



Evaluative Directions for the World Bank Group's Safeguards and Sustainability Policies

EVALUATION BRIEF

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Evaluative Directions for the World Bank Group's Safeguards and Sustainability Policies

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Abbreviations

CESI	Environment and Social Department Investment Support Group (IFC)
DPL	Development policy lending
ESSD	Environmentally and Socially Sustainable Development
IEG	Independent Evaluation Group
IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency
M&E	Monitoring and Evaluation
P4R	Program for Results
QACU	Quality Assurance and Compliance Unit
SDN	Sustainable Development Network
UCS	Use of country systems
XPSR	Expanded Project Supervision Report

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Introduction

The financial and food crises are reminders of the growing challenges countries face in sustaining economic growth and lifting the living standards of the poor. Equally, the emerging impacts of global warming on natural disasters and on agriculture are warning signs of the urgency to care for the environment and society. Recent global experience in the financial and environmental arenas demonstrates clearly the need to put in place and enforce regulatory frameworks that balance costs and benefits, both private and social.

In this context, the crucial questions in the recent evaluation by the Independent Evaluation Group (IEG) of the World Bank Group's safeguards and sustainability policy framework (IEG 2010b) concern the effectiveness of the instrument in mitigating adverse environmental and social impacts of development programs, and suggesting ways to improve the results. IEG's evaluation covered projects approved from FY1999 to FY2008. During this period, social and environmental effects were significant in half of World Bank projects—1,402 with commitments of \$109 billion; 88 percent of projects financed by the International Finance Corporation (IFC)—1,662 with commitments of \$35 billion; and 217 guarantees by the Multilateral Investment Guarantee Agency (MIGA).

The main thrust of the evaluation findings is that the World Bank Group's safeguards and sustainability policies have helped avoid or mitigate large-scale social and environmental risks in the projects it financed, but many projects with substantial environmental and social impacts remain of concern primarily because of inadequate supervision and follow-up. Policy implementation must be improved to get better results going forward.

Lessons from the Public and Private Sectors

The World Bank Group is using two policy frameworks: the safeguards framework of the World Bank, largely for the public sector, and the performance standards framework of IFC and MIGA for the private sector. The two share similar objectives: the Bank seeks “to avoid, mitigate, or minimize adverse environmental and social impacts of projects...” and ensure that they are “environmentally sound and sustainable.” IFC seeks “to manage social and environmental risks and impacts and to enhance development opportunities in its private sector financing” (IEG 2008).

The two policy frameworks have different strengths and weaknesses. The evaluation does not call for a wholesale shift from the World Bank's safeguards framework to IFC/MIGA performance standards or from the latter to the former. But it recommends that the Bank Group adopt strong features from each approach to improve implementation, results, and benefits.

The Bank's safeguards contain mandatory requirements, with mitigation measures designed before project approval. Accordingly, attention to

safeguards and performance standards was reasonably good during the appraisal of projects. The weakness in practice has been the lack of adequate supervision and monitoring of outcomes, especially in the case of medium-risk projects. Institutional incentives and organizational constraints need to be addressed to ensure equal attention to project appraisal and supervision. In contrast, the crucial weakness for IFC is that the oversight remains with its private sector partners without third-party verification or adequate disclosure.

As the Bank has moved beyond traditional investment projects (which constitute less than half

of new lending across the World Bank Group), greater emphasis on developing client ownership and systems are needed. Among private sector partners, ownership has improved with the introduction of the IFC and MIGA's new performance standards approach. But these standards were introduced at IFC in 2006, and MIGA in 2007, and the impacts on social and environmental outcomes of IFC's and MIGA's new policies are not yet known. More vitally, in the absence of third-party monitoring to supplement the client partners reporting on the externalities for they are the source, these impacts will not be independently verifiable.

I. The Policy Framework

Thematic Coverage of the Policies

Both the private sector and the public sector under-invest, and sometimes heavily, in mitigating environmental and social side effects of their actions. Since 1989, when the World Bank introduced Operational Directives for environmental assessment of Bank-financed projects, the World Bank has developed nine additional policies to guide countries and staff on separate environmental and social effects. In 1997 the Bank identified these 10 policies as its suite of safeguard policies and labeled them “do no harm” policies. These current safeguard policies consist of six environmental, two social, and two legal policies.

When the safeguard policies were labeled “do no harm” policies, the Bank’s senior management made public commitments to enforce compliance with these mandatory requirements. This led to significant improvement in environmental and social performance compared with the 1990s. However, the Bank’s list of safeguard policies was restricted to existing policies designed to mitigate adverse environmental and social impacts, effectively freezing policy development. The procedure for policy revisions, even small ones, has proved to be so cumbersome and time consuming that there is great reluctance to revise and improve the policies even when the lessons of experience suggest that this would be beneficial. Many other multilateral development banks initially based their own safeguard policies for public sector lending on those of the World Bank, although some have since customized and expanded these policies.

The International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) also adopted these safeguard policies until 2006. IFC replaced the safeguards in 2006 with a single policy on social and environmental

sustainability and eight performance standards divided equally among social and environmental standards (see table 1). MIGA followed suit in 2007, but its experience is more limited than that of IFC. For that reason, this paper focuses primarily on the findings and lessons from the World Bank and IFC.

Implementation Procedures and Structures

The World Bank conducts a review of all investment loans to determine whether the project triggers safeguards policies and to define the scope of the Environmental Assessment or Social Assessment to be undertaken, if needed. The Bank classifies the proposed project into one of four categories (A, B, C, and FI), depending on its potential environmental impacts.

The government is responsible for the assessments required by the safeguard policies; the Bank is responsible for reviewing the assessments and consequent mitigation plans to ensure compliance with its operational policies. The Bank’s Legal Vice Presidency oversees the policies

addressing international waterways and disputed areas. The Sustainable Development Network Vice Presidency is responsible for oversight of all other safeguard policies and operational support to task teams. The Quality Assurance and Compliance Unit (QACU), housed within the Operations Policy and Country Services Vice Presidency, supports the networks and is responsible for clearances and compliance with all the safeguard policies.

For projects financed by IFC, during the appraisal process IFC identifies which performance standards are applicable to a project. During implementation, performance is monitored against those standards, as is compliance with applicable local, national, and international laws.¹

The World Bank's Executive Board of Directors established the Inspection Panel, a permanent body reporting to the Board of Directors, to ensure accountability of the World Bank and investigate complaints against violations of its policies (World Bank 2009a). For IFC and MIGA the Compliance Advisor and Ombudsman was created in 1998, reporting to the World Bank Group president as a mechanism for grievance redress; grievances that cannot be resolved by the Ombudsman are investigated further through a compliance audit to determine if corrective actions are needed to ensure compliance with its policies (World Bank 2009b).

Note

1. Retrieved on March 18, 2011 from <http://go.worldbank.org/QL7ZYN48M0>.

Table 1: Comparison of World Bank Group Safeguards and Performance Standards

World Bank Safeguard Operational Policies ^a		IFC/MIGA Policy and Performance Standards on Social and Environmental Sustainability (2006–07)
Environmental and Social		Performance Standard 1: Social and Environmental Assessment and Management System
Environmental	4.01 Environmental Assessment (1999) 4.04 Natural Habitats (2001) 4.36 Forests (2002) 4.09 Pest Management (1998) 4.11 Physical Cultural Resources (2006) 4.37 Safety of Dams (2001)	Performance Standard 6: Biodiversity Conservation and Sustainable Natural Resource Management Performance Standard 3: Pollution Prevention and Abatement Performance Standard 8: Cultural Heritage
Social	4.12 Involuntary Resettlement (2001) 4.10 Indigenous Peoples (2005)	Performance Standard 5: Land Acquisition and Involuntary Resettlement Performance Standard 7: Indigenous Peoples Performance Standard 2: Labor and Working Conditions Performance Standard 4: Community Health, Safety and Security
Legal	7.50 International Waterways (2001) 7.60 Disputed Areas (2001)	

Source: IEG.

Note: IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency.

a. Except for Pest Management, all World Bank Operational Policies have accompanying Bank Procedures. Consultation and disclosure processes are integral to the World Bank Group safeguard and sustainability policies.

