

# Management Response

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## Introduction

Management welcomes the opportunity to comment on the evaluation of the World Bank Group experience with the environment agenda, covering the period from 1990 through 2007 prepared jointly by the three units of the World Bank Group's Independent Evaluation Group (IEG): IEG-World Bank, IEG-International Finance Corporation (IFC), and IEG-Multilateral Investment Guarantee Agency (MIGA).

It is useful to take stock of progress on this important element of World Bank Group's vision to contribute to inclusive and sustainable globalization—to help reduce poverty, enhance growth with care for the environment, and create individual opportunity. Management concurs with several aspects of IEG's main findings. Many of these findings reinforce important messages already captured in the Bank's Environment Strategy and recent update (World Bank 2001b, 2003a, 2008c), or in the findings from Bank economic and sector work, internal reviews and self-evaluation, and emerging lessons from operational experience across the World Bank Group.

At the same time, management expresses concern over the evaluation methodology employed by IEG, the gaps in evaluated areas, and the resulting use of findings to draw broad conclusions. The metrics and evaluation scope are inconsistent across the institutions; as a result, some findings, conclusions, and recommendations are not drawn from the entire set of environmental sustainability-related activities across the World Bank Group. Therefore, on several aspects, management differs, sometimes markedly, with IEG's findings and recommendations.

**Lack of adequate coverage of IFC's Sustainability Strategic Pillar.** In particular, the report falls short

in achieving the necessary depth of coverage of activities and programs under IFC's Sustainability Strategic Pillar. Sustainability is a core element of IFC's strategy, encompassing a range of initiatives that include standard setting in social and environmental performance, sustainability advisory services, promoting sustainable investing, scaling up renewable energy and energy efficiency project financing, and reducing IFC's environmental footprint. The report's shortcomings in this respect are partly a function of an evaluation that centers on different sets of activities for the Bank and IFC and MIGA.

**Limited Group-wide relevance.** Given the aforementioned fundamental evaluation limitations and the report's objective of presenting group-level findings on the World Bank Group's full range of environmental sustainability activities, the report in some key areas has "over-synthesized" issues as Bank Group-wide and/or as sustainability-wide, while in fact they are relevant to only certain parts of the Bank Group or to certain parts of the World Bank Group's sustainability initiatives. Management, therefore, differs with IEG's recommendations on several aspects, as outlined below in some detail.

## Key Issues of Agreement and Divergence

This management response first outlines the areas in which management broadly agrees with

the analysis in the review. It then discusses areas in which management believes that IEG has drawn generalized conclusions from incomplete analysis or conclusions that may go beyond the findings or do not fully take into account the underlying context. It also notes areas where IEG could have given a fuller account of efforts the World Bank Group is already making.

### **A. Areas of agreement**

There are several areas of agreement that management would highlight. These include the centrality of environmental sustainability in the Bank's work, the importance of country ownership, the key role for analytical support to countries, and the need for strong collaboration across sectors and across World Bank Group institutions on environmental sustainability issues.

**Centrality of environmental sustainability.** Management concurs that environmental sustainability is an important part of the World Bank Group work. The 2001 Environment Strategy highlighted how environment was crucial from the perspective of both growth and poverty reduction; it also underscored that it was a theme applied across the World Bank Group (World Bank 2001b). More recently, this theme has been reflected in the priority and management attention across the World Bank Group devoted to climate change, an important environmental sustainability issue, Bank-wide and across Regions. Significant efforts on the nexus of environment and growth/poverty reduction front have been made and more are under way at the Regional level. Each of the Regions has prepared a Regional environment strategy to customize the overall strategy to specific Regional conditions. The approach to climate change is similar, with Regional strategies or business plans being prepared. Also, as noted earlier, IFC has made climate change and environmental and social sustainability one of its five strategic pillars, and it has included sustainability as a core business driver in its fiscal 2009–11 Road Map, recently presented to the Board of Directors (IFC 2008).

**Centrality of country ownership and the difficulty of attribution.** The report highlights the importance

of country ownership and the priority that countries place on environmental sustainability as the main determinants of country outcomes. It also correctly highlights the difficulties associated with measuring and attributing environmental outcomes to specific support from the World Bank Group. Although these difficulties apply across all sectors and themes, in part because countries' own policies and actions are the key determinant, they are especially acute around environmental issues, because support is provided by a wider set of donors than in many other sectors normally working together; and separating out the World Bank Group contribution would not be possible. Similar challenges are encountered when considering the contributions made by the private sector on macrolevel sustainability indicators; however, project-level impacts are easier to delineate.

**Centrality of good analytic support to countries.** Given that each country's policies and actions determine environmental outcomes, management concurs with IEG on the importance of supporting countries on a demand-driven basis with good analysis. The IEG evaluation highlights the role of Country Environmental Assessments (CEAs) and Strategic Environmental Assessments (SEAs). Management sees these as important but by no means unique analytical tools to help countries mainstream environment into their policies and programs, and, therefore, into the Bank's Country Assistance Strategies, which reflect country-determined priorities.

