

Chapter 1 Highlights

BACKGROUND

Third in series of EA reviews. Bank policy and safeguards shifted with conversion to OP 4.01 from OD 4.01. Bank reorganization with new regional safeguard units as part of an ESSD network.

PREVIOUS EA REVIEWS

- Institutional Aspects
- Quality of Environmental Assessment
- Effectiveness of EA in Project Preparation
- Project Implementation: EA Experience
- Special Issues

Conclusions of previous reviews with action points that identified the need to improve guidance to staff, expand training, improve legal framework for loans, expand participation of environmental and social specialists in project supervision for Category A and B projects. Focus on Category B projects and expand safeguard applications, increase use of sectoral and regional EAs.

PRESENT EA REVIEW

Review implementation of action items, overview of safeguard polices and new safeguard compliance system over the last five years (1996–2000). Link progress in safeguard application to Bank Environmental Strategy.

Overview and Purpose

1.1 Background

The World Bank has accumulated a decade of experience in assessing the environmental impact of its investment projects. This report represents the third in a series of documents that review the effectiveness of the Bank’s environmental assessment (EA) policies and procedures. The first review was carried out in 1992, three years after the advent of Operational Directive (OD) 4.0, which obliges the Bank to carry out EAs. The second review covered the period FY93–95, following a 1991 amendment to OD 4.0.

The Bank’s Articles of Agreement establish the legal mandate for its activities; operational policies define the “rules of the game” by which these activities are carried out. Broadly speaking, such rules may be based on specific instructions that have been codified by Senior Management and issued as Operational Manual statements for guidance to staff. In the late 1990s the Bank began to convert Operational Directives—which combined elements of policy, procedure, and guidance—into separate short statements of *mandatory* policy (Operational Policies—OPs), *mandatory* instructions for carrying out the policy (Bank Procedures—BPs), and *advice* on good practice.¹ Bank management continues to update the Operational Manual so that staff, clients, shareholders, and external stakeholders can understand what is *required* under Bank policies, as distinguished from what may be *encouraged* or *desired*.

During most of the 1990s, Bank operations followed the environmental requirements of OD 4.01, which came into effect in October 1991. Experience and feedback with this and other related administrative requirements from both environmental and operational staff led to a series of consultative and review processes that culminated in the release of Operational Policy 4.01 in January 1999, which became effective in March 1999.²

Overall, the two have many strong similarities; specific changes are reflected in terminology or the addition of new lending instruments (such as Adaptable Program Loans and Learning and Innovation Loans), as well as, for the first time, requiring EA procedures for sector adjustment loans (SECALs). In addition, OP 4.01 includes more directives to use other Bank references, such as the *Pollution Prevention and Abatement Handbook*, and references to international standards.

The OP identifies a range of instruments that can be used to satisfy the Bank’s EA requirements: environmental impact assessment (EIA), regional or sectoral EA, environmental audit, hazard or risk assessment, and environmental management plans. When a project is likely to have sectoral or regional impacts, a sectoral or regional EA is required.

1.2 Categorization

Modest changes are evident for undertaking environmental screening of each proposed project to determine the appropriate extent and type of EA. The Bank classifies proposed projects into one of four categories, depending on the type, location, sensitivity, and scale of the project and the nature and magnitude of its potential environmental impacts. Under OD 4.01 these categories were A, B, and C. OP 4.01 adds a category covering financial intermediaries (FI). The essentials of each category are presented below.

Category A: A proposed project is classified as Category A if it is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. These impacts may affect an area broader than the sites or facilities subject to physical works. EA for Category A projects must examine the project’s potential negative and positive environmental impacts, compare them with those of feasible alternatives (including a “without project” scenario), and recommend measures to prevent, minimize, mitigate, or compensate for adverse impacts and to improve environmental performance. For a Category A project, the borrower is responsible for preparing a report, normally an EIA (or a suitably comprehensive regional or sectoral EA) that includes, as necessary, elements of the other EA instruments referred to in the policy.

Category B: A proposed project is classified as Category B if its potentially adverse environmental impacts on human populations or environmentally important areas—including wetlands, forests, grasslands, and other natural habitats—are less widespread than those of Category A projects. Such impacts would be site-specific; few if any would be irreversible; and in most cases mitigatory measures could be designed more readily than for Cat-

egory A projects. The scope of EA for a Category B project varies from project-to-project, but overall, it is narrower than that of a Category A EA. Like the Category A EA, it examines the project’s potential negative and positive environmental impacts and recommends measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve environmental performance. The findings and results of Category B EAs must be described in the appropriate project documents (Project Information Document and Project Appraisal Document).

