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Folder ID: 30494573

Series: Meeting and event briefing materials

Dates: 07/11/2000 – 10/23/2000

Subfonds: Records of President James D. Wolfensohn

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Print Edit

A. CLASSIFICATION Meeting Material/Briefings

B. SUBJECT	(DGO) MEETING: OED'S ENVIRONMENTAL ADVISORY PANEL MEMBERS (B) (N) VENUE: MC12-755 (MEETING ROOM) CONTACT: YVONNE (PICCIOTTO'S OFFICE) @ 34130 WB ATTENDEES: JDW, PICCIOTTO, ALAIN BARBU, ANDRES LIEBENTHAL, J. SHILLING, KRISTALINA GEORGIEVA, MARCELA ADV. PANEL MEMBERS: Mr. David McDowell, Past Director General, IUCN-World Conservation Union, Otaki, New Zealand Mr. George Greene, President, Stratos Inc., Ottawa, Canada Ms. Frances Seymour, Program Director, Program in Institutions and Governance, World Resources Institute, Washington, DC Mr. Ashok Khosla, President, Development Alternatives, New Delhi, India Ms. Alicia Barcena, Chief, Environment and Human Settlements Division, UN Economic Commission for Latin America and the Caribbean, Santiago, Chile NOTES: 6/20 ORIGINAL REQUEST FROM PICCIOTTO'S SHOP - PUT ON HOLD TILL FALL / (10/4) MTG. CLEARED AT SU MTG & DATE CONVEYED TO YVONNE / (10/5) DATE AND TIME CONFIRMED WITH/BY YVONNE AND ECCO UPDATED TO REFLECT FINAL CONFIRMATION INFO. (B) PICCIOTTO / DUE: WED. OCTOBER 18 EXC: MH / ALI (10/5)
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OFFICE MEMORANDUM

DATE: October 17, 2000

TO: Mr. James D. Wolfensohn, EXC

FROM: Robert Picciotto, DGO

EXTENSION: 84569

SUBJECT: **Meeting with External Advisors for OED's Environmental Review
on October 23, 2000, at 4pm**

In parallel with ESSD's update of the Bank's environmental strategy, OED is reviewing the Bank's performance in Promoting Environmental Sustainability in Development. Phase I was concluded in July 2000, with the presentation of the Interim Report to the Subcommittee of the Committee of Development Effectiveness (CODE). Copies of the Fast Track Brief and the full report are attached for your convenience.

Phase II report of our evaluation is underway. To guide our work, a distinguished panel of external advisors will participate in a full-day workshop on October 23. They have requested an opportunity to brief you on their preliminary reaction to OED's evaluation. The advisors are:

1. Mrs. Alicia Bárcena: Chief, Environment and Human Settlements Division, United Nations Economic Commission for Latin America and the Caribbean, Santiago, Chile.
2. Mr. Ashok Khosla: President, Development Alternatives, Inc., New Delhi, India.
3. Mr. David McDowell: Former Director General, IUCN-The World Conservation Union, now of Otaki, New Zealand.
4. Mrs. Frances Seymour: Program Director, Institutions and Governance Program, World Resources Institute, Washington, D.C.

They will be joined by the moderator of the workshop: Mr. George Greene, President, Stratos, Inc. Ottawa, Canada (a former senior manager of IUCN). We have also asked Ian Johnson (ESDVP) and Kristalina Georgieva (ENVDR) to join the briefing.

Attachments

cc: Messrs./Mmes. I. Johnson (ESDVP), K. Georgieva (ENVDR), G. Ingram (OEDDR), A. Barbu, A. Liebenthal (OEDST)

Environmental history:



FAST TRACK BRIEF

VOLUME 4, NUMBER 1

July 11, 2000

Based on the Interim
Report of OED's Environ-
mental Review for the CODE
Subcommittee discussion
on July 17, 2000

Promoting Environmental Sustainability in Development

- Bank policies and capacity building programs have promoted a steady increase in environmental awareness and environment-related activities.
- The Bank is successful in mobilizing funds, transferring technology, and strengthening partnerships to address global environmental concerns.
- Bank environmental policies and guidelines are relevant for addressing environmental issues in projects, but do not cover the structural and programmatic lending that makes up almost half of total lending.
- Most recent CASs contain some description of environmental challenges, but environmental issues have not been mainstreamed in country economic dialogue.
- Safeguard Policy implementation is hampered by weak accountability and inadequate controls.

The Need for Evaluation

Considering that the World Bank Group has committed itself to prepare an environment strategy by early 2001, it is appropriate and timely for the Operations Evaluation Department (OED) of the World Bank to evaluate the Bank's performance in the promotion of environmental sustainability in development so as to better align the Bank's operational objectives with its capacity to deliver, and with the needs and expectations of its clients.

The environmental record in low- and middle-income countries is not improving. Despite the importance of protecting the environment and conserving natural resources, countries worldwide still tend to pollute their water and air and overexploit their water, forest, fish, soil, and mineral resources in the name of growth.

Responding to these trends, the Bank has greatly expanded the level and scope of its environmental activities since the late 1980s. On the operational front, the Bank has delivered projects and guidelines on environmental matters and has been actively involved in countries through policy and advisory services, research, and training/capacity building activities. The World Bank's "environment portfolio" has expanded consider-

A growing share of the world's population (more than 46 percent) live in urban areas contributing to traffic, congestion, and pollution; half the world's wetlands have been lost in the past century; 80 percent of grasslands are suffering from soil degradation; 20 percent of drylands are in danger of becoming deserts; atmospheric emissions of carbon dioxide are nearly four times the 1950 total; about one-third of the world is living under moderate or severe water stress, and groundwater is being depleted almost everywhere. The poor and the disadvantaged suffer most from environmental pollution and resource degradation.

ably, with natural resource management accounting for \$3.8 billion in investment (79 projects), pollution and urban environmental management amounting to \$6.8 billion (58 active projects), and the environmental institutions development portfolio consisting of 29 projects, involving nearly \$1.5 billion.

Despite these efforts, there are policy and performance gaps. While the Bank was able to increase

awareness of environmental issues in client countries through its EA guidelines, serious issues remain with compliance and implementation of its Safeguard Policies. Mainstreaming the environment in country development strategies remains an elusive goal and is highly dependent upon the borrowers' interest and commitment, which needs nurturing.

Preliminary Findings

- Compliance, identification and scoping of impacts, analysis of alternatives, prediction and assessment of impacts, and public involvement and consultation, especially at the supervision stage, require additional work. The focus has often been on short- and medium-term impacts, with consequent neglect of the long-term and indirect impacts that have a bearing on sustainability.
- Mainstreaming the environment in country and sector policies needs greater focus. Environmental issues have to be integrated within CASs and SALs. Adjustment operations often failed to incorporate policies to mitigate environmental impacts.
- Capacity building programs and efforts to promote natural resources management and pollution control and management have been limited. Much of the focus has been on environmental agencies, with little effort devoted to encourage borrower commitment to policy and institutional reform.
- Bank involvement in addressing global environmental concerns has been critical in mobilizing funds, promoting technology transfer, catalyzing private sector resources, and strengthening partnerships. But the Bank could do more to put global concerns on a par with traditional Bank business.
- There are gaps in quality control and ambiguities in the Bank's Safeguard Policies.
- Environment-related policies and procedures focus on projects, missing structural and programmatic lending.
- According to the 1999 Bank Client Survey, the Bank's overall contribution to helping countries to safeguard their environment was "fairly effective," and its management of the negative consequences of its projects was ranked "average."

Next Steps

Implications for OED's Environmental Evaluation

A few thematic areas were selected by OED for in-depth evaluation based on their potential value for the formulation of the Bank's environmental strategy.

Compliance, ownership, and sustainability of environmental safeguards. The review of evaluative information points to systemic weaknesses associated with the

Bank's compliance with its environmental safeguards.

The poverty-environment nexus. Given that fighting poverty is the Bank's overarching objective and promoting environmental sustainability one of its major goals, more projects that build on the synergy between the areas should be identified. We shall, therefore, identify and evaluate the factors associated with success in this highly desirable category of projects, and assess the potential for replication and scaling up.

Environmental impact of SALs/SECALs. Understanding of the environmental impacts of adjustment programs has improved considerably over the years, yet implementation varies across countries. Since Bank lending for adjustment programs has greatly increased, the Bank needs to ensure that environmental sustainability objectives are not marginalized.

Global issues. This review will focus on two issues that will be of critical importance during the next decade: desertification and biodiversity.

Combating desertification. Widespread international concern has spotlighted the need to manage drylands and enhance livelihoods without causing land degradation and desertification.

Biodiversity. While Bank lending for natural habitat conservation has increased over the years, the provisions for monitoring of measurable indicators of impact have been inadequate.

Over the course of a full-day meeting on May 30, 2000, the members of OED's Advisory Panel made comments about the overall strategy and evaluation process, as well as specific suggestions on the conduct of the OED review. The Panel included Ms. Alicia Barcena, Director of Environment, Economic Commission for Latin America; Mr. Ashok Khosla, President, Development Alternatives, India; Mr. David McDowell, former Director General, IUCN; Ms. Frances Seymour, Program Director, Institutions and Governance Program, World Resources Institute; and Mr. Bjorn Stigson, President, World Business Council for Sustainable Development. Based on their examination of the draft Phase I Interim Report, available country reviews, and presentation of background papers, the Advisory Panel stressed three priority areas that deserve particular attention: a) the imperative of integrating environmental strategy formulation and evaluation activities across the Bank Group; b) the critical need to mainstream environmental considerations in Bank Group work; and c) the importance of internal incentives and improved accountability mechanisms. Advisory Panel views will be taken into account by the evaluation team.



Director: Gregory Ingram (202) 473-1052 • Acting Group Manager: Ridley Nelson (202) 473-5153

Task Manager: Andres Liebenthal (202) 478-2507

FTBs available from: ecampbellpage@worldbank.org (202) 473-5365

**Draft Phase I Interim
Report**

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PHASE I INTERIM REPORT

**PROMOTING ENVIRONMENTAL SUSTAINABILITY IN DEVELOPMENT:
AN EVALUATION OF THE WORLD BANK'S PERFORMANCE**

September 15, 2000

*Operations Evaluation Department
Sector and Thematic Evaluation Group*

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Abbreviations and Acronyms

APL	Adaptable Program Loan
BP	Business Procedure (of the World Bank)
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CFC	Chlorofluorocarbon
CODE	Committee on Development Effectiveness
CY	Calendar year
EA	Environmental assessment
EAP	Environmental Action Plan
ESSD	Environmentally and Socially Sustainable Development Network
ESW	Economic and sector work
GEF	Global Environment Facility
GDP	Gross domestic product
GP	Good Practice (of the World Bank)
EKC	Environmental Kuznets Curve
FIL	Financial Intermediary Loan
FY	Fiscal year
GEO	Global Environment Outlook
IBRD	International Bank of Reconstruction and Development
ID	Institutional development
IDA	International Development Association
ICR	Implementation Completion Report
IFC	International Financial Corporation
IP	Inspection Panel
IUCN	World Conservation Union
MFMP	Multilateral Fund for the Montreal Protocol
NEAP	National Environmental Action Plan
NGO	Nongovernmental organization
NRM	Natural resource management
NTPC	National Thermal Power Corporation
OD	Operational Directive (of the World Bank)
ODS	Ozone-depleting substance
OED	Operations Evaluation Department
OMS	Operational Manual Statement
OP	Operational Policy (of the World Bank)
QAG	Quality Assurance Group
RSA	Rapid Supervision Assessment
SAL	Structural Adjustment Loan
SAR	Staff Appraisal Report
SECAL	Sectoral Adjustment Loan
UN	United Nations
UNEP	United Nations Environment Program
WDR	World Development Report
WDI	World Development Indicators
WRI	World Resources Institute

Director-General, Operations Evaluation	:	Mr. Robert Picciotto
Director, Operations Evaluation Department	:	Mr. Gregory Ingram
Manager, Sector and Thematic Evaluations Group	:	Mr. Alain Barbu
Task Manager	:	Mr. Andres Liebenthal

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This report was prepared under the supervision of Mr. Andres Liebenthal by Mr. Muthukumara Mani. Ms. Soon-Won Pak provided administrative support and Mr. William Hurlbut was the editor.

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Executive Summary

The environmental record in low- and middle-income countries is not improving. Despite the importance of protecting the environment and conserving natural resources, most countries still tend to pollute their water and air, and overexploit their water, forest, fish, soil, and mineral resources in the name of accelerating economic growth and increasing the welfare of their citizens. Many statistics cause serious concern: a rapidly growing share of the world's population (more than 46 percent) lives in urban areas contributing to traffic, congestion, and pollution; half the world's wetlands have been lost in the past century; 80 percent of grasslands are suffering from soil degradation; 20 percent of drylands are in danger of becoming deserts; atmospheric emissions of carbon dioxide are nearly four times the 1950 total; about one-third of the world is living under moderate or severe water stress and groundwater is being depleted almost everywhere. The poor and the disadvantaged especially suffer from environmental pollution and resource degradation.

In response to these trends, as well as growing concerns about unplanned negative effects of projects it finances, the World Bank has introduced a number of initiatives to promote environmental sustainability. Especially since the late 1980s, the Bank has expanded both the level and scope of its environmental activities. On the operational front, the Bank has delivered a great number and variety of environmental products, including projects and guidelines on environmental matters. On the knowledge front, the Bank has been actively involved in countries through policy and advisory services, research, and training/capacity building activities.

The Bank developed a variety of different instruments in support of environmental stewardship, which make up the greater share of its environmental activities. The major instruments included the preparation of National Environmental Action Plans, and projects to strengthen environmental institutions (institutional development projects), projects aimed at improving natural resource management (green projects), projects for reducing pollution and improving the urban environment (brown projects), and projects in support of global environmental conventions. Using these broad categories, 50 percent of the World Bank's current "environmental" portfolio comprises projects related to pollution/ urban environmental issues, 36 percent to natural resource/ rural environment management projects, and 5 percent to institutional projects. In addition, GEF and Montreal Protocol projects with primarily environmental objectives account for about 9 percent of the "environment" portfolio.