The Bank has devoted considerable attention in the last three years to improving the effectiveness of SEAs with regard to helping inform policy choices. A pilot program is under way on institution-centered SEAs, which focus specifically on strengthening institutions and governance. This pilot program is being carried out in close coordination with bilateral and United Nations partners on the Organisation of Economic Co-operation and Development–Development Assistance Committee Task Team on SEA. The Bank has also played an important role in this task team as a contributor to the

preparation of good practice guidance on SEA in development cooperation.

CEAs are an important tool to initiate and conduct a dialogue with countries on key environmental priorities linked with both poverty reduction and economic growth. The Bank continues to apply this tool strategically to respond to different needs in different country circumstances, with good results. A recently completed review of five years of experience with CEA, which draws on good practice examples, emphasizes many elements that are consistent with this IEG evaluation. These include: (1) building on analytic work of other agencies (including CEAs, SEAs, and Environment Performance Reviews); (2) highlighting the poverty dimension through more distributional analysis; (3) applying institutional analysis at a sectoral and key environmental topic level to better derive recommendations that strive to tackle key environmental issues (that is, treating institutional analysis as a means rather than as an end); (4) presenting both short- and longer-term recommendations in the report, recognizing that some interventions take longer to implement; and (5) emphasizing ways the CEA can be used as a tool to better coordinate with donors. The Bank also continues to coordinate on a regular basis with the regional development banks, as well as bilateral donors, on country-level analytical work to share experiences and lessons learned.

***Need for strong collaboration across sectors.***

Management concurs with IEG’s observations on the need for strong collaboration among those responsible for country support on health, water supply and sanitation, urban development, energy, and transport, both in urban and rural settings. The recent Health Strategy (World Bank 2007c) exemplifies the multisectoral collaboration that is essential to achieving outcomes that address the basic health challenges so prevalent in developing countries. This strategy was developed through close collaboration between the Sustainable Development Network and the Human Development Network.

A recent piece of economic and sector work, “Environmental Health and Child Survival” (from the Environment Department), highlights this same point and discusses the close synergies between health, infrastructure, and environmental programs and how these could be enhanced further to achieve better outcomes (World Bank 2008a). The recent work on the transport strategy (World Bank 2008d) also benefited from this kind of collaboration. As highlighted in the recent *Global Monitoring Report* (World Bank 2008b), this commitment to collaboration is evident not only within the Bank but across all development partners. Indeed, collaboration with other partners is being strengthened. For example, a forthcoming (June 2008) poverty-environment partnership joint-agency paper—endorsed by 19 agencies, including the United Nations Development Programme, United Nations Environment Programme, and the World Health Organization, and a group of bilaterals, as well as several nongovernmental organizations—focuses on poverty, health, and environment and how, from the perspective of meeting the Millennium Development Goals, these issues can be included in poverty-reduction strategies and development plans.

***Potential for significant leveraging effect through standard setting.***

Management agrees with IEG’s finding that IFC has a role to play in continuing to promote Equator Principles as a global environmental standard for private sector investments in the developing world. This is an example of the leveraging effect the World Bank Group can have through a process of consultative standard setting and dissemination. The recent update of Part III of the *Pollution Prevention and Abatement Handbook* (that is, the industry-specific guidelines) (World Bank Group with UNEP and UNIDO 1999) led by IFC, in close collaboration with the Bank, is another example of both standard setting with global significance and of close collaboration between the two institutions.

***Strong coordination across MIGA, IFC, and the Bank.***

Management agrees that continually improved coordination across the Bank, IFC, and MIGA can

yield even better results. Close collaboration among all three in the context of the preparation of the Clean Energy Investment Framework (World Bank 2007a) and a climate change strategic framework for development (World Bank 2007j) are good examples of the commitment to such coordination. The aforementioned update of Part III of the *Pollution Prevention and Abatement Handbook* is another example of such collaboration. A further example is provided by the work undertaken by MIGA, with the close cooperation and assistance of the IFC, leading up to the adoption in October 2007 of MIGA's new Social and Environmental Policies, Performance Standards and Policy on Disclosure. These policies were closely modeled on the new IFC policies and standards of 2006.

### **B. Areas of divergence**

Although noting several areas of agreement, management would also like to note several areas in which it diverges from the analysis and findings in the IEG evaluation.

***Different and incomplete scope of analysis leads to conclusions not drawn from the full range of World Bank Group sustainability activities.*** As noted earlier, the metrics and evaluation scope are inconsistent across the institutions and as a result, findings, conclusions, and recommendations are not drawn from the entire set of sustainability-related activities across the World Bank Group.<sup>1</sup> IEG's evaluation combines two noncomparable impact indicators of two different categories of projects: (1) the development outcome of the Bank's "do good" (notably environment and natural resources management) projects, representing a small portion of the Bank's portfolio; and (2) the environmental outcomes and performance of IFC's and MIGA's mainstream investment activities (therefore, their entire portfolios). Activities that IFC undertakes in the sustainability domain—notably other advisory activities and the groundbreaking innovative work over the last 10 years (including renewable energy/energy efficiency projects, among others)—are also missing from the analysis. The evaluation of IFC's non-due

diligence activities (or "do good" activities, per the report terminology) is cursory and incomplete. The report states that "... IFC and MIGA have fewer investment projects designed to improve the environment per se ..." and then goes on to indicate that "IFC's environmental nonlending support includes Global Environment Facility projects for about \$1 billion and \$185 million in Dutch-funded carbon facilities. It also includes active Environmental and Social Sustainability business line projects which totaled \$208 million by end 2007, or a quarter of current total advisory funding." The \$1 billion actually includes some \$320 million from IFC, \$200 million from the Global Environment Facility, and \$485 million from donors. If the study's objective was to identify observable improvements in the environment through "do good" actions/projects, then IEG should have included the Bank's environmental interventions along with the corresponding IFC activities and programs focused on the environmental sustainability agenda. IEG's review therefore does not fully capture the extent to which the mainstreaming of the sustainability agenda has occurred within IFC and the entire scope of operations that has resulted from the adoption of sustainability as a strategic pillar. This is a missed opportunity for IEG to provide a meaningful evaluation of IFC's full range of sustainability activities.

