Evaluation Essentials

• This is the first comprehensive evaluation of the WBG’s safeguard policies since they were first formulated in 1989.
• The evaluation examines how effective the WBG’s safeguards and sustainability frameworks have been in preventing and mitigating adverse environmental and social impacts.
• It covers WBG safeguard policies and IFC and MIGA Performance Standards in projects approved from fiscal year 1999 to 2008.
A community consultation in Paraguay. Photo courtesy of Reidar Kvam.
Introduction
Environmental and social safeguard policies and Performance Standards are a cornerstone of the World Bank Group’s (WBG) support for sustainable development and poverty reduction. The objectives of these policies, to which it has committed and is publicly accountable, are to improve the quality of investments and guarantee operations and to prevent or mitigate undue harm to people and the environment in the development process. Over time the focus has shifted from mandatory compliance with do-no-harm policies and procedures toward doing good through greater focus on sustainability and the management of associated risks. Similar policies are now widely used internationally as a fundamental aspect of sound business management practice and development effectiveness. They have been adopted in various forms by most major financial institutions lending to the public and private sectors.

The context in which the WBG operates has changed in many ways since the introduction of the safeguard policies, particularly in the nature of WBG clients and in the nature of the lending portfolio. WBG clients have diversified with greater differentiation among countries and the growing significance of private sector and subnational clients. The World Bank’s public sector clients now range from middle-income countries, many with well-developed regulations and institutions, to rapidly reforming low-income countries with growing institutional capacity, to fragile and conflict states. In reform-minded middle-income and low-income countries, the nature of Bank lending has evolved from investment projects dominated by infrastructure and agriculture toward a growing portfolio of development policy loans (DPLs) for institutional and policy reforms, and programmatic lending for social sector, financial sector, and governance operations. DPLs are governed by a different set of environmental and social requirements from those of the safeguard policies. Safeguard policies apply to all investment projects but are more difficult to implement in sectorwide investment programs, financial intermediary (FI) projects, community-driven development projects, and other forms of decentralized projects. Traditional investment lending is not well suited to these portfolio trends. The Bank is responding to this changing context by reforming its investment lending policies and instruments promoting use of risk-based approaches and placing greater emphasis on implementation support. Safeguard policies will consequently require significant adaptation to ensure their continued relevance.

The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) support private sector clients whose role in development continues to grow.

Evaluation Context
and whose portfolio continues to diversify. IFC and MIGA recognized the need to better distinguish clients’ responsibilities from their own, and manage private sector environmental and social aspects that were not covered in the safeguards framework, by transforming the WBG’s safeguards policies into a new policy framework with Performance Standards for their clients. This transformation shifted the emphasis from prescriptive procedures to a more explicit focus on the client’s social and environmental management systems (SEMS). Further evolution of the two agencies’ portfolios in recent years continues to pose challenges: IFC’s business has evolved from project finance toward corporate finance, trade finance, and equity investments, and MIGA’s portfolio has seen a substantial increase in guarantees for the financial sector.

Before considering the evaluation findings it is essential to understand the context within which the WBG’s safeguard and sustainability policies are operating. This chapter describes the rationale, approach, and methodology of the evaluation and then presents three aspects of the context: (i) the WBG’s safeguard policies and the newer Policy and Performance Standards on Social and Environmental Sustainability (PPSSES) adopted more recently by IFC and MIGA; (ii) the relevance of these policies to the previous portfolio; and (iii) the evolution of the lending portfolio to understand the emerging challenges faced by the safeguard and sustainability policies.

**Evaluation Design**

**Evaluation rationale**

There has not been a comprehensive evaluation of the WBG’s safeguard policies since they were first formulated in 1989. Previous IEG evaluations assessed the effectiveness of individual safeguard policies and included the 1998 report “Recent Experience with Involuntary Resettlement” (IEG 1998) and “Implementation of Operational Directive 4.20 on Indigenous Peoples: An Evaluation of Results” (IEG 2003a). The recent IEG evaluation Environmental Sustainability: An Evaluation of World Bank Group Support (2008b) examined WBG assistance for the environment over 15 years, but it was not intended to evaluate the Bank’s safeguard policies. For IFC and MIGA, the environmental sustainability review did consider early results of the environmental Performance Standards, but it was conducted a year after they were introduced and, in any case, did not cover the social Standards. The main purpose of the current evaluation, therefore, is to address this gap taking into account the rapidly changing business environment, new lending modalities and financing instruments, as well as evolving best practices and client needs.

