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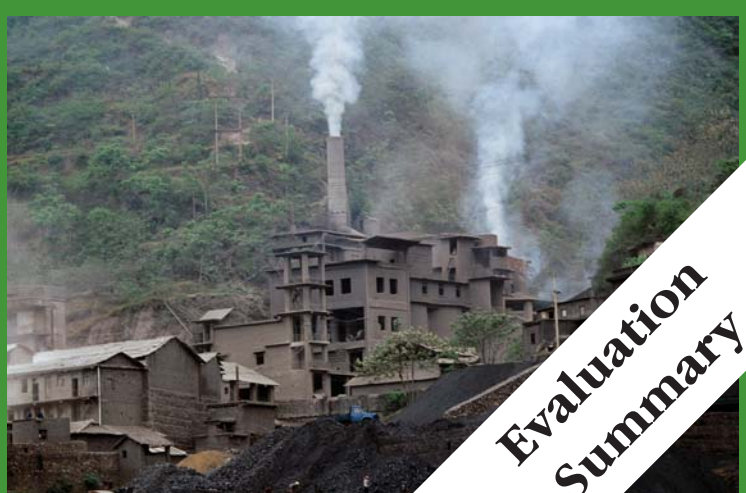
Independent Evaluation Group

Environmental Sustainability

An Evaluation of World Bank Group Support



Evaluation Summary

THE WORLD BANK GROUP

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The World Bank Group consists of five institutions—the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID). Its mission is to fight poverty for lasting results and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.

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The Independent Evaluation Group (IEG) is an independent, three-part unit within the World Bank Group. IEG-World Bank is charged with evaluating the activities of the IBRD (The World Bank) and IDA, IEG-IFC focuses on assessment of IFC's work toward private sector development, and IEG-MIGA evaluates the contributions of MIGA guarantee projects and services. IEG reports directly to the Bank's Board of Directors through the Director-General, Evaluation.

The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank Group's work, and to provide accountability in the achievement of its objectives. It also improves Bank Group work by identifying and disseminating the lessons learned from experience and by framing recommendations drawn from evaluation findings.

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2008
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1 2 3 4 5 11 10 09 08

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Cover: Top left: Wastewater treatment plant in Honduras; photo courtesy of Jouni Martii Eerikainen. Top right: Planting coffee trees; photo courtesy of Jouni Martii Eerikainen. Bottom left: Logging road through deforested area of Bornea, in Sabah, Malaysia; photo ©Frans Lanting/CORBIS, reproduced by permission. Bottom right: Coal manufacturing plant along the Three Gorges of the Yangtze River in China; photo ©Keren Su/CORBIS, reproduced by permission.

ISBN-13: 978-0-8213-7670-6
e-ISBN-13: 978-0-8213-7671-3
DOI: 10.1596/978-0-8213-7670-6

Library of Congress Cataloging-in-Publication data have been applied for.

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Printed on Recycled Paper

Foreword

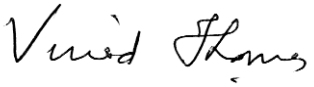
The environmental concerns on our planet have expanded dramatically in recent decades and are now among the most serious challenges affecting people's well-being around the globe. All nations are affected, but often the poorest countries and the least privileged populations bear the greatest burden. They are hit hardest by environmental destruction and climate change and have the fewest resources available to adapt to changing situations. Addressing environmental degradation and ensuring environmental sustainability are inextricably linked to the World Bank Group's mandate to reduce poverty and improve people's lives.

This evaluation looks at the effectiveness of World Bank Group support to the environment from 1990 to 2007. While there are difficulties in comparing the experience of the public and private sectors, a contribution of this evaluation is in bringing together findings on the World Bank, IFC (International Finance Corporation), and MIGA (Multilateral Investment Guarantee Agency), and assessing the effectiveness of the World Bank Group as a whole. In doing so, it also attempts to identify the external and internal constraints on Bank Group effectiveness and suggest ways in which some of them, particularly the internal ones, can be reduced.

This period has seen an expansion in World Bank Group attention to environmental issues. The World Bank has provided analysis and financing to governments to help address priorities in biodiversity, land and water resource management, pollution control, and environmental policy. IFC has developed environmental standards for private investment, offered Advisory Services to companies for environmental and social performance, and promoted energy efficiency and clean technology. The World Bank, IFC, and MIGA have implemented safeguards or standards to minimize adverse environmental impacts from their financing.

The World Bank Group has been a leader in calling for environmental sustainability. But the institution has not been able to integrate environmental stewardship centrally or integrally into country programs, incorporate them as requirements for sustainable growth, and provide lending for environmental priorities—often because of lukewarm interest from the countries. Environmental sustainability must become a core part of the World Bank Group's strategic directions and receive fuller attention in Regional and country assistance strategies. Operational teams need to collaborate more effectively across sectoral boundaries and build stronger skills in vital environmental areas, from pollution control to biodiversity conservation. The institution needs to work more effectively across the World Bank, IFC, and MIGA and with external partners to take advantage of synergies. And the three parts of the World Bank Group need—in somewhat different ways—to improve substantially their ability to assess the full environmental impacts of their interventions.

Environmental damages and the dangers of climate change worldwide are a central threat to economic growth and poverty reduction. With strategic focus, the World Bank Group can play a critical part in the transformation for promoting environmental protection by governments and private agents as an essential aid to future growth and well-being.



Vinod Thomas
Director-General, Evaluation

Smoldering pastureland cleared for cattle in the Amazon rainforest. Photo reproduced by permission of Michael Nichols/National Geographic Image Collection.

Executive Summary

Climate change is front page news. But other environmental problems are also becoming more serious, from local air and water pollution to soil erosion, water scarcity, deforestation, and loss of biodiversity. These problems are especially severe in developing and transition economies and have a particularly adverse impact on the poor.

Both the public and private sectors have critical roles to play and must act together to address domestic and transnational environmental issues. In an increasingly globalized world, moreover, what happens in one country, especially a large one, often has impacts well beyond its borders, and its environmental footprint expands in tandem with national economic growth. Solutions to these problems are among the most significant and overarching challenges faced by the World Bank Group, the countries in which it operates, and the development community as a whole. More effective action by all is needed.

