Chapter 6

Many people in Asia wear masks because of the pollution. Photo by Curt Carnemark, courtesy of the World Bank Photo Library.

Conclusions and Recommendations

Conclusions

The World Bank

The World Bank has made progress in including environmental concerns in its strategies, lending, and nonlending activities, but the operational significance and impact of these efforts have varied over time and across themes, countries, and issues.

In terms of lending, for example, the portfolio analysis and country case studies show that some instruments, such as Montreal Protocol and GEF grants to reduce ozone-depleting substances, have contributed to positive environmental outcomes. Other Bank-supported interventions—such as rural land and watershed management projects, as in Brazil, China, and India; community-based forest management projects, as in India; and biodiversity projects, as in Brazil, China, Ghana, India, Madagascar, Russia, and Uganda—have generally also met their objectives. But use of dedicated credit lines to abate industrial pollution in several countries has not proven to be the most effective approach from an environmental perspective, while attempts to strengthen capacity for environmental management have made progress in some countries, such as Brazil and China, but not in others, such as India and, initially, Madagascar. Such operations have generally been more effective when actions to strengthen institutions were combined with investments to protect environmental assets.

Bank financial commitments for the environment and natural resource management have increased since the 2001 Strategy was adopted.

The overall increase in commitments in recent years, however, is explained in part by greater use of DPLs in Latin America (Brazil, Mexico, and Colombia), although their results in terms of environmental improvement have not yet been assessed. Investment lending for environmental issues, although imprecisely measured, seems to have remained low, as these concerns have not been as high operational priorities for Bank financial assistance in many client countries. The volume of GEF grants and funding for the global environment more generally has also increased over this period,[1] which has helped leverage financing from other sources, including the Bank and IFC. Increasing support has also been given for carbon finance to help address climate change issues. However, Bank-administered GEF grants declined both in number and funding volume in fiscal 2006–07.

Bank nonlending activities for the environment have also been important.

Economic and sector work has increased in recent years, including CEAs and Strategic

Environmental Assessments (SEAs), among other forms of AAA. Some of these activities have had an important influence on national policies and institutions. One example is the technical cooperation provided to Brazil, China, India, Indonesia, Mexico, the Philippines, and elsewhere on the role of public disclosure in industrial pollution management.

Environmental problems are a rapidly growing concern in middle-income countries, but the results of Bank support have varied greatly,[2] while Bank performance in environmental and natural resource management projects has been weaker in lower-income countries, especially in Sub-Saharan Africa.

In the case of Africa, while experience across countries varies and despite considerable support for elaboration and implementation of national EAPs, Bank financial support for the environment in Ghana, Madagascar, and Uganda has largely focused on technical assistance for capacity building and biodiversity conservation (and there has been even less activity in Senegal). While these concerns are not insignificant, much less attention has been given to the urban environment and, more importantly, considering the essential role of natural resources for both environmental sustainability and rural livelihoods, to land, watershed, river basin, and forest management.

IFC

IFC's support has been moderately satisfactory in meeting its due diligence requirements and standards at the project level. But gaps were found in investment projects in Africa and in some industry sectors, and in achieving expected impacts with some environment-oriented Advisory Services.

The environmental and social effects success rate of projects evaluated by IEG was 67 percent. Thus, one in three projects did not fully meet IFC requirements. Inadequate performance was especially evident in Sub-Saharan Africa and in the textile, food and beverage, tourism, and agriculture and forestry sectors. IFC helped its clients develop environmental and social management systems to better address those aspects of their operations and has also rapidly developed its environment-related Advisory Services over the past five years. The services that have been evaluated have been generally positive, but findings concerning project impact in three dedicated environmental facilities were mixed, and impacts in the Environment and Social Sustainability business line projects are difficult to assess.

The quality of IFC's environmental work at project appraisal has been good overall, but the quality of environment-related supervision of FI projects is a concern.

This is explained in part by limited in-house resources to visit FI projects. Even though the percentage of subprojects with environmental or social risks in the FI portfolio appears to be small, the aggregate impacts of a large number of subprojects may be significant, especially when FI clients lack resources to ensure proper mitigation of pollution. IFC has recognized this gap and has increased supervision resources and improved review processes for such operations.

Despite recent progress, IFC faces substantial environment-related challenges.