Achievements, however, have lagged behind expectations raised by the Bank policies, formal commitments and published statements. Several years and hundreds of projects later, the Bank's approach is still characterized by some as "incremental improvements to business as usual," rather than a "sustainability approach" that would ensure that every Bank intervention help shift economic development towards more sustainable paths. Preliminary findings reveal gaps, inconsistencies and ambiguities in the Bank's approach towards promoting environmental sustainability. While the Bank has been able to increase the general awareness of environmental issues in client countries through its EA guidelines, serious issues still linger about compliance with and implementation of its safeguard policies. In promoting environmental objectives, the Bank has attempted to do many things without establishing clear priorities and focusing its efforts on areas of greatest relevance to its overarching mission and country needs. Mainstreaming the environment in country development strategies still remains an elusive goal. It is important to point out, however, that the Bank's performance (with respect to everything from implementation of EA procedures, to supporting development of effective institutions, to mainstreaming environment in adjustment programs, to increased stakeholder participation) is highly dependent

upon the borrowers' interest and commitment, and this has often been found wanting in environment projects and programs.

The 1990s witnessed a number of global trends that will have an important bearing on the prospects for protecting the global environment and the Bank's role in promoting environmental sustainability. In a relatively brief time span, the role and process of government has changed in many countries, and there has been a dramatic expansion of the private sector's role. These changes have been fueled to a large extent by the unprecedented scale and increasing global nature of the economy, the rapid expansion of telecommunications, rapidly increasing urbanization, and a growing population combined with increasing decentralization, democratization, and participation of nongovernmental organizations and civil society in policymaking. While some of these changing circumstances open up opportunities for growth and development, they also carry the threat of economic and political changes that could have far-reaching impacts on the environment.

The objective of the OED evaluation of the Bank performance in promoting environmental sustainability is to assess whether the Bank has "done the right things" and "done things right." The findings will help the Bank to build upon its existing policies, reshape its strategy in light of the new challenges and better align Bank's operational objectives with its capacity to deliver, and with the needs and expectations of its clients. This is both appropriate and timely, considering that the World Bank Group has committed itself to prepare an environment strategy by early 2001.

The evaluation is examining the Bank's achievements to date using available evidence in completion reports, portfolio reviews and other evaluative studies, and validated through additional analysis of project information, consultations with stakeholders and in-depth case studies. The benchmarks against which Bank performance is being evaluated are the Bank's operational policies and procedures and good practices (OPs/BPs/GPs). Where there are gaps in the policy framework, authoritative statements of the Bank's objectives (from published documents and undertakings) will serve as appropriate benchmarks. The methodological approach will be to assess the outcome, institutional development impact, and sustainability of the Bank's activities, draw out the lessons from experience, and identify best practices. The objective of the Phase I Interim Report is to outline the evaluation agenda, identify emerging issues and gaps, and to present preliminary findings from synthesis of available evaluative materials.

Preliminary Findings

- **How relevant are Bank policies and procedures?** The Bank's safeguard policies were conceived in response to problem projects and issues that attracted particularly vocal criticism for various reasons. As a result, there are gaps, inconsistencies, and ambiguities that often lead to confusion among operational staff, clients, and external stakeholders. In addition, the Bank's environment-related policies and procedures still primarily focus on projects, and consequently miss its structural and programmatic lending, which are on the increase and account for almost half of the total (partially as a result of the recent crisis). Many NGOs and other stakeholders argue that the Bank has attempted to tackle environmental sustainability without fully incorporating the social dimension and, as a result, does not address the fundamental issues of sustainable development. The short time horizon (of one to five years) the Bank adopts in its Country Assistance Strategies and adjustment programs often conflicts with the longer time horizon (of 10 to 20 years) required to address environmental problems.

- **How well did the Bank implement its environmental policies?** The environmental policies are now firmly rooted in the Bank's normal business activity, but serious issues still remain relating to compliance, identification and scoping of impacts, analysis of alternatives, prediction and assessment of impacts, and public involvement and consultation, especially at the supervision stage. On the implementation side, often the focus has been on short- and medium-term impacts of projects with consequent neglect of the long-term and indirect impacts that have bearing on sustainability. The implementation of safeguard policies within the Bank has been hampered by cumbersome quality assurance, compliance, and accountability arrangements. Many stakeholders have argued that the Bank has substantially neglected to involve key stakeholders from the public and private sectors and civil society in the implementation of its environmental policies.
- **How effectively has the Bank mainstreamed environment in its country and sector policies?** The coverage of environmental issues in CASs and SALs has not been very systematic. Integrating environmental sustainability into the CAS has been an elusive goal given the relatively short time horizon of CASs and due to priority given to other issues in the reform agenda such as poverty reduction, stabilizing macro-conditions, and transition to market economies. The Bank's adjustment operations are not required to incorporate complementary policies to mitigate environmental impacts and have typically left these, if any, to be addressed through separate sectoral interventions. While some progress has been made in addressing environment as a part of energy, rural, and urban sector strategies, little evidence is available on integration of environment in other sector policies and projects.
- **What were the institutional strengthening, policy reform and project impacts of Bank's interventions?** The impact of the Bank's capacity building programs and efforts to promote natural resources management and pollution control and management has been limited as much of the focus has been on environmental agencies, with little effort devoted to nurture adequate borrower commitment to policy and institutional reform at a broader level. The problems are compounded by the fact that the institutions that are being strengthened or charged with implementing the projects are typically very young, without clearly defined institutional responsibilities. While this may be an appropriate first step, little progress has been made to go beyond these interventions to make environment a part of the macroeconomic policy agenda. The National Environmental Action Plans (NEAPs) were not internalized in the development strategies in most countries and Country Assistance Strategies and structural adjustment policy reforms sometimes cut across recommended NEAP actions.
- **How effective has the Bank been in addressing global concerns?** The World Bank's financial commitments to the global environment, while small compared to the immensity of the problems, have been critical to mobilizing funds, promoting technology transfer, catalyzing private sector resources, and strengthening partnerships. The Bank and GEF projects have also established new mechanisms for intra-government coordination and regional or subregional collaboration on issues of global environmental importance and for increased investment in new technologies for addressing global environmental problems. However, beyond the GEF and a small number of innovative initiatives like the Prototype Carbon Fund, the Bank has not done as much in its regular portfolio of projects in the biodiversity and climate change areas to put global environmental concerns on a par with traditional Bank business. This is to some extent due to the fact that the Bank's promotion of global objectives is constrained by the commitment and willingness of its client countries to accept these objectives.

- **How do stakeholders view the Bank performance?** According to the 1999 Bank Client Survey, the Bank's overall contribution to helping countries to safeguard their environment was "fairly effective." However, in terms of managing negative consequences of its projects, the Bank performance was ranked only as "average." The Inspection Panel was created in 1993 to serve as an instrument of last resort for local people who feel that they have been or potentially could be harmed by Bank-financed projects. To date, the Panel has registered 14 complaints and issued 12 reports to which the Bank has responded with remedial action plans. According to the participants of the "Development Forum"—an online discussion on the Bank's performance—many of the Bank's problems have arisen because of the failure to involve all stakeholders in discussing the objectives, management, and benefit-sharing arrangements of projects and policies.

Next Steps

Considering the issues emerging from the synthesis of the evaluative reviews, the country case studies, and the consultations undertaken so far as part of this evaluation, a few thematic areas have been selected for a more in-depth evaluation on the basis of their potential usefulness to the formulation of the Bank's environmental strategy and the design of future environmental interventions. In evaluating these thematic areas, particular attention is being paid to the issue of mainstreaming environment and the Bank's internal incentive framework to address environmental issues.

Focus on compliance, ownership and sustainability of environmental safeguards. The review of evaluative information points to important concerns associated with the Bank's compliance with its environmental safeguards. A detailed evaluation of factors that led to the design of a few good practice examples should yield useful lessons for moving the Bank beyond an emphasis on project-level compliance, towards taking advantage of every opportunity to fight poverty, promote environmental sustainability, and promote policy reform and governance improvements while enhancing the rigor of safeguard policy implementation.

Focus on the poverty-environment nexus. Given that fighting poverty is the Bank's overarching objective and promoting environmental sustainability one of its major goals, the small number of projects that build on the synergy between both areas comes as a surprise. It should therefore be of particular interest to identify and evaluate the factors associated with success in this highly desirable category of projects, and to assess the potential for motivating more of them.

Focus on the environmental impact of SALs/SECALs. The understanding of the environmental impacts of adjustment programs has improved considerably over the years through various Bank studies, yet there is still considerable variation across countries in the implementation of these programs. It would be useful and important to understand how the Bank has implemented its adjustment policies to account for actual and perceived environmental risks. Since Bank lending for adjustment programs has greatly increased in response to recent financial crises, the Bank needs to ensure that environmental sustainability objectives are not left behind in order to achieve economic stability.

Focus on global issues. The Bank has been involved in and contributed to addressing a number of global environmental issues in the past decade, such as climate change, biodiversity, ozone depletion, and pollution of international waters. Thus, it is important to know how effective it has been in these areas. This review will focus on two issues that will be of critical importance during the next decade: desertification and biodiversity.

- *Focus on combating desertification.* Widespread international concern has arisen about the need to manage drylands so that inhabitants can enhance their livelihoods without causing land degradation, particularly desertification. The Bank has responded with an extensive and diverse program of drylands management operations. Since this portfolio presents a highly relevant subset of the Bank's activities in the poverty-environment nexus, OED is including an evaluation of the Bank's performance in this area.
- *Focus on biodiversity.* While Bank lending for natural habitat conservation (e.g., establishing protected areas) has increased over the years, the provisions for monitoring of measurable indicators of impact have been inadequate for most projects. It is thus not clear yet how effective the Bank has been in the conservation of biodiversity and protection of species. An evaluation focused on the identification of good practice features, and factors conducive to their implementation, should yield useful lessons.

The findings of these thematic reviews and their implications for the Bank strategy will be validated through stakeholder and expert consultations.

1. Introduction

1.1 The environmental record in low- and middle-income countries is not improving. Despite the importance of protecting the environment and conserving natural resources, many countries the world over still continue to pollute their water and air, and overexploit their water, forest, soil, fish, and mineral resources in the name of accelerating economic growth and increasing the welfare of their citizens. Many statistics cause serious concern: a rapidly growing share (more than 46 percent) of the world's population lives in urban areas contributing to more traffic, congestion, and pollution; half the world's wetlands have been lost in the past century; 80 percent of grasslands are suffering from soil degradation; 20 percent of drylands are in danger of becoming deserts; atmospheric emissions of carbon dioxide are nearly four times the 1950 total; about one-third of the world is living under moderate or severe water stress and groundwater is being depleted almost everywhere. The environmental problems thus pose significant threats to sustainable development with severe consequences for human health and ecosystems. The poor and the disadvantaged especially suffer from environmental pollution and resource degradation.

1.2 In response to these worldwide trends, as well as growing concerns about unplanned negative effects of projects it finances, the World Bank has, since the late 1980s introduced a variety of initiatives to promote environmental sustainability. These include the introduction of environmental objectives into the development agenda; the design and implementation of a great number and variety of environmental products, including projects, policy guidance, research, and training; the formulation of widely accepted Environmental Assessment (EA) guidelines; and the broadening of the Bank's reach through its convening role in the global environmental debate and new partnerships with international and local organizations.

1.3 Achievements, nevertheless, have lagged behind expectations raised by Bank policies, formal commitments and published statements. While some gap is inevitable for an institution that is striving to respond to changing client demands and global conditions, given its resources and mandate, the Bank was expected to do much more as a catalyst to addressing these critical global environmental challenges.¹ It is important to point out, however, that the Bank's performance (with respect to everything from implementation of EA procedures, to supporting development of effective institutions, to mainstreaming environment in adjustment programs, to increased stakeholder participation) is highly dependent upon its borrowers' interest and commitment, and this has often been found wanting in environment projects and programs.

1.4 Preliminary findings from available evaluative materials reveal gaps, inconsistencies and ambiguities in the Bank's approach towards promoting environmental sustainability. Most of the existing environmental policies, including the overarching EA framework, are geared towards addressing environmental issues related to investment projects, thereby missing programmatic and adjustment lending, which account for almost half of the total. The EA process has increased the general awareness of environmental concerns, but serious issues remain relating to compliance, identification and scoping of impacts, analysis of alternatives, and public involvement and consultation, especially at the supervision stage. In responding to stakeholder demands, the Bank has also adopted a multiplicity of environmental objectives, making it difficult to establish clear priorities and focus efforts on areas of greatest relevance to the Bank's mission. Particularly noticeable is the absence of a strong effort to better understand and face up

1. It is useful to note here that the expectations themselves, however high and unrealistic they might have been, were fueled by the Bank's published statements which often promised much more than what the Bank could possibly deliver. For example, the Annual Reports of the Environment Department in 1994 and 1995, whose titles, "Making Development Sustainable" and "Mainstreaming the Environment," are more reflective of distant goals, rather than what could realistically be done.

to intersectoral tradeoffs that constrain and confuse the pursuit of environmental objectives at the project level. National Environmental Action Plans (NEAPs) have not been internalized in the Country Assistance Strategies (CASs) and, absent clear operational policies and guidelines from the Bank, integrating environmental sustainability into CASs and Structural Adjustment Loans (SALs) has been an elusive goal.

1.5 A recent history of the Bank concludes that, while it has “promoted itself...as a champion of environmental sustainability,...the integration of these new concerns has been severely constrained by the Bank’s established organization, incentives and knowledge,” and calls upon the Bank “to engage in an open debate about what it should be doing in the environment field.”² Accordingly, there is now a need to *take stock, to learn from past experience, and draw the appropriate implications for the Bank’s strategies, policies, and procedures*. Considering that the World Bank Group has committed itself to prepare an environment strategy by early 2001, it is appropriate and timely for the Operations Evaluation Department (OED) of the World Bank to evaluate the Bank’s performance in the promotion of environmental sustainability in development so as to better align the Bank’s operational objectives with its capacity to deliver, and with the needs and expectations of its clients.

1.6 Evaluating the World Bank’s performance in promoting environmental sustainability is not a simple task. There is no comprehensive “strategy” that describes the Bank’s environmental objectives, the means by which they will be pursued, or verifiable indicators of success. This is understandable given the complex nature of issues and the problems involved. Formulating an environment strategy is made even more difficult by the fact that environment does not easily fit the Bank’s traditional definition of a “sector.” Rather, it is a “theme” that needs to be embedded in all relevant activities. As a result, all we have so far is a set of policies, guidelines, and practices that have gradually emerged since the late 1980s to integrate environmental concerns into Bank work.

