectorwide and community-driven development programs, where use of proceeds are not fully identifiable at appraisal. IFC's business has also evolved in recent years from project finance toward a growing portfolio of trade finance and equity investments. IFC's corporate or equity investments in companies with several production facilities and various activities pose a substantial challenge for environmental and social appraisal, supervision, and evaluation. MIGA's portfolio composition has also shifted over time, with a significant increase in the share of guarantees for financial sector projects whose environmental and social effects are more difficult to assess and supervise. These shifts in all three portfolios present a challenge for the Bank Group to ensure continued relevance and effectiveness of the safeguards and sustainability policies.

Private Sector Ownership of Social and Environmental Sustainability

The consistency of IFC's Performance Standards with the Equator Principles that IFC helped create for private banks appears to have increased their acceptance among the private sector clients and business partners of IFC and MIGA. The Equator Principles are voluntary standards for determining, assessing, and managing social and environmental risk in project financing. They were developed by private sector financial institutions and launched in 2003. Those institutions chose to model the Equator Principles on the safeguard policies of IFC. As of October 2009, 67 financial institutions had adopted the principles, which have become the de facto standard for banks and investors on how to assess major investment projects around the world. In July 2006 the principles were revised after IFC's new sustainability policy was approved, increasing their scope and strengthening their processes to match those of the Performance Standards.

IFC's Performance Standards were adopted by the European Bank for Reconstruction and Development in 2008, with some changes, the most significant being the replacement of aspirational standards with performance requirements and the addition of a requirement for financial intermediaries. The growing share of support for the financial sector at IFC and MIGA suggests that more explicit guidance for financial intermediaries would benefit them too.

Effectiveness of Bank Group Support to Safeguards and Sustainability Policies

The Bank Group's ability to mitigate social and environmental risks has improved significantly in the eyes of the public. About three-fourths of the nongovernmental organizations responding to an IEG survey rated Bank Group performance better than in the 1990s, compared to 10 percent that rated it worse. Bank Group clients interviewed by IEG also acknowledged the contribution of Bank Group environmental and social policies.

World Bank staff and management broadly support the objectives of the safeguards and sustainability policies but, like clients, contest some policy prescriptions more than others. The current social safeguard policies appear to be more problematic than environmental policies because of the limited coverage of the social safeguards (Involuntary Resettlement Policy, and Indigenous Peoples Policy). Current World Bank social safeguards do not provide adequate coverage of community impacts, labor and working conditions, and health, safety, and security issues at the project level, provisions that are integral to IFC and MIGA Performance Standards. The absence of an integrated approach to social risks, combined with perceived rigidities in the application of the social safeguard policies and continuing differences between the social safeguards and national policies, impede broader dialogue with borrowers on a comprehensive social policy.

Appraisal

Attention to safeguards and Performance Standards is reasonably good during appraisal. The aggregate quality of preparation and appraisal was found to be 85 percent satisfactory in World Bank projects approved in fiscal years 1999-2008. The quality of Environmental Assessments, Environment Management Plans, Resettlement Action Plans, and Social Assessments was satisfactory in over 90 percent of the projects reviewed.

The scale of involuntary resettlement induced by World Bank projects is quite substantial. The total number of persons affected in the 10-year portfolio sample was about 418,000, of which 41 percent were physically displaced, the rest facing impacts on livelihoods. Extrapolating to the full Bank portfolio, the resettlement induced each year by new projects affects an average of 166,500 additional persons. Since the resettlement process lasts several years, IEG estimates that at any given time involuntary resettlement affects over 1 million people, two-fifths of them likely to be physically displaced and three-fifths economically affected by active Bank-financed projects.

In IFC projects, the appraisal process has been strengthened under the Performance Standards framework by the improved Environmental and Social Review Document and a structured approach to monitoring performance indicators, as recommended earlier by IEG. The quality of due diligence on safeguards and Performance Standards during appraisal in IFC-supported projects has generally been satisfactory. But disclosure, particularly to affected communities, has not been adequate. The reliance on self-assessment by the business clients is a point of vulnerability in the absence of full disclosure and independent verification. Due diligence by IFC for trade finance and projects with supply chains to agribusiness, a highly sensitive area in terms of environmental outcomes, was found inadequate.