This evaluation assesses the Bank Group's support for environmental sustainability—in both the public and private sectors—over the past 15 years. It identifies several crucial constraints that need to be addressed, perhaps most importantly insufficient government commitment to environmental goals and weak institutional capacity to deal with them. But constraints within the Bank Group, including insufficient attention to longer-term sustainable development, must be reduced as well. The Bank Group needs more adequate systems in place—in different respects, across the World Bank, IFC, and MIGA—to monitor environmental outcomes and to assess impacts. Better coordination among the three parts of the Bank Group is also among the key challenges.

Bank Group support for the environment has grown during the past 15 years. Performance has improved over time, though it has been weaker in Sub-Saharan Africa than elsewhere. Meanwhile, as documented in recent United Nations and World Bank/International Monetary Fund reports, environmental challenges, including those related to the Millennium Development Goal for environmental sustainability, have increased, and problems in the critical areas of pollution, congestion, loss of species, and climate change have worsened. In view of the public goods nature of these concerns, the Bank Group has a special role to play with respect to environmental issues—and has indeed been a leader in the analysis and advocacy that helps countries focus on them. But far greater progress is needed in giving these concerns operational priority, including in how the Bank, IFC, and MIGA work together, recognizing that long-term economic growth, poverty reduction, and environmental sustainability are interlinked.

The Bank Group and the Environment

Bank Group support for the environment was largely limited to assessing the potential impacts of selected projects until the mid-1980s, when external pressures helped induce a broader approach. By the early 1990s, many countries were preparing National Environmental Action Plans with World Bank support, and International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), and IFC environment-related financing had grown. Soon after the 1992 U.N. Earth Summit in Rio de Janeiro, the Bank adopted a fourfold agenda comprising safeguards, steward-

ship, integration of environmental concerns into macroeconomic and sectoral interventions (mainstreaming), and global sustainability.

The Bank Group's first formal environment strategy was approved in July 2001. It placed the environment within the institution's poverty reduction mission and highlighted three objectives: improving the quality of life, enhancing the quality of growth, and protecting the regional and global commons. The strategy also enunciated an institutional commitment to facilitate partnerships between the public and private sectors, as well as with civil society, to address environmentally sensitive issues and to promote better environmental management at both the country and global levels. Over the past 15 years, support for the environment has grown. The Bank Group is now the largest multilateral source of environment-related financing, including administration of Global Environment Facility (GEF) grants, and an important source of advice to many country and private sector clients.

Evaluation Approach

Bank Group effectiveness ideally would be judged on the basis of observable improvements in the environment resulting from the interventions it supports. However, even when information on changes in environmental quality is available, which all too often is not the case, obtaining a precise measure of the impact of Bank Group support is difficult because of our inability to separate its influence on policy and environmental improvements from that of other forces.

In view of these constraints, which are common to many evaluations, this assessment relied significantly on country case studies, undertaken in 2006, to explore the influence of various instruments on the environment. The case studies included at least one country from each of the Bank Group's six operational Regions, with particular attention to Sub-Saharan Africa and the Bank's largest clients in lending volume and/or global environmental significance—China, India, Brazil, and Russia. The case study countries account for more than half of the population and nearly half of the land area and gross domestic product of all lower- and middle-income countries.

The evaluation considered the period since 1990, when the Bank Group stepped up its environmental support. Different evaluative approaches and methodologies were used for the various parts of the Bank Group, reflecting their different roles, instruments, and information constraints. The assessment of World Bank interventions considered lending and analytical work intended for environment-related issues together with the evolution of country strategies and policy dialogue. For IFC and MIGA, IEG focused on the performance of all projects (finance and guarantees) in meeting project-level environmental standards, using the Environmental and Social Effects Indicator and assessing IFC's environmental work quality at appraisal and supervision. Also examined were recent environment-oriented Advisory Services, complemented in the case of IFC by case studies in most of the same countries considered in the World Bank analysis.

The evaluation sought to answer five questions:

(1) How and how effectively has Bank Group support contributed to improving environmental quality and sustainability?
(2) How well have Bank Group interventions been aligned with national environmental priorities and private sector needs, and how well have environmental considerations been mainstreamed into Bank Group assistance?
(3) Have the design and implementation of the Bank's environment-related investment projects improved, and, if so, what factors have contributed to this? And have IFC and MIGA Investment and Advisory Services enhanced their private sector clients' management of environmental risks?
(4) To what extent—and how—have partnerships and World Bank Group coordination enhanced the effectiveness of its support for the environment?
(5) What internal and external constraints have limited effectiveness of Bank Group support, and how might they be reduced?

Portfolio and Performance Overview

The Bank Group is involved with the environment in a number of ways, interacting with governments, other financial institutions, private sector clients, and civil society. The World Bank assists countries through analytical, advisory, and lending services to help them address environmental priorities and support policy reforms. Engagement of IFC and MIGA with the private sector has generally sought to ensure that investments adhere to environmental standards, but during this decade, IFC has launched several environment-oriented Advisory Service programs and developed partnerships with the Equator Principle financial institutions. Hence, while IFC and MIGA have fewer direct investment projects designed to improve the environment per se than does the World Bank, all of their financing operations, like World Bank investment projects, need to meet environmental due diligence requirements. Moreover, many IFC projects have built-in environmental benefits, such as improvements in energy efficiency.

Total World Bank commitments between fiscal 1990 and 2007 were $401.5 billion in 6,792 projects. The 2,401 projects specifically identified as involving the environment and natural resource management (ENRM) are officially estimated to include relevant commitments on the order of $59 billion. However, this figure is an approximation and appears to overstate the actual volume of resources going directly for environmental improvement. Apart from environment-related Development Policy Loans (DPLs—general budget support in exchange for policy reforms), in which total lending had reached $3.5 billion by the end of fiscal 2007, ENRM commitments in investment projects considered to be at least 80 percent for environmental improvement were $18.2 billion (the remainder of the $59 billion was in projects with smaller shares devoted to the environment). The total includes Bank-administered GEF grants, Montreal Protocol projects, and carbon finance. An important part of this figure was for sanitation infrastructure (for example, wastewater treatment plants in China and elsewhere). Because of the way Bank commitments are identified, it is unclear exactly how much lending has gone directly for environmental improvement. But the priority given to lending for ENRM appears to be modest.