1.7 The evaluation is examining the Bank’s achievements to date using available evidence in completion reports, portfolio reviews and other evaluative studies, and validated through additional analysis of project information, consultations with stakeholders and in-depth case studies. The benchmarks against which Bank performance is being evaluated are the Bank’s operational policies and procedures and good practices (OPs/BPs/GPs). Where there are gaps in the policy framework, authoritative statements of the Bank’s objectives (from published documents and undertakings) will serve as appropriate benchmarks. The methodological approach will be to assess the outcome, institutional development impact, and sustainability of the Bank’s activities, draw lessons from experience, and identify best practices. The consultations and analyses are driven by the following questions:

- **How relevant are Bank policies and procedures?** The evaluation is assessing the adequacy of the Bank’s current activities and organizational framework in meeting its goals and objectives, identifying gaps in coverage, and making appropriate recommendations.
- **How well did the Bank implement its environmental policies?** The evaluation is focusing on identifying and assessing the factors underlying the performance shortfall to better understand the misalignment between the Bank’s internal incentive framework and the outcomes and impacts of its environmental policies.
- **How effectively has the Bank mainstreamed environment in its country and sector policies?** The evaluation is reviewing the extent to which mainstreaming falls short of

2. R. Wade (1997), “Greening the Bank: The Struggle over the Environment, 1970-1995,” in *The World Bank, Its First Half Century*, Kapur, D., J. P. Lewis, and R. Webb (eds), Brookings Institution Press, 1997.

expectations, identify the underlying causes, and derive lessons for the Bank's policies and procedures (see Box 1.1 for definitions underlying the Bank's mainstreaming objectives).

- **What were the institutional strengthening, policy reform and project impacts of Bank interventions?** The evaluation examines the Bank's efforts at institutional and policy reform, to draw lessons for the design of future strategies and products.
- **How effective has the Bank been in addressing global concerns?**³ The evaluation is searching for relevant lessons and best practices, and will attempt to validate them through field studies and analysis for selected cases and inform the preparation of the new environment strategy.
- **How do stakeholders view the Bank performance?** The evaluation is looking at how the stakeholders view and rate Bank performance on environmental and social issues.

Box 1.1 What Do We Mean by "Mainstreaming" the Environment?

"To integrate environmental concerns into broader operational and analytical activities."^a

Country Assistance Strategies: Mainstreaming of environment in CASs means that the environmentally sustainable development objective is incorporated into the strategy.

Structural/Sectoral Adjustment Loans: Mainstreaming of environment in SALs/SECALs means that the adverse impacts they might have on the environment are analyzed and specific measures to mitigate them are agreed with client governments.

Investment Projects: Mainstreaming of environment investment lending means that projects are designed not only to minimize their immediate negative impact on the environment but also to result in positive environmental spillovers where possible (environmental benefits). This could be through specific policy recommendations and/or use of incentives to affect long-term behavior towards the environment (taxes, fees). In case of investments that involve tradeoffs between protecting the environment and promoting economic development, a careful assessment of benefits and costs, environmental as well as economic, of different approaches need to be weighted carefully, and adverse environmental impacts need to be avoided or mitigated.

Economic and Sector Work: Mainstreaming of environment in ESW means that the environmentally sustainable development objective is incorporated into the Bank's analytical and advisory work wherever appropriate. This could be through promoting the reduction of distortions in resource (energy, water) pricing that in turn would lead to enhanced efficiency in supply and consumption, as well as complementary measures to improve environmental quality (this could be achieved through introduction of taxes, reduction/elimination of subsidies or through promotion of cleaner technology initiatives).

a. IDA (1990). Addition to IDA Resources, Ninth Replenishment (Unpublished, For internal circulation only).

1.8 This Phase I Interim Report outlines the evaluation agenda, identifies emerging issues and gaps, and presents preliminary findings from synthesis of available evaluative materials. The findings and issues that emerge will be integrated into the Main Report, to be presented at the conclusion of Phase II. The Interim Report is structured as follows: Section 2 gives an overview of current state of global environment and the agenda for action. Section 3 provides an overview

3. Global environmental concerns include issues associated with the degradation or depletion of global commons (e.g., climate change, ozone depletion, marine pollution) as well as issues whose primary impact is local, but are of worldwide significance because of their options and existence value (e.g., biodiversity, desertification).

of the Bank's environmental policies and portfolio. The policy and performance gaps are discussed in Section 4. The focus on gaps here is to identify areas where the evaluation could be of greatest help to the Bank's strategies and policies, without in any way prejudging the Bank's performance. A summary of the evaluation approach is in Section 5.

2. Emerging Challenges

Major Environmental Trends

2.1 The evidence now available on the state of the global environment and its effects deserves the attention of governments and the public. It also offers a cautionary note on the difficulty of restoring environmental quality to sustainable levels. While some progress has been made in addressing the environmental crisis, the environment has continued to degrade in all developing regions. Water scarcity, water pollution, air pollution, land degradation, loss of biodiversity and climate change continue to pose serious threats to humanity.

2.2 **Water Scarcity and Water Pollution.** All regions of the world experience problems related to either groundwater, surface water or both. Today, about one-third of the world is living under moderate or severe water stress, with at least 19 countries dependent on foreign sources for more than 50 percent of their surface water. By 2050, the proportion of people living at or above moderate stress could double.⁴ UNEP estimates suggest that every day, 25,000 people die as a result of poor water quality. Waterborne diseases still represent the largest single cause of human sickness and death worldwide.⁵ The development and efficient management of water resources is lacking in many parts of the world. Not only is there relative scarcity of water resources, but these areas also face high evaporation rates, high levels of anticipated future demand, and transboundary problems associated with the allocation of water resources.

2.3 **Air Pollution.** Air pollution problems are multifaceted and pervasive. Polluted air has many adverse impacts: on human health and on biotic and ecosystem functions. Most major cities in developing countries suffer worsening urban air quality problems, although the trend seems to have improved in some (Mexico City, Sao Paulo, some Chinese cities). Rising levels of air pollutants also contribute to acid rain, which adds a transboundary dimension to the problem. Indoor air pollution caused by the burning of dirty fuels is another serious problem. More than half of the world's households use some form of unprocessed solid fuel for cooking and heating, thereby exposing people—mainly poor women and children—to serious health risks in rural areas and urban slums. It is estimated that nearly 2 million women and children die annually in developing countries from exposure to indoor air pollution.

2.4 **Land Degradation and Biodiversity Loss.** Land degradation and loss of land to urban expansion is a serious problem in most of the developing regions, especially in Africa, West Asia, and parts of Asia-Pacific and Latin America regions, where food security and poverty alleviation are issues of great concern. Degraded environments accelerate the process of impoverishment because the poor depend directly on natural resources for their food, energy, water, and income. With regard to forests and biodiversity, global rates of forest loss increased from about 12 million hectares per year in the 1970s to over 15 million hectares (0.8 percent of total natural forest

4. World Bank (1999), "The Bank's Evolving Environmental Agenda—Achievements and Future Challenges," Environment Matters at the World Bank, 1999.

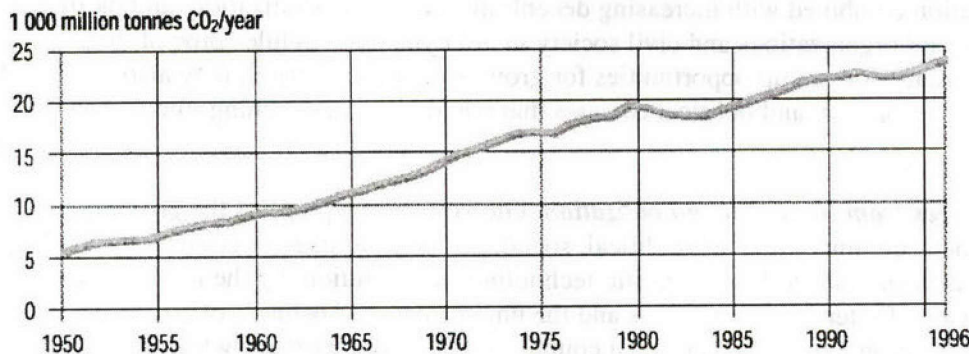
5. Humans risk microbial infection if recycled water is not adequately treated, as happens in areas marginal to cities, including mega-cities in less developed parts of Asia and Latin America (see UNEP (1997). Global Environmental Outlook. Oxford University Press and UNEP, Nairobi, 1997).

cover) per year in the 1980s. During the 1990s, deforestation has been about 13 million hectares per year. The resulting decline in biological diversity constitutes a primary threat to indigenous and other poor people dependent on ecosystems in which genetic materials reside.

2.5 Climate Change and Ozone Depletion. Climate change is of major concern to almost all regions. While industrial countries are responsible for observed increases in greenhouse gases, developing country emissions are rapidly catching up. Their capacity to contribute to future environmental damage increases as they grow. Climate change could also raise ocean levels, swamping the homes and lands of millions of people in low-lying countries. Developing countries lack adaptive mechanisms to cope with climate variability and sea level change. Yet progress in limiting greenhouse gas emissions has proven elusive in part because of an unwillingness to make policy changes necessary in some developed countries. On the other hand, global cooperation to reduce ozone depletion appears to be succeeding as global international production of chlorofluorocarbons has fallen steeply and atmospheric concentrations of these chemicals have not only stabilized but are beginning to drop (see Figure 2.1).

Figure 2.1

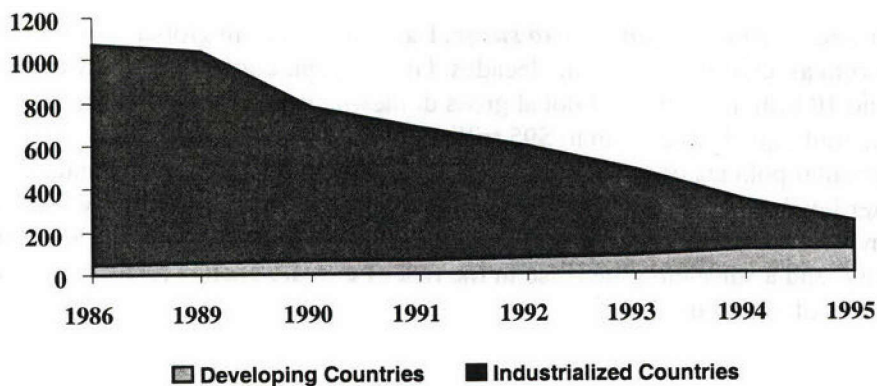
Global carbon dioxide emissions continue to mount



Source: UNEP 2000

CFC production has fallen sharply

ODP tons



Source: WRI 2000

Note: Ozone-depleting potential (ODP) tons is a measure by which ozone-depleting substances are weighted according to their ability to destroy ozone

2.6 **Natural Disasters.** Developing countries and the poor are particularly vulnerable to natural disasters such as floods, storms, droughts, earthquakes, fires, and landslides. In 1999, natural catastrophes and man-made disasters claimed more than 105,000 lives worldwide and resulted in total losses of around \$100 billion. Natural disasters are partly caused by excessive stress on the physical environment. Accelerated changes in demographic and economic trends have disturbed the balance between ecosystems—increasing the risk of human suffering, death, and destruction—and thereby the cost and magnitude of natural crises. Vulnerability to natural disasters is often compounded by such longstanding environmental problems as water scarcity, deforestation, soil erosion, and inequitable land tenure patterns. Major disasters not only damage capital assets but are bound to have destabilizing effects on society.

Emerging Global Issues

2.7 The 1990s witnessed a number of global trends that will have an important bearing on prospects for protecting the global environment. In a relatively brief time span, the structure and process of government has changed in many countries, with growing decentralization of power, and there has been a dramatic expansion of the private sector's role. These changes have been fueled to a large extent by the unprecedented scale and increasingly global nature of the economy, the rapid expansion of telecommunications, rapidly increasing urbanization of the world, and a growing population combined with increasing decentralization, democratization, and participation of nongovernmental organizations and civil society in policymaking. While some of these changing circumstances open up opportunities for growth and development, they also carry with them the threat of economic and political changes that could have far-reaching impacts on the environment.

2.8 **Challenges from increasing globalization.** Globalization represents the growing integration of the economic, financial, political, social, and cultural lives of countries. Rapid globalization has been induced by a scientific-technological revolution, by the need to reap the economies of scale of international markets and the unprecedented openness of countries. While, integration into the global market improves a country's ability to import knowledge-enhancing capital and facilitates learning-by-doing, technological catch-up, and industrial upgrading, it also exposes a country to inherent risks associated with the international trading system. It is therefore essential in a globalized world to manage international flows of trade, capital, environmental pollutants and people, and to coordinate policies so as to achieve sustainable growth with stability.

2.9 **Population and production continue to surge.** Large increases in global population and economic activity seem assured in the coming decades. Global population could grow to perhaps 8 billion by 2025 and 10 billion by 2050.⁴ Global gross domestic product, which stood at about \$21 trillion in 1990, could quadruple again to \$95 trillion by 2050. In the absence of significant changes in environmental policies or in the degree of regulatory pressure applied, scenarios suggest much greater levels of air and water pollution, burgeoning amounts of solid waste, much greater pressures on remaining biodiversity and natural ecosystems, regional shortfalls in food and water availability, and a substantial increase in the risk of climate change resulting from much higher emissions of greenhouse gases.

4. Based on current demographic trends, the world population is projected to reach 9.4 billion by 2050. Estimates of future population size, however, are highly uncertain based on different assumptions and different projections. The U.N. projections for 2050 range from a low of 7.7 billion to a high of 11.2 billion. The latest "medium-variant" U.N. projection of 9.37 billion is nearly 500 million (4.7 percent) lower than the 9.83 billion medium variant projected in 1994.

2.10 *The gap between rich and poor is widening.* While considerable progress has been made in reducing poverty over the past 50 years, poverty remains a major global problem. A significant proportion of humanity still lives in dire poverty, and projected trends are for an increasing divergence between those that benefit from economic and technological development, and those that do not. Among the “high-income” countries, GNP per capita is \$24,930, or 86 times greater than the average in low-income countries. Environmental degradation also reduces further opportunities for the future. While current global trends in economy and society present extraordinary opportunities for poverty reduction, they also pose extraordinary risks of growing inequality, marginalization of significant numbers, and social explosions.

2.11 *The world is rapidly urbanizing.* The rapid pace of urbanization promises to double the urban population in developing countries by 2015. As a result, cities will become increasingly unhealthy places to live, with local governments lacking the capacity to collect and dispose of municipal sewage and solid waste, or control effluents from industry and emissions from transport. Environmental infrastructure and services will be unable to keep pace with the discharge of pollutants, and could overwhelm the assimilative capacity of natural ecosystems within city boundaries and often downstream as well. Industrial effluent and solid wastes would pose increasing hazards to human health because of the proximity of large populations to the contaminants. The resultant concentration of people and of industrial and domestic effluents and wastes imposes a major challenge for the management of the urban environments in the immediate future.