Category C: A proposed project is classified as Category C if it is likely to have minimal or no adverse environmental impacts. Beyond screening, no further EA action is required for a Category C project.

Category FI: A proposed project is classified as Category FI if it involves investment of Bank funds through a financial intermediary, with subprojects that may result in adverse environmental impacts. For a financial intermediary operation, the Bank requires that each FI screen proposed subprojects and ensure that sub-borrowers carry out appropriate EA for each subproject. Before approving a subproject, the FI should verify (through its own staff, outside experts, or existing environmental institutions) that the subproject meets the environmental requirements of appropriate national and local authorities and is consistent with OP 4.01 and other applicable Bank environmental policies.

When appraising a proposed FI operation, a review of the adequacy of country environmental requirements relevant to the project and the proposed EA arrangements for subprojects should be prepared. The review should also identify the mechanisms and responsibilities for environmental screening and review of EA results. When necessary, the project should include components to strengthen such EA arrangements. For FI operations expected to have Category A subprojects, prior to the Bank’s appraisal, each identified participating FI must provide to the Bank a written assessment of the institutional mechanisms (including, as necessary, identification of measures to strengthen capacity) for its subproject EA work. When the Bank is not satisfied that adequate capacity exists for carrying out an EA, all Category A subprojects (and, as appropriate, Category B

subprojects, including EA reports) are subject to prior Bank review and approval.

OP 4.01 also directs attention to emergency recovery projects processed under OP 8.50 (*Emergency Recovery Assistance*). This OP states that when compliance with any requirement of the policy would prevent the effective and timely achievement of the objectives of an emergency recovery project, the Bank may exempt the project from such EA requirements. Nonetheless, the Bank requires, at a minimum, that the extent to which the emergency was precipitated or exacerbated by inappropriate environmental practices be determined as part of the preparation of such projects, and that corrective measures be built into either the emergency project or a future lending operation.

The OP also states that when a borrower lacks the legal or technical capacity to carry out key EA-related functions (such as review of EA, environmental monitoring, inspections, or management of mitigation measures) for a proposed project, the project should include components to strengthen that capacity.

1.3 Bank Reorganization

Since the second EA review was produced, the World Bank has undergone important restructuring exercises, which have changed the organization of all of its units and the designation of staff, including those responsible for environmental assessment. At present, environmental issues are addressed mainly by the Environmentally and Socially Sustainable Development (ESSD) Network, which is composed of three departments: Environment, Rural, and Social Development. ESSD has four “cross-cutting” teams covering: forestry, sustainable land resource management, water, and quality and compliance. Each team includes environmental specialists, ecologists, and relevant advisers. In addition, each of the Bank’s six geographic Regions has numerous staff members working specifically on environmental issues, who are known as the “environment family” within that region. Responsibility for safeguard issues is the primary responsibility of the Regional Environmental

Unit, which is the focal point for technical support to Task Teams, including review of all safeguard documents (such as environmental data sheets, EAs, and EIAs) as well as “clearance” of safeguard project requirements.

Under the new structure, the Quality Assurance and Compliance Unit of the Environment Department was given responsibility for producing the third Environmental Assessment Review (EA-III). Finally, the World Bank Institute (WBI, formerly the Economic Development Institute) and the Bank’s Operations and Evaluation Department both play an important role in, respectively, internal and external training on environmental issues and evaluating the performance of Bank projects for environmental (and other) factors.

Since OD 4.0 became operational, and with the shift to OP 4.01, the concept and practice of environmental and social assessment has become widely accepted, as global environmental issues have assumed a higher profile and the consequences of ignoring environmental problems have become more widely known and understood. Many international development agencies have adopted similar requirements, and many governments have adopted their own regulations and procedures for assessing environmental impact. Moreover, the issue of environmental and social impact of development projects has assumed a highly visible position on the radar screen of civil society groups worldwide. Given its leadership role in environmental and social safeguards, it is all the more important that the Bank constantly assess the strengths and weaknesses of its own operations, as the development process overall can benefit from the results of such exercises.

1.4 Previous EA Reviews

The key conclusions of the first EA Review (EA-I)³ are presented in Box 1.1; overall the report found that EA was functioning and producing results, but required improvement in a number of areas. The suggestions made in EA-I formed the basis for the second EA review (EA-II), which concluded with a series of recommendations in the form of “Action Points” that, in turn, serve as a starting point for the current review.