II. Effectiveness of the Policy Framework

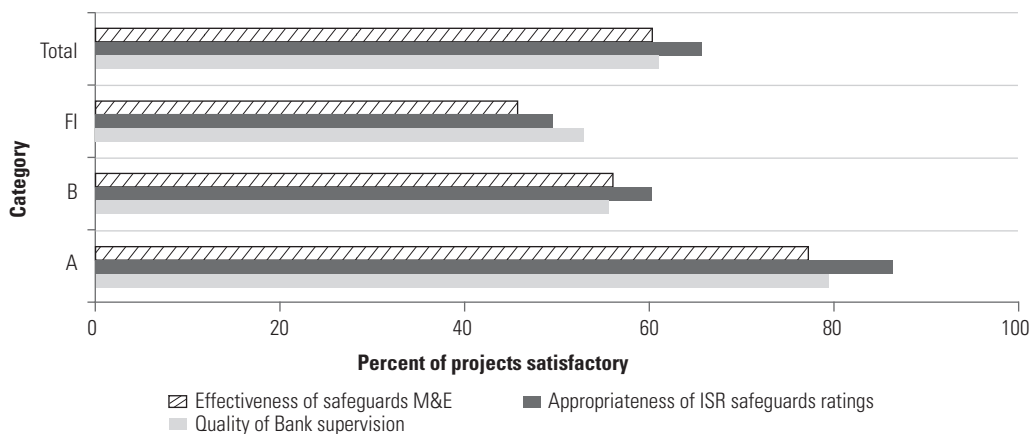
Supervision in the World Bank Portfolio

At the World Bank Group, the quality of preparation and attention to safeguards at appraisal was reasonably good—satisfactory for 85 percent of projects—despite some weaknesses and inconsistencies across the Bank Group in project categorization. Policies do emphasize up-front risk assessment; however, they lack adequate incentives and systems for supervision and monitoring and evaluation (M&E).

Quality of supervision was assessed in terms of the follow-up on the mitigation measures and action plans prepared to address the safeguard policies triggered by individual projects, the composition of the supervision team—especially with reference to the deployment of staff or consultants with relevant skills—and the appropriateness and supporting evidence for the safeguard ratings in the available Implementation Status and Results Reports and related aides memoirs. In the final instance, these results were compared with the quality of M&E of safeguards relevant to the project.

The Independent Evaluation Group (IEG) was able to confirm satisfactory supervision in only two-thirds of the Bank’s portfolio; one-third had unrealistic safeguards ratings and weak M&E. Implementation Completion Reports rarely provide information on environmental and social results. Supervision quality was better in category-A projects, four-fifths of which were well supervised, but performance was low in category-B projects and financial intermediary (category-FI) projects (figure 1). Although this reflects better attention to high-risk projects, it does not follow that all category-A projects have to follow the

Figure 1: Supervision of Safeguards in World Bank-Financed Projects by Safeguard Categories



Source: IEG portfolio review, FY99–08 approvals.

Box 1: Adaptive Management on Safeguards in Project Restructuring

A World Bank-financed power project in Asia initially adopted a sectorwide approach and triggered eight safeguard policies at appraisal. The project was restructured midway when it became apparent that the largest component— attracting private investments for subprojects in the sector— was no longer viable because of conflict in the country. Project resources that had been intended for that component were reallocated to the

remaining two components, which were working successfully. When the largest component was dropped, the World Bank and the client agreed that only three safeguard policies (environment, resettlement, and natural habitats) were applicable, effectively restructuring the safeguard design. This was a good example of adaptive management by Bank staff working with the client in a fluid political and security context.

Source: IEG 2010b.

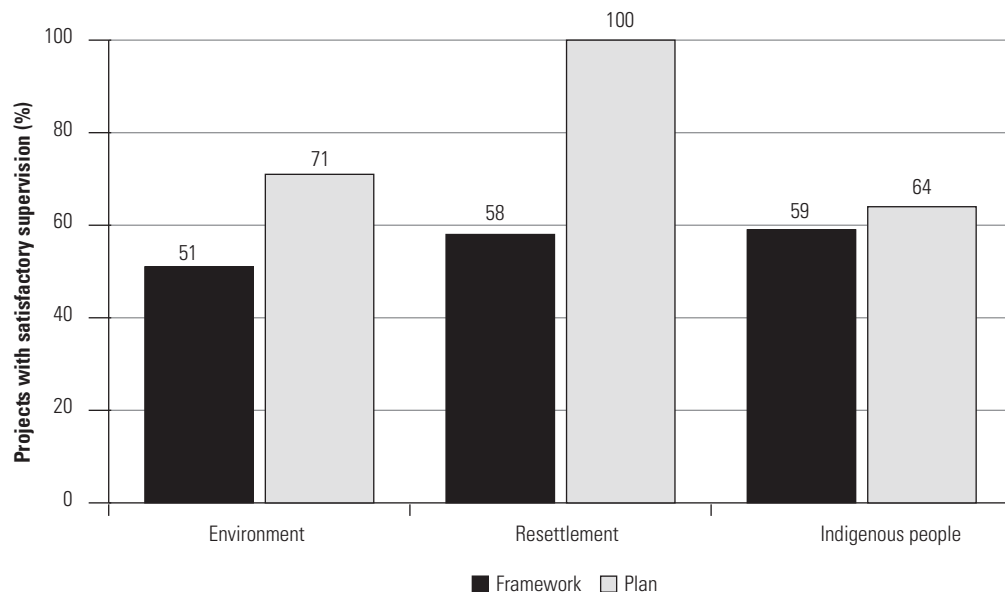
safeguards design approved at appraisal. Some projects have done an excellent job of adaptive learning to modify the safeguards design when the project context changed (box 1).

Three key concerns emerge from supervision deficiencies. First, projects with substantial impact (category-B) are not being adequately supervised and monitored. Most of these are delegated to respective sectors in the interest of increasing ownership and efficiency. This is having the perverse effect of leaving the effects of safeguards unsupervised in a large number of projects.

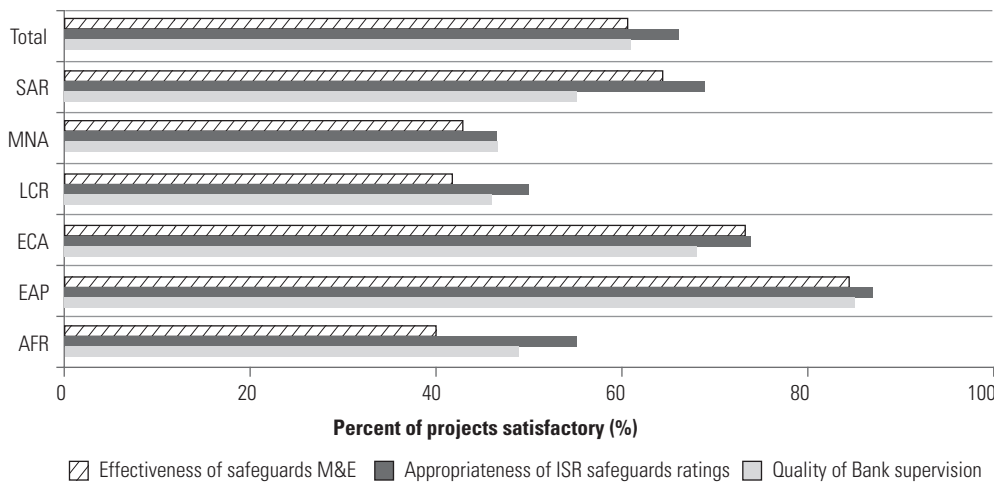
Second, Bank projects that rely on environmental and/or social policy frameworks during project appraisal are even less well supervised than projects that undertake an environmental or social assessment during appraisal (figure 2). Third, the quality of supervision of safeguards across Regions is very uneven.

Almost a third of World Bank projects now rely on policy frameworks for projects with multiple subprojects whose environmental and social impacts are not fully known or assessed at appraisal. These include the projects

Figure 2: Supervision Quality of Projects with Policy Frameworks versus Projects with Mitigation Plans



Source: IEG 2010.

Figure 3: Supervision of Safeguards in World Bank-Financed Projects

Source: IEG portfolio review, FY99–08 approvals.

Note: **Regions:** AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia. ISR = Implementation Status and Results Report; M&E = monitoring and evaluation.

implemented by financial intermediaries, many of which rely on an Environmental and Social Management Framework during appraisal on the assumption that the financial intermediaries will be undertaking or commissioning environmental and social assessments during implementation. IEG found projects with policy frameworks in the portfolio review to be less well supervised than those with full Environmental Assessments or Resettlement Action Plans. If the Bank relies on policy frameworks during preparation, it needs to invest proportionately greater resources in supervising these projects to help the client implement them well.

There are significant regional differences in safeguards performance (figure 3). East Asia and the Pacific, which is the best regional performer on preparation and appraisal, was also the best performer on supervision quality, with most other Regions lagging significantly behind. The Latin America and the Caribbean and the Middle East and North Africa Regions were found to have overly optimistic safeguard ratings from the evidence presented in the supervision documentation.

M&E was the weakest aspect of World Bank supervision. Except for resettlement monitoring, which was of high quality in the East Asia and Pacific and the South Asia Regions but weaker

in other Regions, more than one-third of the projects suffered from inadequate M&E. The weaknesses lie in lack of specificity of monitoring indicators, underinvestment in a client's monitoring capacity, and poor follow-up during supervision. Safeguard monitoring would be much more effective if safeguard indicators were integrated within the overall results framework of the project and if clients were to take the responsibility for systematically collecting relevant data to monitor safeguards indicators. This would require much greater investment in strengthening client institutions and systems for M&E than is currently the case. Environmental and social performance indicators ought to be integrated and results reported in completion reports.