The implementation of the Performance Standards needs a robust approach for identifying and addressing environmental and social risks along the supply chain, particularly related to suppliers' areas of influence on biodiversity, forestry, and other environmental and social issues. IFC is following Environmental Health and Safety (EHS) Guidelines in appraising projects, but EHS indicators have not been well integrated in monitoring and supervision instruments by IFC. Documentation on public disclosure and consultation emerged as one of the weaker areas in IFC's due diligence.

Underwriting of MIGA guarantees under the Performance Standards has improved compared to projects underwritten under the safeguards policies, in particular with respect to community consultations and the assessment of clients' social and environmental management systems (including, for the first time, for financial sector projects) and labor and working conditions. However, MIGA's review of projects with high or substantial risks is based on site visits by specialists in only a quarter of cases. In addition, due diligence of financial sector projects focuses on the social and environmental management systems at the level of corporate policy of the parent banks, rather than at the subsidiaries supported by MIGA's guarantee.

IEG also found that MIGA's 2007 Policy on Disclosure of Information exempts projects under the Small Investment Program (SIP — guarantees under $10 million) from disclosure requirements. Since SIP guarantees are a large proportion of MIGA's post-2007 projects, this weakness in its environmental and social assessment framework must be addressed.

Categorization of projects based on environmental and social risks differs across the Bank Group and is not based on use of objective criteria to assess social and environmental risks. Unclear guidance on categorization is reflected in IEG's finding that several IFC and MIGA high-risk category B cases (substantial impact) would have been classified as category A (very high impact) projects using the World Bank's screening system. Data from the portfolio review show that the World Bank has rightly moved from an environmentally driven classification system toward one based on social and environmental risks.

Within the World Bank, 9 percent of projects were classified as category A. During the review period, the proportion of category A on an annual basis increased from 5 to 11 percent, in keeping with the increase in the volume and scale of infrastructure lending. Category B increased from 37 to 51 percent, while category C (low or no impact) dropped from 40 to 18 percent. While this indicates greater caution during project preparation, the wide band of risks now subsumed under category B indicates lack of sufficient differentiation among projects with substantial and more modest impacts.

Supervision

More than a third of World Bank projects had inadequate environmental and social supervision, manifested mainly in unrealistic safeguards ratings and poor or absent monitoring and evaluation. Results varied significantly by region, East Asia and Pacific having the best and Sub-Saharan Africa the worst record. Supervision quality was better in category A projects, four-fifths of which were well supervised. Staff incentives and unpredictability of resources for supervision constrain effectiveness.

The increasing reliance in World Bank projects on policy frameworks is a cause for concern, because these projects include multiple subprojects and are less well supervised than projects with project-specific risk assessments and mitigation plans. Effective supervision would require greater reliance on disclosure of supervision and monitoring reports, third-party review, and community monitoring instruments.

There is no significant difference in the supervision quality of IFC projects prepared under Performance Standards from those prepared under the previous safeguards policies, more than a quarter having inadequate supervision. The quality of IFC's supervision of financial intermediary projects approved before the introduction of Performance Standards has improved in recent years, though it remains significantly below appraisal quality. IFC's supervision under Performance Standards is affected by the timeliness and quality of Annual Monitoring Reports prepared by clients.

MIGA has monitored category A projects but only a third of category B projects. The issues identified through this limited monitoring suggest that category B projects need to be more frequently monitored to provide credible assurance that the Performance Standards are being met.

Performance on Safeguards and Sustainability

Environmental and social outcomes are a consequence of the risks assessed, the mitigation plans designed, and the quality of compliance and implementation by the client in partnership with the World Bank Group.

Supervision and monitoring deficiencies constrain the World Bank's ability to evaluate safeguards results. The World Bank does not have a clear framework to assess the performance and impacts of its safeguard policies. Performance indicators are rarely specified and integrated in projects' results frameworks, and data for monitoring and evaluation are not routinely collected or used. Completion reports for one-fifth of category A and half of category B projects lacked information on safeguards performance. This deficiency is more evident for environmental safeguards, whose impacts are more diverse and not as well tracked as for social safeguards. IEG was able to substantiate mitigation of negative impacts in only two-thirds of the portfolio review sample. Other IEG studies also reveal vital gaps in managing environmental risks induced by Bank-financed projects, in that implementation and follow-up were deficient even in projects for which the environmental assessment had identified serious risks to nearby natural habitats and biodiversity.