Discussions between IEG and WBG operational staff, including the World Bank’s Sustainable Development Network Council, at the concept stage of this evaluation revealed an interest in examining whether the current Operational Policies remain fully relevant to today’s issues and challenges, given that client interests and capacities as well as the lending portfolio have altered substantially from the time when these policies were first developed.

The Bank recently initiated a process to reform investment lending. The current model uses the project cycle concept in which technical and financial viability and feasibility of detailed engineering plans developed during preparation are carefully assessed during appraisal, and supervision monitors performance against the original plan, budget, and implementation targets. The portfolio changes described above have led to a rethinking of the conventional project model. In programmatic lending, the country, policy, and reputational risks matter as much or more than technical and economic risks. Good project design needs to be complemented by adjustments during implementation. Reform is aimed at consolidating existing investment lending policies into a more concise, integrated policy and operational framework that differentiates projects by risk to adjust project processing. This is expected to increase flexibility according to the risks and needs of different operations and complement the emphasis of intensive effort at appraisal-tailored implementation support (see “Moving Ahead on Investment Lending Reform: Risk Framework and
Implementation Support,” World Bank 2009d). A relevant question for this evaluation is the extent to which this retooling of the project model will necessitate rethinking of the model currently in place for the safeguard policies.

The IFC’s and MIGA’s adoption of Performance Standards (in 2006 and 2007, respectively) and their adoption by private financial institutions and the European Bank for Reconstruction and Development (EBRD) provide an opportunity to compare the strengths and weaknesses of alternative policy and implementation modalities for addressing environmental and social effects of operations. The impact of this new direction is evaluated to the extent possible, taking into account ongoing efforts to develop common approaches by other leading international financial institutions (IFIs).

In the past, nongovernmental organizations (NGOs) have been vocal about their views on safeguard policies and have expressed misgivings about the interpretation, application, and effectiveness of safeguard and sustainability policies. Each policy revision or innovation leads to concern about a potential watering down of such policies. On the other hand, WBG clients have called for greater flexibility to suit local conditions and capacity. The Bank is currently implementing a pilot program to test the feasibility of relying on client country systems for implementation of safeguard policies. The pilots on use of country systems (UCS) for safeguards are governed by the provisions of a new policy (Operational Policy 4.00) approved by the Board of Directors in 2004. This evaluation will also assess the UCS experience on safeguards and its potential for replication.

**Evaluation questions**

The evaluation’s overarching purpose is to assess: How effective have the WBG’s safeguards and sustainability frameworks been in preventing and mitigating adverse environmental and social impacts?

Bearing in mind the evolving context since the safeguard policies were introduced in the 1980s, this report goes beyond the core question to explore some underlying questions: To what extent have the safeguards and sustainability policies led to improved environmental and social performance and impacts at the project and sector level? How successful is the WBG in helping clients build sufficient capacity to implement these environmental and social policy frameworks? Has the introduction of the new Policy and Performance Standards led to improved environmental and social appraisal and supervision at IFC and MIGA compared with their previous approach? What are the benefits and costs of safeguards and Performance Standards? How can the WBG improve the efficiency and the development effectiveness of safeguard policy frameworks? A corollary, which emerged from the portfolio challenges found by IEG, is how the safeguards and sustainability frameworks can be adapted to maintain their relevance to the WBG’s operational portfolio.

**Scope of the evaluation**

This evaluation covers safeguards and environmental and social Performance Standards in the WBG for projects approved in fiscal years 1999 through 2008. Since safeguard policies do not apply to DPLs financed by the World Bank, which are governed by the Operational Policy/Bank Procedure (OP/BP) 8.60, DPLs are excluded from this evaluation. Evaluation of IFC’s and MIGA’s performance distinguishes projects prepared before and after introduction of the Performance Standards. IFC projects approved after April 2006 (and MIGA projects after October 2007) use the new Performance Standards, but such projects are not yet sufficiently mature for a robust ex-post evaluation of environmental and social results. Consequently, this evaluation puts more emphasis on comparing their differences at appraisal and during implementation.