2.12 *There is a threat of food security and water scarcity.* It is estimated that global food supplies will need to double over the next 35 years because of population (and economic) growth.⁷ This doubling will be far more difficult than in the past because it has to be environmentally sustainable. The prospect of water scarcity has serious implications for global food security, the growth of cities, and the location of industries. Under conditions of water scarcity, agricultural yields will fall as irrigation supplies dry up, and health will suffer as more people are reduced to using unsafe water sources for drinking and washing. Preventing crises—both in terms of food security and water scarcity—and their spillover effects calls for a mix of economic and institutional measures and a new sense of urgency in addressing these issues.

2.13 *Civil society participation is on the increase.* Over the past several decades, NGOs and civil society have become major players in international development. Throughout the 1980s and 1990s, the increasing importance of NGOs has been evidenced by their rapid growth in numbers in most countries,⁸ the volume of grant funding for development raised or managed by them, their contributions to important development objectives (such as participation, micro-finance, health, education and targeting of vulnerable groups), and their ability to influence the opinions of decision-makers and the public. These and other factors have made NGOs increasingly important actors in the development process—and hence of increased importance to the Bank.

2.14 *The public-private sector partnership is evolving rapidly.* Governments are discovering that working with the private sector to manage environment can be more cost-effective than a traditional command-and-control approach. Businesses are taking a more active role in policy development and environmental management, based in part on the realization that changing production practices to reduce waste and pollution can be economically sound and can enhance their public image. Such partnerships are being driven in part by the increasing openness of many economies and the expanding role of the private sector, which has been instrumental in forging a

7. See World Bank (2000).

8. While statistics about global numbers of NGOs are notoriously incomplete, it is currently estimated that there is somewhere between 6,000 and 30,000 national NGOs in developing countries.

collaborative approach between regulator and industry—one that balances more flexible regulation with more targeted and effective enforcement and with market-driven incentives for improved environmental management. Collaboration between the public and private sectors and civil society can help facilitate implementation of existing environmental regulations, where large gaps frequently exist between regulatory requirements and actual performance.

Evolving Agenda for Action

2.15 A major challenge facing the world today is to foster economic development that supports a better life for the least advantaged and for future generations, while protecting and preserving a healthier global environment critical to sustaining life. Using conventional assumptions about growth in the next few decades, where might the world and global environment be heading? While it is still uncertain how many or what percentage of the world community will share the material benefits of global economic growth, there is little doubt that the poor and the disadvantaged will be the principal victims of a deteriorating global environment. However, trends towards environmental degradation can be slowed, and economic activity can be shifted to a more sustainable pattern. Choices for development, and levels and patterns of consumption, are shaped by human aspirations and values, and these choices can be influenced by policy intervention. Many different policy responses are being developed and tested. Annex 1 describes alternative views that have emerged on addressing the global environmental challenge.

2.16 For example, a recent framework put together by the World Resources Institute (WRI) identifies three scenarios or world views that might drive progress in the 21st century.⁹ These are a “Market World” in which current patterns continue, a “Fortress World” that reflects fundamental but undesirable social change, and a “Transformed World” that reflects fundamental and desired social change. Under the Market World, economic reform and technological innovation fuel rapid economic growth resulting in widespread prosperity, peace, and stability, but it may not happen in an environmentally sustainable way. The Fortress World is a dismal vision based not only on the failure of market-led growth to redress social wrongs and prevent environmental disasters, but also on the belief that unconstrained markets will exacerbate these problems and that large portions of humanity will be left out of the prosperity that markets bring. The Transformed World envisions a society in which power is more widely shared and in which new social coalitions work from the grass roots up to shape what institutions and governments do and the possibility of a fundamental change for the better—in politics, in social institutions, and in the environment. The scenarios are deliberately constructed to frame sharply contrasting images of the future. In practice, the world in 2050 could contain elements of all three scenarios, especially when the divergent prospects of different regions are considered.

2.17 The findings of the WRI framework also resonate in the Worldwatch Institute’s 1999 annual *State of the World* report. According to the report:¹⁰ “Crossing over to a sustainable path will be a long and complex process. Governments need to play a large role, working within their borders and cooperating across them. Businesses will need to take many of the risks, generate many of the innovations, and create the new jobs. And pressing them all forward will be civil society in its many forms, grounded in an educated citizenry. The benefits of this transformation will be a healthy air, safe drinking water, a secure food supply, and protection for the planet’s diversity of species.”

9. Allen Hammond (1998). *Which World? Scenarios for the 21st Century*. World Resources Institute, Washington DC: Island Press.

10. Lester Brown, Christopher Flavin and Hilary French (1999). *State of the World: A Worldwatch Institute Report on Progress Toward a Sustainable Society*. New York: W.W. Norton & Company.

2.18 The Bank and the development community in general have recognized that sustainable and equitable development requires institutions of good governance that embody country ownership, transparent and participatory processes, and that encompass partnerships and other arrangements among the government, the private sector, NGOs, and other elements of civil society. To promote these objectives the Bank has proposed the Comprehensive Development Framework (CDF) as an attempt to operationalize a “holistic” approach to development. The CDF is designed to serve both as a planning and a management tool for coordinating the responses aimed at overcoming bottlenecks and meeting development goals. The implementing strategy will involve consulting with and winning the support of a range of actors in civil society, as well as NGOs, donor groups, and the private sector. The framework would thus enable the government to develop a matrix of responsibilities in each area showing what each group commits to do to fight poverty and encourage sustainable growth.¹¹

2.19 In the end, it is worth asking whether the growing environmental challenges and the other emerging global issues are cause for optimism or pessimism. The appropriate answer seems to be “both.” While the global environmental trends and their implications for sustainable development are issues of great concern, the progress made on many fronts in controlling some pollutants at both local and global levels offers hope. The difference in outcomes is amenable to evaluation and thereby to improved knowledge sharing. The Bank’s primary task, therefore, is to understand how environmental improvements come about, to mobilize resources and catalyze processes for extending them to areas where environmental damage remains severe. This in turn requires a Bank strategy that will shape and channel the forces of change to best serve the cause of sustainable development. The Bank can help facilitate this change (and fill the strategy gap) through developing and transferring knowledge, promoting policy reform and reform of legal/judicial systems, building consensus and coordination across and within countries and agencies, and building local capacity through training and technical assistance.

3. The Bank’s Response

The Bank’s Involvement with the Environment

3.1 Environmental issues first received attention in the Bank during the 1972 United Nations Conference on the Human Environment in Stockholm. The Stockholm Conference was the first in a series of large UN meetings on “global issues”—population, food, human settlements, water, desertification, science and technology, and renewable energy—that helped change the public’s perception of the environment. As the recognized lead agency on development issues, the Bank could not remain oblivious to this rising tide of concern, particularly because many in the environmental movement were saying that economic growth should be stopped, an idea that was in fundamental opposition to the Bank’s mission. In Stockholm, then Bank President Robert McNamara delivered a keynote address announcing the first formal commitment to environmental soundness in development.

3.2 However, a major shift in the Bank’s involvement in environment (in terms of clearly defined policies and strategies) did not come about until after the mid-1980s. The development-oriented thrust during this period to some extent was driven by the oil crisis and subsequent inflationary pressures, which increased indebtedness of most developing countries. Wade reports, “all through the 1970s and into the 1980s the Bank was considered a leading advocate of environmental protection among those concerned with such issues. Yet, having acquired the

11. World Bank (2000). *Entering the 21st Century*. World Development Report 1999/2000.

mantle of leadership, the Bank downplayed environmental issues in the years that followed, both to the outside world and still more to itself.”¹²

3.3 The greater attention to the environment was mainly driven by the increasing controversy the Bank was facing about the unplanned negative effects of projects it financed. These concerns arose from the confluence of an improved understanding of the environmental impacts of projects and a heightened appreciation of the unique value of ecological systems and the services they provide. The criticism was fuelled by a handful of highly visible Bank-supported projects, the negative impacts of which became widely known to the public as a result of NGO research and advocacy.

3.4 In 1987, following upon growing worldwide concerns about the compatibility of prevailing development strategies with environmental sustainability, the Brundtland Commission¹³ assigned the World Bank a central role in its “global agenda for change.” After acknowledging that a beginning had been made, the commission enjoined the Bank to make “a fundamental commitment to sustainable development” and transform “its internal structure and processes so as to ensure its capacity to carry this out.”¹⁴ The growing stakeholder preoccupation with environmental degradation was also reflected in the introduction of environmental objectives in International Development Association (IDA) undertakings, starting with the IDA9 replenishment.

3.5 These stakeholder concerns prompted the Bank to rethink and adjust its policies toward environmental management, to bring environmental concerns more systematically into the mainstream of its operations, and create the Environment Department. A Bank report to the Development Committee in 1988 set out a three-year agenda for action on the environment.¹⁵ It recommended that actions be taken to bring environmental strategy into the mainstream of country economic work, to strengthen research on the underlying causes of environmental degradation and on the feasibility of appropriate policy interventions, to implement a new environmental assessment methodology, and to increase lending for free-standing environment and population projects.

3.6 Major environmental concerns were addressed comprehensively in Bank operations starting in 1990 through country-focused environmental strategy work, policy and research activities, and lending operations.¹⁶ Five problem areas were identified for special attention from the Bank and its members: destruction of natural habitats; land degradation; degradation and depletion of fresh water resources; urban, industrial, and agricultural pollution; and degradation of the “global commons.”

3.7 In the decade since the first commitments were made, the Bank has expanded the level and scope of its environmental activities. On the operational front, the Bank has delivered a great number and variety of environmental products, including projects and guidelines on environmental matters. On the knowledge front, the Bank has been actively involved in countries through policy and advisory services, research, and training/capacity building activities. Twenty

12. Wade (1997).

13. Formally known as the World Commission on Environment and Development, the Brundtland Commission was established in 1983 with a mandate from the UN General Assembly, and concluded its work in 1987.

14. See *Our Common Future*, World Commission on Environment and Development, Oxford University Press, 1987, p. 337.

15. World Bank (1988), “Environment and Development: Implementing the World Bank’s New Policies,” Development Committee Pamphlet No. 17.

16. World Bank (1990). “The World Bank and the Environment,” First Annual Report, Fiscal 1990.

Operational Policies and Bank Procedures were established over the past decade to address these principles (see Box 3.1).

Box 3.1 World Bank Policies for Promoting Environmental Sustainability

Safeguard Policies

OP 4.01 Environmental Assessment: Require environmental assessment (EA) of projects to help ensure that they are environmentally sound and sustainable.

OP 4.04 Natural Habitats: Not support projects that involve the significant conversion or degradation of critical natural habitats.

OP 4.09 Pest Management: Assist borrowers to manage pests that affect either agriculture or public health.

OP 4.36 Forestry: Aim to reduce deforestation, enhance the environmental contribution of forested areas, promote afforestation, reduce poverty, and encourage economic development.

OP 4.37 Safety of Dams: For new dam projects, adopt and implement certain dam safety measures for the design, construction, operation, and maintenance of the dam and associated works.

OP 11.03 Cultural Property: Assist in the preservation of cultural property and seek to avoid their elimination.

OD 4.20 Indigenous Peoples: Ensure that indigenous people benefit from development projects, and avoid or mitigate potentially adverse effects on indigenous people caused by Bank-assisted activities.

OD 4.30 Involuntary Resettlement: Ensure that the population displaced by a project receives benefits from it.

OP 7.50 Projects in International Waterways: Ensure that the international aspects of a project on an international waterway are dealt with at the earliest possible opportunity.

OP 7.60 Projects in Disputed Areas: Any dispute over an area in which a proposed Bank project is located is dealt with at the earliest possible stage.

Policies with Implications for Mainstreaming the Environment

OP 4.02 Environmental Action Plans: Describes a country's major environmental concerns, identifies the principal causes of problems, and formulates policies and actions to deal with the problems.

OP 8.40 Technical Assistance: Design, prepare, and implement lending operations, undertake analytical work necessary to underpin reform or policy development; and strengthen human and institutional capacity for policy reform and sustainable development.

OP 10.00 Investment Lending: To bring investments, policies, and performance in line with economic priorities and ensure efficient operation (technical, financial, economic, environmental, and institutional viability) of specific investments.

GP 14.70 Involving Nongovernmental Organizations in Bank-supported Activities: Consult and involve NGOs, as appropriate, in all Bank-supported activities including ESW, all stages of project processing—identification, design, implementation, and monitoring and evaluation.

OD 2.0 Country Economic and Sector Work: Analyze environmental effects of alternative policy options of development problems, institutions, and investment priorities of the major economic sectors and provide the framework for the Bank's lending program.

BP 2.11 Country Assistance Strategies: Strategy to achieve a country's economic objectives and to reduce poverty in an environmentally sustainable manner.

OP 4.15 Poverty Reduction: Maintaining the environment is critical if gains in poverty reduction are to be sustained and if future increases in poverty are to be avoided.

OD 8.60 Adjustment Lending: Analysis of adjustment programs also considers the implications for the environment, since sound environmental management is a key objective of the Bank's assistance to countries

OD 9.01 Procedures for Investment Operations under the Global Environment Facility: Procedures other than the standard Bank procedures necessary for projects under Global Environment Facility (GEF) operations.

OP 10.21 Investment Operations Financed by the Multilateral Fund for the Implementation of the Montreal Protocol Investment Operations: Administer and manage the program to finance the eligible incremental costs of phasing out controlled ozone-depleting substances (ODS).

Source: Operations Manual

Evolution of Bank Policies and Portfolio

Safeguards

3.8 The safeguard policies deal with the physical environment (EA, natural habitat), the environmental dimensions of rural development (pest management, forestry, safety of dams), and social development (cultural property, indigenous people, involuntary resettlement), and international law (international waterways, disputed areas).

3.9 The Bank's first major policy response on environment was the Guidelines on Environmental Dimensions of Projects issued by the Office of the Environmental Affairs in 1975. These guidelines contained checklists of actions and outcomes to avoid in different kinds of projects, and their use by project staff was voluntary. In 1984, the first Operational Manual Statement (OMS 2.36) on the environmental implications of the Bank's work coincided with the establishment of the first Environment Division. This outlined the Bank's environmental policy under what was then called "Environmental Aspects of Bank Work."

3.10 In 1989, Operational Directive 4.00 Annex A established formal policies and methods for environmental assessment (EA). Consultations and disclosure were not yet mandatory. These guidelines were modified in 1991 by OD 4.01, which outlined specific procedures and related types of environmental analysis for the environmental assessment of Bank lending operations. While EA became the overarching environmental policy of the Bank, several complementary policies embodied the "do no harm" principle and addressed specific events/needs/demands (e.g., the use of pesticides, the rights of indigenous peoples, conservation of natural habitats, the protection of forests and cultural heritage, etc.). The World Bank Inspection Panel was created in September 1993 to strengthen accountability for safeguard policy implementation in Bank operations. A Quality Assurance and Compliance Unit was established in 1999 to improve the record of compliance.