World Bank environmental project performance, while slightly below the average for its portfolio as a whole, has improved, with a better record from the second half of the 1990s to the present decade than in the early and mid-1990s. This reflects learning and discontinuation of some less successful project approaches. Performance of environmental projects has been weakest in Sub-Saharan Africa, but there has been a range of successful and unsuccessful operations in all Regions.

IFC's engagement with the private sector overall (that is, not dealing specifically with the environment) has grown rapidly in recent years, with annual commitments more than doubling from $3.9 billion to $8.2 billion between 2003 and 2007. From fiscal 1990 through 2007, IFC committed about $56 billion. IFC's environmental support includes GEF projects for about $1 billion, including $320 million from IFC and $185 million in Dutch-funded carbon facilities. It also includes Advisory Services for environment and social sustainability business line projects totaling $208 million by end-2007, which represents a quarter of IFC Advisory Services funding.

MIGA issued guarantees between fiscal 1990 and 2007 for a total exposure of $16.7 billion in 510 projects (again, an overall figure, not referring to the environment per se). The largest share of MIGA operations in the nonfinancial sectors has been in infrastructure, manufacturing, and the extractive industries. As with IFC, there seem to be few MIGA operations specifically intended to avoid damage to the environment. But financing modern technologies in the private sector, while intended primarily to improve productivity and product quality, also generally reduces harmful environmental impacts, given the older technologies they replace.

IFC and MIGA have increased their efforts to engage their clients on environmental issues in

recent years. In April 2006 IFC established its Policy and Performance Standards on Social and Environmental Sustainability, which were adopted (and adapted) by MIGA, effective October 1, 2007. The impact of these new standards cannot yet be assessed. However, environmental compliance and performance gaps in IFC projects over the past 15 years have been most notable in Africa, in part because of weaker sponsor capacity, and (sometimes) wavering sponsor commitment to the sustainability agenda, and in some industry sectors. MIGA has also given increasing attention to environmental issues in its underwriting and has used its contracts to identify applicable safeguard policies, guidelines, and requirements for remedial action. But improvements are needed, particularly in less environmentally sensitive (Category B; see glossary for category descriptions) projects, whose potential impacts typically receive less attention.

Principal Evaluation Findings

The World Bank Group has been a leader in calling attention to the global importance of environmental sustainability. It has made progress in including environmental concerns in its strategies and analytical and lending products since 1990, and increasingly since 2001, and has provided support for the environment through a range of financial and nonfinancial services, private sector investments and guarantees, and regional and global programs and partnerships. When requested, the Bank Group usually has been able to help countries set environmental priorities (although this is ultimately the responsibility of the countries themselves) and private sector clients to identify and address potential direct environmental impacts. It has been far less able to integrate these efforts centrally into country programs, incorporate them as requirements for sustainable growth and poverty reduction, and provide lending to help countries address environmental priorities—often because of lukewarm interest in such support from the countries themselves.

Country strategies

The Bank's country strategies generally take account of national environmental priorities, although insufficient attention has often been given to longer-run sustainability concerns. Treatment of ENRM issues in country strategies has improved over the past 20 years in Brazil, China, and Madagascar, for instance. But there have also been important cases where treatment has not improved. For example, Bank strategies for Russia have reduced the priority given to the environment, which reflects declining central government interest in borrowing and in policy advice for environmental problems. Attention to the environment has been uneven over time in Egypt, Ghana, India, Senegal, and Uganda.

Most Bank country strategies have not integrated IFC and MIGA environment-related activities. However, environment has been a strategic priority for IFC and MIGA in recent years. IFC *Strategic Directions* documents approved by the Board over the past decade have emphasized environmental and social sustainability. The importance of integrating depends on the extent of IFC and MIGA engagement in the countries, the nature and scale of the environmental impacts of their operations, and the degree of coordination needed between policy efforts and private sector investments. In many areas—such as avoiding deforestation, protecting biodiversity, and emerging efforts to address climate change in many parts of the world—it is essential that Bank, IFC, and MIGA approaches that affect the environment be better coordinated to improve overall corporate effectiveness.

Analytic, financing, and guarantee activities

The results of World Bank nonlending activities have often been as significant as those of lending operations in terms of environmental improvement, as in the case of industrial pollution control in Indonesia and river basin management in China. However, even where environmental problems are particularly serious, they have sometimes been treated unevenly in Bank analytical and/or lending activities. Performance in this regard has been relatively positive in countries such as Brazil and China, but less comprehensive or well integrated (particularly in lending) in Egypt, India, Russia, and the case study countries in Sub-Saharan Africa. Among the reasons for these differences are the

size of and resources available for country programs, the lack of client demand, and the capabilities of national and local institutions.

Based on assessments of completed operations in the case study countries and a review of the Bank's ENRM portfolio as a whole, the effectiveness of project types has varied. Land and watershed management operations, community-based forest management projects, and grants to reduce ozone-depleting substances, for example, have generally been satisfactory, as have most biodiversity conservation projects (although there were performance problems in the initial years of such operations). Water resource management projects at the river basin level and urban environmental operations, while not without shortcomings, have also been largely satisfactory based on overall project outcome ratings.

In contrast, Bank-supported operations to combat industrial pollution through credit lines have been only partially satisfactory from the perspective of environmental quality. However, the Bank learned from this experience and discontinued the credit line approach in most countries in favor of alternative approaches, such as public disclosure programs, which have been more successful. Environmental capacity-building projects have often shown weak results as well, but such projects have generally been more successful when they have sought to achieve concrete environmental improvements, rather than focusing mainly or exclusively on institutional development. Environment-related DPLs, in turn, hold potential to influence relevant policies and institutions. However, given that these are recent projects and that programmatic approaches have typically been applied, only changes in policies and institutions can be measured at this stage. It will be important to measure environmental outcomes over the longer term to determine the success of these projects in achieving environmental sustainability objectives.

In Sub-Saharan Africa and elsewhere, integration of ENRM concerns into Poverty Reduction Strategy Credits (PRSCs), and the country-prepared Poverty Reduction Strategy Papers (PRSPs) on which they are based, has not been given sufficient priority. Climate change is another critical area in which Bank Group interventions have been limited. The gap is especially serious with regard to the rising adaptation needs in Sub-Saharan Africa and South Asia. But this is beginning to change. Both the Bank and IFC envisage giving much greater attention to climate-related challenges in the years ahead.