As part of the discussion on WBG performance during appraisal and supervision, the report also discusses findings and lessons related to the WBG’s accountability mechanisms—the Inspection Panel (IPN) for the World Bank, and the Compliance Advisor and Ombudsman (CAO) for IFC and MIGA. This evaluation does not have a mandate and is not designed to assess
the performance of the IPN and CAO. However, given the impact of these mechanisms on the WBG, the evaluation includes a brief review of their activities and explores how their efficiency and effectiveness can be enhanced.

The discourse on safeguards and Performance Standards in the WBG has been devoid of considerations of costs and benefits, with the notable exception of a review of the cost of doing business conducted in 2001, which sought ways of increasing the efficiency of fiduciary and safeguards work. The evaluation seeks to fill this gap by analyzing available data and by presenting alternative ways of assessing risks, benefits, costs, and cost-effectiveness. Given the absence of relevant data for much of the portfolio, this is mainly an analytical contribution with a prototype of benefit-cost analysis.

**Evaluation methodology**

In addition to a literature review and commissioned background papers, evidence for this evaluation comes from desk reviews of a representative sample of the portfolio and field visits to purposively selected projects from all three WBG entities; semistructured interviews with clients and WBG managers; staff surveys of WBG task team leaders and investment officers and environmental and social specialists; focus group discussions with WBG staff; and consultation with NGOs (figure 1.1). Detailed results and examples of some of the instruments used are shown in appendix C, while projects sampled for this evaluation are listed in annex 4. (Annexes are available on the website for this report at http://worldbank.org/ieg)

For the portfolio review, a random sample of 252 category A, B, and FI projects16 (18 percent) was selected from the IEG-World Bank universe17 of all 2,495 operations approved in fiscal 1999–2008, giving a confidence interval of ±5.6 percent Bank-wide18 at 95 percent confidence level (see sampling details in appendix table B1).

For IFC, a sample of 63 projects, including category A, B, and FI projects (39 non-FI and 24 FI projects, including 23 from before and 40 after the Performance Standards) was selected from the population of 403 pre-Performance Standard projects and 220 post-Performance Standard projects for the portfolio review, yielding a confidence interval of ±11.7 percent at 95 percent confidence level. The sample was stratified to mimic the population based on region, industry sector, and environmental category (A, B, FI).19

The stratified sample of 23 pre-Performance Standard projects was drawn from the randomly sampled Expanded Project Supervision Reports (XPSRs),20 and additional performance indicators were sourced from additional IEG reviews of the XPSRs. In addition, for IFC, results from IEG’s evaluation database on 394 XPSRs and Environmental and Social Review Reports up to 2009 were used when appropriate. The confidence interval for this expanded dataset was 3.3 percent from the population of 700 projects.

IEG-MIGA undertook a portfolio review of a stratified sample of 35 MIGA projects approved during fiscal 2000–09.21 The sample included all 14 projects (which account for 40 percent of the portfolio review sample)22 underwritten per the 2007 Policy and Performance Standards up to the third quarter of fiscal 2009 to facilitate findings of MIGA’s current implementation of its policies and standards.
Environmental and Social Policies at the World Bank Group

World Bank safeguard policies

In 1989 the World Bank introduced Operational Policies and Bank Procedures for environmental assessment of Bank-financed projects, which were updated as Operational Directive 4.01 in 1991. The Bank adopted an involuntary resettlement policy as an Operational Manual Statement in 1980, which was revised as OD 4.30 in 1990. Other environmental and social policies were added over time to address individual environmental and social risks.

In 1997 the Bank identified 10 policies as its suite of safeguard policies, labeled them “do no harm” policies, and started a process of policy conversions for individual policies. The safeguard policies (see table 1.1) consist of six environmental, two social, and two legal policies. Many other multilateral development banks (MDBs) initially based their own safeguard policies for public sector lending on those of the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA), although, as will be discussed in chapter 5, some have since customized and expanded these policies.23

Policy conversion involved minor revisions, from Operational Directives (OD) and Operational Manual Statements (OMS) into Operational Policies (OP) and Bank Procedures (BP). The first OP on Pest Management was approved in 1998. The Environmental Assessment OD was replaced by OP and BP 4.01 in 1999. The Involuntary Resettlement policy was converted to OP/BP format in December 2001.24 The conversion process continued until 2006. Each policy had a different set of stakeholders, so the policy conversion was piecemeal and, according to the staff involved in this process, involved protracted discussions with a wide range of stakeholders, leading to a lengthy process which for the Indigenous Peoples Policy lasted seven years. The policy on International Waterways