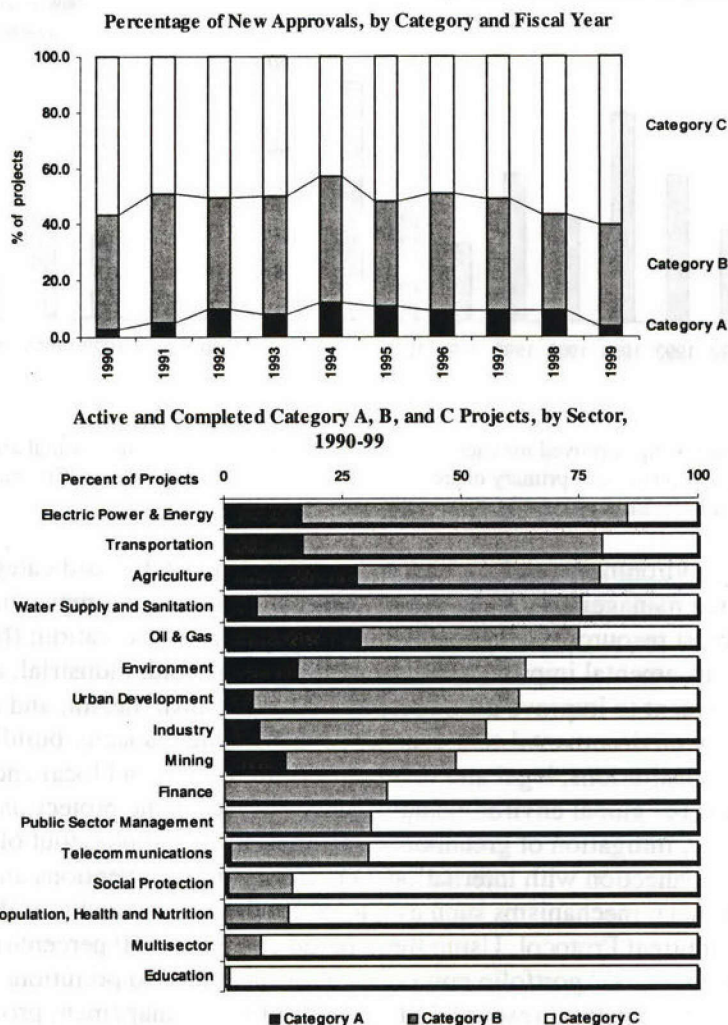
3.11 EA has been the critical instrument to help the Bank and its borrowers decide what actions need to be taken to ensure the environmental soundness and sustainability of a project. Some of these measures may be taken during project design, but others relate to the project implementation phase. The EA process has been designed to better assess the economic, social, and environmental aspects of any proposed project and define an environmental management plan and/or mitigation measures to avoid, mitigate, and/or compensate for its harmful effects. The classification (category A, B, or C) of each proposed project depends on its type, location, sensitivity, and scale, as well as on the nature and magnitude of its potential impacts.¹⁷

3.12 From FY90 to FY99, 186 projects—about 12 percent of the Bank's portfolio (by loan amount)—have been classified as Category A, which requires a full environmental assessment. Another 931 projects—nearly 33 percent of Bank lending—were classified as Category B, requiring a more targeted or limited environmental analysis. About 55 percent were deemed to be unlikely to have adverse environmental impacts and, therefore, were classified as Category C and required no environmental analysis (see Figure 3.1 for an overview of Category A, B, and C projects).¹⁸

17. Bank projects are classified A,B,C to determine the appropriate level of environmental analysis and assessment to which they will be subjected. Category A projects are likely to have significant adverse environmental impacts that are sensitive, irreversible, or diverse and require full environmental assessment. Category B projects are likely to have impacts that are less significant, sensitive, or diverse. Only a simple environmental analysis is required. Category C projects are those which are judged to have negligible, insignificant, or minimal impacts on the environment and are not be subjected to any environmental analysis or assessment.

18. World Bank (1999).

**Figure 3.1 Overview of Environment
Category A, B, and C Projects**

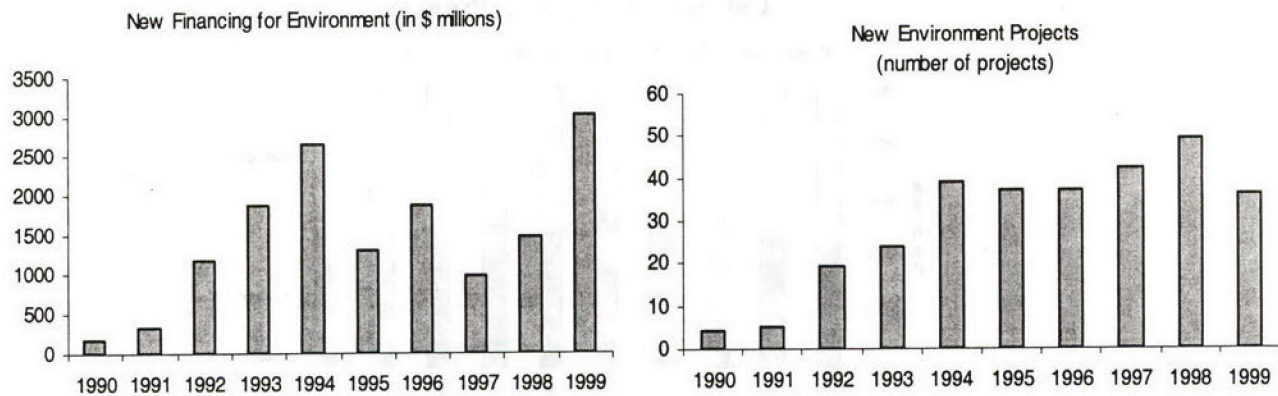


Source: World Bank Database

Bank Lending for the Environment

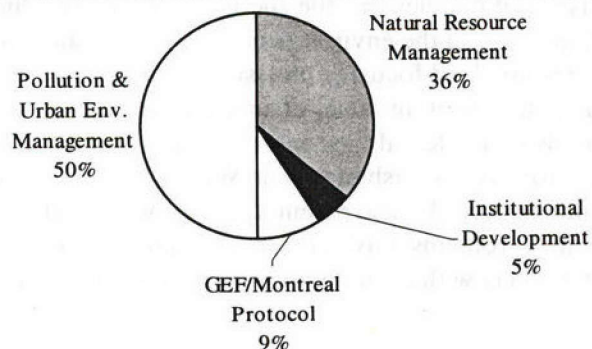
3.13 The World Development Report 1992 (WDR) and subsequent Annual Reports of the Environment Department identified two types of policies that the Bank would support: those that build on the positive links between development and the environment (“win-win”) and those that break the negative links. “Win-win” policies involved focusing on issues such as exploiting synergies between poverty reduction and environment, removal of subsidies to economic activities that encouraged negative environmental externalities, and clarifying property rights regimes affecting the management of land, forests, and fisheries. The WDR 1992 also recognized that “win-win” policies themselves may not be enough; also essential are strong policies and institutions targeted at specific environmental problems. Given these conceptual underpinnings, the Bank began developing a portfolio of projects with clear environmental objectives and benefits (see Figure 3.2).¹⁹

19. However, there is no one operational policy that outlines these mainstreaming objectives and corresponding tradeoffs.

Figure 3.2 Evolution of the World Bank's Environment Portfolio

Shows the new financing approved for each year and the number of new environmental and “environmentally friendly” projects, i.e., all projects whose primary objective(s) is environmental. All active GEF and MPT projects have also been included (Source: Environment Matters, 1999).

3.14 The “environment portfolio” included projects in such broad categories as (a) sustainable natural resource management, focusing on watershed protection, improving soil productivity, sustainable forest resource management, and biodiversity conservation; (b) pollution management and urban environmental improvements, including household, industrial, and transport-related pollution abatement to improve air quality and protect human health, and the provision and improvement of environmental services; (c) environmental capacity building to strengthen environmental institutions, legal and regulatory frameworks, and local and disadvantaged groups and NGOs; and (d) global environmental issues—including the protection of international waters and biodiversity, mitigation of greenhouse gas emissions, and phaseout of ozone-depleting substances in connection with international environmental conventions and commitments, and the support of financial mechanisms such as Global Environment Facility (GEF) and the Multilateral Fund of the Montreal Protocol. Using these broad categories, 50 percent of the World Bank’s current “environmental” portfolio comprises projects related to pollution/ urban environmental issues, 36 percent to natural resource/ rural environment management projects, and 5 percent to institutional projects. In addition, GEF and Montreal Protocol projects with primarily environmental objectives account for about 9 percent of the “environment” portfolio (see Figure 3.3).

Figure 3.3 Distribution of Environment Projects by Type

Source: World Bank (1999).

3.15 Natural resource management projects have been guided by the Bank's policies for forest and water resource management, which emphasize environmental concerns. The Bank has also financed many projects with significant natural habitat management components. Most such components have involved establishing or strengthening protected areas (including national parks, nature reserves, and wildlife sanctuaries), or managing natural resources in a sustainable way (including forest reserves that are managed primarily for their watershed or biological values, rather than for wood harvest). The World Bank's natural resource management (NRM) portfolio has expanded considerably over the past decade with increasing emphasis on lending for improved land, forest, and water management and supportive policy and market reforms.

3.16 The Bank's pollution management projects have shifted over the years from pollution control to pollution prevention and the promotion of cleaner technologies. The Bank recently has also supported a number of initiatives to bring together industries, local regulators, and community groups to discuss local priorities and to improve those industries' environmental performance.²⁰ In some instances, the Bank has supported the use of negotiated compliance agreements between industry and government and also is working closely with environmental agencies in Asia and Latin America in the design, implementation, and evaluation of new approaches to pollution regulation. These approaches are very new but are already leading to tangible results and the prospect of new opportunities.²¹ A growing number of projects are also dealing with issues of urban waste management, including both treatment and disposal of sewage and solid waste. This approach reflects a broader tendency by the Bank to enhance urban environmental quality by integrating sectoral interventions and linking them to urban development activities.

3.17 Bank-funded environmental institutional development (ID) projects help countries develop policy, legal and regulatory frameworks, test new instruments for environmental management, promote strategic planning, raise public awareness and engage civil society, equip environmental agencies, improve staff skills, and integrate environmental priorities in public and private sector decisions. They address institutional issues involving a broad range of environmental issues, including water supply and sewage, forestry, biodiversity, water pollution, air pollution and waste management.

Non-Lending Services

3.18 Environmental lending has only been a part of the Bank's efforts to address environmental issues. Analytical work by the Bank has helped several countries in setting environmental priorities and strategies through preparation of National Environmental Action Plans. During IDA9 replenishment (1989–90) the Bank was asked to ensure that all IDA recipient countries complete National Environmental Action Plans by 1993. Subsequently, the Bank decided that NEAPs should also be prepared for IBRD countries. The Bank's role in preparing and implementing a NEAP is to provide advice and help arrange technical assistance. The degree of Bank involvement depends on the capacity of the government to design and manage the process. Since the policy was issued in 1992, more than 90 countries have prepared NEAPs. Many of these are now being implemented.

20. In Guadalajara, Mexico, for example, the Bank assisted a pilot project in which large companies mentored their smaller suppliers (small and medium enterprises) as they implemented environmental management systems.

21. An example is Indonesia's PROPER program, which rates and publicly discloses factories' environmental performance.

3.19 Environment-related economic and sector work (ESW) includes such things as water sector strategies, environmental studies and reviews, regional environmental strategies, and forest sector notes. Examples of ESW approved in fiscal 1999 include the Urban Environment Strategy for Vietnam, a Water Strategy Paper for Latin America, a Land Resource Management Study in Nepal, a Forestry Sector Review in Turkey, and an Environment Study of Ethiopia. In addition, the Bank has been extensively involved in environmental research, training, and capacity building programs around the world.

Country Strategy

3.20 As a part of its “win-win” strategy, the Bank aimed at mainstreaming environmental issues in its Country Assistance Strategies, structural and sectoral adjustment operations, and sector work. The Bank’s operational directives and procedures stressed the importance of environmental sustainability in the CAS. According to BP 2.11, Annex A:

“the core of the CAS document presents the Bank Group’s strategy to achieve both the country’s and the Bank Group’s objectives. This section indicates how the Bank’s objective of helping countries to reduce poverty and its sectoral objectives--such as human resource development (including gender issues), environmentally sustainable development, and private sector development--are incorporated into the strategy and reflected in the policy dialogue.”

3.21 As a part of its mainstreaming agenda, the Bank also recognized the linkages between adjustment and the environment. The Operational Directive (8.60) on “Adjustment” was revised in 1992 to take into account environmental concerns of adjustment operations.

“Analysis of adjustment programs also considers the implications for the environment, since sound environmental management is a key objective of the Bank’s assistance to countries. To help prepare appropriate assistance programs, Bank staff should review the environmental policies and practices in the country. The design of adjustment programs should take into account the findings and recommendations of such reviews and identify the linkages between the various reforms in the adjustment program and the environment.”

Only recently (Effective March 1999), under OP 4.01, Sector Adjustment Loans (SECALs) became subject to the requirements of the Bank’s EA policy. EA for a SECAL assesses the potential environmental impacts of planned policy, institutional, and regulatory actions under the loan. There has been no review of this yet.

Global Environment

3.22 The World Bank responded to global environmental challenges—the threat to the ozone layer, the greenhouse effect, the loss of biodiversity, and increasing ocean pollution—with an agenda for action to integrate these global concerns into the mainstream of developmental policymaking. A main element of that agenda was to promote “global environmental sustainability” by addressing global and transnational environmental challenges in its policy, portfolio, research, and training activities. By 1998, the Bank was the largest financier of “targeted” global environmental projects, with an active portfolio of 166 projects with a funding level of \$11.6 billion.

3.23 As an implementing agency for two global financing mechanisms, the Global Environment Facility (GEF) and the Multilateral Fund of the Montreal Protocol (MFMP), the Bank has helped transfer resources to enable governments to address global environmental concerns that otherwise would be neglected. As part of promoting global environmental sustainability through regional initiatives, the Bank contributed to integrating the management of complex regional ecosystems into mainstream development planning. Such initiatives include programs in the Mediterranean, the Baltic, the Caspian, Red, Black, and Aral seas, and tropical lakes including Lake Malawi and Lake Victoria. The Bank also developed partnerships with other donor agencies and the NGO community to develop global public policy in areas where no convention exists. A prime example is the creation of the World Commission on Dams which resulted from a joint World Bank-IUCN initiative. Apart from GEF/MFMP-related activities, the Bank has also been involved in several global initiatives. In July 1999, the Bank's Board of Directors approved the Prototype Carbon Fund which is designed to pilot carbon emission reduction activities within the framework of Kyoto Protocol.