Too often, safeguards activities are considered an add-on and left to environmental and social specialists who are under-resourced and not well integrated into supervision teams. This is not simply a resource constraint. Matching skills to demand will require management attention and up-front commitment of staff and resources for supervision and client capacity building as an integral part of work program planning, if this constraint is to be overcome.

The Bank needs to revise supervision arrangements, aligning incentives, responsibility, and

accountability to ensure adequate supervision and M&E. Staff incentives and predictability of resources for supervision need to be improved for greater effectiveness.

Supervision in the IFC Portfolio

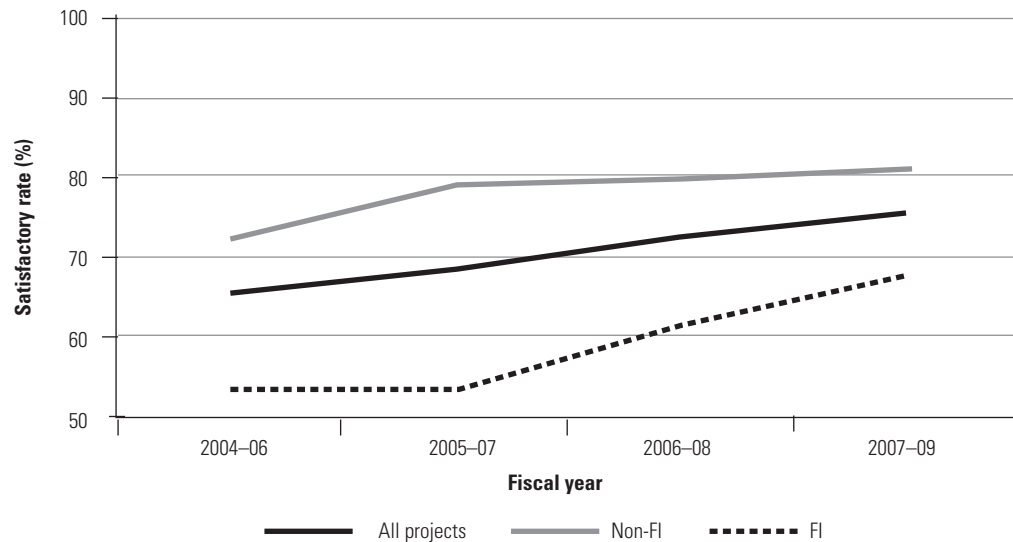
IFC focuses on the quality and capacity of their client’s Environmental and Social Management System and implementation of the Environmental and Social Action Plan that is disclosed and agreed with the client upon appraisal as the means to achieve performance standards. IFC is putting greater emphasis than in the past on supervision and monitoring; nonetheless, supervision quality has been lower than appraisal quality.

Based on IEG’s validation of IFC’s Extended Project Supervision Reports (XPSR), the quality of environmental and social supervision after FY07 for pre-performance standard projects has improved. IEG has evaluated IFC’s environmental and social quality since 2004 as a part of the XPSR validation program. IFC’s environmental and social supervision quality for pre-performance standard projects has improved since

2007, but environmental and social supervision quality is still below the real sector level (figure 4), because of fewer staff resources devoted to the financial intermediary sector.¹ However, IFC has strengthened rules for project supervision and site visit efforts, and its overall knowledge gap has decreased from 12.5 percent in FY08 to 5.8 percent in FY10.

IFC requires its clients to submit Annual Monitoring Reports, which need further strengthening, but clients’ annual reporting has been a challenge for IFC’s supervision. The staff survey reveals that about 30 percent of investment officers and environmental and social specialists felt the timeliness and quality of client monitoring was inadequate. Within IFC’s sustainability framework, the clients’ Annual Monitoring Reports and IFC site visits are the main instruments for monitoring projects’ performance. Because clients’ first Annual Monitoring Report is due six months after the first year of project approval, the post-performance standard portfolio review focused on projects that had been approved at least two years before. Of the 28 random sample projects, including all pre-performance standard and post-performance

Figure 4: IFC’s Environmental and Social Work Quality at Supervision for Pre-Performance Standard Projects



Sources: IEG’s Environmental and Social Reviews for FY04–09 XPSRs, 209 real sector (non-financial intermediary) and 139 financial intermediary projects. See IEG 2010b.

Note: FI = financial intermediary.

standard real sector projects older than two years, only 50 percent (14 of 28) provided IFC with satisfactory Annual Monitoring Reports. In most such cases, IFC identified the deficient information in the Annual Monitoring Report for correction in the following year, but in many cases the deficiencies continued despite corrective actions by IFC, reflecting insufficient communication and frequency of IFC feedback, as well as poor client intake of corrective requirements.

The portfolio review also found that IFC had not monitored the implementation of the Environmental and Social Action Plans in 21 percent of the projects older than two years. Because the plans are designed to remedy gaps in the client's social and environmental management system identified during appraisal, they represent a major part of the value IFC adds to the project. Without IFC monitoring of implementation, it cannot be assumed that this value was added.

IFC's supervision quality overall is showing signs of improvement. However, supervision of financial intermediary projects, IFC's listed equities and trade finance, and agrobusiness projects needs more attention. The weak link in the chain is the self-reporting of environmental and social outcomes by IFC's client partners, who themselves are the sources of the potential negative externalities. Therefore, they must be subjected to independent verification—especially for higher-risk projects—to ensure accountability. Furthermore, IFC must enhance disclosure as the Bank has done.

Gaps in Social Safeguards

The safeguards suite has functioned as a prescriptive framework for existing social policies and a restrictive framework excluding consideration of other social risks that are routinely assessed by other members of the World Bank Group. The existence of an umbrella policy for Environmental Assessment provided an open-ended mandate for engaging with borrowers and clients on the environmental agenda. By contrast, the restriction of social safeguards at the Bank to two policies focused attention on these two effects

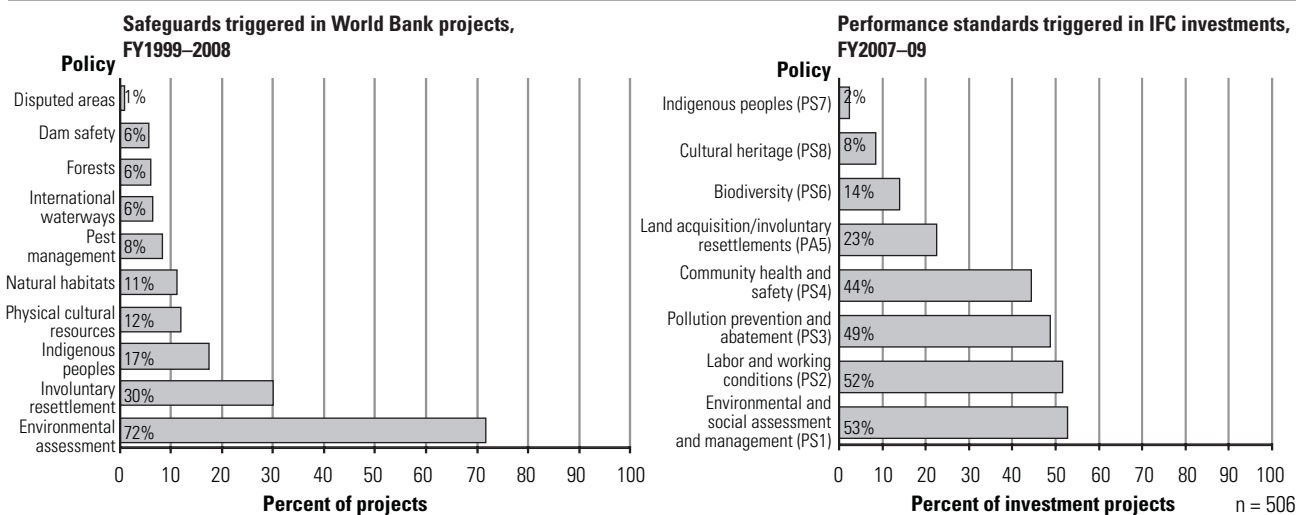
but narrowed the relevance of social safeguards to a much smaller segment of the portfolio.

Although the World Bank's social safeguards help mitigate unintended consequences of projects, their limited thematic coverage is problematic. Current Bank social safeguards do not provide adequate coverage of community impacts; labor and working conditions; and health, safety, and security issues at the project level, provisions that are integral to IFC and MIGA performance standards.