***Drawbacks of the country case study-based methodology.*** The IEG evaluation notes why it took a case study approach.<sup>2</sup> However, it is unclear why applying that methodology to the largest countries can lead to conclusions that can be applied across the board. In South Asia, for example, the Bank's environmental program in India is not representative of programs in much smaller countries. In general, the experiences of the BRIC countries (Brazil, Russia, India, and China) constitute an exception, given their large geographic mass and populations. Moreover, the evaluation is not clear with respect to whether a standard methodology was used across case studies. In addition, with these kinds of studies, local context needs to be taken into account. For all these reasons, it is difficult to generalize across

the universe of countries based on the case study results.

**Difficulties with the analysis of portfolio trends.** In its investment lending, the Bank supports countries in their investments in specific sectors—for example, agriculture, forestry, mining, sanitation, or transportation—that can have positive environmental and/or natural resource management benefits. Like social development or public sector governance, environment and natural resources management is a theme—corresponding to the goals of sectoral support. The IEG evaluation argues that the Bank’s thematic coding system tends to overstate the amount of lending commitments supporting environmental improvements in investment projects.

Management would argue that the sector and thematic classification and coding system may well understate the Bank’s environmental support to countries, particularly given (1) the limit on the number of thematic codes that task teams can assign to a country’s operation that they are supporting (the system accepts a maximum of five subthemes per project) and (2) the practice adopted in the coding system that a single dollar of lending can only support one sub-theme, although in reality the same investment dollar may support, for example, water resources management, biodiversity, and rural development. As it does periodically, management is reviewing its sector and thematic coding but notes that, even with the limitations noted above, the system provides a good degree of clarity on the goals of activities supported by the Bank.

**Development Policy Operations (DPOs), budget support, and the timeframe for environmental outcome improvements.** The IEG evaluation recognizes the potential of environment-related DPOs to support policy and institutional reform. It considers DPOs separately because it observes that the environmental results of DPOs may not be directly related to amounts disbursed, as with investment operations. The evaluation states that moving to Poverty Reduction Support Credits and other forms of budget support in Africa may

indicate uneven support for the environment. Many of the DPOs in support of the environment have been programmatic in nature (for example, Mexico). Environmental outcomes are best measured at the end of the program.

The report notes that stand-alone technical assistance and capacity-building projects have been less effective than others in the portfolio. This is an important finding and deserves greater scrutiny. Perhaps the reason (acknowledged in the conclusions of the report) is that capacity problems cannot be addressed in a single operation and require a long-term engagement. Management notes that programmatic DPOs, including Poverty Reduction Support Credits, exemplify such long-term engagement. They represent strong—not weak or uneven—Bank commitment, and their extended duration may permit continual opportunities to address environmental issues in dialogue with the country.

Management would also note that the Bank and other donors are moving to increase the share of external assistance flowing through country budgets (one of the Paris Declaration goals). Budget support recognizes the centrality of government ownership and also the importance of funds flowing through country budgets for fiscal discipline. A related point is pertinent: Bank support for a certain sector does not necessarily mean additional investment in that sector. Countries, as they should, set their own budget priorities and seek funding to meet overall budget financing needs. Often, seeking Bank support in a given sector is more related to the international experience and knowledge the Bank can bring to that sector. Specifically with regard to DPOs: as pointed out in the IEG evaluation, DPOs can help countries strengthen policies and institutions. Stronger policies and institutions can strengthen environmental outcomes across the whole spectrum of investments in a country, not just those supported by the World Bank Group, with much greater impact.

**Broader look at World Bank Group performance.** Although the evaluation is focused on the

environment portfolio, management would suggest a more substantial acknowledgement that often improvements in the environment can be brought about by macroeconomic or sectoral policies (for example, more open trade can facilitate the adoption of more clean technologies, and removal of energy subsidies can help reduce greenhouse emissions) and that Bank support to the environment needs to be even more systematically channeled through some of these economic policy support mechanisms that are usually managed by Bank units outside the environment family, notably the Bank's Poverty Reduction and Economic Management Network.