4. Policy and Performance Gaps

4.1 The Bank's role and activities have evolved, but there is now a need to take stock, to learn from past experience, and to look forward to address the challenges of long-term sustainable and equitable development. There is a need therefore to re-examine the Bank's role in promoting environmental sustainability in light of the existing policy and performance gaps so as to better align the Bank's operational objectives with its capacity to deliver and with the needs and expectations of its clients. A few of the issues identified from a review of the available evaluative documents in the Bank are discussed below.

How Relevant are the Bank Policies and Procedures?

4.2 The Bank's EA policies and directives, some of the most comprehensive in the world, have, by and large, been followed, thereby ensuring that environmental considerations are reflected in Bank project documents and the mitigation of environmental impacts is taken into account for project approval. The policy has done this by reinforcing the borrowers' policy and institutional framework where it existed prior to the Bank's intervention, and, where they did not, by supporting the creation of at least a minimum provisions for compliance with EAs for Bank projects. The Bank's EA policies have also been extensively adopted and adapted by other donors for their own projects. The EA process has often increased awareness of environmental issues and raised the level of commitment to environmental management within the Bank and in borrowing countries.

4.3 *Need to extend coverage, reduce ambiguity in the safeguards framework.* The Bank's safeguard policies were conceived in response to particular problem projects and issues that attracted strong criticism for various reasons. Partly due to the piecemeal origins of these policies, there are gaps, inconsistencies, and ambiguities that lead to confusion among operational staff, clients, and external stakeholders. Although the policies and procedures have evolved over the years, much of the focus still is on projects and, as a result, misses structural and programmatic lending, which account for almost half of the total lending. Many NGOs and other stakeholders argue that trying to tackle environmental sustainability without fully incorporating the social dimension does not address the fundamental issues of sustainable development. Although it is a standard corporate practice to treat environmental and social sustainability in an integrated strategy, the Bank has chosen not to follow this route in its environmental assessment of projects. Balancing tradeoffs between conflicting objectives is not encouraged. As a result, inconsistencies materialize depending on which safeguard policies are being followed (e.g., Natural Habitats

versus Resettlement or Indigenous People versus Forestry), or even to ambiguities as to the different groups of intended beneficiaries (e.g., indigenous peoples versus other poor communities).

4.4 *Need to devote more attention to long-term impacts.* There seems to be a fundamental “disconnect” between the short time horizon (of one to five years) the Bank adopts in its Country Assistance Strategies and adjustment programs and the longer time horizon (of 10 to 20 years) required to address environmental problems. Most of the existing environmental policies, including the overarching EA framework, are geared towards addressing environmental issues related to projects and thereby miss almost half of Bank lending (OP 4.01 does not apply to SALs and has only been recently applied to SECALs). There is no methodological framework to address environmental issues in programmatic lending, which is on the increase partially as a result of the recent crisis (adjustment, APLs, and similar instruments). The continuing shortage of systematic economic and sector work (ESW) that could more fully inform country management about pressing environmental issues poses a further constraint. A longer time horizon is essential both to make environmental management a compelling objective and to do effective environmental intervention or institutional capacity building.

4.5 *Inadequate policy guidance to address conflicting objectives.* In responding to stakeholder demands, the Bank has adopted a multiplicity of environmental and other objectives, making it difficult to establish clear priorities and focus efforts on areas of greatest relevance to the Bank’s overarching mission. Particularly noticeable is the absence of a strong effort to better understand and face up to intersectoral tradeoffs that constrain and confuse the pursuit of environmental objectives (e.g., expanding agricultural production versus maintaining natural habitats or promoting fossil fuel-based energy versus reducing greenhouse gas emissions). At project and institutional levels, this lack of understanding of the linkages translates into absence of any strong effort to build upon the synergies between poverty reduction, growth, and environmental sustainability. Currently there are no Bank policies that provide guidance on balancing tradeoffs between issues of global versus local concerns or environmental versus social issues.

How Well Did the Bank Implement its Environmental Policies?

4.6 Available evidence shows that while implementation of screening procedures, preparation of EA reports, and the incorporation of mitigation measures in project design is in many instances satisfactory, several other attributes are less well implemented. These include the involvement of borrowers and other stakeholders, the monitoring of environmental impacts (during the implementation and operational phases of the project) by the borrower and the Bank’s ability to undertake sufficient supervision. The evidence available from the self-evaluation reports focuses much on internal Bank procedures and policies and little on the causes of gaps between the intentions of policies and results of implementation (i.e., the commitment of clients to accept and adopt the Bank’s requirements) and on potential ways of narrowing the gaps.

4.7 *Awareness and commitment to environmental issues has improved, but supervision is weak.* The EA process is firmly rooted in the Bank’s normal business activity. At the appraisal stage, a recent internal note on compliance efforts suggests that 98 of the 100 projects analyzed in the Quality at Entry Assessment were found to be in compliance. However, the recent assessment by the Quality Assurance Group states that only 84 percent of projects involving the Bank’s safeguard policies have satisfactory supervision. In a more detailed analysis of 50 projects the study found that while 88 percent of all projects had satisfactory ratings with regard to the environment, only 78 percent of Category A projects and 55 percent of Category B projects were rated satisfactory. The review concluded that the highest degree of environmental supervision

compliance for A projects is related to clear Bank policies and, in contrast, the poorer compliance with B projects is a result of poorly defined Bank policies for such projects. None of these studies, however, is based on fieldwork. Serious issues remain relating to compliance, identification and scoping of impacts, analysis of alternatives, prediction and assessment of impacts, and public involvement and consultation especially at the supervision stage.

4.8 *Need to upstream environmental concerns and strengthen consideration of alternatives.* Although much emphasis was placed on developing regional and sectoral EAs in the second EA review, little progress has been made on that front. Insufficient resources have been allocated beyond the project level to engage governments, private companies, and the voluntary sector to characterize, research, and mitigate environmental issues at the early stages of project identification and preparation. Instead, resources continue to be drawn to downstream effects of individual operations—often too late for win-win solutions to be forged and with attendant increases in costs and risks of serious conflict. Many of the project EAs fail to give serious consideration to alternative designs and technologies. Those that did often explored weak, superficial, or easily dismissed options.

4.9 *The quality assurance framework may need strengthening.* Implementation of the EA safeguards policy within the Bank has been hampered by cumbersome and ineffective quality management, compliance, and accountability arrangements. Clear criteria for evaluating Bank success at achieving the objectives of safeguard policies are often lacking, and where they do exist they have proved difficult to implement due to lack of effective verification and mediation arrangements and to real or perceived conflicts between domestic legislation and Bank standards. The Bank safeguards organizational framework is weak in providing expert support and in facilitating agreement on second-best solutions among the parties. A Quality Assurance and Compliance Unit was established in 1999 to improve the record of compliance. However, the structure and role of ESSD/Regional quality assurance arrangements remains controversial in the face of conflicting pressures to comply with safeguards, to lend and to accommodate alternative client perspectives within tight budget and scheduling constraints. Questions linger about the lack of an independent ex-ante quality assurance role for the Network. An alternative model is in place at the IFC, where the Environment Division is responsible for the environmental and social review, clearance, and supervision of projects in a manner consistent with the requirements contained in “Procedure for Environmental and Social Review of Projects.” The Environment Division is part of the Technical and Environment Department, whose director reports directly to IFC’s executive vice-president. In addition, to achieve better integration of environmental and social considerations within IFC operations and to ensure high performance standards, an IFC vice-president has corporate oversight for environmental and social issues and disclosure matters (see Box 4.1 on environmental and social safeguards compliance at IFC). It should be noted, however, that IFC’s mandate is different from that of the Bank in that its focus is limited to mostly providing loan and equity financing for private investments in developing countries.

Box 4.1 Environmental and Social Safeguards Compliance at IFC

The IFC Operation Evaluation Group's (OEG) Annual Review (FY99) has summarized the validated findings on project environmental impacts from evaluation reports on 114 IFC projects that were approved in the CY91-93 period and evaluated during CY96-98. The projects were selected by OEG using a stratified random sample. The sample size was equivalent to 39 percent (40 percent by value) of the projects that had reached early operating maturity (at least 18 months of project commercial operations) in the selection year. For this sample, environmental impacts were rated as: excellent (21 percent), satisfactory (50 percent), partly unsatisfactory (26 percent), and unsatisfactory (4 percent).

Environmental impacts include the physical environment as well as social, cultural, health and safety, and resettlement issues. Each operation is evaluated on a "with- vs. without-project" basis relative to (1) IFC's environmental requirements, including World Bank guidelines and local standards at the time of approval; and (2) IFC's requirements at the time of the evaluation, generally 5-6 years later. In expansion projects, the evaluation considers the company's project and non-project operations. IFC's influence on environmental performance is considered separately in evaluating IFC's operational effectiveness. Environmental impact is also evaluated against differing standards as between financial markets and non-financial markets operations.

In general, the standard for a satisfactory rating is that the project meets requirements in IFC's environmental review procedures that were in force at approval and which reflect levels of impacts deemed acceptable. A non-financial markets project is excellent if it meets IFC's present requirements for comparable projects and if it has materially improved the environmental performance of the company or its industry. During 1996-98, 70 percent of non-financial markets projects were rated satisfactory or excellent, indicating general environmental compliance and acceptable impacts. Among the excellent non-financial markets projects:

- A project materially improved a cement producer's environmental performance, particularly air pollution where dust emissions have been reduced 98.5 percent and are below required levels.
- A steel mill meets at-approval requirements as well as current standards, and it has made additional investments in state-of-the-art environmental technology.

A project is rated less-than-satisfactory if it has not been in material compliance with IFC's at-approval requirements. For example:

- An agribusiness plant with limited environmental reporting was not until recently in material compliance with wastewater and boiler emissions requirements.

For financial markets projects, the evaluation considers (1) a financial intermediary's application and monitoring of environmental, safety, and health standards in its sub-projects, and (2) the sub-project portfolio's performance. A project is excellent if the intermediary requires its sub-projects (in addition to those financed with IFC funds) to meet IFC requirements, and actively monitors and enforces compliance. For a satisfactory rating, the intermediary must require the IFC-financed sub-projects to comply with IFC (at-approval) environmental requirements, and must actively monitor and enforce compliance if there are potential adverse impacts. Two thirds of the financial markets projects were satisfactory or excellent. Among the satisfactory projects in 1998:

- A credit line for medium- and long-term sub-loans conducted environmental and occupational health and safety reviews for all subprojects.
- An offshore venture fund focused on relatively high-tech investments with low environmental risks. It developed and implemented an environmental screening system based on IFC guidelines.

A partly unsatisfactory rating denotes less than satisfactory performance by the intermediary or sub-projects to some material extent; and an unsatisfactory rating signifies that the intermediary does not require its sub-projects to comply with IFC at-approval requirements, and improvement is in doubt. For example, an SME credit line did not require its companies' lessees to meet Bank Group guidelines.

Non-financial markets projects, even where IFC did not require regular reports, generally met Bank Group guidelines, and most companies met their reporting requirements. Financial markets projects did not perform as well. Most satisfactory financial markets projects were category C projects – those with no impact potential – which invest in listed securities and, as passive investors or service providers, exert little influence on the companies in which they invest.

4.10 ***Need to consider indirect impacts.*** Past Bank and OED reviews on environmental safeguards suggest that in implementing the EA policy, Bank staff often focus on short- and medium-term impacts of projects and thereby neglect long-term impacts including indirect impacts induced by the project.²² For example, assigning a project to Category B generally resulted in less attention being paid to environmental issues and induced environmental impacts. An OED desk review of 29 projects that aimed to construct or rehabilitate rural roads showed that indirect environmental impacts were generally ignored in the SARs and ICRs. They were probably expected to be minimal, and no provisions were made to monitor the validity of these expectations, despite the justification for the projects being based on an expected increase in the level of economic activity, with attendant consequences for the environment.

4.11 ***Need to strengthen borrower ownership and public consultation.*** While there has been improvement in borrower and Bank capacity in implementing EAs, not much has been achieved in terms of handover of ownership and local participation in the process.²³ The available evidence from stakeholder consultations indicate that the stakeholders from the public, private, and civil society still regard participation in EAs highly inadequate and too late in the process to address serious concerns about project impacts. Despite the substantial resources that were targeted at institution building, technical assistance, and EA training, many EAs are still being performed by consultants with little borrower involvement. NGOs and stakeholders often were not represented in the EA process and their viewpoints rarely came to the attention of panels that reviewed EAs. Overall, while the Bank's EA safeguards are followed, there are still many countries where the EA process has not been fully internalized and extended to all investments (public and private), creating problems and delays in project preparation, local consultations, and implementation.

How Effectively Has the Bank Mainstreamed Environment in its Country and Sector Policies?

4.12 The need to fully integrate environmental considerations into the Bank's economic thinking and lending activities was the main message of the 1992 World Development Report. Several years and hundreds of projects later, the Bank's approach is still characterized by some as "incremental improvements to business as usual," rather than a "sustainability approach."²⁴ While most of the CASs in recent years contain some description of the environmental challenges facing the country, the coverage is not systematic and varies widely across countries.²⁵ Current efforts at integrating environmental sustainability into the CAS remain largely at the stage of treating environment as a sector or through specific issues in other sectors—for example, waste water

22. OED (1996), "Effectiveness of Environmental Assessments and National Environmental Action Plans: A Process Study"; World Bank (1993). Annual Review of Environmental Assessment 1992. Environment Department; World Bank (1997). The Impact of Environmental Assessment— The World Bank Experience and Second Environmental Assessment Review of Projects Financed by the World Bank. World Bank Technical Paper 363, 1997.

23. World Bank (1997). The Impact of Environmental Assessment— The World Bank Experience and Second Environmental Assessment Review of Projects Financed by the World Bank. World Bank Technical Paper 363, 1997.

24. See, e.g., "The World Bank and Environmental Sustainability" by Frances Seymour in "Lending Credibility: New Mandates and Partnerships for the World Bank" by P. Bosshard, C. Heredia, D. Hunter, and F. Seymour, World Wildlife Fund, 1996.