<table>
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<tr>
<th>Table 1.1: Comparison of WBG Safeguards and Performance Standards</th>
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<tbody>
<tr>
<td><strong>Bank Safeguard Operational Policies</strong></td>
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<tr>
<td><strong>Environmental and social</strong></td>
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<tr>
<td>Environmental</td>
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<tr>
<td>4.01 Environmental Assessment (1999)</td>
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<tr>
<td>4.04 Natural Habitats (2001)</td>
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<tr>
<td>4.36 Forests (2002)</td>
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<td>4.11 Physical Cultural Resources (2006)</td>
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<td><strong>Social</strong></td>
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<td>4.12 Involuntary Resettlement (2001)</td>
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<td>7.80 Disputed Areas (2001)</td>
</tr>
<tr>
<td><strong>Note:</strong> PS = Performance Standard.</td>
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a. Except for pest management, all World Bank Operational Policies (OP) have accompanying Bank Procedures (BP). Consultation and disclosure processes are integral to the WBG safeguard and sustainability policies.
is currently being revised, a process now in its second year. The procedure for policy revisions, even small ones, has proved to be so cumbersome and time consuming that there is great reluctance to revise and improve the policies even when the lessons of experience suggest that this would be beneficial.

When the safeguard policies were labeled “do no harm” policies, the Bank’s senior management made public commitments to enforce compliance with these mandatory requirements, leading to significant improvement in environmental and social performance compared with the 1990s. However, the Bank’s list of safeguard policies was restricted to existing policies designed to mitigate adverse environmental and social impacts, effectively freezing policy development in the state that existed at that time. Existing policies on Sociological Appraisal, which is a part of the Bank’s policy on Project Appraisal (OMS 2.20), and Gender and Development (OP 4.20) were excluded from the safeguards suite.

The existence of an umbrella policy for Environmental Assessment provided an open-ended mandate for engaging with borrowers and clients on the environmental agenda. By contrast, the restriction of social safeguards at the Bank to two prescriptive policies focused attention on these two effects but narrowed their relevance to a much smaller segment of the portfolio. Social risks subsequently addressed by IFC and MIGA have also not been integrated into the Bank’s safeguard policies.

**IFC and MIGA Performance Standards**

The role of policy innovator within the WBG has shifted from the Bank to IFC, whose Policy and Performance Standards on Social and Environmental Sustainability, approved in 2006, has since been emulated by others (see table 1.1). The PPSSES framework involves:

- Better balance in thematic coverage of environmental and social issues with the addition of new issues relevant to the private sector
- Complementing procedural compliance with accountability for environmental and social performance, but with gaps in verification and disclosure.

The PPSSES is an integrated policy framework with an umbrella policy on environmental and social sustainability and relatively well-balanced treatment of environmental and social effects. IFC added Performance Standards on Labor and Working Conditions (Performance Standard 2), and Community Health, Safety, and Security (Performance Standard 4) to the two Performance Standards derived from the Bank’s social safeguards. IFC does not have Performance Standards on dam safety or on gender. However, the guidance notes for Performance Standard 1 describe a Gender Impact Assessment that should include measures to ensure that one gender is not disadvantaged relative to the other in the context of the project. Some IFC projects integrate gender impacts within their community impact study for Performance Standard 4, and the assessment of impacts on indigenous peoples can also be combined with the community impact assessment. The WBG revised its environmental, health, and safety (EHS) guidelines in the *Pollution Prevention and Abatement Handbook 1998* with a new set of industry-specific EHS guidelines, and EHS general guidelines (April 2007). IFC has used applicable EHS guidelines, earlier safeguard policies, and present Performance Standards, together with project-specific environmental and social requirements and Environmental and Social Action Plans, as covenants in its investment projects.

IFC’s PPSSES have been emulated by other financing organizations. MIGA adopted the PPSSES in 2007, and in a somewhat modified form the European Bank for Reconstruction and Development adopted a similar policy in 2008. Over 60 private sector banks have voluntarily adopted a set of Equator Principles, which now include the Performance Standards approach, as
a framework to address environmental and social issues in project finance. Both private sector lenders and clients thus appear to be buying into the Performance Standards approach, although the short time since their introduction has prevented robust evaluation of outcomes and impacts. Global evidence also suggests that voluntary adoption of safeguards by private sector clients is often inadequate for mitigating social risks. It is, however, feasible to compare the relevance of the Performance Standards to that of the safeguard policies.