IFC's performance standards have better thematic coverage of social risks, including labor and community impacts, which are also relevant to the World Bank's project portfolio. Social risks subsequently addressed by IFC and MIGA—including the performance standards on Labor and Working Conditions, or the one on Community Health, Safety, and Security—have not been integrated into the Bank's safeguard policies. Nor do other social risks, such as impacts on gender or other vulnerable groups² or risks covered by the World Bank Group's Environmental Health and Safety Guidelines,³ receive adequate attention by safeguards practitioners even in projects where these risks are relevant since they are not defined as safeguard risks. The narrow coverage of social safeguards in Bank projects, compared to IFC and MIGA, leads to an underestimation of risks and, in some instances, to risk avoidance when the safeguards are perceived as not addressing the most relevant risks.

The frequency with which the safeguards and performance standards are triggered by the lending portfolio gives some indication of the relevance of these policies to the portfolio. Safeguards data from the 10-year portfolio for the Bank and 3 years since the introduction of performance standards at IFC are shown in the two charts in figure 5. The policies that are more frequently triggered at the World Bank and that are common to both the World Bank and IFC are triggered in roughly similar proportions.

Among IFC's performance standards, the one on the client's Social and Environmental Assess-

Figure 5: Safeguards and Performance Standards in the World Bank Group Portfolio

Sources: World Bank internal database.

Note: 1. World Bank data are based on results for all 2,056 investment projects in the portfolio approved in FY99–08. This excludes 439 Development Policy Loans and structural adjustment loans from the same portfolio; 6 percent of the structural adjustment loans approved prior to September 2004 triggered OP 4.01 (Environmental Assessment) and are reflected in this chart. Note 2. IFC figures are depicted as a proportion of the entire IFC portfolio, including FI and C category projects; however, the data are an underestimate, as they do not portray the performance standards triggered by financial intermediary subprojects during implementation.

ment and Management System affects more than half, whereas that on Involuntary Resettlement is triggered by 23 percent and Biodiversity by 14 percent of IFC's portfolio, which is similar to that in the World Bank's portfolio. But IFC's performance standards on Labor and Working Conditions, and Community Health, Safety, and Security apply to about twice as many projects, and to more than 90 percent of real sector projects. There are some differences between the priorities of public and private sector clients, but many investment projects in the World Bank resemble IFC's real sector projects. There is no obvious reason to presume that community and labor impacts are not relevant to the World Bank's portfolio.

The priority given to mitigation of existing safeguard policies effectively crowded out attention to other social impacts on local communities, including gender impacts in Bank-supported projects, as shown by a recent IEG evaluation of World Bank Group support for gender and development (2010a). The label safeguards has also created an artificial barrier precluding attention to emerging themes such as climate change and occupational health and safety under the safeguards framework.

Moreover, in some regions, the application of the Indigenous Peoples Policy has proved to be problematic and contentious. A policy on community impacts may be more acceptable as a means of addressing impacts on vulnerable communities, including impacts on indigenous peoples. The answer may not be an open-ended expansion of the scope of social safeguards, but the World Bank will need to consider the lessons from IFC and other multilateral organizations for determining the most relevant social safeguards for World Bank-financed projects and programs.

Overall, the current social safeguard policies appear to be more problematic than environmental policies because of the limited coverage of the social safeguards (Involuntary Resettlement Policy, Indigenous Peoples Policy). The World Bank would need to address the gaps in social safeguards, consolidating additional social themes under one umbrella for efficiency gains.

Divergence in Categorizing Risks across the World Bank Group

The evaluation estimates that World Bank Group projects generally lead to substantial environ-

mental and social benefits beyond their costs. But when risks are underestimated, or when communities are excluded from project benefits to avoid dealing with safeguard risks, environmental and social costs significantly outweigh the benefits. Project categorization affects the quality and quantity of environmental studies, public consultations, reporting, and frequency of supervision and signals the risks of irreversible and unprecedented impacts to the public.

World Bank Group projects categorized as having high environmental or social risk (category-A) are relatively better managed, but these projects are less than 10 percent of the portfolio. Financial intermediary projects across the Bank Group and Bank projects categorized as medium risk (category-B), which are more than 50 percent of the portfolio, are less well supervised.

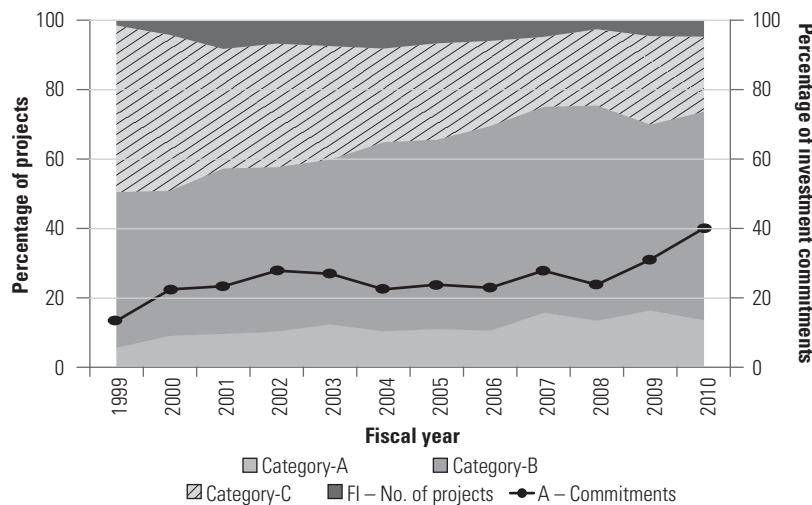
Over the 10-year period covered by IEG’s evaluation, an average of 9 percent of the World Bank’s project portfolio was classified as category-A (very high impact), 44 percent as category-B (substantial impact), 29 percent as category-C (low impact), and 4 percent as category-FI,⁴ but the distribution changed substantially over time (figure 6). During this period, the proportion of category-A projects increased from 5 to 11 percent, and category-B increased from 37 to 51 percent; in contrast,

category-C dropped from 40 to 18 percent. The safeguards profile varies across regions because of the divergent nature of client needs reflected in differences in the project portfolio. The East Asia and the Pacific Region had the highest proportion (23 percent) of category-A projects, driven by infrastructure projects, whereas Latin America and the Caribbean had the lowest (4 percent). The Europe and Central Asia Region had the highest proportion of category-FI projects (13 percent) and had relatively fewer category-A and -B projects.

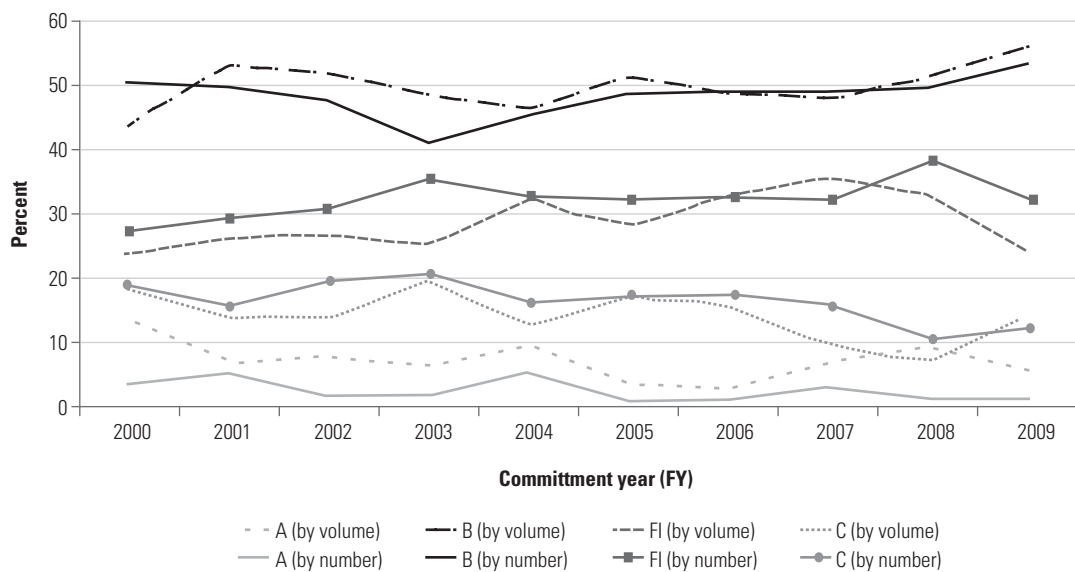
In IFC’s portfolio, the share of category-A projects declined since introduction of the performance standards, from 6 percent to about 3 percent of projects, but remained unchanged in commitment amount. Category-B projects accounted for 50 percent. The share of category-C declined from 20 percent to 12 percent, and that of category-FI projects increased from 27 to 35 percent as a result of the shift of IFC’s business away from project finance toward financial intermediary, corporate equity, and trade finance projects (figure 7). MIGA’s portfolio composition has also shifted over time, with a significant increase in the share of guarantees for financial sector projects during the past decade.

Categorization of projects based on environmental and social risks differs across the World

Figure 6: World Bank Investment Lending by Safeguard Category



Source: World Bank internal database, as of April 12, 2010.

Figure 7: Trends in IFC's Portfolio

Source: IFC's MIS database.