Finally, even though the World Bank applies environmental due diligence to all of its investment projects, it lacks an aggregate monitoring and reporting system (such as in IFC) that would allow it to more systematically assess the environmental aspects and results of the projects it supports. This is a task that both self- and independent evaluation need to undertake.

Turning to IFC, about two-thirds of investment projects met their environmental and social requirements and standards. Significant gaps were found in investment projects in Sub-Saharan Africa, in part for the reasons mentioned above, and in the textile, food and beverage, tourism, and agriculture and forestry sectors. IFC has had a positive influence in helping its clients develop management systems to better address environmental and social aspects companywide. This is important, considering IFC's increasing focus on corporate loans and equity investments that cover all of its clients' activities, compared with narrower project finance. The overall effectiveness of IFC/GEF initiatives was found by an external evaluation to be satisfactory, with mixed project outcomes. A partial review of environment-oriented Advisory Service projects found that they were effective at innovation and development of new services, and their development effectiveness was positive, but often there was not enough information to assess them against expected impacts.

IFC's environmental work quality at appraisal has generally been adequate, but supervision of financial intermediary (FI) projects has been insufficient. Project appraisal has been adequate in identifying direct environmental, social, and

health and safety risks in real sector projects and in diligent translation of IFC generic requirements for FI projects to legal documents. But greater attention is needed to the assessment of indirect and induced environmental and social impacts, which can be significant—for example, in agribusiness projects. IFC's 2006 Performance Standards provide new tools to help define projects' areas of influence, supply chain management, and cumulative impacts, and the new environmental and social review procedure in implementation since May 2006 includes risk-based appraisal and supervision of FIs. However, it is too soon to assess implementation of these standards and the impact they are having on environmental performance.

IFC's measure of project environmental and social effects is confined generally to environmental impacts and performance in meeting standards and requirements at the company level. However, as part of the Bank Group, IFC's impact also includes the sectorwide or Region-wide effects of the operations it supports. Therefore, both self- and independent evaluation should be given broader focus to assess these effects.

Turning to MIGA, performance in meeting environmental requirements and standards in MIGA guarantee operations differed between projects with more (Category A) and less (Category B) serious potential environmental and social impacts. For Category B projects, measures agreed to in the early stages are not always being fully carried out, suggesting the need for additional support and monitoring. As in the case of IFC, MIGA needs to give greater consideration to the broader environmental effects of the investments it supports.

More generally, differences in project-level environmental requirements between the World Bank, on the one side, and IFC and MIGA, on the other, deserve assessment. The Bank follows environmental and social safeguards (operational policies, procedures, and guidelines, last partially revised in August 2004), while in 2006 IFC adopted new Policy and Performance Standards on Social and Environmental Sustainability. A similar approach was adopted by MIGA in 2007. Another key difference is the recourse to an independent Inspection Panel for external complaints in the case of the Bank, while IFC and MIGA rely on the Office of the Compliance Advisor Ombudsman (CAO), reporting to the president of the World Bank Group. The crucial question is the environmental impacts of these differing approaches. They need to be evaluated and the findings incorporated into policies. The forthcoming IEG evaluation of environmental and social due diligence across the Bank Group could be helpful in this regard, but greater self-evaluation is also needed.

Need for more strategic and coordinated approaches

Government ownership of environmental objectives is of particular importance. In addition to enforcing its own legislation, the public sector needs to create an investment climate that will encourage and support environmentally sustainable private sector investment and growth. This is especially important for the energy, water, wastewater, and waste management and recycling sectors, which have significant impacts on both the environment and public health. Furthermore, mainstreaming environmental concerns needs to go farther. Because most environmental problems are spatial externalities and involve more than one sector, they are often best addressed in a cross-sectoral and location-specific way. Many Bank-supported interventions do not go far enough in this respect. More coordinated action is frequently needed among public and private stakeholders, as well as across investment sectors, areas where the Bank Group could be of greater assistance to interested clients.

In supporting sustainable development and poverty reduction, the Bank Group also needs to give more attention to the increasing transnational environmental impacts of rapidly growing developing—as well as OECD—countries, including the effects of rising trade in raw materials and agricultural and forest products from Sub-Saharan Africa and South America to Asia, as well as within Asia. Given associated global

environmental problems, including the impacts of climate change and biodiversity loss, such pressures are being noted by various analysts as important and growing concerns.

Partnerships

The Bank Group has worked with and through a number of regional and global environmental programs and networks, including the Global Environment Facility, the Montreal Protocol, and the Poverty-Environment Partnership with other U.N. and bilateral assistance agencies. Such partnerships have often enhanced the effectiveness of Bank Group support for environmental sustainability at both the country and global levels. However, IEG visits to Egypt, Ghana, Senegal, and Uganda revealed that other donors sometimes view the Bank as an insufficiently responsive partner. At the same time, Bank collaboration with environmental nongovernmental organizations (NGOs) and other donors in Brazil, China, India, Madagascar, and Russia appears to have enhanced mutual effectiveness. One factor associated with these positive outcomes is the presence of Bank environmental specialists in the field, which varies according to the size and complexity of its portfolios in the countries involved.

IFC has sought to extend use of its Performance Standards for private sector investments in developing countries by working with commercial and other multilateral development banks. The Equator Principles, initiated by IFC in 2003, had been adopted by 60 of the world's leading banks by March 2008. These now cover the majority of large-scale project financing in the developing world. To assess their impact, however, financial institutions will need to demonstrate greater transparency and improved reporting with respect to implementation.

External constraints

Several significant constraints at the country and firm levels limit greater effectiveness of Bank Group and other donor support for the environment. A principal obstacle in many settings is insufficient commitment to environmental objectives, policies, and interventions at the national, subnational, and/or firm levels. Rapid population growth, economic expansion, and persisting poverty, together with market, governance, and institutional failures, continue to play an important role, as do political instability and civil unrest, especially in fragile states. Notable too are the frequent inadequacy of information about and understanding of the nature and causes of environmental problems; unclear definition of the domestic environmental agenda and its links to economic growth and poverty reduction; and weak legal, regulatory, financial, technical, human, and institutional capacity.