25. Some recent CASs include estimates of the costs of environmental damage at the national level, as indicators of the loss of real output, or potential costs in the health sector for example. Good examples include the CASs for Vietnam (overall); Brazil (well structured and relatively comprehensive description of environmental problems, inclusion of specific actions); Pakistan (quantification and monetization of environmental problems); Burkina Faso and Madagascar (link between environment and poverty); Eritrea and Malawi (utilization of findings from NEAP); Indonesia (link between economic policies and the environment); and Ghana (discussion of Bank's environment portfolio). However, given that there is little monitoring and evaluation of the process, so far little measurable outcome has been shown to document real improvements in the environmental sustainability.

treatment in the water sector, or air pollution in the energy sector. Aside from references to specific projects, little effort has been made in CASs to integrate the existing body of environmental knowledge such as research, project and sector work, OED findings and documents such as NEAPs.

4.13 *Need to enhance mainstreaming of environmental issues in CAS.* Bank procedures do not provide clear guidance on how to integrate environmental issues and policies into the overall economic development strategy of the country. There is little information on the specific requirements on data, strategy, or policy. In a recent study, 37 CASs for FY99 were evaluated on the adequacy of treatment of environment along five dimensions: (i) were any environmental interventions suggested; (ii) were environmental issues mainstreamed into other sectors; (iii) were links to poverty identified; (iv) were there specific recommendations for policy; (v) and were incentive structures used to affect behavior towards the environment. The CASs were scored on these five broad themes on a 4-point scale. Given the overall score of 2.35, the study suggests that on average the CASs rate roughly between “marginally satisfactory” and “satisfactory.” While some progress has been made in addressing environment as a part of energy, rural, and urban sector strategies, little evidence is available on integration of environment in other sector policies and projects.²⁶

4.14 *CAS priorities often override environmental concerns.* Integrating environmental sustainability into the CAS has been an elusive goal given the relatively short time horizon of CASs and the priority given to other issues in the reform agenda: for example, reducing absolute poverty, stabilizing macro-conditions, and transition to market economies.²⁷ As a result, current efforts at integrating environmental sustainability into the CAS remain largely at the stage of treating environment as a sector focused on planning specific projects in the short term rather than addressing long-term sustainability issues. Further, the CASs in general are intended to capture the extent of the ongoing dialogue with governments, and to reflect the Bank’s intentions to respond to national development priorities. If there is no dialogue, or an issue is not a national development priority, then it will not be reflected in the CAS. The limited scope for a dialogue on environmental issues has meant that it is often difficult to ensure that environmental concerns are fully captured in the CAS process.

4.15 *SAL and SECAL coverage of environment is only modest.* The Bank’s adjustment operations, which focus on removing market, policy, and institutional failures, are not required to incorporate complementary policies to mitigate environmental impacts and have typically left these, if any, to be addressed through separate sectoral interventions. There is also very limited involvement of the environment staff in the adjustment programs. According to Warford et al. (1994),²⁸ in 1994 about 60 percent of the sampled countries had adjustment programs that included either environmental goals or loan conditionalities addressing environmental concerns. A more recent internal review (analyzing 54 projects) found that between 1998 and 1999 only 20

26. P. Shyamsundar and K. Hamilton (1999). An Environmental Review of 1999 Country Assistance Strategies—Best Practice And Lessons Learned (Draft).

27. A. Ekbom and J. Bojo (1997). Mainstreaming Environment in Country Assistance Strategies, Discussion Paper 1, Environment Group, Africa Region, World Bank.

28. J. Warford, A. Schwab, W. Cruz and S. Hansen (1994). The Evolution of Environmental Concerns in Adjustment Lending: A Review, Environment Working Paper No. 65, The World Bank.

percent of the projects mentioned potential environmental impacts.²⁹ This issue has been receiving a lot of attention from NGOs on the implementation and impact side.

What Were the Institutional Strengthening, Policy Reform and Project Impacts of Bank's Interventions?

4.16 The Bank's lending for projects continues to be the major focus of its environmental activities. A conceptual model of the Bank's intervention with its borrowers begins with an identification and prioritization of the issues, the definition of a strategy to address the issues, technical assistance to strengthen the policy and institutional framework for environmental management, followed by projects to reduce pollution and improve natural resource management.

4.17 *Need to extend institutional development beyond environmental agencies.* The impact of the Bank's capacity building programs has been limited, as much of the focus has been on environmental agencies, with little effort devoted to the mainstreaming environment in the overall policy framework of the countries. Also, a number of early environmental ID projects were especially ambitious with broad and comprehensive agendas that were implemented by young, inexperienced agencies typically untried, ill equipped for their responsibilities or mandate, and with little political support. While this may have been an appropriate first step, little progress has been made to go beyond these interventions to make environment a part of the macroeconomic policy agenda. The projects were themselves often designed to do too much too quickly and were not tailored to specific local needs and conditions. Projects often faced particularly complex challenges due to the cross-sectoral and cross-jurisdictional nature of many environmental problems. Of the 12 projects in the environment portfolio for which OED evaluations are available, only two had substantial ID impact. Out of the rest, nine had only a modest impact with one project having a negligible impact.

4.18 *Need to strengthen stakeholder involvement in NEAPs.* In promoting environmental stewardship, past Bank and OED reviews suggest that, because of the deadlines imposed by IDA9, most NEAPs were prepared in haste, with little participation of stakeholders. In most cases they were nothing more than one-off events leading to a document, and very little effort was made to implement their recommendations. The recommendations were also often not seen as a priority by borrowing countries and few institutions had the capacity to promote them. Largely as a result, "NEAPs were not internalized in the development strategies in most countries and the Bank tended to lose interest once its implications for the project pipeline were internalized."³⁰ Country Assistance Strategies and structural adjustment policy reforms often cut across recommended NEAP actions. Also, the NEAPs seldom identified and prioritized problems and very little effort was made to link causes to specific problems or to discuss the range of policies and instruments available to address a problem. The experience of the more recent and better designed NEAPs suggest that environmental strategies have a better chance of being successfully implemented when a range of stakeholders from the public and private sectors participate.

4.19 *Borrower commitment to environment is weak but improving.* The Bank's efforts to promote natural resources management and pollution control have been insufficient to nurture adequate borrower commitment to policy and institutional reform. Out of the total of 12 completed environment projects (seven pollution control and urban environmental management

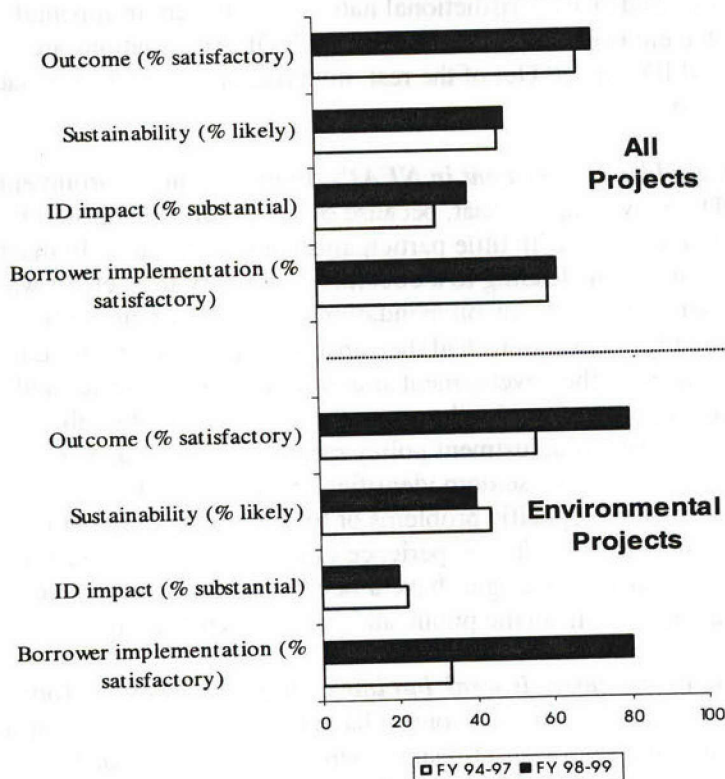
29. The authors argue that the big discrepancy in findings of the two studies could be due to the fact that Warford et al. explicitly excluded "finance and banking" projects from their purview. Over the years, however, environmental impacts of finance and banking projects have come under scrutiny.

30. OED (1996), "Effectiveness of Environmental Assessments and National Environmental Action Plans: A Process Study."

and five natural resource management projects) for which OED evaluations are available, seven were classified as “satisfactory” in terms of the outcome ratings and five as “unsatisfactory.” Out of the seven projects with “satisfactory” outcomes, five were pollution control and urban environmental management projects and two were natural resource management projects. The implementation challenges for environmental projects usually come from the multisectoral nature of the problems. In many cases insufficient political support contributed to less-than-satisfactory performance. According to OED’s 1999 Annual Report on Development Effectiveness, while the “outcome” of the environment portfolio shows considerable improvement from FY94–97 to FY 98–99 with increased borrower implementation, “sustainability” and “institutional development impact” lag considerably behind Bank averages (see Figure 4.1).³¹

4.20 Need to document impacts with adequate monitoring and indicators. The identification, design and implementation of key indicators of environmental conditions and results, and provisions made for their institutional support, have been inadequate for most projects. The performance indicators that existed focused on project implementation issues and outputs, rather than on the extent to which the project had achieved desired outcomes and impacts. Without good indicators, it is not possible to determine the impact of the Bank on environmental sustainability and its learning and improvement processes cannot work effectively. This is especially important as the Bank’s stakeholders move from a world of inputs and processes to one of impacts and outcomes.

Figure 4.1 Trends in Environmental Portfolio Compared with Bank Average
(by Exit Fiscal Year)



31. OED (1999). *1999 Annual Review of Development Effectiveness*. Washington D.C.: World Bank.

How Effective has the Bank been in Addressing Global Concerns?

4.21 Current development trends are not sustainable for the long term mainly because they are associated with global environmental threats such as climate change, biodiversity loss, and natural resource degradation and depletion. The Bank does not have a development strategy that integrates the objective of long-term sustainability. While this represents a major challenge, from the conceptual and the implementation perspective, the Bank is in a good position to meet it, drawing from its extensive experience with projects and policy design.

4.22 *The Bank and GEF establish new mechanisms to address global environmental problems.* The World Bank's financial commitments to the global environment, while small compared to the immensity of the problems, have been critical to mobilizing funds, promoting technology transfer, catalyzing private sector resources, and strengthening partnerships. Of 16 completed Bank-GEF projects that have been evaluated, the outcomes of two projects were rated as "highly satisfactory," and nine as "satisfactory." Five out of the 16 projects were rated "uncertain" on project sustainability, half were rated "substantial" on institutional development impact. These ratings are comparable to those of the Bank's portfolio as a whole, a remarkable achievement considering the pilot nature of most of the projects. The Bank and GEF projects have established new mechanisms for intra-government coordination and regional or subregional collaboration on issues of global environmental importance, increased investment in new technologies for addressing global environmental problems, and persuaded governments to accept a greater degree of stakeholder involvement in projects for the global environment.

4.23 *Country instruments are infrequently used for global objectives.* Although the Bank has addressed global environmental issue through execution and cofinancing of GEF projects, the Bank has not done as much in its regular portfolio of projects in the biodiversity and climate change areas to put global environmental concerns on a par with traditional Bank business. This is also to some extent due to the fact that the Bank's policy dialogue on economic instruments continues to be driven by traditional issues such as resource mobilization and market liberalization, with rarely any attention to the pricing/taxing of global and local environmental externalities. However, it is important to recognize that the Bank's promotion of global objectives is constrained by the commitment and willingness of its client countries to accept these objectives. A much more explicit understanding and recognition by the Bank of the tensions between national interests and addressing some global issues (e.g., climate change) would be useful.

How Do Stakeholders View the Bank Performance?

4.24 *Management of environmental impacts is "average."* According to the Bank's 1999 Client Survey, the Bank's overall contribution to helping countries to safeguard their environment was "fairly effective." However, in terms of managing negative consequences of its projects, the Bank performance was ranked only as "average." These findings were also echoed in the 1997-98 Africa Region Client Feedback Survey, which identified the impact of Bank lending on safeguarding the environment as one of the areas of lowest satisfaction. Further, environmental concerns continue to be at the forefront of public discussion of the Bank's performance.

4.25 *Support for environment not on par with other issues.* In response to growing public pressure for more accountability, especially after the problems arising from the Narmada project in India, the World Bank Inspection Panel was created in September 1993 to strengthen accountability for safeguard policy implementation in Bank operations. The main objective of the

Panel was to address negative impacts at the grassroots level and serve as an instrument of last resort for local people who feel that they have been or potentially could be harmed by Bank-financed projects. Since Panel operations began in 1994, the Panel has registered 14 complaints and issued 12 reports, to which the Bank has responded in most cases with remedial “action plans” without, however, addressing the underlying systemic issues. Based on its experience so far, the Panel concludes that there is an inherent inconsistency between the Bank’s support of environmental sustainability, and its role in supporting the governments’ development priorities—roads, dams, etc.—that may not include the environment at the same level.³²

4.26 *More stakeholder involvement needed.* OED organized an electronic discussion in the Bank’s Development Forum (an online discussion forum in the Bank’s external web) to discuss the approach paper for this evaluation. The discussions began in July 1999 and lasted for six weeks. Invitations were sent to more than 1,000 NGOs registered with the Bank’s NGO unit. The discussion participants numbered more than 500, mainly from NGOs but also from academia, international development organizations, and others concerned with environmental sustainability and development issues throughout the globe and with diversity of views. First-hand accounts of the results of the Bank’s work and impressions and ideas regarding the environmental impact of specific Bank projects and programs were also presented. The views presented in the Development Forum discussion thus mainly represent issues and concerns raised by stakeholders and do not reflect the views of either OED or the Bank Group. While these client-responses provide useful inputs to the evaluation process, OED is checking and validating some of these findings through regional consultative workshops, whose proceedings are currently under preparation.

4.27 On the issue of environmental safeguards, some Forum participants argued that the Bank often attributes responsibility for project disasters to consultants, implementing agencies and governments, and withdraws from projects, making it difficult to invoke the Bank’s Inspection Panel process to review policy compliance failures. According to Forum participants, more money for monitoring and evaluation will not necessarily guarantee that safeguards will be taken care of, and community participation could serve as an ingredient of effective monitoring and evaluation of projects in real time. Many of the Bank’s problems, participants argued, have arisen because of the failure to involve all stakeholders in discussing the objectives, management, and benefit sharing arrangements of projects and policies. Also, according to the some participants, although the concept of “Mainstreaming the Environment” (in country and sectoral economic policies and products) has been promoted in the Bank, the fact remains that its country policy recommendations, CASs, and other strategic documents focus primarily on macroeconomic issues and give little or no attention to integrating the environment and, when they do, they generally only do so in extremely general and non-binding terms. Similarly, they argue that SALs have led to extensive environmental degradation, although no evidence was provided. There is thus a need, according to participants, to promote better understanding of environmental issues at the interface where Bank staff meet and work with recipient governments and intended beneficiaries.