Box 1.1 Main Findings of First EA Review

- **The EA Process is operative and producing results:**

Procedures for environmental screening, EA initiation, and review are fully operative. The EA process demonstrated its usefulness in helping borrowers to identify environmental issues and problems and to examine and determine ways to avoid, minimize, or mitigate negative environmental impacts. The EA requirement generally did not delay project preparation, and costs were within acceptable limits. The Review also found evidence of capacity-building effects of OD 4.0 in some borrowing countries. Moreover, the EA process often increased awareness of environmental issues and raised the level of commitment to environmental management. Borrower demand for EA training and technical support increased during the period reviewed.

- **Challenges and areas for improvement:**

Among the key findings in this area were: (a) consistency in screening decisions was not yet satisfactory, and more guidance was needed; (b) scoping (rapid field investigation to help determine the scope of an EA) and preparation of EA terms of reference need stronger attention by the Bank; (c) public consultation in the EA process was generally weak; (d) design and site alternatives were often not adequately analyzed, and EAs were sometimes undertaken too late in the planning process to influence major decisions; (e) mitigation, monitoring, and management plans were often insufficiently developed; and (f) EAs frequently had only a limited impact on project design.

- **New issues:**

There was a perceived need to move the EA process upstream to an earlier stage in the borrower's investment planning process by way of sectoral and regional EAs. Another need revealed by the review was for strengthening EA training among Bank staff and in client countries. Finally, it was observed that resource needs for EA (for both project preparation and implementation) were likely to increase considerably in coming years and needed to be appropriately budgeted.

EA-II addressed all of these issues, as well as some new matters.⁴ It began by examining institutional aspects of environmental assessment, and went on to look at the quality of EA for Category A projects, the effectiveness of EA in project preparation, the EA experience in project implementation, and “special issues,” such as category B projects, regional and sectoral EAs, financial intermediary lending, and EA approaches in privatization. For each topic the review included one or more “action points,” or areas in which it was recommended that the Bank focus extra effort to improve EA performance. Given their importance as suggestions for future EA work, these action points are summarized here and serve as a reference point for the current review. Overall, the findings of the second review were quite posi-

tive; the summaries below, however, focus on problem areas, as they represent the main points requiring action in the period covered by the present report.

1.4.1 Institutional Aspects

The review found that, as might be expected, more on-the-ground experience and growing acceptance of EA had led to progress in the Bank's work in this field. Two issues, nonetheless, were singled out as requiring greater attention: supervision of EA-related measures and the Bank's capacity to deal with the growing numbers of projects requiring EA. These problems were found to be related, and to require a rethinking of the amount of human and financial resources devoted to EA.

Action Points:

(1) *The Bank will strengthen internal EA training by initiating a targeted program over the next two fiscal years that will include basic EA training for all Task Managers of Category A and B projects, supplementary in-depth training for Task managers of Category A projects, and briefing sessions on EA for Country Department Directors.*

(2) *The Bank will seek to improve EA capacity in borrowing countries. It will develop training strategies for each of the six operation regions and selected countries, according to need. Based on these strategies, regional training programs will be delivered, through the combined efforts of the World Bank Institute and regional environmental staff and through combined efforts with other multi- and bilateral agencies.*

1.4.2 Quality of Environmental Assessment

The second review noted that the quality of an EA depends on the accuracy of the impact predictions made, the responsiveness of the consultation process, and the appropriateness of mitigation, monitoring, and institutional measures taken. EA quality, evidently, cannot be fully evaluated until project completion. With this in mind, a survey of Category A projects was designed, rating them according to six categories: impact assessment, alternatives considered, public consultation, mitigation plan, monitoring plan, and management plan. More than 75 percent of the projects fell into the “good” or “excellent” range for most categories, except in the areas of public consultation and alternatives considered.

Since a key purpose of EA work is to identify investment alternatives from an environmental perspective, the low rating in this area was an important concern. Some of the reasons cited were: failure to make this need explicit in consultant terms of reference, the timing of the project preparation process, potential political sensitivity, and lack of skills to seriously examine alternatives. Public consultation, meanwhile, is key to the identification of environmental impacts and the design of mitigation measures, so weakness in this area is also critical to the success of the EA process.

Action Point:

The Bank is already in the process of responding to these challenges. For example, improved guidance to staff and borrowers in the form of EA Sourcebook Updates is being prepared on economic analysis in EA, analysis of alternatives, and environmental management plans. The expanded EA training efforts mentioned in the previous section are also expected to lead to improved EA quality, as well as actions to strengthen the preparation of EA Terms of Reference, particularly in the area of public consultation and analysis of alternatives.