Internal constraints

Among the constraints within the World Bank Group are competing priorities for the attention of senior managers, insufficient staff technical and operational skills, and suboptimal use of limited administrative budgets. Organization of the World Bank into country and sector departments, while helpful in many ways, nonetheless means that geographic and sectoral boundaries between management units represent potential barriers to more effective assistance, especially for regional and global challenges. Resolution of environmental problems often requires interventions across national or regional boundaries (as in the Mediterranean and Nile Basins). This means that certain internal inertias often need to be overcome.

Given the demand-driven nature of Bank programs at the country level, global public goods, including environmental quality and sustainability, tend to receive insufficient priority. Similarly, not enough attention is given to sustainable development obstacles and opportunities in Bank country and Regional strategies. Addressing these constraints requires strong leadership at the corporate, Regional, and country levels, supported by high-quality analytical work and other tools.

An additional impediment stems from insufficient coordination of action within the Bank Group. For IFC and MIGA to operate effectively, adequate legal and regulatory frameworks need to be in place and enforced at the country level. This depends on government policies and

practices, including transparency, areas in which the Bank often has greater leverage, although Bank influence varies significantly across countries and over time. IFC is also increasingly working with governments—for example, in providing advice on private sector sustainability, corporate governance, and public-private partnership reforms. The feasibility of private investments may also depend on adequate physical and economic infrastructure, such as facilities for treatment of industrial waste and wastewater, which are often undeveloped or nonexistent and provided by public utilities that are World Bank clients. In turn, regulatory reforms supported by the Bank can be made more effective with parallel IFC/MIGA efforts to induce its clients—and the private sector more generally—to comply with these regulations. Such opportunities for coordinated action in support of greater environmental sustainability need to be better identified and exploited.

Achievement of the objectives of Bank Group strategies—including the 2001 Environment Strategy, in which IFC and MIGA were not significant participants—depends partially on private sector actions to stem environmental damage and improve environmental quality, areas where IFC and MIGA can play a vital role. Good collaboration between the Bank and IFC is increasingly seen in several urban and rural programs. However, absent a common framework that allows the Bank Group to understand the full range of environmental effects of its interventions, there is a risk that the public and private sector arms of the Bank Group may be working with different criteria in relation to the environment. This could happen, for example, in the energy, transport, and agribusiness sectors and other future investments that are particularly critical to climate change. Thus, it is important that new investments in both the private and public sectors (for instance, new power investments in Asia and agribusiness investments involving tropical forests in Africa, Asia, or Latin America) meet the same environmental performance standards and consistently seek to reduce environmental damage, including deforestation and greenhouse gas emissions. Better intra–Bank Group coordination of strategies, approaches, and interventions at both the corporate and country levels is essential.

Recommendations

In view of the increasing importance of environmental sustainability for economic growth, poverty reduction, and human well-being, as documented in recent U.N. and World Bank/International Monetary Fund (IMF) reports and the findings of this evaluation, the World Bank Group should seek to enhance the effectiveness of its activities in support of environmental sustainability. IEG recommends the following (details are provided in chapter 6):

1. **Increase the attention to environmental sustainability in the World Bank Group by ensuring that environmental issues enter fully into discussions of its strategic directions and in Regional and country assistance programs.**

Promotion of environmental sustainability (including, but not limited to, addressing climate change) should be a central pillar of the Bank Group's strategic directions in its efforts to support inclusive and sustainable globalization. The World Bank Group should jointly reformulate and update the 2001 Environment Strategy in light of the increasingly important role of the private sector, global public goods, and transnational environmental footprints. The World Bank Group should jointly consider both medium-term (5–10 year) and longer-term (10–20 year) approaches to strengthening environmental sustainability at the Regional and national levels and should incorporate short-term (3–5 year) environmental programs into country assistance and partnership strategies where feasible, especially for countries with large investment portfolios, great environmental challenges, and carbon footprints of global significance. IFC should continue supporting market transformation toward sustainability with its Advisory Services and direct and financial intermediary investments, emphasizing technology transfer and development in

clean production, energy efficiency, and sustainable supply chain management.

2. Move to more cross-sectoral and spatially oriented approaches to environmental support and strengthen staff skills.

The Bank Group should help its clients adopt more cross-sectoral and spatially focused approaches to addressing environmental challenges. Staff technical and operational skills for the delivery of environmental support also need to be strengthened. While the World Bank Group must be responsive to client demand in its policy advice and lending, it can still be proactive in analyzing environmental issues and seeking to identify strategic entry points in countries with significant environmental concerns.

3. Improve the Bank Group's ability to assess its support for the environment and to monitor and evaluate the impacts of its environment-related interventions.

The Bank Group needs to do a better job of measuring the environmental performance and impacts of its activities. The Bank needs to improve monitoring, evaluation, and reporting of environmental aspects and results of lending operations at both the project and portfolio levels. While IFC has evaluated its environmental and social effects since 1996, and recently developed new tools to track and analyze environmental performance indicators at the project level, and MIGA has scaled up its assessment and monitoring of project environmental and social performance, both institutions could improve their attention to baseline and performance indicators for later monitoring and evaluation. IFC and MIGA should also be concerned with and measure more fully the aggregate and supply chain impact—beyond individual project performance—of projects with large environmental dimensions—for example, in oil, gas, mining, energy, or agribusiness projects in high-biodiversity regions.

The Bank Group needs to develop and apply methods to assess its environmental impact. Together with agencies such as United Nations Development Program (UNDP) and United Nations Environment Program (UNEP), it needs to help quantify progress toward achievement of the crucial Millennium Development Goal 7 for environmental sustainability, a goal that is not now being tracked adequately.

4. Improve coordination among the Bank, IFC, and MIGA and between the World Bank Group and external partners (both public and private) in relation to the Bank Group's environmental mission and ensure consistent and effective implementation at the corporate and country levels.

Senior management across the World Bank, IFC, and MIGA needs to give greater attention to ensuring Bank Group consistency and effectiveness in this area. Mechanisms should be established at the top management, Regional, and (where pertinent) country levels to promote, monitor, and report on intra-institutional coordination and collaboration with respect to environment-related strategies (including but not restricted to those concerned with climate change), policies, and interventions. Specific actions are recommended with regard to: (1) corporate strategies for the environment; (2) environmental aspects of country assistance and partnership strategies; (3) monitoring, evaluation, and reporting on environment-related interventions and outcomes; and (4) assessing experience with differing approaches to environmental due diligence for lending, equity, and guarantee operations. Furthermore, strengthening external partnerships with both the public and private sectors should be a central theme in an updated World Bank Group environmental strategy. Effective partnerships will be essential to success in addressing the world's urgent environmental concerns.