***The role of IFC in supporting environmental and social due diligence and the consideration of aggregate effects.*** The nature of some IEG recommendations suggests that there is confusion concerning IFC's role with regard to the mitigation of environmental and social impacts associated with projects IFC finances and the consideration of aggregate effects for large projects. Although IFC can provide advice on mitigating project-related impacts, it does not design nor does it implement mitigation plans for project-related impacts; ownership of mitigation plans and implementation responsibility remain with the project sponsor. IFC supports the process of developing the necessary mitigation and corrective action plans on the basis of environmental and social assessments commensurate with the potential impacts of a project under consideration and oversees the implementation of the mitigation actions through a program of risk-based supervision. Furthermore, potential aggregate effects of large projects are captured through numerous provisions in IFC's Performance Standards, including those relating to area of influence, cumulative impacts, associated facilities, and supply chain management.<sup>3</sup>

***Cross-sectoral integration.*** The IEG report also focuses on environmental portfolio and related operations rather than taking a broader look at cross-sectoral integration. For example, although Uganda is one of the case studies, there is no acknowledgment or review of the increased

efforts in Africa in promoting regional, river-basin approaches. These efforts (Nile, Senegal, Niger, and Zambezi, for example) represent an important trend toward a more integrated, ecosystems-based approach that also aims at increased government commitment to an integration of sectors and to an examination of power, transport, agriculture, flood management, natural resource management, and environmental management as an integrated package in the context of basin development and poverty alleviation. The IEG report also fails to acknowledge the Africa Action Plan emphasis on these activities or the Regional Integration Assistance Strategy (World Bank 2007i), now endorsed by the Board, or the actions in other Regions on Regional priorities in response to the IEG review of Regional operations.

***Time dimension and learning from experience.*** As with all evaluations, IEG's product is necessarily backward looking. IEG's case studies are now two years old, and some of the lessons of experience cite operations from the 1990s.<sup>4</sup> As a consequence, for instance, the portfolio of carbon finance projects in Uganda is not mentioned, nor is the shift in support under current projects to urban environmental problems and decentralization and natural resource management. Another example is Ghana, where, after extensive preparatory work, the government recently finalized an environmental and natural resources governance program and has signed a Letter of Development Policy in that regard.

***Trust-funded activities.*** The Bank's various trust-funded instruments—including the Bank-Netherlands Partnership Program, Forest Law Enforcement and Governance, Program on Forests, and Trust Fund for Environmentally and Socially Sustainable Development—are mainly dedicated to the support of analytic work, and the IEG report would have benefited from their inclusion in the discussion on nonlending services. Similarly, the Development Grant Facility might also have been included in the evaluation as an instrument. In a similar vein, World Bank Group environment activities occur

increasingly in a multidonor context where the World Bank Group (although often holding the fiduciary responsibility) is only one of several actors who determine and oversee the substantive aspects of project implementation. Accordingly, the evaluation would have benefited from a discussion that examined whether there is a qualitative difference in results and impact between World Bank Group-only environmental initiatives and multidonor efforts.

***The Bank's country-based demand-driven operational support.*** The IEG evaluation could be read as suggesting a supply-driven approach, which sits at odds with the evaluative evidence coming out of IEG showing that ownership and demand create successful results. The World Bank Group has a role to play in highlighting environmental issues to governments, and there is an important role for advocacy at the global, Regional, and country levels. However, in the end, countries set their own strategies. As a development cooperative, the

Bank needs to respond to country demand, while, of course, maintaining its environmental standards in operations. Some of the IEG suggestions on long-term country plans or measuring the environmental impact of the activities that it supports in a given country would seem to take on roles that lie squarely with national governments.

## Conclusions

Management welcomes the opportunity to comment on this evaluation, notably because it covers a subject that is central to the overall vision of the World Bank Group. Management is in agreement with many aspects of IEG's findings and conclusions. However, because of the methodology employed in the evaluation, including the different methodologies applied across World Bank Group institutions, management does not concur with some of the conclusions and recommendations. Management's specific responses to IEG recommendations are outlined in the attached Management Action Record.

<b>Management Action Record</b>	
<b>Recommendation</b>	<b>Management Response</b>
<p><b>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.</b></p> <p>Jointly reformulate and update the 2001 Environment Strategy to reflect new 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.</p> <p>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 incorporate short-term (3–5 year) environmental programs into country assistance and partnership strategies.</p>	<p><b><i>Mostly agreed; divergence on some recommendations.</i></b></p> <p>Management broadly agrees with most of the recommendations, and the actions to which it commits are outlined below.</p> <p><i>Already the practice in IFC.</i> Environmental sustainability is at the core of IFC’s corporate strategy as it is one of its five strategic pillars. The sustainability agenda is therefore an integral component of IFC’s strategy development process across both investment and advisory work. This very general recommendation, and the very narrow focus of the report on IFC’s environmental and social due diligence process, suggest that the IEG review has not captured the full extent of sustainability agenda as a public good and its substantial contribution to the private sector. IFC external client surveys since 2001 have consistently revealed two major trends: clients increasingly perceive “sustainability” as primarily helpful rather than a requirement, and IFC’s work in sustainability has been a key factor in bringing the business case for sustainability into the private sector domain.</p> <p>Management plans to update the environment strategy in fiscal 2010, building on the Strategic Framework for Climate Change and Development.</p> <p>IFC’s contribution to an update of the World Bank Group Environment Strategy would be anchored in the ongoing implementation of a sustainability agenda that is evolving rapidly in the private sector and in financial markets. Because sustainability issues are evolving so rapidly, they must be captured on an ongoing basis in policy and operational dimensions, not just through formal strategic exercises such as the update of the 2001 Environment Strategy. Examples of recent developments in the sustainability agenda include the rapid rise of supply chain management and labor issues in the private sector domain. The formal strategic framework must therefore be supported by a dynamic operational context that can respond to emerging issues or lead the way in identifying the next frontier in the sustainability agenda.</p> <p>Management accepts that there is value in taking longer-term trends into consideration in the development of short-term Regional and country strategies, when possible. However, management does not intend to formally establish new medium-term (5- to 10-year) and long-term (10- to 20-year) approaches. Man-</p>