IFC has developed a Policy on Social and Environmental Sustainability and Performance Standards, launched sustainable business initiatives, geared its Advisory Services more toward sustainability, and enhanced its systems to identify, monitor, and evaluate performance criteria for both investments and Advisory Services. It has also increased its potential to indirectly influence environmental and social impacts of private sector activities by launching the Equator Principles, which now cover the majority of large-scale project financing in the developing world. But, in addition to it being too soon to evaluate the results of these recent changes, three challenges are especially noteworthy:

- ***Implementation of the Global/Local Strategy.*** The strategy is to move environmental specialists closer to clients. However, maintaining the coherence and knowledge base of IFC's more decentralized environmental staff will be a challenge. The strategic focus on frontier markets, especially in Sub-Saharan Africa, requires that IFC develop and intensify its environmental investment support and Advisory Services. In addition, corporate finance is increasing and involves greater environmental risks compared with project finance, making development of more effective environmental and social management systems even more important for IFC and its clients.

- ***Improve sustainability of financial intermediary subprojects with environmental and social risks.*** FIs often do not have legal obligations to the host country to ensure sustainability of their subprojects, lack environmental management capacity, and are unwilling to hire external consultants because of the associated costs in a competitive market situation. There is thus a need for IFC to expand its own environmental supervision resources; nurture consultancies and partnerships to help FIs identify, monitor, and mitigate ESHS risks; and provide adequate capacity building and incentives for FIs and their clients to improve environmental performance.
- ***Introduce more effective safeguards in environmentally sensitive regions that have weak environmental governance, such as the last large areas of tropical biodiversity.*** Indirect, induced, and cumulative environmental impacts are difficult to identify and mitigate, especially when governance or political will in the public sector is weak. Better up-front environmental and social assessment and stronger mitigation efforts are required in similarly complex situations.

To consider the performance of IFC and MIGA as part of the World Bank Group's contributions, a shift is needed to focus on issues beyond those of individual projects to include the aggregation of impacts in the affected sector or region of a country.

Individual project performance is confined mainly to compliance with standards at the company level, but the evaluation of IFC and MIGA as parts of the World Bank Group must also consider the sectorwide or regionwide effects. This is a direction that both self-evaluation and independent evaluation must take.

MIGA

For a sample of MIGA projects, performance in meeting requirements and standards differed between Category A and Category B projects.

At Board approval, 73 percent of Category A projects and 83 percent of Category B projects met the requirements and standards for an acceptable EAP. At evaluation, 80 percent of Category A projects met MIGA's performance requirements in implementing the EAP, but only 63 percent of Category B projects did. This was mainly because MIGA environmental and social guidelines were not comprehensively addressed or EAPs were not adequately implemented.

Although MIGA does not have an explicit business line to support environmentally beneficial projects, it can contribute to improved environmental quality by helping private sector clients demonstrate best practice and by working with investors committed to "doing good."

MIGA can promote environmental governance by ensuring that its clients establish and train staff to effectively implement EMSs. Given the increasing focus on the impacts of development on the environment, MIGA may also need to address issues of global environmental sustainability—by promoting environmentally beneficial projects, for example.

MIGA needs to continue to make progress in several areas.

These include fully implementing the harmonization of assessment and monitoring requirements of Category B projects with those of IFC; including environmental health and safety reporting requirements in Contracts of Guarantee; requiring investors to set up EMSs on a timely basis, as appropriate to a project cycle; and moving beyond safeguard compliance to promote sustainability. MIGA's new Policy and Performance Standards are consistent with these remaining concerns. IEG is supportive of MIGA's formal incorporation of social and environmental sustainability in its core business and recognizes that the real challenges lie in the implementation of the 2007 policies.

World Bank Group

Environmental problems in developing countries remain serious and are increasing in many places, reflecting both the Bank Group's limited ability to affect larger—including market—forces that have an impact on the environment and the need for greater attention to these concerns by the countries themselves and the donor community as a whole.