Polluted water in the Philippines. Photo by Curt Carnemark, courtesy of the World Bank Photo Library.

Advisory Panel Statement

Introduction

The external Advisory Panel, consisting of Julia Marton-Lefevre (Director General, International Union for the Conservation of Nature, represented at the Advisory Panel meeting by Dr. Erich Vogt, Senior Multilateral Policy Advisor); Bjorn Stigson (President, World Business Council for Sustainable Development); Christian Avérous (Head, Program of Country Environmental Performance Review, Organisation for Economic Co-operation and Development); Yolanda Kakabadse (Advisor, Fundación Futuro Latinoamericano); and Olav Kjorven (Assistant Admininstrator and Director of Development Policy, United Nations Development Program), met on May 2, 2008, at World Bank headquarters to consider the draft IEG report, "Supporting Environmental Sustainability: An Evaluation of World Bank Group Experience, 1990–2007," and prepared this statement afterward.

Terms of Reference

The Advisory Panel was asked to consider whether the evaluation succeeded in answering the questions it set out to examine, whether there were gaps in conclusions and recommendations, and whether the key messages were effectively communicated.

Overall Conclusions

Overall, the Advisory Panel found that the evaluation report was of high quality and contained sound findings. The panel supports the findings in relation to the following issues:

- ***Mainstreaming of environment.***
  The World Bank Group has yet to internalize sufficiently the environmental challenge in its operations and business. Despite many excellent achievements around the world, despite major intellectual accomplishments and many policy innovations, and despite state-of-the-art environmental safeguards, the Bank Group continues to give low de facto priority to the goal of enhancing the environmental sustainability of development. This is documented convincingly by the evaluation report, particularly in terms of the levels of financing dedicated to this purpose, and the lack of integration of a systematic environmental sustainability perspective across policy and financial instruments. For example, the Bank (International Bank for Reconstruction and Development/International Development Association) has too often failed to translate its environment agenda effectively from upstream analytical work, via Poverty Reduction Strategy Papers and Country Assistance Strategies, through to its downstream lending operations.

- ***Integrate energy and climate strategies and deploy low-carbon technologies.***
  To support broad-based economic growth, developing countries will need substantial investments in infrastructure, particularly energy. The Bank Group is uniquely positioned to help countries integrate energy and climate strategies into their national development plans, and it should play a stronger role in this, in partnership with other agencies. On the financing side, the Bank Group could be more active in identifying and setting up financial mechanisms as well as further developing the carbon markets to deploy low-carbon technologies for energy access projects in developing countries.

- ***Focus on environmental management through investments.***
  While Bank lending is by-and-large subject to environmental safeguards to minimize negative impact, only a small fraction of lending goes directly to strengthen environmental management, advance environmentally sound growth

and investment through and with the private sector, and promote transitions toward environmental sustainability in key sectors such as transport, agriculture, and energy.

- ***Coordination of actions in-house and building momentum with partners.***
  The Bank Group has not sufficiently acted "as one" in addressing strategic environmental challenges. In most cases, International Bank for Reconstruction and Development/International Development Association, IFC, and MIGA have pursued, separately, what they considered to be their particular niche "in the market." While we agree that mandates should remain distinct and clear for each of the three, greater efforts to jointly identify and pursue opportunities for synergy is expected.

  The Bank Group should look beyond itself and its relations with client countries, not least in the context of developing new strategies in the environment and climate areas. The imperative of broader partnerships is recognized in the evaluation, but more reflection is needed. The reality of the environmental sustainability challenge is such that the Bank Group cannot realistically take it on in isolation from others. It must approach partnership with the United Nations, with the private sector, and with civil society in a qualitatively new and strategic way.

The Advisory Panel considers these findings to be central to the ability of the World Bank Group to influence environmental sustainability and development and recommends that these findings concerning policy and operations be addressed as a matter of urgency.

The Advisory Panel also found that the evaluation did not adequately address some strategic evaluative issues. These shall not be listed here in their entirety; however, the following areas are of particular concern to the Advisory Panel.

- More evenly represent the balance between project and strategic-level questions. While it has produced interesting findings and data related to some strategic-level issues, these are overshadowed by the heavy emphasis on project and portfolio analysis and performance.
- Provide more data on whether the Bank Group addresses the drivers for sustainability, and make recommendations on how to strengthen the Bank Group's strategy and approach.
- Produce a comprehensive analysis of the effectiveness of the Bank Group's performance as it relates to gender equity dimensions of environmental sustainability.
- Address the criteria with which the Bank Group makes its investment decisions, in the first place, to meet broader environmental objectives.
- Examine how the Bank Group establishes its comparative advantage in environmental programming in relation to other players/partners in the field of environment and development, including the regional development banks, which have a distinct relationship with country governments in their regions, as well as the United Nations and international nongovernmental organizations.
- Provide sufficient qualitative analysis of the breadth and depth of stakeholder/partner consultation and their views.

The Advisory Panel recommends that IEG sharpen the focus and methodology of future evaluations to include these key performance factors.

Specific Recommendations

The Advisory Panel understands and appreciates that, following its review meeting with IEG, a number of its observations have been considered and some have been adapted and incorporated into the evaluation report. The Advisory Panel would like to draw attention to some of these issues:

- The Bank Group must step up its efforts—together with other partners—to make the economic case for strong environmental action, such as by systematically showing the health benefits of environmental improvements. A Stern-like report on the economics of environmental action versus inaction should be considered.
- Given the global, watershed developments in the larger environmental field over the last

10 years, the Bank Group needs a new, transformational environmental policy that addresses today's (known) needs and tomorrow's (still evolving) challenges. This policy must look beyond a useful 10- to 20-year time horizon, to a 40- to 50-year time horizon as well. This time horizon is, at the very minimum, necessary to take into consideration the lifecycle impacts of investments made today, such as in the power and transport sectors.