Environmental and social effects is one of four dimensions used to evaluate project development outcomes of IFC and MIGA projects and an integral part of the Development Outcome Tracking System (DOTS) adopted by IFC. IFC has streamlined monitoring for its projects, which enables more systematic assessment of environmental and social performance, though the Performance Standards are too recent to evaluate their environmental and social outcomes.

Investing in client capacity can lead to high payoffs over the long term. Efforts to strengthen social and environmental institutions in client countries lag behind mitigation of immediate risks within Bank-financed projects. IFC's Performance Standards have provided a platform to balance their focus on mitigation with that on sustainability by requiring an assessment of the client's social and environmental management system. While maintaining the focus on mitigating negative impacts, increased attention is being paid to enhancing positive impacts and strengthening client capacity under the Performance Standards. However, there is a need for greater disclosure and verification of monitoring reports by third parties and communities to ensure that desired environmental and social outcomes are achieved.

The Performance Standards have led to greater focus on MIGA clients' social and environmental management systems. To address client capacity challenges, MIGA has established a Trust Fund to Address Environmental and Social Challenges in MIGA-guaranteed projects in Africa; this is not currently available to clients in other regions.

Although there have been notable improvements, there is still a substantial gap in MIGA's ability to monitor implementation performance and provide assurance that the objectives of the Performance Standards are being met.

Quality at entry and careful supervision are the Bank Group's main mechanisms to ensure successful outcomes. The Inspection Panel found the majority of policy violations related to safeguard policies in World Bank projects originated in unresolved design issues stemming from inadequate assessment of environmental or community impacts and inadequate consultation with affected people. One-fifth of the instances of non-compliance arose from inadequate attention to other implementation issues. Supervision provides an opportunity to deal with unanticipated risks that arise during implementation. Careful attention to complaints and resolution of genuine grievances can increase accountability.

Benefits and Costs

The assessment of benefits and costs shows that the WBG's safeguards framework generates significant benefits for the mitigation of environmental and social risks of projects, even as these benefits need to be systematically measured or quantified. This study estimated benefits by extrapolating from the assessment of environmental and social risks and comparing the results against available costs to analyze the efficiency of resource use. IFC's spending on its sustainability framework is being efficiently allocated toward projects with higher risks and benefits, but allocative efficiency is less evident in World Bank spending on safeguards, particularly among category B projects. The delegation of responsibility for safeguards supervision to sector management units has contributed to supervision deficiencies.

Costs incurred by World Bank clients on safeguards are estimated at about 5 percent of World Bank financing and 3 percent of total project cost. World Bank clients tend to allocate resources efficiently in meeting safeguards requirements, but results cannot be established for IFC clients because IFC does not collect client cost data.

Benefit-cost analysis can provide useful insights into environmental and social performance. Benefit-cost analysis of two stylized models of World Bank and IFC projects illustrates that, on their own, the benefits of safeguards outweigh the costs. However, the benefits of World Bank projects are more muted due to the narrow scope of the current social safeguards. The potential of IFC projects is enhanced by the additional benefits from attention to labor conditions and community impacts. Better monitoring, documentation, and reporting of environmental and social impacts are needed to improve the quality of benefit-cost analysis.

Paradigms for Achieving Environmental and Social Results

The Bank Group is using two paradigms to address environmental and social risks: the safeguards paradigm of the World Bank, largely for the public sector, and the Performance Standards paradigm of IFC and MIGA for the private sector. The two share similar objectives and have different strengths and weaknesses. The Bank seeks "to avoid, mitigate, or minimize adverse environmental and social impacts of projects supported by the Bank" and to ensure that they are "environmentally sound and sustainable." IFC applies the Performance Standards "to manage social and environmental risks and impacts and to enhance development opportunities in its private sector financing."