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<p>Identify opportunities for intra-Bank Group cooperation in helping clients address key national and global environmental challenges, including pollution reduction and long-term goals (up to 50 years) for greenhouse gas abatement and adaptation to climate change.</p>	<p>agement argues for much greater flexibility in pursuing the environmental agenda at the country and operational level. That is especially the case given the need for country ownership and customization, set out in the text. The preparation of 10- to 20-year Regional and country-based plans is essentially already being tackled through the preparation of Regional environmental strategies and CEAs. Note that within CEAs, it is already considered good practice to present recommendations with a short-, medium-, and long-term timeframe.</p> <p>IFC’s sustainability agenda is first set at the corporate strategy level, with sustainability being one of IFC’s five strategic pillars. Furthermore, the detailed Regional and sector approaches are set in the Regional and industry department strategies. These are investment strategies with a near-term (3-year) horizon, in view of the rapidly evolving sustainability agenda globally and IFC’s need to meet changing client mix and demand. As a result, it is rather unrealistic for IFC to set medium- (5- to 10-years) and long-term strategies (10- to 20-years). Enhanced coordination with the Country Assistance Strategy team for country strategies and integrated sector and thematic strategies (for example, the Strategic Framework on Climate Change and Development) of a shorter time horizon would nonetheless be more useful for IFC.</p> <p>Agree with addressing global environmental challenges, but disagree with long-term goals of up to 50 years. With respect to global environmental challenges, this is already occurring currently in the context of the preparation of the Climate Change Strategic Framework for Development and in the context of designing the Climate Investment Funds. Both are key tools in addressing greenhouse gas abatement and adaptation to climate change. Further, management is also working with the regional development banks on the Climate Investment Funds, recognizing that the Bank is just one partner assisting clients to meet long-term goals.</p> <p>As described above, such mechanisms already exist for the climate change agenda (including adaptation). Another example of collaboration is the process of developing and vetting IFC’s Environment, Health, and Safety Guidelines for more than 60 different commercial and industrial sectors. These guidelines provide an important reference point for the World Bank Group and for other international financiers who look on them as a recognized</p>

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<p>Work with development partners to help countries address environmental problems. Use Country Environmental Analyses (CEAs) and Strategic Environmental Assessments (SEAs) for this purpose at the national, policy, sectoral, and subnational levels. Treat institutional capacity building as a means rather than an end and link it to attainment of observable environmental outcomes. Give greater attention to improving the performance of projects that focus primarily on environmental policy and institutions.</p>	<p>reference point, which is particularly important when building up long-lived infrastructure assets.</p> <p>With respect to key national environmental challenges, management feels that this violates the sovereignty principle and undermines the Bank’s country-based demand-driven model, described above. Rather than preparing World Bank Group-led long-term plans at a country-level to tackle local environmental issues, management’s approach is to support countries in strengthening their own learning frameworks (both monitoring frameworks and supporting a culture of scrutiny and greater social accountability within the country and the strengthening of environmental constituencies) so countries can better manage new environmental issues as they arise in an informed way.</p> <p>The World Bank is already working closely with development partners, and management commits to further enhance this effort through continued coordination with development partners on CEAs and with the Organisation for Economic Co-operation and Development–Development Assistance Committee Task Team on SEA on the preparation of advisory notes (for example, on climate change and SEA) as well as implementation of the Organisation for Economic Co-operation and Development–Development Assistance Committee Good Practice Guidance on SEA through the institution-centered SEA pilot program.</p>
<p>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 multilateral development banks.</p>	<p>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 multilateral development banks. Encouraging the adoption and use of the Equator Principles as global environmental standards in private sector investments in developing countries is consistent with IFC’s sustainability agenda. This is an ongoing activity that has been remarkably successful, given that 60 banks have adopted the Equator Principles, from 10 in 2003, and that these banks provided more than 70 percent of cross-border project financing in emerging markets in calendar 2007. IFC is actively supporting and promoting the adoption of the Equator Principles through various means and efforts, largely coordinated through the policy unit housed in IFC’s Environment and Social Development Department. Also, through a Community of Learning practice group, man-</p>