- Recent efforts to strengthen IFC's environmentally oriented operations and IFC's implementation of its environmental safeguards system, to ensure their effectiveness and impact, must be redoubled. IFC's record to date is mixed.
- MIGA needs to strengthen the implementation of its environmental safeguards as well as embrace a stronger commitment to proactively "do good" as an important area of its business.
- The Bank Group should more broadly support the transfer and effective application of low-carbon technologies and promote more systematically enhanced technology collaboration among developed and developing countries.
- Small and medium enterprises are critical for pursuing sustainable economic growth and halting environmental degradation. The Bank Group needs to pay more attention to this sector and provide more support, particularly in building much needed capacity.
- Declaring that the Bank Group is a unique and special institution of knowledge and learning, a "brain trust" of applied knowledge, is not sufficient. The role of the Bank (and the entire Bank Group) as a knowledge bank must go beyond this to delivering, expanding, and testing this learning—in tandem with partners. The report has little to say about the impact of knowledge and learning in the area of environment.

The Advisory Panel recommends that the areas listed above be urgently given priority in further strategic thinking, action, and evaluation by the World Bank Group.

Conclusion: A Forward-Looking Perspective

The Advisory Panel feels strongly that the Bank Group needs to interpret the findings and recommendations of this evaluation against the backdrop of environmental, economic, and political realities. A number of environmental and natural resource challenges are now attracting the attention of heads of states and governments, as well as macroeconomists and development economists. The forthcoming climate change framework and a host of evolving climate-related funds and facilities, as well as efforts to pull the Bank's various forestry initiatives together, provide the ideal backdrop for setting clear conceptual and strategic priorities on environmental sustainability for the Bank Group. President Zoellick has stressed that the time has come for a transformation in the way the Bank Group approaches development. We support this view.

In this context, the Advisory Panel wishes to flag four areas of strategic importance with real consequences for policy and operational priority-setting, in the context of promoting sustainable development and poverty reduction:

- Transitioning toward low-carbon economy, coupled with expanding clean and affordable energy access for the poor
- Preserving biodiversity while improving rural livelihoods
- Improving resource productivity
- Protecting water resources, coupled with expanding access to water and sanitation.

The global environmental challenge is unprecedented and it requires collaboration among a large number of development partners, including the United Nations system, the Global Environment Facility, regional development banks, bilateral donors, the private sector, research institutions, and civil society. To succeed in implementing a transformative vision of environmentally sustainable development, partnerships are a *conditio sine qua non*. The Advisory Panel believes the most central partnership must continue to be with the client countries, but the challenge of environmental

sustainability reaches beyond the "confines" of that relationship alone. Much more systematic and stronger partnerships must be built and harnessed across the entire spectrum of shareholders and stakeholders. We specifically mention a few, as follows:

- ***The United Nations.*** Over the past several decades, there has been no real concerted attempt at defining and implementing a complementary and mutually supportive approach about the roles and responsibilities of the Bank Group and United Nations agencies in the area of environment. It is time for this to change. Beginning with climate change, but broadening the scope gradually to other areas, the Bank Group and key United Nations agencies should work out a practical and pragmatic way forward, aimed at being able to offer partner countries stronger and more strategic support. The emerging environmental crisis requires a forceful and concerted multilateral response. Countries and people deserve nothing less.
- ***Development banks.*** The Bank Group should develop more strategic relationships with the multilateral and bilateral development banks by building on their distinct relationships with local shareholders and stakeholders in delivering coordinated support to key environmental initiatives. The new partnership approach adopted in the design and implementation of the new climate investment funds could serve as a model for pursuing other, Bank Group/multilateral development bank–supported environmental sustainability efforts.
- ***The private sector.*** The importance of the private sector can hardly be exaggerated. The Bank Group must take a hard look at how it works with the private sector, and the signals it sends to the private sector about its commitment to environmental sustainability, and the opportunities and challenges involved in promoting it. The opportunities for partnership with firms and business groups at all levels are vast. Taking a truly strategic and "picky" approach is essential, as is working more seamlessly across the Bank Group. The Advisory Panel agrees strongly with the evaluation on the need to design a much more strategic approach to market transformation for environmental sustainability (including transition to low-carbon economy), something which requires coordinated work in relation to both public and private sectors.
- ***Civil society organizations.*** Strategic partnership with civil society organizations and networks can greatly expand the reach, effectiveness, and legitimacy of Bank Group efforts. Many civil society organizations have a stronger technical capacity than government institutions, and can promptly react to immediate needs. While working at local or national levels, many are active networkers with similar organizations worldwide, generating and sharing information, experiences, and lessons.
- ***The scientific community.*** The evaluation does not state much about how the Bank Group has worked with or tapped the knowledge of the scientific community. While recognizing the progress that has been made in instituting modern knowledge management and networks in the organization, it is not clear if the Bank Group has effectively harnessed scientific knowledge to develop "cutting-edge" approaches. The Bank Group should consider options for ensuring how best to do this for the future, including the option of reestablishing a senior environmental science position.

As the international community focuses on the need to urgently address global and local environmental challenges, large amounts of resources will hopefully be made available to find solutions to these challenges. However, new resources are not sufficient. The Bank Group needs to complement them with transformational changes of its corporate culture, making environmental sustainability fully part of its development role.

The report's evaluation provides the Bank Group with an excellent basis and opportunity for setting a new course, commensurate with the most pressing challenges of our time.

The Advisory Panel looks forward to the decisions of the governing bodies with great anticipation.

Glossary

Adaptation	Measures taken by societies and individuals to adapt to actual or expected adverse impacts on the environment, especially as the result of climate change.
Biodiversity	Short for biological diversity. Refers to the wealth of ecosystems in the biosphere, of species within ecosystems, and of genetic information within populations.
Carbon offset	A financial instrument representing a reduction in greenhouse gas emissions. Although there are six primary categories of greenhouse gases, carbon offsets are measured in metric tons of carbon dioxide-equivalent (CO_2e). One carbon offset represents the reduction of one metric ton of carbon dioxide, or its equivalent in other greenhouse gases.
Category A (projects)	Projects with potential significant adverse social or environmental impacts that are diverse, irreversible, or unprecedented.
Category B (projects)	Projects with potential limited adverse social or environmental impacts that are few in number, site-specific, largely reversible, and readily addressed through mitigation measures.
Chlorofluorocarbons (CFCs)	A family of inert, nontoxic, and easily liquefied chemicals used in refrigeration, air conditioning, packaging, and insulation or as solvents and aerosol propellants. Because CFCs are not destroyed in the lower atmosphere, they drift into the upper atmosphere, where their chlorine components destroy ozone.
Civil society	The totality of voluntary civic and social organizations and institutions that form the basis of a functioning society, as opposed to the force-backed structures of a state (regardless of that state's political system) and commercial institutions.
Climate change	Change of climate that is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and that is in addition to natural climate variability observed over comparable time periods.
Ecology	The relationship of living things to one another and their environment, or the study of such relationships.
Ecosystem	The interacting system of a biological community and its nonliving environmental surroundings.
Effectiveness	The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.