The safeguards paradigm contains mandatory requirements, with specific mitigation measures designed before project approval just as traditional projects are fully designed at appraisal. If national regulations differ from the Bank's safeguard policies, clients need to accept the higher standards of the Bank's policies. In practice, supervision has focused largely on compliance with the mitigation plan rather than on monitoring outcomes. In high-risk projects, responsibility for clearance and oversight lies with the safeguards advisors and environmental and social units in the regions. Responsibility for processing and supervision of other projects is delegated to sector units managing the projects. Rules have been modified for financial intermediary and other decentralized projects, which are now allowed to replace risk assessments with policy frameworks. However, the performance of delegated projects and projects using policy frameworks has been worse than other projects due to weak follow up during implementation.

The Performance Standards paradigm is based on a commitment by the private sector client or partner to the principles of the policy and the Performance Standards to be achieved, with covenanted remedies if the standards are not met. IFC places greater responsibility for implementation and monitoring of performance indicators specified by IFC on the business client, and envisages supporting this with supervision and documentation of performance. By the same token, the implementation and reporting on environmental and social effects are the responsibility of the private sector client. The crucial question is whether this self-assessment by the private sector captures public concerns, which in the final analysis can only be judged by the environmental and social results achieved. Greater disclosure of environmental and social information, including to local communities, and verification of results are needed to capture more fully these public good concerns.

The introduction of the Performance Standards is too recent to compare their results with those under the safeguard policies. However, in certain respects there is evidence that the instruments and practices introduced by IFC along with the Performance Standards have advantages over those of the World Bank. IFC's systems include balanced thematic coverage of social and environmental risks, including more relevant Performance Standards on labor conditions and community impacts. Compliance with standards is covenanted by IFC in most legal agreements, while for World Bank safeguards this is more prevalent among category A projects. Annual monitoring reports with performance indicators are required from clients. However, this self-assessment by the client is not currently verified independently to ensure compliance and results. IFC undertakes supervision and performance reviews. And IFC and IEG evaluate environmental and social effects as one of four dimensions of the project's development objectives.

The World Bank's systems are front-loaded and have more specific requirements. They emphasize screening, risk assessment, and appraisal of the proposed mitigation plans to ensure compliance with these requirements. These elements have served well in safeguarding high-risk (category A) projects. Supervision and monitoring receive far less attention, especially in category B projects, affecting implementation quality and leading to highly uneven results.

The coverage of the environmental policies across the Bank Group is similar in scope, but the World Bank's social safeguards are more limited than those of IFC and MIGA. The frequency with which the safeguard policies and Performance Standards are triggered is an indication of their relevance to the portfolio. About two-thirds of World Bank investment projects approved since 1999 triggered environmental assessment. One-fourth triggered the involuntary resettlement policy, other safeguards occurring more rarely. IFC's suite of Performance Standards was found to be more relevant to the portfolio: four of them — including the standards on labor and working conditions, and on community health, safety, and security — applied to half of IFC's total portfolio and to 90 percent of all projects with high or substantial risk.

A paradigm that is based on more relevant thematic coverage, procedural flexibility but without compromising on the integrity of standards, and client responsibility and capacity for monitoring seems to lead to more client ownership. However, the quality of implementation and monitoring, which depends on client capacity and commitment, needs to be adequate, and checks and balances must be in place to ensure that intended social and environmental outcomes are achieved. The prior existence of the safeguard policies provided a critical benchmark for performance standards. In this context, four elements that build on the strengths of both are vital: investment in the clients' social and environmental management system; integration of adequate environmental and social performance indicators in the project's results framework; effective instruments for monitoring by the client; and regular supervision, performance review, verification, and disclosure. Without investing in these elements in the right sequence, that is, ensuring enhanced supervision and monitoring with client capacity, disclosure, and verification systems in place, the Performance Standards approach would be a riskier option with respect to environmental and social outcomes.