Bank Group and is not based on objective criteria to assess risks. Importantly, several high-risk category-B projects (substantial impact) financed by IFC would have likely been categorized as category-A (very high impact) projects using the Bank's screening system. In the evaluation's judgment, this difference affects 27 percent (10 of 37) of the category-B projects in the sample. In five cases that involved the construction of new infrastructure or greenfield facilities, the scale of the impacts would have led the World Bank to classify the projects as category-A. In six additional cases, the sensitive nature of the impacts, associated as they were with hazardous waste, indigenous peoples, natural habitats, or cultural resources, would have likely led the World Bank to classify them as category-A. Also, projects that IFC categorizes as C may have large environmental impacts, as illustrated by some IFC projects that are currently under Compliance Advisor and Ombudsman review. Some trade finance, agribusiness projects with supply chain risks and large power and industrial plant projects pose similar issues of miscategorization (IEG 2010b, pp. 22–23).

Categorization in principle would be a major determinant of the eventual environmental and

social outcomes. Although the categorization of these projects appears to have been in compliance with IFC's procedures, the World Bank would likely have classified them otherwise, pointing to a lack of consistency of safeguards implementation across the World Bank Group.

Objective Criteria for Consistency in Categorization

The lack of clear guidance and objective criteria to screen projects also affects the quality and consistency of categorization of World Bank projects. The portfolio review revealed inconsistencies in categorization, with a tendency toward risk avoidance by over-categorization when impacts were not known at appraisal (IEG 2010b, p. 19). To examine the rigor and consistency of the Bank's categorization system, IEG developed a risks and benefits model (box 2) to rate the environmental and social risks of each project on a four-point scale along four parameters—magnitude, intensity, duration, and sensitivity of expected impacts—using transparent criteria to assess each project (table 2). Data for estimating risks were obtained from IEG's review of appraisal and supervision documentation for all 102 completed Bank projects in the portfolio review.

Box 2: Risks and Benefits Model

IEG developed an analytical model to rank the environmental and social risks of each project along four parameters—magnitude, intensity, duration, and sensitivity—using transparent criteria to rank each project on the basis of data and documentation obtained for the portfolio review. The model postulates risks (R) to be a function of magnitude (M), intensity (I), duration (D), and sensitivity (S), with separate indicators for rating social risks (R_s) and environmental (R_e) risks along these four criteria. Data for estimating risks were obtained from IEG’s review of appraisal and supervision documentation. The aggregate risk (R) is the sum of R_s and R_e , where

$$R_s = \log(M_s + I_s + D_s + S_s) \text{ and } R_e = \log(M_e + I_e + D_e + S_e).$$

The risk model provides a modality to impute value to benefits by weighting the environmental and social outcomes of World Bank Group projects by the significance of environmental and social

risks. For this purpose we rely on the rating for mitigating negative impacts (MNI), the best documented performance indicator. This rating from the portfolio review reflects IEG’s assessment of the extent to which the risks identified at appraisal have been mitigated. Each project’s success in mitigating negative impacts was rated as excellent (E = 1.00), satisfactory (S = 0.75), partially unsatisfactory (PU = 0.5), or unsatisfactory (U = 0.25). On this basis, a measure of the actual benefit (B) from the implementation of the World Bank Group’s safeguards for a specific project is estimated as:

$$B = \text{MNI} (R_s + R_e).$$

Although B is only an ordinal indicator of the benefits of safeguards implementation, it can be appropriately used to compare benefits against costs to analyze allocative efficiency and cost effectiveness of World Bank Group and client resources expended on meeting safeguards and sustainability objectives.

Table 2: Indicators for Estimating Social and Environmental Risks

Risks	High	Substantial	Moderate	Low
SOCIAL				
Magnitude (No. of project-affected persons—displaced persons get 10 times the weight of other project-affected persons)	>10,000 project-affected persons or >1,000 displaced	1,001 ≤ 10,000 project-affected persons or up to 1,000 displaced	101 ≤ 1,000 project-affected persons or up to 100 displaced	≤ 100
Intensity	Physical displacement	Economic displacement	Workplace safety	Community impacts
Duration	Permanent (beyond the project’s closing date)	(Late project life) Midterm review—closing date	(Early project life) >1 year midterm review	< 1 year or by effectiveness
Sensitivity— Indigenous Peoples (IP)	Substantial risks to be mitigated as per IP Plan	Potential risks identified in IP Framework	Projects mainstreaming benefits to IP	Targeted IP projects
ENVIRONMENTAL				
Magnitude— area affected	Global, regional, or transnational	National or multi-provincial	State or provincial	Localized
Intensity	Irreversible	Severe	Moderate	Mild
Duration	>100 years	>10–100 years	>1–10 years	<1 year (seasonal or intermittent)
Sensitivity— Natural Habitats (NH)	Significant impact on critical NH	Significant degradation of NH	Degradation other NH, parks or reserves	Conservation and rehabilitation of NH

Source: IEG 2010b, p. 67.

The risk assessment provided IEG with the means to examine the consistency between objective environmental and social risk criteria and safeguard categorization in Bank projects. A probit regression was carried out on the completed projects in the Bank's portfolio review to test the effect of environmental and social risk ratings, regional effect, and network effect on project categorization. IEG findings from the risk analysis indicate that categorization is not always determined by the riskiness of a project; neither is it based on use of objective criteria to assess environmental and social risks. The application of transparent risk indicators to the subset of completed projects, whose adverse impacts were known, provided evidence of the weaknesses in the current practice. IEG found both errors of exclusion caused by underclassification of category-B projects that should have been category-A and errors of inclusion from over-classification of category-A projects that should have been category-B (IEG 2010b, pp. 68–70).

There is an urgent need to issue clearer guidance to promote the use of transparent criteria for categorization. There is an equally urgent need to ensure consistency in categorization across the World Bank Group.

Notes

1. Five environmental and social specialists have now been dedicated to financial intermediaries but this is less than 10 percent of the 57 dedicated to other sectors, although financial intermediaries are a third of the portfolio.
2. These social impacts are currently covered by the Bank's policy on Project Appraisal (OMS 2.20) and the policy on Gender and Development (OP 4.20), which were excluded from the suite of safeguard policies. See IEG 2010, pp. 8, 87–89.
3. The Environmental Health and Safety Guidelines have been prepared and issued by the World Bank Group.
4. The remaining 14 percent included lending operations for which safeguards were not considered relevant and were therefore unclassified.

III. Emerging Challenges

Strengthening Country Ownership

Safeguard policies were developed as “do no harm” instruments, with covenants used to enforce them. The perception created by enforcement of Bank policies, rather than development of and compliance with national legislation, often leads to lack of ownership for these measures at the country level. This situation then translates into weak compliance, weak supervision, and weak M&E.

In 2004, the Bank piloted the use of country systems (UCS) for safeguards. The rationale was to scale up development impact by encouraging the use of improved systems for government expenditures to increase country ownership, build institutional capacity, promote donor harmonization, and increase cost effectiveness for both the Bank and the borrower. Although these objectives are still relevant, IEG’s evaluation found that the country systems approach adopted for safeguard policies was too self-limiting and not sufficiently robust and flexible for scaling up, and had lost ownership among Bank staff and clients (IEG 2010b, pp. 85–87).

The UCS approach was piloted initially in individual sectors and projects in six countries. This was extended in a second phase to seven more countries, including three corporate systems (in Brazil, India, and South Africa) and the first two country-level pilots in Croatia and Mauritius. These pilots focused primarily on environmental safeguards. Because of more significant differences with Bank policies and procedures, the piloting of Involuntary Resettlement and Indigenous Peoples safeguard policies was avoided entirely in the first phase, either through project design or by simply applying normal Bank safeguards procedures. In the second phase, involuntary resettlement is being piloted in the parastatal corporations;

however, even in Brazil the Indigenous Peoples Policy has not been triggered.

Before agreeing to use country systems, the Bank assesses the strengths and weaknesses of borrower safeguards systems and identifies targeted—or gap-filling—measures to strengthen such systems. The Bank has developed a tool for this analysis: the Safeguards Diagnostic Review. This tool evaluates the equivalence of the borrower’s system (the extent to which it is designed to achieve the same objectives and adhere to the same principles as the Bank’s safeguard policies) and the acceptability of borrower implementation practices, track record, and capacity. Measures to achieve and sustain equivalence and acceptability are identified, included in the legal agreement for the project, and then actively supervised during implementation.

The primary weakness of the UCS has been the decision to adopt a piecemeal approach, with “country systems” being applied in practice to individual projects, rather than to a country’s, or at least a sector’s, environmental and social management system; and to individual Bank safeguard policies, rather than to the Bank’s safeguard policy suite as a whole.