Emission	Pollution discharged into the atmosphere from smokestacks, other vents, and surface areas of commercial or industrial facilities; from residential chimneys; and from motor vehicle, locomotive, or aircraft exhausts.
Environment	The sum of all external conditions affecting the life, development, and survival of an organism.
Environmental and social effects	IEG's indicator as a part of development outcome evaluation, covering: (1) the project's environmental performance in meeting IFC's requirements and (2) the project's actual environmental impacts, including pollution loads; conservation of biodiversity and natural resources; and, in a broader context, social, cultural, and community health aspects, as well as labor and working conditions and workers' health and safety.
Environmental aspect	Element of an organizations activities, products, and services that can interact with the environment.
Environmental assessment	A process whose breadth, depth, and type of analysis depend on the proposed project. Environmental assessment evaluates a project's potential environmental risks and impacts in its area of influence and identifies ways of improving project design and implementation by preventing, minimizing, mitigating, or compensating for adverse environmental impacts and by enhancing positive impacts.
Environmental footprint	A measure of human demand on the ecosystems and natural resources.
Environmental impact	Any change to the environment, whether adverse or beneficial, wholly or partially resulting from an organization's environmental aspects (as defined in ISO 14001).
Environmental mainstreaming	The integration of environmental concerns into macroeconomic and sectoral interventions.
Environmental Management Plan (EMP)	The synthesis of all proposed mitigative and monitoring actions, set to a timeline with specific responsibility assigned and follow-up actions defined. The EMP is one of the most important outputs of the environmental assessment process.
Environmental management system	Part of an organization's management system used to develop and implement its environmental policy and manage its environmental aspects.
Environmental objective	Overall environmental goal, consistent with the environmental policy that an organization sets itself to achieve.
Environmental performance	Measurable results of an organization's management of its environmental aspects.
Environmental performance criterion	Environmental objective, target, or other intended level of environmental performance set by the management of the organization and used for the purpose of environmental performance evaluation.

Environmental Risk Assessment	An evaluation of the environmental risks associated with a specific intervention.
Environmental Performance Evaluation	Process to facilitate management decisions about an organization's environmental performance by selecting indicators, collecting and analyzing data, assessing information against environmental performance criteria, reporting and communicating, and periodically reviewing and improving the process (ISO 14031).
Environmental sanitation infrastructure	Infrastructure such as a wastewater treatment plant or sanitary landfill designed, in part, to improve environmental quality, although its ultimate purpose is to protect human health and welfare.
Environmental sustainability	Ensuring that the overall productivity of accumulated human and physical capital resulting from development actions more than compensates for the direct or indirect loss or degradation of the environment. Goal 7 of the U.N. Millennium Development Goals specifically refers to this as integrating the principles of sustainable development into country policies and programs and reversing loss of environmental resources.
Equator Principles	A financial industry benchmark for determining, assessing, and managing social and environmental risk in project financing.
Externalities	Uninternalized costs or benefits resulting from one economic agent's actions that affect the well-being of others. They may be either positive or negative. Pollution and other forms of environmental degradation are frequently cited as an example of the latter.
Financial intermediary	An institution that performs financial intermediation between two or more parties.
Greenhouse gas	Gases in the atmosphere that reduce the loss of heat into space, and therefore contribute to global temperatures through the greenhouse effect. Greenhouse gases—water vapor, carbon dioxide, methane, nitrous oxide, ozone, and chlorofluorocarbons—affect the temperature of the Earth.
Hazardous wastes	Byproducts of society that can pose a substantial or potential hazard to human health or the environment when improperly managed. Substances classified as hazardous wastes possess at least one of four characteristics—ignitability, corrosivity, reactivity, or toxicity—or appear on special lists.
Indigenous peoples	Collectively, the members of cultures with historic, ancestral, spiritual, and functional connections to the land on which, and from which, they live. In popular usage, indigenous peoples are distinguished from members of cultures whose connection to the land on which they live is limited to the historical period.

ISO (International Organization for Standardization) 14001	The ISO 14000-series of standards specify the requirements for an environmental management system, which can be integrated with other management requirements to assist organizations in achieving environmental and economic goals.
ISO 14031	ISO standard "Environmental Performance Evaluation—Guidelines."
Mitigation	Measures taken to reduce adverse impacts on the environment.
Natural resource management	Human intervention to guide the use of renewable natural resources such as water, soils, and forests.
Ozone-depleting substances	Manufactured chemical compounds that reduce the protective layer of ozone in the Earth's atmosphere. The Montreal Protocol, administered by the U.N., maintains the list of ozone-depleting substances that are targeted for control, reduction, or phase-out.
Performance standards	The eight Performance Standards establish requirements that the client is to meet in IFC-financed projects.
Prevention	Measures taken to minimize the release of wastes to the environment.
Safeguard policies	Policies designed specifically to ensure that the environmental (and social) impacts of projects supported by the Bank Group are considered during appraisal and preparation. The Bank's safeguard policies cover environmental assessment, natural habitats, pest management, indigenous peoples, cultural resources, involuntary resettlement, forests, dam safety, international waterways, and disputed areas.
Stewardship	Responsible management of the environment and renewable natural resources, with an eye toward assuring their sustainability.
Sustainable development	Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
Wastewater	Spent or used water from individual homes, communities, farms, or industries that contains dissolved or suspended matter.
Watershed	The area drained by a particular watercourse, including the watercourse itself.

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ISBN 978-0-8213-7670-6

SKU 17670

IEG WORLD BANK | IFC | MIGA
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