Country-Level Work

The limitations of the safeguards paradigm become visible in the World Bank pilots on the use of country systems. The country systems pilots were an attempt to adapt to the changing context, but the requirements spelled out in the operational policy (OP4.00) governing the pilots were overly prescriptive and excessively focused at the project level. The design constraints governing the pilots have prevented their application at the country level. The only large-scale successes have been with parastatals that agreed to adopt the Bank's safeguard policies, but these are not country systems. The pilots have not yet been effective in integrating social safeguards at the country level, and the piecemeal approach to safeguards in the pilots has reduced the likelihood that any borrower will be able to adopt the entire suite of safeguard policies or that the country systems approach can be scaled up. In contrast, the uptake of environmental development policy loans, which is always underpinned by country analytic work, suggests that the parallel work on country-level assessments and environmental development policy lending has been well received, particularly in the Latin America and the Caribbean and South Asia Regions.

At the country level, the broad nature of the environmental assessment policy has provided the Bank with a vehicle to engage in country-level policy dialogue to help countries put in place economywide policies and institutions for environmental sustainability. This alternate modality of client engagement has created a parallel stream of work with greater ownership among clients and environmental specialists than the work on safeguards. There is a need to bridge this divide between the Bank's work on safeguards and environmental sustainability.

Neither the environmental dialogue at the country level nor the country systems pilots have included social safeguards. Though the social safeguards for resettlement and indigenous peoples help the World Bank mitigate risks of impoverishment arising from unintended consequences of Bank-financed projects, the restrictive and prescriptive nature of the current social safeguard policies limit the prospects for systemic dialogue at the country level. With the exception of the country dialogue on indigenous peoples in some Latin American countries and a few attempts to broaden the scope of resettlement as in the incomplete effort on resettlement in India, social safeguards have focused primarily at the project level, resulting in missed development opportunities for the very people who need it most. IFC and EBRD have overcome local resistance by assessing impacts on indigenous peoples as an integral part of community impacts, but this alternative does not exist under the Bank's current framework.

Recommendations

The World Bank Group's safeguards and Performance Standards play a critical role in ensuring adequate attention to environmental and social outcomes. Given the changing nature of its clients and portfolios, the challenge is to ensure the continued relevance and effectiveness of the World Bank Group's environmental and social policies while complementing the emphasis on compliance with effective implementation. The evaluation points to the need for a systems approach, balancing up-front risk assessment with implementation support to increase effectiveness; policy consolidation with more comprehensive, balanced thematic coverage to ensure adequate up-front regulations while providing for better supervision, monitoring and evaluation, verification, and disclosure; and partnership with clients, third parties, and local communities to enhance ownership and results, integrating elements of the Bank's safeguards with some of the practices under IFC's Performance Standards.

The following recommendations to the World Bank, IFC, and MIGA are made to help maintain the objectives of safeguards and sustainability policies; strengthen compliance, implementation and accountability; and improve clients' and the Bank Group's ability to promote positive social and environmental results:

1. **Revise the policy frameworks to harmonize thematic coverage and guidance across the Bank Group and enhance the relevance of those frameworks to client needs.**

- IFC, MIGA, and the World Bank should jointly adopt and use a shared set of objective criteria to assess social and environmental risks to ensure adequacy and consistency in project categorization across the WBG, using the more inclusive criteria for category A, and refining the categorization system to address the bunching of higher and lower risk projects within the current category B.

The World Bank should:

- Ensure adequate coverage of social effects — integrating community and gender impacts, labor and working conditions, and health, safety, and security issues not currently covered by its safeguard policies — by consolidating existing social safeguards with other World Bank Group policies on social risks as requirements under one umbrella policy on social sustainability.
- Consolidate the environmental policies as requirements under one umbrella policy on environmental sustainability.
- Revise the current approach to safeguards pilots on use of country systems to focus on strengthening country institutions and systems to manage environmental and social risks.

IFC should:

- Strengthen the provisions on sustainability to address emerging issues, notably climate change and supply chains and their commodity certification.
- Develop more robust approaches to the implementation of the Performance Standards in financial intermediary projects, listed equities, and trade finance.
- Strengthen policies and practices on disclosure, including at the local levels.