Roles and Responsibilities

**World Bank**

Since 1999 the Quality Assurance and Compliance Unit (QACU) and the Environmental and International Law Unit of the Legal Department have provided central guidance on all matters relating to safeguards. All investment lending operations follow a set of regular safeguard procedures throughout the project life cycle. 27 (See appendix A for details of each safeguard.)

In 2006 the Bank consolidated two key networks—the Environmentally and Socially Sustainable Development (ESSD) Network and the Infrastructure Network—into the Sustainable Development Network under one vice president, bringing the environmental and social staffs and their internal clients from the infrastructure and agricultural sectors under one umbrella. At the time of that merger, QACU and its counterparts—the Regional Safeguards Advisors—in the Regions were transferred from ESSD to the Operations Services group, to ensure that project clearances were not unduly influenced by being housed within the same Network, to offset the perception of conflict of interest.

Bank safeguards specialists provide guidance to task teams on applicability of safeguard policies, on the assessments and consultations to be undertaken and mitigation plans prepared by the client, and on the appraisal and disclosure requirements to be met prior to project approval. 28 The Regional Safeguard Advisor retains oversight responsibility for all category-A projects and category-B and -FI projects with potentially high reputational and social safeguard risks. However, responsibility for project processing and supervision of lower-risk projects is delegated to the appropriate sector management unit.

Project implementation is the responsibility of the borrower, while the Bank is responsible for supervision. Requirements vary depending on the number and nature of safeguards policies triggered by the project.

**International Finance Corporation (IFC)**

IFC’s business model and project cycle are adapted to private sector clients and differ from those of the Bank. After IFC’s business development officers have identified an investment opportunity, an investment officer prepares a project description in the Project Data Sheet—Early Review 29 for IFC senior management authorization of project appraisal, if warranted. The investment team (which includes an environmental and social specialist), during the appraisal (or due diligence) phase, assesses in detail the business potential and risks, including environmental risks, and determines the final categorization and action plans needed to comply with IFC’s detailed environmental and social, disclosure, and consultation requirements. 30 With the client’s approval, the Environmental and Social Review Summary (ESRS) and the Environmental and Social Action Plans are posted on the IFC website before being submitted for Board approval. 31 After adoption of the Performance Standards in 2006, IFC developed an internal online Environmental and Social Review Document (ESRD) system to identify, rate, and monitor performance indicators. As with Bank projects, project implementation is the client’s responsibility, while IFC is responsible for supervision.

The building blocks of IFC’s new sustainability framework consist of IFC’s 2006 PPSSES, the Guidance Notes and Policy on Disclosure of Information, and the newly revised EHS Guidelines, and Environmental and Social Review Procedure (ESRP). Implementation success depends equally on relevance and coverage of the sustainability framework,
proper IFC staffing, capacity, and resources, as well as client commitment, skills, and capacity, and available funds for environmental and social investments. Real sector clients of category-A and -B projects are obligated to provide an Annual Monitoring Report (AMR), and FI clients an Annual Environmental Performance Report. The environmental and social specialist reviews the annual report and prepares a formal Review Report, which provides information on data quality, compliance status, feedback to the client, and the Environmental and Social Risk Rating. IEG has evaluated IFC project’s Environmental and Social Effects since 1996 as a part of the validation of the XPSRs prepared by the project teams.

**Multilateral Investment Guarantee Agency (MIGA)**

MIGA’s mandate, since it was established in 1988, has been to encourage the flow of private investment to WBG clients by offering political risk guarantees. MIGA policy requires all projects it supports to comply with applicable MIGA environmental policies and guidelines. Its work with clients focuses on environmental assessment and monitoring of project compliance with environmental and social guidelines and safeguards. MIGA followed applicable Bank policies and used IFC staff for the environmental and social review of its operations during much of the 1990s but established its own environmental office in 1998. Since then, the role and composition of MIGA’s environmental and social unit has evolved and expanded to include two social specialists. MIGA’s Environmental Assessment and Disclosure Policies were approved by the Board in 1999, and its issue-specific safeguard policies were approved on an interim basis in 2002. Following IFC, MIGA adopted the PPSSES in October 2007.