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<p>Continue to develop IFC's systems to improve accountability and transparency among Equator Principles signatories. Focus IFC Advisory Services and capacity building on Regions and sectors with low environmental performance, especially on Sub-Saharan Africa and the textile, food and beverage, tourism, and agriculture sectors, and continue supporting market transformation toward sustainability, emphasizing technology transfer and development in clean production, energy efficiency, and sustainable supply chain management.</p>	<p>aged and convened by IFC, IFC continues to engage with Equator Principle financial institutions and other stakeholders globally, in sharing implementation experience, raising awareness, and building capacity.</p> <p>In addition and more specifically, through direct and indirect interactions with financial institutions and, more broadly, through the sustainable investing practice area of IFC's Sustainable Business Innovator, IFC is pursuing strategic market interventions aimed at increasing the sustainability of emerging market portfolios and private equity investment. In 2005, IFC, in collaboration with local partners, was instrumental in the launch of the Sustainability Index in the São Paulo stock exchange. This was the second Sustainability Index in emerging markets. In 2008, and again with a number of partners, IFC replicated this work in India, leading to the launch of the S&amp;P Environmental, Social and Governance India Index. Both indices were the first in their respective Regions to promote adoption and disclosure of sustainable business practices and performance, thereby meeting investor demand to encourage good environmental and social risk management and corporate governance.</p> <p><i>Already the practice.</i> IFC believes in a continuous process of development, implementation, evaluation, and learning across the entire scope of its operations, whether investments or advisory services. This operational philosophy therefore supports an ongoing process of improvement of internal systems and tools to support more effective implementation of the Performance Standards and garner the lessons of implementation, which are critical to improving overall learning by IFC and Equator Principle institutions. Processes such as the review and update of the Environmental and Social Review Procedures and Environment and Health and Safety Guidance Notes are two examples. Notwithstanding the above, addressing issues relating to accountability and transparency of Equator Principle signatories must be in accordance with each institution's governance framework and cannot be subject to any IFC authority or oversight.</p> <p>As regards environmental and social sustainability, IFC Advisory Services and capacity-building efforts focus on Regions and sectors with the highest potential for development impact and continue to support market transformation toward more sustainable practices by emphasizing initiatives that address climate change,</p>

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<p>Expand MIGA's environment-related technical assistance to clients.</p>	<p>specifically sustainable energy and water issues, clean production and technologies, social responsibility and gender entrepreneurship, and biodiversity conservation and natural resource management. For example, since 2003, IFC has helped establish lending targeted to energy efficiency in six Central European countries. Until recently, the program supported close to \$240 million in sustainable energy investments across the six countries, generating energy savings equivalent to more than \$80 million per year and achieving carbon emission reductions of more than 160,000 tons a year.</p> <p><i>Agreed.</i> MIGA launched in 2007 a new trust fund-supported effort (with financial support from the government of Japan) to provide such technical assistance to clients in Africa. This is the first such effort by a provider of political risk insurance, and if it proves successful, MIGA would be interested in expanding such support to investors in all Regions. However, this will depend on the ability to mobilize donor funding.</p>
<p><b>2. Move to more cross-sectoral and spatially oriented approaches to environmental support and strengthen staff skills.</b></p> <p>Be more proactive on environmental concerns, including adaptation to, as well as mitigation of, climate change, but not neglecting other local and global environmental priorities. Better integrate environmental, health, and labor issues under the Bank Group's sustainability agenda in the short and longer terms.</p>	<p><b><i>Mostly agreed; work is already ongoing.</i></b></p> <p><i>Already the practice.</i> Greater proactivity on the climate change agenda is already under way with the preparation of a Climate Change Strategic Framework for Development and the design, with other partners, of Climate Investment Funds, to support this agenda. The framework will address both adaptation and mitigation issues. That said, Bank management is mindful of the need for balance across climate change and other local and global environmental priorities. These issues will be addressed in the updated environment strategy, following the completion of the climate change framework.</p> <p>IFC is continually seeking opportunities to innovate by capturing sustainability-related business opportunities. It does so through its Environment and Social Sustainability Business Line, across six themes: sustainable investing, sustainable energy and water, cleaner technologies, social responsibility, gender entrepreneurship, and biodiversity. The Sustainable Business Innovator in IFC's Environment and Social Development Department develops advisory products and service concepts for IFC teams in Regional advisory facilities and investment departments.</p>

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<p>Give greater analytical and operational attention to addressing problems that cross national and regional boundaries as well as to increasingly serious environmental and carbon footprint concerns. In analytic work, increase emphasis on linkages between poverty and the environment. Strengthen collaboration on environmental health issues among those responsible for health, water supply and sanitation, energy, transport, urban development, and environment.</p>	<p>Climate change has been included as one key priority in IFC’s sustainability pillar. Although still evolving, key features of the IFC’s approach to climate change include near-term actions on (1) enhanced support for renewable energy/energy efficiency investment, (2) partnerships to address climate change mitigation and adaptation, and (3) extending carbon finance activities. IFC will further review (1) its role in adaptation to climate change, (2) measuring the greenhouse gas emissions in IFC’s portfolio, and (3) the use of carbon shadow costs in project appraisal.</p> <p>The rapid growth of climate-related work has not slowed innovation and operations in the other important environment and social areas across both the investment and advisory services dimensions. Also the environmental and social advisory services business of IFC is growing strong with solid portfolio and pipeline numbers and is managing to attract a healthy volume of donor support.</p> <p>Finally, development and implementation of the Performance Standards have facilitated the improved integration of environment, social, health, and labor considerations in IFC clients’ environmental and social assessment and management processes.</p> <p>Regional environmental work has traditionally been funded through the Global Environment Facility and is now supplemented with Regional International Development Association (IDA) funds, continuing under IDA15, and, for example in Africa, the establishment of a Regional Integration Department. It is important to note, however, that the Bank primarily works on a demand-driven country model basis. Poverty and environment analytics have matured, and distributional analysis is being emphasized already in SEAs and CEAs. Program on Forests- and Bank-Netherlands Partnership Program-supported work on the Forests-Poverty Toolkit is another step in this direction. Cross-sectoral issues are an important part of the climate change framework being developed and will be central to the follow-on updated environment strategy.</p> <p>Furthermore, under the World Bank Group strategy on climate change, IFC is looking into practical ways to measure its carbon footprint in its portfolio amid the challenges associated with developing a methodology that can be applied to a diverse portfolio of projects such as IFC’s. This is being done in consultation</p>