5. The Evaluation Framework

5.1 The objective of this evaluation is to help the Bank build upon its existing policies, strategies, and practices to reshape its strategy in light of the new challenges and to refocus its country-specific assistance programs, policy assistance, knowledge management, and support for

32. Alvaro Umana (1998). *The World Bank Inspection Panel: The First Four Years (1994-1998)*. Washington DC: The World Bank.

environmental best practices on the areas of highest priority. The evaluation is based on selectivity, participation, and triangulation. It includes a synthesis of available evaluative materials, portfolio reviews, assessments of the Bank's performance through country case studies, and selective reviews of such topics as safeguards, adjustment, poverty, biodiversity, and desertification, along with expert and stakeholder workshops.

Country Case Studies

5.2 As understanding of the effectiveness of development assistance improves, it is becoming increasingly clear that lending itself does not yield desirable outcomes unless a serious effort is made to closely link projects, non-lending services, and sector work to these outcomes and to ensure expected results and performance during implementation. Especially given the multisectoral and inter-jurisdictional nature of environmental impacts, it is important to know how relevant Bank policies and procedures are to safeguarding the environment and to what extent Bank interventions have affected policy reform and environmental management initiatives in the country. It is therefore important to evaluate a broad spectrum of Bank interventions, both activities that are primarily environmental and those that could have significant environmental implications as well as environmental sector reports. The objective of the country case studies is to evaluate the Bank's performance in promoting environmental sustainability at greater depth for a small sample of countries. The countries have been carefully selected on the basis of the diversity and duration of the Bank's involvement. The countries for which case studies were conducted are India, Madagascar, Mexico, Morocco, Nigeria, and Poland.

Evaluations in Selected Thematic Areas

5.3 Based on some of the performance, policy, and strategy gaps identified in the interim report and the country case studies, the thematic review will focus on a few key areas with greatest potential implication for future Bank strategy and policies. For each of the thematic areas, the proposed methodology is as follows:

- ***Thematic Evaluation Criteria:*** A selected sample of relevant projects will be evaluated against the relevant policy benchmark or, where a policy benchmark does not exist, a statement of the desired outcomes and impacts.
- ***Sample Selection and Evaluation:*** Each study will evaluate a portfolio consisting of the most recent completed and evaluated projects in the selected areas, as well as some projects under implementation. For each area, the sample portfolio will be evaluated against the relevant benchmark and criteria, based on information available in completion reports, audit reports, and structured interviews with the project team.
- ***Identification of Critical Factors:*** The sample evaluations are expected to lead to an assessment of project conditions and features broadly associated with project success or failure. A further analysis of the factors within the Bank's control should lead to the identification of critical factors that are associated with the incorporation of features/conditions for project success.
- ***Evaluation of the Bank's Performance:*** Given the appropriate benchmark, each study will identify "good practice" criteria consistent with OED's evaluation ratings (relevance, efficacy, efficiency, institutional development impact, and sustainability). The assessment of the extent to which critical factors for project success were incorporated or taken into account in each of the sample portfolios will provide a solid basis for the evaluation of the quality of

service provided by the Bank in areas for which it has primary responsibility (appraisal, supervision, and policy advice).

- ***Lessons and Recommendations:*** The above evaluation process should yield useful lessons and implications for the Bank's strategies, policies, procedures, organization, skill mix, training, and especially for the forthcoming Bank strategy for the environment.

5.4 Considering the issues emerging from the synthesis of the evaluative reviews, the country case studies, and the consultations undertaken so far, a few thematic areas have been selected for a more in-depth evaluation on the basis of their potential usefulness to the formulation of the Bank's environmental strategy and the design of future environmental interventions. In evaluating these thematic areas, particular attention is being paid to the issue of *mainstreaming environment* and the Bank's *internal incentive framework* to address environmental issues. The underlying question will be: Why can't the Bank produce more "good practice" projects and other activities? The proposed hypothesis is that given available capacity (and resources), the Bank's incentive environment is out of alignment with its objectives. An assessment of the factors contributing to this misalignment should yield useful insights on how to streamline the Bank's internal machinery to improve the design and results of its environmental operations.

5.5 *Focus on compliance, ownership and sustainability of environmental safeguards.* The synthesis of evaluative information points to important concerns associated with the Bank's compliance with its environmental safeguards that deserve to be evaluated. Key issues include the balance between making sure that projects are environmentally sound (i.e., in compliance with safeguards), versus their long-term environmental sustainability (including induced effects, which tend to be neglected), and the extent to which the environmental safeguards have been adopted and extended to all of a client's investments, rather than limited to Bank-supported projects. Above all, it is important to know how well the Bank has implemented its policies and processes. A detailed evaluation of factors that led to the design of a few good practice examples should yield useful lessons for moving the Bank beyond an emphasis on project-level compliance, towards taking advantage of every opportunity to fight poverty, promote environmental sustainability, and promote policy reform and environmental governance improvements in developing countries while enhancing the rigor of safeguard policy implementation.

5.6 *Focus on the poverty-environment nexus.* How effectively has the Bank taken advantage of synergies between poverty reduction and environmental protection? Given that fighting poverty is the Bank's overarching objective and promoting environmental sustainability one of its major goals, the small number of projects that build on the synergy between both areas comes as a surprise. It should therefore be of particular interest to identify and evaluate the factors associated with success in this highly desirable category of projects, and to assess the potential for motivating more of them.

5.7 *Focus on the environmental impact of SALs and SECALs.* The understanding of the environmental impacts of adjustment programs has improved considerably over the years through various Bank studies, yet there is still considerable variation across countries in the implementation of these programs. It would be useful and important to understand how the Bank has implemented its adjustment policies to account for actual and perceived environmental risks. Since Bank lending for adjustment programs has greatly increased in response to recent financial crises, the Bank is obliged to ensure that environmental sustainability objectives are not left behind in order to achieve economic stability.

5.8 *Focus on global issues.* It is important to know how effective the Bank has been over the past decade in addressing such global environmental issues as climate change, biodiversity, ozone

depletion, and pollution of international waters. This review will focus on two issues that will be of critical importance during the next decade: desertification and biodiversity.

- *Focus on combating the advance of desertification.* Given that drylands cover about 40 percent of the earth's land surface, encompassing many least-developed countries, widespread international concern has arisen about the need to manage drylands so that inhabitants can enhance their livelihoods without causing land degradation, particularly desertification. However, designing effective interventions remains hampered by the inadequate understanding of the true costs of what is perceived to be degradation. The Bank has responded with an extensive and diverse program of drylands management operations that has not yet been evaluated. Since this portfolio presents a highly relevant subset of the Bank's activities in the poverty-environment nexus, OED is including an evaluation of the Bank's performance with this portfolio.
- *Focus on biodiversity.* While Bank lending for natural habitat conservation (e.g., establishing protected areas) has increased over the years, the provisions for monitoring of measurable indicators of impact have been inadequate for most projects. It is thus not clear yet how effective the Bank has been in the conservation of biodiversity and protection of species. There is also an issue with the sustainability of the Bank's interventions, aggravated by the lack of a common understanding on how to monitor the condition of biodiversity and biodiversity threats. Here again, evaluation focused on the identification of good practice features, and factors conducive to their implementation, should yield useful lessons.

Stakeholder and Expert Consultations

5.9 The extensive stakeholder interest in the Bank's role and performance in the environment points to the need for OED's environmental evaluation to be subject to a transparent and accountable review process. It is important to know, to learn from, and to understand how clients view the Bank's performance in environment. A basic premise is that Bank and country client staff and other stakeholders involved in and affected by the Bank's environmental interventions are the main repositories of the information and judgments needed for this evaluation. As they are also the main clients for the evaluation, it is essential that they understand and take ownership of the findings. Thus, the study has been designed as a collaborative learning exercise with participation of stakeholders inside and outside the Bank at various stages.

5.10 *Stakeholder workshops.* To obtain useful knowledge and views on the impact and effectiveness of the Bank's environmental interventions, four regional consultative workshops were conducted in New Delhi, Abuja, Mexico City, and Rabat to bring together client and other stakeholder perspectives and experiences with the Bank's activities. The objectives of the workshops were to:

- Bring together representatives from Bank borrowers, NGOs, private sector, donor institutions, and other stakeholders to discuss their views on the Bank's performance in promoting environmental sustainability in development
- Help the Bank and the stakeholders obtain useful knowledge (relevant information and evidence) for this evaluation
- Prepare the ground for the dissemination and assimilation of the evaluation's findings by the Bank and other stakeholders.

OED will also participate in stakeholder consultations being organized by ESSD for the environment strategy.

5.11 *Development Forum.* The workshops were supplemented by a global online discussion in the Bank's Development Forum. The participants included a wide range of stakeholders concerned with environmental sustainability and development issues throughout the globe and with a diversity of views. Forum discussions are also planned for the Phase I Interim Report and the Main Report.

5.12 *Advisory panel.* The evaluation will also benefit from the review and guidance of an advisory panel that will contribute diverse perspectives from the global community that has a stake in the environment and the role of the World Bank. The advisory panel will play a key role in the review process and assist OED in enhancing the credibility and assimilation of the findings. The objectives of the advisory panel are to:

- Bring to bear diverse perspectives in the conduct of OED's evaluation
- Serve as a sounding board for the findings of the evaluation as they emerge
- Add authority and credibility to the findings.

5.13 The advisory panel will be involved in the evaluation process through periodic consultations and the review of draft reports. The first workshop with the selected panel of experts took place at the end of Phase I to review the Phase I Interim Report and make recommendations on the course of the evaluation. Preliminary drafts of the thematic reviews and the final report will be sent to panel members for comments and recommended revisions before broader distribution. Periodic workshops will then be organized to enable the panel to discuss their comments and guidance with OED management, the evaluation team, and others as appropriate at each stage of the evaluation. Revisions resulting from panel comments and workshop discussions will be incorporated into the final reports.

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Annex 1. Alternative Views on Addressing Global Environmental Challenge

Economic activities have increasingly generated pollution, toxic wastes, deforestation, desertification, and depletion of earth's soil, coastal, and marine resources. These trends have rapidly accentuated over the last century. The environmental impacts of human activity are no longer restricted to national borders. While poverty creates certain kinds of environmental stress, the major—and most difficult to reverse—cause of global environmental deterioration is an unsustainable pattern of consumption and production.

The Scarcity Predictions

The debate that the world is running out of resources dates back to almost two centuries. The father of this debate, Robert Malthus, argued in his 1798 treatise that since population tends to increase geometrically and food supply arithmetically, starvation as a result of scarcity was inevitable and imminent. The scarcity hypothesis was revived and expanded by the Club of Rome in 1972 in an influential report called "Limits to Growth." For natural resources that are nonrenewable, "Limits to Growth" argued that increases in consumption necessarily imply a reduction in the available stock. It predicted that global oil reserves would run out by the late 1980s and so would the finite reserves of minerals such as natural gas, silver, tin, uranium, aluminum, copper, lead and zinc. The evidence gathered so far, however, gives no support to the hypothesis that marketed natural resources such as metals, minerals, and energy are becoming scarcer in an economic sense. This is because potential or actual shortages are reflected in rising market prices, which in turn have induced new discoveries, improvements in efficiency, possibilities for substitution, and technological innovations. The argument is that the rise in prices of energy and metals in the 1970s encouraged efficiency gains and substitutions that ultimately reduced the growth of demand and so far the world food price index has fallen by 50 percent. However, some analysts have refined the scarcity argument, predicting that natural resources that are poorly integrated into existing markets, such as water, land, and forests are precisely the ones that are prone to degradation. Also, it is being suggested that carrying capacity of the air is being rapidly reduced due to increasing presence of pollutants in the atmosphere.

The New Environmentalism

The "new environmentalism" which fueled the environmental movement of 1970s and 1980s centered on the argument that greater economic activity or economic growth inevitably hurts the environment. It is based on static assumptions about technology, tastes, and environmental investments. According to this view, as population and incomes rise, a growing economy will require more inputs (thus depleting the earth's 'sources') and will produce more emissions and wastes (overburdening the earth's sinks). These pressures could, over the next few decades, disastrously alter the global environment causing climate change, water scarcity, and destruction of a number of plant and animal species. This argument, the opponents contend, ignores factors that might compensate for any negative consequences of the overall growth in scale. Growth, it is argued, creates conditions for environmental improvement by creating a demand for better quality and by making resources available for supplying it. For example, factors such as the structure of the economy (the goods and services produced), efficiency (inputs used per unit of output), substitution (the ability to substitute away from resources that are becoming scarce), and clean technology and management practices.

Grow Now, Clean Up Later

The “grow-now-clean-up-later” argument takes the other extreme and argues that environmental degradation is a “growing-up” problem that will go away as income rises. This view is based on the assumption that environment is a luxury good that will be demanded (and affordable) as incomes rise with economic growth. It suggests that developing countries that focus on accelerating economic growth fix up the environment over the longer term. The proponents of this doctrine extrapolate from experiences of several developed countries which paid scant attention to the environmental degradation in the early phases of growth and which managed to arrest degradation and reverse it when resources were available to invest in technology and environmental management. Recent studies of the relationship between environmental quality and development have shown, however, that those who see economic growth as a way out of environmental problems are only partially right, as they focus only on abatement (regulatory) effects of higher incomes ignoring the corresponding scale and industrialization effects, let alone irreversible biodiversity losses.³³ A significant finding that emerges from this literature is that the quality of policies and institutions can significantly reduce environmental degradation at low income levels and speed up improvements at high income levels. In other words, better policies, such as more secure property rights and better enforcement of contracts and effective environmental regulations can help reduce the environmental price of economic growth (Panayotou 1997).³⁴

33. In a recent study, Hettige et al. (Hettige, Mani, and Wheeler 2000) use international data to measure the relationship between water pollution due to industrial discharges and per capita income. They find that pollution initially increases with development, peaking at an income of about US\$12,000, but then levels off for all observable values. The authors conclude that, “economic development remains far short of a Kuznets-style happy ending in the water sector” and recommend that total emissions will remain constant (with income growth) unless other factors intervene.

34. T. Panayotou (1997). Demystifying the environmental Kuznets curve: turning a black box into a policy tool. *Environment and Development Economics* 2, 465-484.