1.4.3 Effectiveness of EA in Project Preparation

EA can be judged effective if it helps to safeguard ecological functions, ensures sustainable use of natural resources, and protects community values. While long-term effectiveness can only be verified well after project completion, it is nonetheless important to assess the impact of EA on projects during the preparation and implementation stages. The second review found about 25 percent of Category A projects to be “highly” effective, meaning that they had a strong influence on project design, and that this influence was manifested in the Staff Appraisal Report and project legal documents. Nearly 60 percent were found to be “partially” effective, and more than 15 percent had an effectiveness rating of “low.” While part of the problem is attributable to country-related factors, another part could be addressed if the Bank would take steps to incorporate EA more thoroughly into key stages of the project preparation process, such as screening, EA preparation, and incorporation into legal and other project documentation.

Action Points:

(1) *The Bank will develop mechanisms—including financial ones—to facilitate the early (upstream) use of sectoral and regional EAs. Additional guidance will be developed, along with training manuals.*

(2) *Unless actions and recommendations derived from the EA are adequately referenced in loan and credit agreements, there is no legally binding borrower commitment to implement*

them, unless required under domestic law. Draft BP 4.01 therefore reinforces this aspect of OD 4.01, and the Bank will take other steps to strengthen the link between EAs and project legal documentation. An EA Sourcebook Update will be prepared to provide guidance on the preparation of environmental legal conditions and covenants.

1.4.4 Project Implementation: EA Experience

Because many of the projects under review were just getting under way or still far from completion at the time of the second EA review, EA-II focused on 74 Category A projects approved between FY91 and FY94 to assess the emerging implementation experience, using mainly supervision reports and mid-term reviews. The projects analyzed were found to be above average for both overall performance and for environmental ratings (the latter are prepared by the project supervision team). However EA-II pointed out that these ratings should not be simply taken at face value, since the system for producing them suffers from some flaws. Interestingly, when environmental specialists participated in the environmental rating, the latter was usually lower than if no such specialist was involved, suggesting the importance of environmental specialists in identifying environmental problems. The most serious gap noted in this chapter was the overall weakness of project supervision; another was the lack of precision in legal documents in regard to supervision requirements.

Action Points:

(1) As of FY 97, all Category A projects will have an environmental or social specialist participating at least annually in supervision. The same will be true for sensitive Category B projects. In addition the Bank's Quality Assurance Group (QAG) will undertake assessments of supervision quality to enhance in-house accountability in this area. Other measures will include: giving greater attention to key environmental aspects in the development of implementation performance and impact indicators and when preparing supervision plans, and more use of local environmental specialists and nongovernmental organizations in project monitoring.

(2) Steps will be taken to ensure that bidding and contract documents incorporate environmental actions derived from EAs, so that contractors can understand what is expected of them in the environment area. The Bank will pay stronger attention to this important step during supervision and develop guidance for incorporating and reflecting EA-derived measures in bidding documents and construction contracts.

1.4.5 Special Issues

EA-II touched upon five areas considered to be "special issues," which were not examined in depth, but raised as matters to be examined more closely in the future.

Category B Projects. As mentioned earlier, a project is classified as Category B if "its potential adverse environmental impacts on human populations or environmentally important areas...are less adverse than those of Category A projects, and the impacts are site-specific; few if any are irreversible; and in most cases mitigatory measures can be designed more readily" than for Category A projects. (OP 4.01, para. 8). In these cases decisions about the appropriate environmental approach are left to Task Team Leaders, with technical support from the corresponding Regional Safeguard unit. A need for improvement was noted regarding: (a) project documents, which need to be more explicit about the type of environmental analysis to be performed; (b) mitigation and other actions, which should be more explicitly included in implementation plans and budgets; and (c) staff resources for support to Category B EAs, which should be increased, especially for supervision. EA-II also noted that more follow-up is required for projects that have been reclassified from Category A to Category B.

Sectoral and Regional EA. Sectoral and regional EAs make project work easier by generating information, eliminating the most negative proposals from an environmental perspective, and allowing project EAs to narrow their scope to site-specific issues. They are usually carried out "upstream" (early) in the project cycle, and seek to address broader environmental issues, including policy and strategic choices. In so doing, they ad-

vance the goal of ensuring that potential environmental problems are identified and considered at an early enough stage to allow time for the consideration of alternatives, when necessary. The main issue identified in regard to regional EAs was that they are very rarely utilized.

Financial Intermediary Lending. The growing number of loans to financial intermediaries for support of private-sector activities raises the issue of how to ensure that the potential cumulative environmental impacts of such loans are taken into consideration. EA-II recommended that the Bank develop measures to appraise and strengthen implementing agencies' capacity for screening, preparing, and reviewing environmentally significant subprojects. In addition, the Bank's practice of incorporating "environmental due diligence" into such feasibility and appraisal procedures was recognized to be of growing importance and require greater attention, in terms of defining good practices and producing operational guidance.