Even though the Bank has provided considerable lending for urban sanitation and environmental management in China and elsewhere, poor water and air quality continue to generate serious public health problems in megacities and other urban areas. Global greenhouse gases continue to rise, especially in China and India (as well as in some developed countries), and the Bank has only recently stepped up its efforts to help the most vulnerable nations in South Asia, Sub-Saharan Africa, and elsewhere adapt to the likely impacts of climate change. Finally, despite Bank-supported interventions in support of sustainable development in the Brazilian Amazon over the past several decades, deforestation continues at high rates and could further accelerate, depending on the evolution of international and domestic demand for beef, soybeans, timber, and ethanol, together with government infrastructure and private agribusiness investments. While the Bank Group cannot be expected to address all environmental priorities, and ultimately is limited by what its clients want it to do, it can nonetheless be more proactive in its efforts to help them address local and global environmental challenges, both through its own support and by working more effectively with partner institutions that share the same objectives.

The world has changed considerably since 2001. The role of the private sector in international financial flows—and of IFC and MIGA operations within the World Bank Group—has sharply expanded, while global environmental challenges, especially climate change and transnational environmental footprints, have become increasingly important and visible. In this context, and in view of its efforts to promote inclusive and sustainable globalization, the World Bank Group's strategy for the environment needs to be updated.

It is crucial that the World Bank Group have a clear definition of its role in support of its clients' efforts to achieve greater environmental sustainability in the years ahead. Consultations carried out during this evaluation revealed that a broad range of external stakeholders, including the private sector and civil society, are looking to the World Bank Group for this definition. Representatives of the private sector have indicated, moreover, a desire to continue to engage actively, not only with IFC and MIGA in relation to environmental sustainability concerns, but more directly with the World Bank as well.

Strengthening coordination and collaboration in relation to the environment within the World Bank Group, at both the corporate and country levels, should be a central part of the updated strategy.[3]

This is particularly important for countries where the Bank Group has its largest portfolios and whose environmental management challenges have the most significant global implications. It also reflects a broader need for more effective public-private partnerships in countries where the Bank Group operates, as well as for greater transfers and development of appropriate technologies, and support for environmentally friendly market transformation more generally. Stronger intra-World Bank Group collaboration is needed across the board, including in work with its clients to improve environmental performance of small and medium-size enterprises, as well as with larger firms and financial intermediaries, through better supply chain management and capacity building, among other measures.

The evaluation confirms that partnerships can—and often do—play a vital role in enhancing the effectiveness of Bank Group support for environmental sustain-

ability. But it has also shown that these partnerships have not always been as effective as they might have been, and thus could—and should—be enhanced.

This is especially important given the growing scale and seriousness of many environmental problems at both the national and global levels. The Bank Group's existing environment-related partnerships with other U.N. agencies (especially UNEP and UNDP), with programs such as the GEF, with major international environmental NGOs, and with the private sector should thus be strengthened. The Bank Group should also collaborate with MDBs to promote the use of IFC Performance Standards and engage with more financial institutions to adopt Equator Principles, while helping them to improve their compliance reporting. Partnerships in the public and private sectors should also be a central theme in updating the World Bank Group environment strategy, a process that should include active consultations with such partners. All of this, however, including future joint activity in relation to climate change, must continue to occur in the context of the Bank Group's overriding poverty reduction and sustainable development mission. Environmental issues, while increasingly important, are only part of the dialogue. World Bank Group clients also face many other challenges, and the Bank Group must grapple with other demands as well.

While helping clients address climate change (including responding better to both mitigation and adaptation needs) is critical, it is equally important to ensure that other persisting environmental challenges—such as biodiversity conservation, water resource management, and local pollution abatement—continue to receive adequate priority and attention.

In updating the strategy, the economic benefits of environmental investments and the need to avoid the costs of inaction should also be brought out, together with the links to poverty reduction and growth in both the short and longer term.

The Bank Group, particularly the World Bank, needs to strengthen its information base regarding the environmental aspects, results, and impacts of its interventions.

This evaluation has found shortcomings in this regard at both the individual project and portfolio levels. Better tracking of the environmental effects of Bank Group advisory and other nonlending services would also be desirable. Monitoring, evaluation, and reporting need to be enhanced at all levels, as does environment-related research and knowledge generation and dissemination more generally, both within the World Bank Group and in conjunction with external collaborators. The Bank Group can and should learn more from the experience of other organizations, including its major development and country partners. In short, the World Bank Group's role as a knowledge bank on matters related to the environment and sustainable development needs to be reinforced.

Recommendations

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 Regional and country assistance programs.