In tandem with new PPSSES, MIGA proposed and adopted four related initiatives:

- **Preparation and disclosure of ESRS** for all category-A and -B projects, together with a summary of proposed guarantee similar to the IFC process. Previously, MIGA had only disclosed the Environmental and Social Impact Assessment (ESIA) for category-A projects, which would continue to be disclosed.

- **Examination of social and environmental management systems of financial intermediaries** to verify that the FIs’ systems are sound and appropriate for the specific cases, given the nature of their business. This includes an examination of the SEMS of the parent banks and of how it is applied to their subsidiaries, including an initial assessment of local capacity and social and environmental risks in the portfolio.

- **Technical assistance to clients to meet the Performance Standards.** MIGA has, in the past, not been able to provide technical expertise or financial support to its clients to help ensure that they meet its environmental and social standards. This changed in a limited way with the establishment of the Trust Fund to Address Environmental and Social Challenges in MIGA-guaranteed projects in Africa. With the support of the government of Japan, this initiative launched a three-year test of whether such technical assistance can be provided and will be helpful, in the context of an insurance provider rather than a lender or equity investor.

- **Local Community Development Effectiveness Reporting.** This initiative was designed to address concerns about the possible impact of certain projects on the local community, in particular when these impacts might be negative. MIGA therefore proposed that it would regularly report on the local community impacts of a small number of projects where such impacts may be significant.

**Portfolio Trends**

The safeguards and sustainability policies were originally conceived for investment projects. They are more difficult to apply to other forms of lending, including programmatic lending, sectorwide lending, and decentralized projects at the World Bank; trade finance and equity investments at IFC; and financial sector lending at MIGA. All three portfolios appear to be growing in precisely those segments where these policies face their greatest challenges.
Portfolio trends at the World Bank

The proportion of projects classified as category B increased by a third, while those classified as category C decreased by half during the period reviewed, reflecting greater caution during project preparation. At the World Bank a total of 2,495 lending operations were approved during fiscal 1999–2008, of which 1,133 (45 percent) had been completed; the rest were still active. The distribution of projects by safeguard category is depicted in figure 1.2. Over the 10-year period, 9 percent of the universe was classified as category A (very high impact), 44 percent as category B (substantial impact), 29 percent as category C (low impact), and 4 percent as category FI, but the distribution has changed substantially over time. During the review period, the proportion of category A increased from 5 to 11 percent, with the increase in the volume and scale of infrastructure lending. Category B increased from 37 to 51 percent, while category C dropped from 40 to 18 percent. IEG was unable to detect any substantial change in the portfolio to explain the substantial increase in category-B projects.

Variations in environmental and social risk within the portfolio are affected by the nature of project lending. Among the regions, East Asia and Pacific (EAP) has the highest proportion (23 percent) of category-A projects, driven by infrastructure projects, while Latin America and the Caribbean (LCR) has the lowest (4 percent). Europe and Central Asia (ECA) relies the most (13 percent) on FI lending and has relatively fewer category-A and -B projects. The proportion of category-A projects increases with lending size while category-C projects are most prevalent among smaller projects. FI projects are evenly distributed across different loan sizes.

Portfolio trends at IFC

Trends in IFC’s portfolio are depicted in figure 1.3. The share of category-A projects in numbers has declined since introduction of the PPSES but remains at the same level as earlier in commitment amount. FI projects are about 32 percent by number of projects and slightly less by commitment amount.

The proportion of Bank projects classified as category B increased by a third while category C decreased by half, reflecting greater caution during project preparation.
In the past decade, IFC’s business has shifted away from project finance toward FI, corporate, equity, and trade finance projects. Though IFC’s environmental procedures were created for a project finance institution, by fiscal 2006 only 28 percent of IFC business was in project finance. With IFC’s move to wider portfolio risk management, the environmental and social risks have extended beyond the project’s area of influence to the client’s business and environmental management as a whole. This development makes it all the more imperative to develop the client’s social and environmental management system, and ensure adequacy of its implementation.