EA Approaches in Privatization. As the Bank assists client countries to privatize formerly public enterprises, it has not escaped notice that many of these enterprises are in sectors that have potential environmental implications, such as mining, oil and gas development and distribution, and water and sanitation services. This raises the issue of risk assessment and management for both human health and the environment, as well as responsibility for past and future pollution impacts. Environmental audits have increasingly been used in such situations, in conjunction with sectoral environmental assessments. EA-II notes that screening and classification for such projects require special attention, and that projects should be classified according to the potential significance of environmental impact.

Guarantees. EA-II refers briefly to the Bank's increased use of guarantees in its large-scale development projects—most of which involve infrastructure activities that are likely to have environmental impact, and thus demand the same EA procedures as other investment projects. The Bank recognizes the need to improve its influence of the overall environmental management of these projects, even though it is only a partial supporter

of a larger investment that may have numerous private- and public-sector partners.

1.5 Present EA Review

This retrospective covers the issues raised in EA-II, as well as two important new areas that have emerged in the intervening years: safeguard policies and the Bank's new safeguard compliance system. At the same time, based on reading of documentation and discussions with staff, the review takes note of several new challenges that have arisen and new approaches that have been successful in the area of environmental and social safeguard applications.

The structure and methodology of the present review is designed to provide insight into what the Bank has learned since EA-II and highlight the framework of the Bank's prospective environmental safeguard strategy as it has been defined during 2000 and 2001. Chapter 2 describes the new safeguard policies, sources of safeguard-related information, and an overview of the Bank's portfolio, including trends in Category A, B, and C projects. Chapter 3 brings together the issues of "effectiveness and implementation" of EA by summarizing the results of some 20 studies carried out in recent years and the QAG and Inspection Panel processes and products. Chapter 4 discusses the results of a review of progress on public consultations and the trends regarding disclosure. Chapter 5 examines Bank legal language in EA-related documents and improvements in terms of reference, and details actions taken on training and institutional development. Chapter 6 includes a comprehensive review of the many guidelines, handbooks, and other knowledge management products prepared to improve the quality of environmental assessment in the Bank. Chapter 7 addresses "special issues," including sectoral and regional EA, SECALS, other new Bank lending instruments, and Country Assistance and Poverty Reduction Strategies. Finally, chapter 8 covers the new safeguard compliance system and the recent Bank Environmental Strategy.

Given the many changes that have occurred since the second EA review was prepared, this report has had to utilize a somewhat different methodology. EA-III is based on, and describes, the many

types of documents that have been produced on the subject of safeguards and environmental assessment over the past four years. Included in this mix are, for example, handbooks and guidelines produced by the Bank's Regions and other units to explain safeguard policies and assist staff in their compliance effort (chapter 6), and a series of reviews by different Bank units of EA performance that appear in several chapters. The latter have different focuses; some cover Category A and B projects, others look at performance in a particular sector, while several focus on a particular topic, such as supervision or public consultation.

These studies provide a rich and broad-based sense of the evolving strengths and weaknesses of EA/safeguard performance, but unfortunately do not lend themselves to comparison or yield a conclusive, Bank-wide "report card." Review and analysis of these reports was accompanied by discussions with Bank staff, a review of training exercises in WBI and the Regions, and an examination of other papers produced by Bank staff, some of which were commissioned for this report, that offered insight into the issues covered.

Notes

1. *Operational Policy Retrospective and Post-Compact Agenda: Issues Paper*, October 1, 1999.

2. Specifically, OP and BP 4.01 together replaced OMS 2.36, *Environmental Aspects of Bank Work*; OD 4.00, Annex A, *Environmental Assessment*; OD 4.00, Annex B, *Environmental Policy for Dam and Reservoir Projects*; OD 4.01, *Environmental Assessment*; and the following Operational Memoranda: *Environmental Assessments: Instructions to Staff on the Handling of the Borrower's Consultations with Affected Groups and Relevant Local NGOs*, 4/10/90; *Environmental Assessments: Instructions to Staff on the Release of Environmental Assessments to Executive Directors*, 11/21/90; and *Release of Environmental Assessments to Executive Directors*, 2/20/91.

3. Environment Department, *Annual Review of Environmental Assessment 1992* (Washington, D.C.: World Bank, 1993).

4. Environment Department, *The Impact of Environmental Assessment: A Review of World Bank Experience*, World Bank Technical Paper 363 (Washington, D.C.: World Bank, 1997).