Promotion of environmental sustainability (including, but not limited to, addressing climate change) should be a central pillar of the World Bank Group's strategic directions in its efforts to support inclusive and sustainable globalization. The Bank Group should jointly reformulate and update the 2001 Environment Strategy in light of the new international realities—including the increasingly important role of the private sector, technology transfer to developing countries, global public goods, and transnational environmental footprints—and emerging Bank Group corporate priorities.

In close collaboration with its client countries, the World Bank Group should also 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 and environmental challenges of global significance.[4,5]

Such approaches and programs should also seek to identify opportunities for intra-Bank Group cooperation in helping clients address key national and global environmental challenges, including pollution reduction and long-term (for periods up to 50 years) goals for greenhouse gas abatement and adaptation to climate change. Areas of joint activity could include promotion and development of public-private partnerships for the provision of environmental sanitation and environmentally responsible power and energy projects (hydropower, clean coal, energy efficiency, alternative energy sources, and the like). Project selection and nonlending support, including IFC Advisory Services, should seek to maximize environmental benefits, especially by helping market transformation toward sustainability.

The World Bank should continue to work closely with its development partners to help countries address environmental problems. Wherever possible CEAs and SEAs should be used for this purpose at the national, policy, sectoral, and subnational levels. Institutional capacity building should be viewed as a means rather than an end, and thus be linked to attainment of observable environmental outcomes. Greater attention should also be given to improving the performance of projects that focus primarily on environmental policy and institutions, as well as to that of environment and natural resource management projects in Sub-Saharan Africa more generally.

IFC and MIGA should further encourage the adoption and use of the Equator Principles as global environmental standards in private sector investments in the developing world and IFC Policy and Performance Standards on Environmental and Social Sustainability by MDBs, and seek to extend their use among public financiers. The results of application of these mechanisms should be carefully monitored, reported, and evaluated—for example, by using external assurance companies.

IFC should continue to develop systems with its Community Learning Initiative to improve accountability and transparency among Equator Principles signatories. It should also encourage and support environmental consultants and develop and institutionalize market-driven training to help them master IFC's Policy and Performance Standards on Social and Environmental Sustainability. IFC should focus its Advisory Services and capacity building efforts on Regions and sectors with low environmental performance, especially Sub-Saharan Africa and the textile, food and beverage, tourism, and agriculture sectors. 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.

MIGA should move beyond safeguard compliance to promote sustainability consistent with MIGA's new Policy and Performance Standards. It should proactively expand its environment-related technical assistance to clients, which should enable it to be more effective in helping the private sector to meet its new Performance Standards, especially in Sub-Saharan Africa.

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

The World Bank Group should help its clients adopt more cross-sectoral and spatially focused (including area-based) approaches to environmental challenges. While the Bank Group should 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. For example, it should seek to be more proactive on a variety of environmental concerns, including adaptation to, as well as mitigation of, climate change, but not at the expense of other local and global environmental priorities. It also needs to better integrate environmental, health, and labor issues under its sustainability agenda in the short and longer terms.

In the World Bank, this applies to efforts by country departments and Regions to help address problems that cross national and regional boundaries, as well as to increasingly serious environmental and carbon footprint concerns, which should receive greater analytical and operational attention across the World Bank Group. The Bank should also seek to strengthen its Poverty Assessments, PRSCs, and analytical work on pro-poor growth, as well as its support to countries for preparation of PRSPs, by giving greater emphasis to linkages between poverty and the environment. Greater attention is also needed with respect to environmental health issues in both rural and urban areas, which will require stronger collaboration among those responsible for health, water supply and sanitation, energy, transport, urban development, and environment. This also applies to those working on vulnerability issues, including issues related to the impacts of climate change.

World Bank Group staff skills should be strengthened in a number of technical and operational areas, including adaptation to climate change, carbon finance, and the ability to deliver environment-related investment and policy reform projects. This requires improvements in training and selective recruitment of experienced staff, including in areas related to climate change and alternative financing mechanisms. While some additional resources may be required, priority should be given to using existing human and budget resources more effectively.

IFC and the Bank should better coordinate policy dialogue with governments to enhance structural reforms aimed at public-private partnerships in the water; wastewater; and waste management, reuse, and recycling sectors, and ensure that industry views in these and other environmentally relevant and sensitive sectors are represented in the national and sectoral policy dialogues.