Initial borrower ownership of the UCS pilot scheme was mostly positive, but the IEG evalua-

tion found interest had dissipated. Participating governments wanted to get away from the use of dual systems and hoped that the UCS approach could be extended to additional sectors and projects. But recent experience revealed that the anticipated time and cost savings in the processing of subsequent operations have not materialized, as new Safeguards Diagnostic Reviews have been required for subsequent projects in the same country. Client feedback regarding the UCS pilots indicates that there is an inconsistency between their expectations of the purpose of UCS and that presumed by the Bank. For example, client expectations that Bank safeguard responsibilities would be transferred to the borrower did not happen. Anticipation that UCSs could automatically be applied to subsequent Bank-financed projects has likewise been frustrated.

The benefits of the UCS pilots to clients thus remained unclear. Even China, which IEG's evaluation confirms as having one of the best records on safeguard policies, found the design too onerous and opted against participating in the UCS experiment.

Within the Bank, enthusiasm for the UCS pilot had also waned. Country directors and sector managers were concerned that UCSs increased the cost and time of project preparation and supervision, as well as increased reputational risk. Environmental and social practitioners too felt that the current costs of UCSs for safeguards outweighed the potential benefits, despite some positive aspects of the initial pilots.

Efforts need to continue to develop greater country ownership, responsibility, and capacity to follow up on safeguards without diluting the objectives of safeguard policies, but improving the results. There is a general consensus that the concepts underlying the use of country systems are sound, but the piecemeal application of the UCS approach to individual projects and safeguard policies appears unworkable and needs a major redesign to be successfully scaled up. National systems can and should be used, where possible. If they cannot be applied to all the safeguard policies, they should at least be applied to the

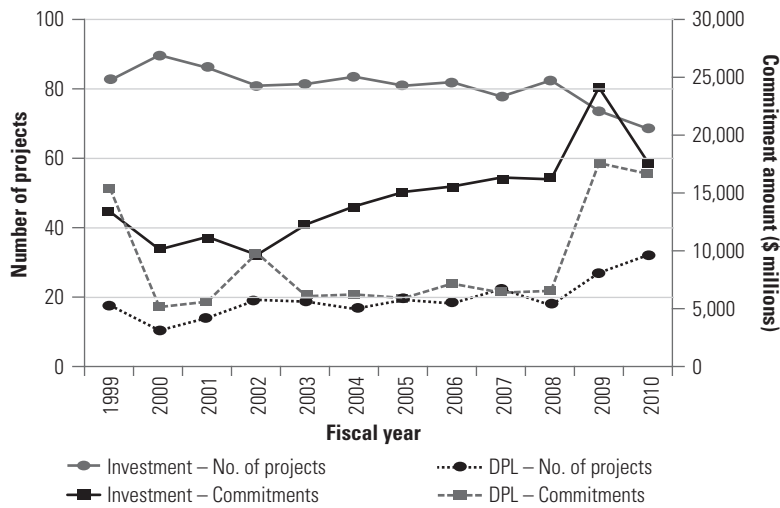
full range of environmental safeguards. However, such separation of environmental from social safeguards would throw into doubt the feasibility of combining all the safeguard policies under a single umbrella. Nonetheless, significant revisions need to be made to the policy framework and approach if the application of country systems to safeguard policies is to be scaled up.

Safeguards Coverage for Policy and Program Lending

The World Bank's portfolio has seen a rapid increase in types of lending to which safeguards and performance standards are not well suited. Development policy lending (DPL) for institutional and policy reforms, programmatic or sectorwide lending, and lending through financial intermediary projects now comprises more than half the portfolio. Figure 8 depicts the proportion of DPL lending in the Bank's portfolio during the review period. Even before the financial crisis led to a scaling up of DPL lending, it constituted 20 percent of the portfolio.

Financial intermediary lending constitutes another four percent of the portfolio (6 percent of investment lending). In addition, a significant proportion of projects (likely to be another 20–30 percent of the portfolio) supports the performance of a government program and institutions at country, sectorwide, or subnational levels. Recognizing the inability to apply either the DPL policy (OP 8.60) or the current Investment Lending Policies effectively to program lending, the Bank is developing a new Program-for-Results (P4R) lending instrument to respond to the changing development needs and demand from borrowing countries. The safeguards policies too will need to be adapted to render them applicable to P4R lending.

The application of safeguard policies to programmatic, sectorwide lending and financial intermediary projects is much more challenging, as they do not involve discrete geographic areas where environmental and social effects can be readily assessed and mitigated. Development policy operations have their own environmental and social requirements and are therefore excluded

Figure 8: World Bank Lending by Commitment Volume and Number of Projects

Source: World Bank internal database, as of April 12, 2010.

Note: DPL = development policy lending.

from the safeguard policies. Adaptation of the safeguard policies to the new P4R instrument is yet another challenge. It is vital to seek consistency among the approaches followed in these growing segments of the portfolio to ensure coherence in environmental and social sustainability outcomes.

Projects Where the Use of Proceeds Is Not Fully Identifiable at Appraisal

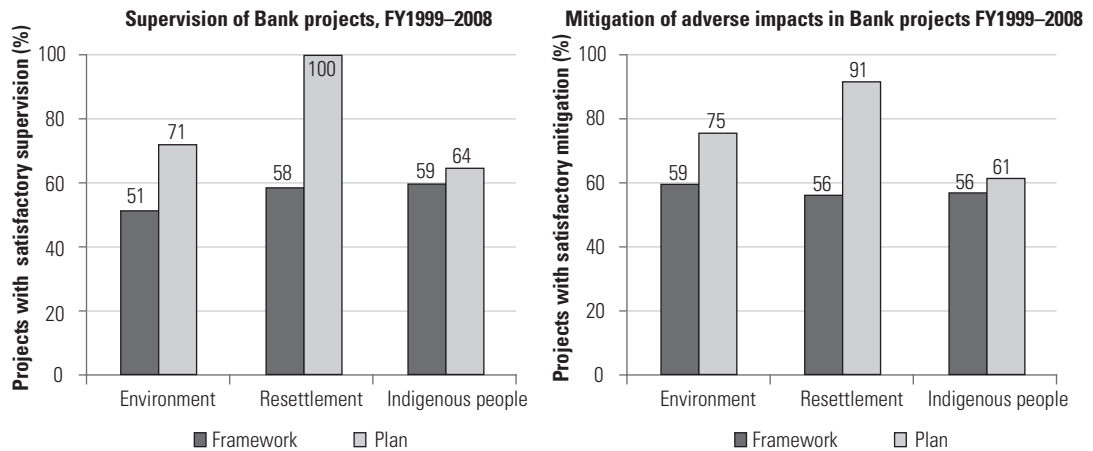
In financial intermediary and decentralized projects and in sectorwide and community-driven development programs, the use of proceeds is not fully identifiable at appraisal. The World Bank utilizes environmental and social policy frameworks to apply safeguards to these kinds of projects. About 30 percent of projects in the review sample used policy frameworks that, as discussed above, were found to be less well supervised than other projects in the sample. Projects relying on policy frameworks also had significantly weaker implementation results both on environmental and social performance, compared with projects that had an environmental or social assessment and management plan (figure 9).

IFC's business has evolved in recent years from project finance toward a growing portfolio of trade finance and equity investments which exceed a third of the portfolio (figure 7). IFC's

corporate or equity investments in companies with several production facilities and various activities pose a substantial challenge for environmental and social appraisal, supervision, and evaluation. MIGA's portfolio composition has also shifted over time, with a significant increase in the share of guarantees for financial sector projects whose environmental and social effects are difficult to assess from 30 percent in fiscal years 2000–04 to 53 percent in fiscal years 2005–09. These shifts present a challenge for the World Bank Group to ensure continued relevance and effectiveness of the safeguards and sustainability policies.

Costs and Benefits

One of the main constraints in assessing the value added of the safeguards and performance standards is that costs and benefits are not systematically tracked by the World Bank Group. Costs incurred by the World Bank are not distinctly recorded, and client costs are available only for the projects with large impacts. IFC's own costs are more readily available, but costs incurred by IFC's clients are not because they are considered proprietary. IEG's evaluation estimated benefits by extrapolating from the assessment of environmental and social risks and comparing the results against available costs to analyze the efficiency of resource use. The assessment shows that

Figure 9: Mitigation of Adverse Impacts in Bank Projects, FY1999–2008

Source: IEG portfolio review.

the World Bank Group’s safeguards framework generates significant benefits in the mitigation of environmental and social risks of projects, even as they need to be measured better.

IEG assessed the cost effectiveness of the World Bank Group’s approaches by plotting the data on costs incurred by the World Bank Group distilled painstakingly for separate samples of projects financed by the World Bank and IFC against a ranked scale of benefits estimated from a Risks and Benefits Model constructed for the evaluation (box 2). Despite data limitations, these analyses yielded valuable insights into the effectiveness of the World Bank Group’s approaches to managing environmental and social risks.