MIGA should:

- Increase the capacity of the Environmental and Social Unit to the level needed to provide credible assurance on performance against the standards for every project. Should MIGA be unable to increase its resources devoted to implementation of performance standards, it should revise its Policy on Social and Environmental Sustainability to disclaim any responsibility for monitoring the projects' social and environmental performance and ensuring that they comply with the standards. Under this option, MIGA's role would be limited to reviewing the client's assessment of the project's environmental and social risks against the standards, identifying corrective actions as needed, and securing the client's commitment to implement these actions.
- Require that category B Small Investment Program projects follow the same disclosure requirements as for regular category B projects.

2. Enhance client capacity, responsibility, and ownership.

The World Bank should:

- Increase the synergies between safeguards work and broader Bank engagement on environmental and social sustainability by investing in upstream analytical work, technical assistance, and lending to strengthen country and sector institutions and capacities in client countries.
- Require regular reporting by the borrower on implementation and outcomes of safeguards in Bank-supported projects, and work with clients to develop instruments and indicators to help in such monitoring.

IFC should:

- Develop incentives for investment officers to share ownership of the Performance Standards and mainstream their implementation.
- Use advisory services to build social and environmental management systems and implementation capacity, especially among small and medium enterprises, financial intermediaries, and clients in countries and sectors with weak environmental and social management.
- Mobilize resources at appraisal for energy and clean production audits, using auditors with relevant sector knowledge.
- Define areas of influence and requirements to better address supply chain risks and opportunities, particularly related to biodiversity and forestry, expanding the application of material biodiversity along the supply chain for suppliers.

MIGA should:

- Focus the due diligence reviews of financial sector projects on the Social and Environmental Management Systems of developing country subsidiaries the project supports, rather than the corporate policies of the parent banks.
- Expand the size and eligibility of the Trust Fund for Addressing Environmental and Social

Challenges to all low-capacity clients on the basis of need.

3. **Revise guidelines, instruments, and incentives to strengthen supervision arrangements**.

The World Bank should:

- Assign responsibility and budget for safeguards oversight and reporting to environmental and social units in each operational Region—in line with IFC practice—in place of the delegation of safeguards processing and supervision to sector management units.
- Introduce a certification program to expand the pool of staff qualified to undertake social and environmental preparation and supervision while ensuring quality and consistency, and provide orientation training on environmental and social sustainability to all task team leaders.
- Develop and implement an action plan to ensure regular supervision of financial intermediary projects and investment projects that use social and environmental policy frameworks through third-party or community monitoring for higher-risk projects, and disclosure of monitoring and supervision reports.

IFC should:

- Enhance the supervision of financial intermediaries at the subproject level by developing clear guidelines for applying the Performance Standards at the subproject level and by adopting a systematic approach to environmental and social specialists' site visits to selected subprojects.
- Use loan covenants, including Conditions of Disbursement to enforce compliance with environmental and social requirements and reporting if the clients lack commitment and are continuously out of compliance.

4. **Strengthen safeguards monitoring, evaluation, and completion reporting**.

The World Bank should:

- Include performance indicators on environmental and social outcomes in project results frameworks and ensure systematic collection of data to monitor and evaluate safeguards performance.
- Ensure that Implementation Completion Reports and IEG reviews of those reports rate and report effectively on the outcomes of safeguards and, for all projects with significant environmental and social effects, ensure the results are incorporated as an essential dimension when assessing achievement of the project's development objective, as has already been done for IFC and MIGA.

IFC should:

- Disclose project-level environmental and social information from monitoring and supervision reports.
- Make use of independent, third-party or community monitoring and evaluation for its projects, particularly for projects with involuntary resettlement and higher-risk financial intermediary and agribusiness projects.

MIGA should:

- Disclose project-level environmental and social information from supervision reports.
- Develop a credible mechanism to ensure that Performance Standards are adhered to by financial sector projects.

5. **Improve systems and instruments for accountability and grievance redress.**

IFC, MIGA, and the World Bank should:

- Seek greater symmetry in the structure of Bank Group accountability and grievance redress mechanisms. For the World Bank this would entail creation of a grievance redress and conflict resolution mechanism to complement the Inspection Panel. For IFC and MIGA this would entail a more independent compliance review process, ensuring that the CAO submits its audits directly to the Board.

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