IFC’s corporate or equity investments in companies with several production facilities and various activities pose a substantial challenge for environmental and social appraisal, supervision, and evaluation. In corporate finance, use of proceeds is not limited to specific assets, but are intended for corporate activities (restructuring, long-term strategic support, corporatewide investment) as well as IFC’s subscription for shares in a company. IFC’s leverage from a minority equity investment in a company that includes a wide range of operations is more restricted compared with traditional project finance, but the scope of IFC’s environmental and social review is limited to the countries or facilities where IFC financing is directed. IEG interviews with 21 managers and local environmental and social specialists revealed that IFC staff regard the Performance Standard framework as fully feasible for project finance and corporate loans with identified use of proceeds, but much less feasible for trade finance and equity investments in listed companies, which are not obligated to report annually to individual shareholders without compromising the legal rights of other shareholders. This may be mitigated by the fact that large internationally listed companies often possess a sound social and environmental management system with good reporting practices and publicly available Corporate Sustainability Reports, which, if transparent and complete, may serve as an adequate reporting platform.
**Portfolio Trends at MIGA**

MIGA’s Convention and Operational Regulations, requiring MIGA to support projects that are consistent with host-country laws, regulations, and development objectives, provide the institutional basis for the agencies sustainability framework. Its policies and guidelines require that each project for which MIGA issues a guarantee is carried out in an environmentally responsible manner in accordance with its sustainability policy (PPSES) and new policy on Disclosure of Information. Its sustainability framework also includes ensuring compliance with IFC’s Environmental, Health, and Safety Guidelines and relevant IFC industry and sector guidelines.

MIGA’s portfolio composition has shifted over time: the share of guarantees for financial sector projects increased significantly during the past decade. The amount of MIGA guarantees issued averaged $1.5 billion annually between fiscal 2000 and 2009, with considerable variation from year to year. The financial sector now represents the largest business segment in MIGA’s portfolio. At the same time, the importance of the infrastructure and agribusiness, manufacturing, and services sectors has shrunk significantly (figure 1.4). In addition, MIGA has experienced a decline in the number of new projects supported each year, which decreased from 33 (fiscal 2005) to 20 (fiscal 2009). The increasing concentration on financial sector projects has implications for the implementation of MIGA’s sustainability framework.

**Organization of the Report**

The report is organized into six chapters. Chapter 1 provides the evaluation context, objectives, and rationale, an introduction to the safeguard and sustainability policies (see details in appendixes A and E), the scope of the evaluation, and an outline of the methodology (detailed in appendix B). Chapter 2 examines the effectiveness of the WBG in complying with policy requirements, including the quality of preparation and appraisal, supervision, and monitoring, and includes the IPN and CAO findings. For IFC and MIGA it also compares the findings for projects prepared before introduction of the PPSES (pre-Performance Standards) with projects appraised since their introduction (post-Performance Standards). Chapter 3 evaluates environmental and social performance of the sample portfolio against the objectives mapped out in the respective assessments of relevant risks. The chapter assesses the quality of client implementa-

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**Figure 1.4: Changes in MIGA’s Portfolio Composition**

(share of MIGA guarantee volume issued per sector)

<table>
<thead>
<tr>
<th>Sector</th>
<th>FY00–04</th>
<th>FY05–09</th>
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<tbody>
<tr>
<td>Infrastructure</td>
<td>44%</td>
<td>29%</td>
</tr>
<tr>
<td>Financial</td>
<td>30%</td>
<td>53%</td>
</tr>
<tr>
<td>Oil, Gas and Mining</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>AMS</td>
<td>16%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: IFC database.
tion and the effectiveness of the safeguards and sustainability frameworks in mitigating adverse impacts, strengthening client capacity, and enhancing positive impacts to promote development effectiveness. Chapter 4 examines the robustness of the categorization system in use to classify projects by comparing results with those obtained from application of a risk model to the portfolio. The risk model is also used to estimate benefits, which are then compared with available data on costs to assess the efficiency of resource allocation by the Bank, IFC, and country clients. Chapter 5 draws on the findings from the previous chapters to reconsider the relevance of the safeguards and sustainability policies, summarizes the main findings on the Bank country systems pilots, and examines how the WBG can improve efficiency of safeguards policy frameworks and strengthen their benefits. It also compares the WBG safeguards frameworks with those of major IFIs and evaluates the Bank’s experience with adoption of country systems for safeguard policies. Chapter 6 summarizes the conclusions and puts forward recommendations for the WBG.