Costs incurred by World Bank clients on safeguards are estimated at about 5 percent of World Bank

financing and 3 percent of total costs for the projects in the table 2 sample. World Bank clients tend to allocate resources efficiently in meeting safeguards requirements, but results cannot be established for IFC partners because IFC does not collect client cost data. Bank expenditure on category-A projects was 8 percent, compared with 4 percent for category-B projects.

From a resource management perspective, a simple test of the efficiency of the World Bank Group’s sustainability framework is whether the costs incurred are allocated in proportion to the environmental and social risks of projects, and whether they achieve the desired outcomes. Efficiency was assessed along a quadrant of the risk-adjusted benefit and costs, with the separation between high and low based on median values of benefits and costs for safeguards and performance

Table 3: Average and Median Costs for Safeguards

Environmental category	World Bank costs (n = 60)		World Bank client costs (n = 53)		IFC costs (n = 37)	
	Average	Median	Average	Median	Average	Median
A	72,412	51,061	19,230,200	8,357,000	254,450	60,264
B	45,675	22,876	5,168,489	4,031,200	24,654	12,195
Sample Total	59,766	38,700	13,544,300	5,920,000	62,953	19,062

Source: World Bank and IFC data.

Note: World Bank data are based on 60 projects: 28 completed projects (22 category-A and 16 category-B), and 32 active projects (15 category-A, and 17 category-B). IFC data are based on 37 projects: 6 completed projects (all category-B); and 31 active projects (6 category-A and 25 category-B). While they are instructive in providing the relative proportion of safeguard costs, and in comparing costs of individual projects with risk-adjusted benefits, they should not be used to draw inferences for resource allocation over the entire life of projects.

These cost tables include data from completed and active projects in the portfolio sample and provide an incomplete picture of full costs on safeguards/performance standards at closure.

standards. Table 4 shows the distribution of World Bank Group performance along the benefit-cost quadrant. IFC’s spending on its sustainability framework is being allocated somewhat more efficiently toward projects with higher risks and benefits, but allocative efficiency is less evident in World Bank spending on safeguards.

Analysis of the risk-adjusted benefits and World Bank costs on safeguards in the sampled projects for which cost data are available do not provide clear evidence of allocative efficiency, particularly for category-B projects, several of which incurred high costs. Although category-A projects indicate relatively better resource use, with higher costs incurred on riskier projects (and correspondingly greater benefits), some high-cost category-A projects were also found to have much lower benefits (figure 10A).

IFC’s allocation of supervision resources for environment, social, health and safety has been broadly aligned with risks, and the alignment has improved since introduction of the performance standards. The greatest costs have been incurred on projects facing relatively higher risks and higher benefits (figure 10B). Projects implemented with performance standards also show more efficient allocation of resources than projects under the Safeguards Policy.

Table 4: Distribution of Projects on Benefit-Cost Quadrant

Benefit-cost quadrant	World Bank (percentage) (n = 35)	IFC (percentage) (n = 36)
High benefit—low cost	26	19
High benefit—high cost	29	33
Low benefit—low cost	23	28
Low benefit—high cost	23	19

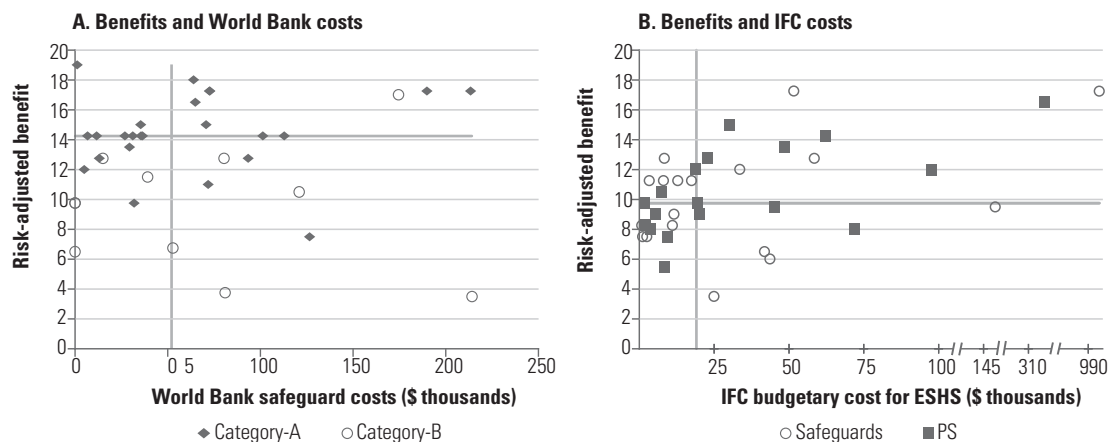
Source: IEG risk analysis.

Note: These figures are based on costs incurred by the World Bank Group and exclude client costs.

A stylized benefit-cost model of World Bank and IFC projects was used to illustrate the kind of assessment and insights that could be drawn with adequate quantitative data on benefits and costs of sustainability policies. On their own, the stylized models showed that the benefits of safeguards outweighed their costs, compared with the without project situations.¹

The benefit-cost ratio for social safeguards derived from examples of World Bank projects was found to be in the range of 0.8–1.3 in the case of a transport project, and in the range of 1–3.5 in the case of a wastewater treatment and sanitation project. However, these benefits are more muted because of the narrow scope of the current social safeguards. In the IFC model, safeguards had a positive payoff in every case. Estimated benefit-cost

Figure 10: World Bank Group Costs and Benefits of Safeguards



Source: IEG.

Source: IEG; cost data from IFC.

Note: ESHS = environmental, social, health, and safety; PS = performance standards.

ratios for social safeguards in a gold mine project ranged from 1.5 for community health and safety to 6.5 for land acquisition and resettlement, and in a manufacturing and services project ranged from 7.7 for labor and working conditions to 8.2 for community health and safety. The model shows that the potential of IFC projects is enhanced by additional benefits derived from attention to labor conditions and community impacts.

The stylized models illustrate that environmental benefits also outweigh the costs of safeguards implementation. In the IFC model, the benefit-cost ratios for environmental effects from pollution prevention and abatement alone were estimated to be 3.6 for the gold mine project and 9.9 for the manufacturing and services project. The absence of relevant project data, particularly information on the nature and cost of externalities, posed significant challenges in the estimation of the benefit-cost ratio for environmental effects in the World Bank stylized model.

Although environmental and social performance has improved since the 1990s, supervision and monitoring deficiencies constrain the World Bank's ability to evaluate safeguards results. Without a clear framework to assess the performance and impacts of its safeguard policies, important gaps remain in managing the environmental and social risks induced by Bank-financed projects. The stylized models for the World Bank and IFC demonstrate that with adequate data on costs, benefits, risk, and externalities incurred during implementation, it is feasible to quantitatively estimate the impacts of safeguards. Better monitoring, documentation, and reporting of environmental and social effects would be invaluable to improve the insights obtained from benefit-cost analysis of safeguards.

Enhancing Organizational Effectiveness

Current safeguard and sustainability policies were designed to address environmental and social impacts at the project level. Policy implementation is influenced by organizational arrangements and incentives—the most relevant being reporting arrangements and budgetary arrangements—

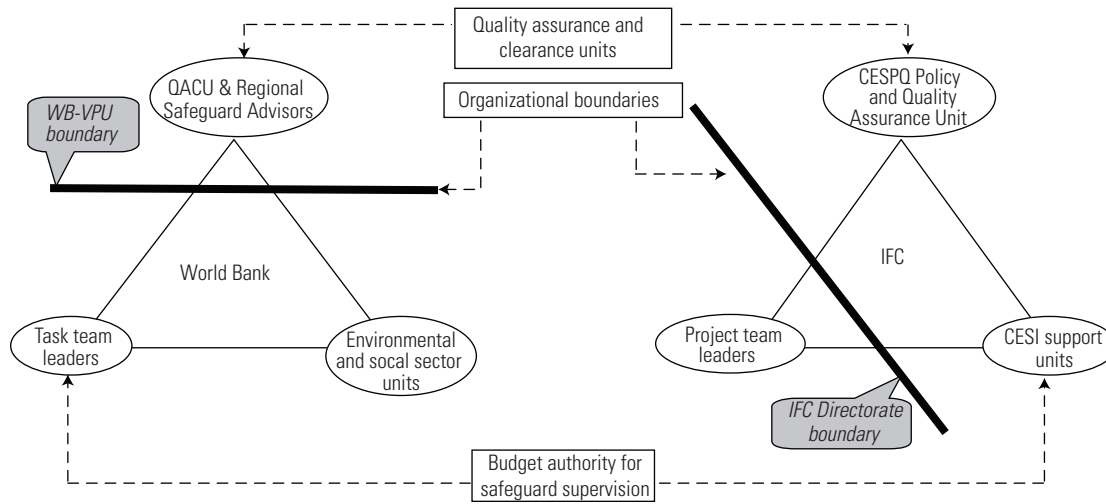
for safeguard oversight while it ensures separation of responsibilities to avoid conflicts of interest.