In implementing their Environmental and Social Performance Standards, IFC and MIGA should stress the need for clients, especially financial intermediaries, to develop and implement solid ESMSs in recognition that sustainability is key to their business success; ensure that engineering and pollution control system design and community engagement are integrated in the early project stage to provide environmentally, socially, and economically sound solutions; and use more independent environmental audits as part of project completion tests. IFC should also emphasize the potential for environmental benefits in its marketing and selection of projects. MIGA's engagement with projects should provide advice on environmental (and social) issues to help bring clients closer to best practices in the industry.

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

The World 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 recently developed new tools to track and analyze environmental performance indicators at the project level, and MIGA has scaled up it assessment and monitoring of project environmental and social performance, both institutions need to further improve their attention to baseline environmental assessments for better identification of performance indicators, especially those regarding specific and annual emissions. IFC and MIGA should also be concerned with and measure more fully the aggregate impact —beyond individual project compliance—of projects with large environmental impacts, such as those in energy and agribusiness.[6] The Bank Group needs to develop and apply methods to assess environmental impacts. Together with agencies such as UNEP and UNDP, it needs to help quantify progress toward the achievement of Millennium Development Goal 7 for environmental sustainability, a goal that is not being tracked adequately.

The World Bank should improve the way it determines how much of its total financing has supported environmental improvement. It should also revise its preparation guidelines for Implementation Completion Reports to require a more systematic review of project environmental dimensions and results—including, but not limited to, application of and compliance with environmental safeguards—as it already does for poverty, gender, and social development aspects of projects. Existing IFC and MIGA systems to identify, track, and evaluate project environmental performance and impacts could provide a starting point for better monitoring by the World Bank. A mechanism to track the influence of Bank nonlending services on environment-related policies and institutions in client countries is also desirable. Results of such assessments should be considered in the periodic country assistance/partnership strategy implementation review and updating process.

Reporting and monitoring of performance criteria in IFC projects should include specific emissions and mass flows in addition to the present system that monitors pollutant concentrations. These indicators should be determined before and assessed afterward for all relevant projects to track their impacts on such matters as the abatement of effluent discharges and dust and greenhouse gas emissions. For environmentally sensitive IFC agriculture and forestry projects, especially in areas of high biodiversity, carefully designed baseline studies should be done to identify indirect, induced, and cumulative (as well as direct) environmental and social impacts. Adequate plans to mitigate any negative effects should be designed, implemented, and carefully monitored. Sustainability of supply chains with certification schemes and third-party monitoring should also be enhanced.

MIGA should fully implement the harmonization of assessment and monitoring requirements of Category B projects with those of IFC. It also should make a sustained effort with its clients to improve performance of projects on its environmental and social policies on a timely basis, as appropriate in a project cycle. Investor clients should be required to establish environmental and social project management systems at a sufficiently early stage to effectively monitor impacts, including during construction. MIGA's Contracts of Guarantee should consistently incorporate provisions for regular reporting of safeguard performance during project implementation.

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

Mechanisms should be established to promote and monitor coordination across the Bank, IFC, and MIGA with respect to environment-related policies, strategies, and instruments. Areas where specific interventions are recommended include the following:

- Bank Group strategy for the environment, including climate change, should actively involve IFC and MIGA, starting with the updating of the 2001 Environment Strategy and monitoring and evaluation of its implementation.
- Environmental aspects of World Bank Group country assistance and partnership strategies— especially for countries with large or rapidly growing portfolios and those facing significant environmental challenges—should be identified jointly by the Bank, IFC, and MIGA and mitigation of adverse impacts should be planned, monitored, evaluated, and reported in a coordinated and timely manner.
- The various parts of the World Bank Group should increase efforts to share experience in the up-front assessment, monitoring, evaluation, and reporting of environmental aspects, results, and impacts of their lending and non-

lending activities at both the corporate and, where pertinent, country levels.
- Application and results of environmental due diligence policies and procedures (safeguards and Performance Standards) should be systematically monitored and evaluated by all three parts of the World Bank Group.

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.

MIGA should improve coordination with global programs, such as the GEF and the Bank's Carbon Finance Group, and other entities to identify potential partners whose clients might benefit from MIGA guarantee support.