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<p>Stress the need for IFC and MIGA clients, especially financial intermediaries, to develop and implement solid environmental and social management systems, ensure that engineering and pollution control system design and community engagement is integrated in the early project stage, and use more independent environmental audits as part of project completion tests. In IFC's project selection and marketing, emphasize the potential for environmental benefits. In MIGA's engagement with projects, provide advice on environmental (and social) issues to help bring clients closer to industry best practices.</p>	<p>Although recognizing the importance of this coordination (and highlighting the example of India, where it has already been well advanced), it is important to recognize that the Bank works on a country demand-driven basis, and such collaboration is dependent on specific country demand.</p> <p><i>Already the practice.</i> Implementation of environmental and social management systems is a core provision under Performance Standard 1 (Social and Environmental Assessment and Management Systems). The need for IFC clients to develop and implement environmental and social management system is assessed during appraisal and is related to the size and scale of the environmental and social risks that they need to manage. Regarding financial institutions, IFC has established and is implementing a structured risk-based approach that emphasizes coverage of all high-risk and (at the supervision stage) poorly performing financial institution projects. The risk-based approach entails an analysis of the financial institution's portfolio and is carried out during appraisal to establish the risk level of the financial institution. The portfolio analysis and the performance of the financial institution's environmental and social management system are captured in an Environmental and Social Risk Rating measure that is established at appraisal and is calculated by IFC during project supervision. This risk-based approach allows IFC to be cost-effective by allocating resources to higher-risk projects and by not overburdening clients with few or no environmental and social risks that do not need an elaborate management system rather than taking a one-size-fits-all approach.</p> <p>IFC enters projects at various points in a project's lifecycle, ranging from prefeasibility (preconstruction) to renovation/retrofit of existing facilities and operations. The ability to influence design of pollution-control systems is an opportunity that IFC takes advantage of if it enters a project at the design stage. In green field operations, IFC increasingly plays an important role in technology selection. Likewise, with community engagement, for projects that directly affect a community, IFC requires client engagement through Performance Standard 1; however, IFC can only require engagement after it has entered the project, which may be well past early project stage.</p> <p>With regard to the last sentence, MIGA agrees (see the response to the recommendation concerning MIGA above).</p>

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<p><b>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.</b></p> <p>Improve World Bank monitoring, evaluation, and reporting of environmental performance and results of lending operations. Give greater attention to improving baseline environmental assessments in IFC and MIGA—and measure more fully the aggregate effects of projects with large environmental impacts—for example, in energy and agribusiness. Work with partners such as UNDP and UNEP to help quantify progress toward the achievement of Millennium Development Goal 7 for environmental sustainability.</p> <p>Improve the way the World Bank determines how much of its total financing has supported environmental improvement and revise preparation guidelines for Implementation Completion Reports (ICRs) to require a more systematic review of environmental dimensions and results. A mechanism to track the influence of Bank nonlending services on environment-related policies and institutions in client countries would also be desirable.</p>	<p><i>Partially agreed.</i></p> <p>See below with regard to World Bank lending operations. The Bank has worked with multiple partners, and continues to do so, with respect to agreeing on appropriate environmental indicators and disseminating them (for example, through the <i>Little Green Data Book</i>, an annual publication). However, it is unclear how the recommendation to quantify progress toward the Millennium Development Goals arises out of this IEG evaluation. Executive Directors and the Bank's Governors have been very explicit in setting out a clear division of labor—United Nations monitoring of the achievement of the Millennium Development Goals and the International Monetary Fund and Bank monitoring policies and actions needed to meet the Millennium Development Goals.</p> <p>As noted in the IEG report, IFC already undertakes extensive monitoring and development outcome reporting of its investment operations.</p> <p>Provisions relating to “area of influence” and “cumulative impacts” in IFC's Performance Standard 1 (Social and Environmental Assessment and Management Systems; also adopted by MIGA in October 2007) provide the reference framework for IFC and MIGA to capture potential environmental and social impacts more effectively through comprehensive baseline assessment, where and when warranted. There are, nevertheless, limitations associated with the roles and responsibilities of project sponsors, which make it challenging to extend accountabilities to regional levels or on a sectorwide basis.</p> <p>Bank management agrees to strive for better measurement, monitoring, and evaluation of its environmental support. Management is in the process of updating and streamlining investment lending policy, is reviewing its sector and thematic codes, and is undertaking a review of economic and sector work, building on IEG's forthcoming economic and sector work evaluation. In connection with work on the Climate Change Strategic Framework for Development, and in the context of designing the Climate Investment Funds, management is exploring options for project analysis. Management commits to incorporate the goal</p>