Over the past decade, several institutional reforms have been introduced to manage the World Bank Group's safeguards agenda. These reforms have affected the incentives and accountabilities of staff. The establishment of QACU ensured greater attention to safeguards screening during the appraisal process. Since then, QACU and the Environmental and International Law Unit of the Legal Department have provided central guidance on all matters relating to safeguards.

In 2004, a system of delegation was introduced whereby the safeguard screening during project appraisal identified the high-risk projects that would be monitored by QACU, which retains oversight responsibility for all category-A projects and category-B and -FI projects with potentially high reputational and social safeguard risks. Responsibility for project processing and supervision of other projects, including some with substantial or lower risk, is delegated to the appropriate sector units managing the investment projects.

In 2006, the World Bank consolidated the Environmentally and Socially Sustainable Development Network (ESSD) and the Infrastructure Network—into the Sustainable Development Network (SDN) under one vice president, bringing the environmental and social staffs and their internal clients from the infrastructure and agricultural sectors under one umbrella. At the time of that merger, QACU and its counterparts—the Regional Safeguards Advisors—in the Regions, were transferred from ESSD to the Operations Services group to ensure that project clearances were not unduly influenced by being housed within the same Network to offset the perception of conflict of interest. As under the former ESSD network, QACU continues to rely largely on the technical staff in the regional environmental and social units to undertake the technical work needed for appraisal.

Notionally, the regional environmental and social units are also responsible for effective implementation and supervision of safeguards. However,

Figure 11: Organizational Arrangements at the World Bank and IFC

Source: IEG.

the budget for safeguards supervision in the World Bank is controlled by the task team leaders for each project, who determine the intensity of supervision and choose the team members or consultants for safeguards supervision. The concern for technical capacity of the task team leader to make this judgment, or the conflict of interest, is not deemed relevant during the supervision phase. As illustrated by the previous analysis of costs and benefits, the reliance on an internal market for safeguards supervision has resulted in considerable inefficiencies in resource allocation for safeguards oversight at the World Bank, compared to IFC.

A schematic comparison of the Bank's organizational arrangements with IFC reveals some functional similarities (figure 11), but there are two crucial differences: the location of the organizational boundaries as firewalls to avoid conflicts of interest and budget authority for appraisal and supervision. The Policy and Quality Assurance Unit is responsible for clearances; two Central Environmental and Social Investment Support Units (CESI) provide technical support for appraisal and supervision; the project team leaders manage the projects: (1) the firewall keeps the project proponents (project team leaders) separate from the unit providing clearance *and* the CESI units providing operational support; and (2) the budget authority for environmental and social appraisal

and supervision lies with the CESI units, which allows them to deploy resources across projects where they are most needed.

Structurally, IFC's organizational arrangement resembles that of the World Bank prior to 2006, with the two functions—clearances and operational support—kept distinct from the project proponents to avoid any pressure from the project proponents. The budget authority and responsibility for supervision assigned to the CESI units has eliminated both the conflict of interest and the moral hazard of inflated demands for environmental and social work, because CESI units have to manage this work from their resource pool. Furthermore, responsibility now lies with units that are technically competent to address these issues. IFC's challenges now lie in its interface with external clients.

The World Bank, however, faces both internal and external challenges. To increase the effectiveness of safeguards supervision, the incentives arising out of current organizational and budgetary arrangements will need to be addressed.

From "Do-No-Harm" to "Do-Good" Approaches

An unintended consequence of the 2006 reorganization has been a growing separation between

the work on safeguards (overseen by QACU) and the work on environmental sustainability (overseen by the sector managers of the environmental and social units) in the SDN Anchor and the Regions. There is evidence of more careful screening of projects at entry and greater attention to category-A projects but more risk aversion reflected in an inflation of projects being classified as category-B. Staff have pointed to more centralized control and, in some instances, divergence in interpretation of policies and standards between the regions and centrally based staffs.

The artificial separation of environmental and social staff between those who work on safeguards and those who work on social or environmental sustainability is a cause for concern. The merger of infrastructure sectors with the environmental and social development sectors under one vice presidency has given rise to a surge in demand for safeguards services, but the demand-driven nature of the relationship between infrastructure task team leaders and environmental and social staff is forcing an unnecessary division of labor among the social and environmental staff. The separation of QACU from the oversight of the

environmental and social sector boards appears to have exacerbated this divide. The effect of these tendencies is that across the Bank, most of the Bank staff who work on safeguards do not work on environmental and social sustainability, whereas those who work on sustainability no longer work on safeguards. This is not an optimal use of Bank resources and is in contrast to IFC and MIGA, where the mitigation agenda is an integral part of social and environmental sustainability.

The Bank Group needs to expand further its focus on issues such as biodiversity, climate change, and benefit-sharing to enhance social impacts on the poor. To do this, it could complement its compliance based policies—moving beyond the “do-no-harm” approach—to encourage attention to enhancing environmental and social results.

Note

1. See IEG 2010, pages 78–80. For a fuller description of the stylized models see the online Annex 7, Valuing Benefits and Costs of Safeguards (http://siteresources.worldbank.org/EXTSAFANDSUS/Resources/Safeguards_annexes.pdf).

IV. Conclusions

This evaluation upholds the role the World Bank Group must continue to play in being at the cutting edge of promoting sustainable development. But it goes further in noting that the actual effectiveness of the regulatory regime depends not only on up-front risk assessments that the World Bank Group and countries carry out, but crucially also on effective implementation and supervision and on the checks and balances provided by M&E, disclosure of findings, and verification of results.

The comparative analysis among the World Bank Group has identified relative strengths of different approaches. The World Bank’s categorization system and disclosure policy is more rigorous, whereas the systems introduced recently by IFC for monitoring and supervision are more systematic, with clearer responsibilities for its client partners. The World Bank and IFC serve different clients, yet they can strengthen the quality of environmental and social results by adopting the merits of each other’s systems.

The evaluation concludes that the Bank Group’s environmental and social policies have been beneficial but need revision to strengthen the focus on benefits, client institutions, and results, to keep pace with the Bank Group’s rapidly evolving portfolio. The Bank’s recent commitment to update and consolidate its environmental and social safeguard policies over the next two years is one step in the right direction.

As a crucial player in promoting better environmental and social outcomes worldwide, IEG recommends that the Bank improve the thematic coverage of its safeguard policies and address institutional impediments to effective management of the environmental and social agenda. IFC needs to significantly enhance disclosure of supervision information and introduce independent verification of its monitoring and

supervision reports. The evaluation has also made recommendations for the Bank Group to render support for client capacity; strengthen supervision arrangements, implementation, and accountability; and help ensure better environmental and social results.

The Bank Group needs to expand further its focus on issues such as biodiversity and climate change, and benefit-sharing to enhance social impacts on the poor. To do this, it could complement its compliance based policies—moving beyond the “do no harm” approach—to encourage attention to enhancing environmental and social results.

Follow-Up

The evaluation aimed to inform the updates of IFC’s sustainability framework, the World Bank’s environmental strategy, and the ongoing reform of World Bank investment lending. The Board Committee on Development Effectiveness endorsed a comprehensive update of the World Bank’s safeguard policies and harmonization of project categorization across the World Bank Group. The Committee also reiterated the importance of effective implementation of safeguard policies and strengthened supervision; stressed the value of checks and balances provided by M&E, disclosure of findings, and

verification of results; and concurred with the need to strengthen client capacity and enhance responsibility and ownership.

The update of IFC's Policy and Performance Standards on Social and Environmental Sustainability (2011) and the Access to Information Policy draws on evaluation findings on project categorization, financial intermediaries, and supply chains. The introduction of subcategories for financial intermediary projects based on the risks, investment type, and use of proceeds is an important first step. This now requires articulation of explicit guidance on the environmental and social requirements for each subcategory in the update of Environmental and Social Review Procedure. IEG also supports the emphasis on capacity building in the Implementation Action Plan to strengthen IFC's and clients' capacity and strategic partnerships, and IEG endorses IFC's plan to use more advisory services to support clients' implementation. Independent third-party monitoring of the environmental and social results and disclosure of environmental and

social results will now be crucial in providing the promised gains from the reforms.

The Bank, IFC, and MIGA management agreed to work together in fiscal year 2011 to ensure the adequacy, rigor, and consistency in project categorization across the World Bank Group. This intended harmonization is yet to be achieved. The update of the World Bank's environmental strategy is in progress.

In response to the recommendation for an update of the safeguard policies, World Bank management committed to a review of global good practice—including a consultative process with diverse shareholders and stakeholders over a 24-month period—that will integrate the update of safeguard policies. At the conclusion of this process, Bank management would report to the Board on how the Bank intends to strengthen environmental and social sustainability in projects, including the possibility of a more consolidated policy framework and strengthened institutional arrangements.

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