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<p>For environmentally sensitive IFC agriculture and forestry projects, especially in areas of high biodiversity, undertake carefully designed baseline studies to identify indirect, induced, and cumulative (as well as direct) environmental and social impacts. Design, implement, and monitor adequate plans to mitigate any negative effects. Enhance sustainability of supply chains with certification schemes and third-party monitoring. Measure specific emissions and mass flows in advance of relevant projects and assess them afterward to gauge project impact on the abatement of effluent discharges and dust and greenhouse gas emissions.</p> <p>Improve the performance of projects on MIGA's environmental and social policies on a timely basis, as appropriate in a project cycle. Require investor-clients to establish environmental and social project management systems at a sufficiently early stage to effectively monitor impacts. Consistently incorporate provisions for regular reporting of safeguard performance during project implementation in MIGA's Contracts of Guarantee.</p>	<p>of better measurement, monitoring, and evaluation of its environment support into this work and reports to Executive Directors on progress, notably in connection with climate change updates and investment lending reform discussions.</p> <p>IFC clients are required to conduct a process of social and environmental assessment in accordance with the requirements of the Performance Standards. For environmentally sensitive projects, clients will establish and maintain a social and environmental management system appropriate to the nature and scale of the project and the level of social and environmental risks and impacts. Such a system will typically incorporate social and environmental assessment, including indirect, induced, and cumulative impacts; an environmental and social management program; organizational capacity; training; community engagement; and monitoring and reporting.</p> <p>IFC does not design or implement mitigation plans; its additionality in this regard is through advice at entry and during supervision to the project sponsor responsible for designing and implementing mitigation plans. The project sponsors also regularly report to IFC on their progress through the <i>Annual Monitoring Report</i>. IFC, through its supervision activities, oversees the client's implementation of the mitigation plans agreed with IFC. Supply chain management is the latest challenge in project assessment and management. IFC applies Performance Standard 6, through which application of certification for natural resources (for example, forest/marine resources) is required. In addition, IFC has begun enhanced due diligence for supply chain issues in high-risk sectors. Finally, IFC promotes new certification systems through participation in various commodity round tables (for example, palm oil, soy, cotton, sugar).</p> <p><i>Agreed.</i> Performance Standard 1, Social and Environmental Assessment and Management Systems, requires that such systems be in place on a timely basis, and compliance with this performance standard is required in MIGA's Contract of Guarantee.</p>

<b>Management Action Record</b>	
<b>Recommendation</b>	<b>Management Response</b>
<p><b>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.</b></p> <ul style="list-style-type: none"> <li>• Establish mechanisms to promote and monitor coordination across the Bank, IFC, and MIGA with respect to environment-related policies, strategies, and instruments. In particular:               <ul style="list-style-type: none"> <li>– Actively involve IFC and MIGA in updating the 2001 Environment Strategy and in monitoring and evaluating its implementation.</li> <li>– Jointly identify environmental aspects of World Bank Group country assistance and partnership strategies and jointly plan, monitor, evaluate, and report on mitigation of adverse impacts.</li> <li>– Increase efforts to share experience with assessment, monitoring, evaluation, and reporting on environmental aspects, results, and impacts of activities.</li> <li>– Systematically monitor and evaluate the application and results of environmental due diligence policies and procedures (safeguards and performance standards).</li> </ul> </li> <li>• Make strengthening external partnerships a central theme in an updated World Bank Group environmental strategy.</li> </ul>	<p><b><i>Mostly agreed; some divergence.</i></b></p> <p>Collaboration already takes place across a number of relevant operational areas, as described above. Improving coordination among the Bank, IFC, and MIGA is a useful and desirable objective where it makes operational sense, given the different clients we service.</p> <p><i>Agreed.</i></p> <p>This depends on the country. Country Assistance Strategies and Country Partnership Strategies already take this approach by planning in a coordinated way on World Bank Group activities in a country. Monitoring and evaluation, however, can only take place within the project context, rather than at a broader level, so that the sovereignty principle is respected.</p> <p><i>Agreed.</i> Again, one needs to bear in mind that private and public sector projects face very different contexts and challenges and efforts to share experiences need to take this into account. Progress will be reported in the context of the fiscal 2010 Strategy.</p> <p>These are reported in Bank Quality at Entry and Quality of Supervision reports, including environmental annexes, as well as Environmental Sector Board Portfolio (Bank-wide and Region-specific) Updates, which include similar portfolio quality indicators specific to environment.</p> <p>For IFC, as noted above, this is a standing operational practice and requirement.</p> <p><i>Agreed.</i> The Environmental Sector Board has hired a lead partnership coordinator in the past year, which has greatly enhanced Bank management’s ability to strengthen and coordinate external partnerships. This will be formally reflected in the updated strategy.</p>

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<ul style="list-style-type: none"> <li>Improve MIGA's coordination with global programs, such as the Global Environment Facility and the Bank's Carbon Financing Group, and identify potential partners whose clients might benefit from MIGA guarantee support.</li> </ul>	<p><i>Agreed.</i> MIGA coordinates and works closely with such global programs, making available political risk insurance to cover governmental obligations to potential partners. Special workshops have been held to ensure that the staff of both MIGA and such global programs are aware of the instruments available.</p>