Management Response

Introduction
Management welcomes this evaluation of the World Bank Group’s (WBG) environmental and social safeguard frameworks, covering the period fiscal years 1999–2008, by the Independent Evaluation Group (IEG). This evaluation is timely as the WBG moves to completion of an updated Environment Strategy, and as the International Finance Corporation (IFC) undertakes a review and update of its Sustainability Framework. It also is relevant as the Bank has begun an exercise in Investment Lending Reform, and the WBG faces emerging circumstances in the post-2008 financial crisis that require new and innovative financial instruments to meet client needs and restore economic growth at a global as well as national level.

Management welcomes the overall positive findings of the evaluation. IEG’s findings show that the WBG has made significant progress during the evaluation period in improving its efforts to safeguard the environment and vulnerable communities from unintended consequences of the development process. It also confirms the importance of linking sustainable development with safeguard policies and performance standards to promote the broad objectives of the WBG. Among the many important findings of this evaluation is the recognition by many stakeholders that the WBG’s performance on environmental and social impacts has improved during the evaluation period, especially with respect to high-risk projects. Management also notes IEG’s finding on the clear benefits of developing and implementing a more holistic approach to environmental and social impact assessment and risk management that is appropriately aligned with internationally recognized good practice relevant for the work of each of the WBG units.

Management’s specific responses to IEG’s recommendations, with which it broadly agrees, are noted in the attached Management Action Record.

Management Observations – IBRD/IDA Overview
Bank Management agrees broadly with many of the key findings and recommendations of the IEG regarding the need for: greater emphasis on the use of safeguard polices to support environmentally and socially sustainable development; greater emphasis on assessment of a wider range of potential social impacts and risks; improvements in supervision; staff certification/accreditation; more efficient and effective approaches to monitoring, evaluation, and completion reporting, including the enhanced use of indicators and the value of creating a grievance redress mechanism. Bank Management particularly sees value in considering further and pursuing more consistently its role in encouraging borrowers and project implementing entities to report to local communities and stakeholders on how they are managing environmental and social impacts and risks as part of Bank-financed projects. At the same time, Bank Management agrees broadly that it should take into consideration risk factors arising from project design objectives, with greater attention to both the project’s context and impact and risk assessment. Bank Management also notes that the IEG found that the significant investments during the 1990s led to success in developing legislative frameworks and client capacity, which provide in many countries the foundation for country ownership as endorsed in the Paris Declaration and the Accra Agenda for Action. It also appreciates the IEG’s finding that the current approach to Use of Country Systems (UCS) in the pilot program has been rigorous in its approach, which leads Bank Management to
propose that it may soon be time to scale-up and broaden the approach as suggested by the Board discussion of the Pilot Program in January 2008.

**Updating and Consolidation of Safeguard Policies**

Bank Management recognizes, as does IEG, the importance of undertaking a comprehensive updating and consolidation of the safeguard policies. This should include a rigorous consideration of those aspects of the IFC Performance Standards (PS) for the private sector that represent a modernization in approach toward environmental and social standards possibly lacking in parts of the World Bank’s current suite of safeguard policies. In this context, Bank Management plans to use a joint team led by the Sustainable Development Network (SDN), Operations Policy and Country Services Network (OPCS) and the Legal Vice Presidency (LEG), to engage during the next 24 months in a learning and consultative process with a diversity of shareholders and stakeholders on global good practice and integrate this dialogue into an update of the Bank’s approach to safeguard policies in its projects. At the conclusion of this process, Bank Management will report to CODE and the Board how it intends to further strengthen environmental and social sustainability in its projects, including presentation, for their consideration, of a policy paper setting out its updated and consolidated approach.

The review process will focus on developments that allow the Bank to achieve outcomes with greater environmental and social sustainability, and on helping clients build institutions that can effectively pursue such outcomes. The IEG evaluation will be used as a reference point for the consideration of various issues and options. A period of 24 months has been proposed to provide adequate time to undertake an interactive review process, develop a draft umbrella safeguard policy, prepare translations, and conduct consultations within and outside the WBG. Periodic briefings are planned to be held on a regular basis with representatives of CODE and the Board to keep them apprised of developments and to seek their guidance to the joint team as needed. This process will support Bank Management’s commitment to reinforcing and enhancing the effectiveness of current policies and increasing the emphasis on activities that lead to beneficial and sustainable outcomes. We believe an updated policy, complemented by support for institution and capacity building, will help manage environmental and social impacts and risks in Bank-supported investment projects, especially in low-capacity and fragile countries. Alternatives will, of course, be subject to cost estimates.

The joint team will be tasked with defining the specific objectives of the review, outlining the process (including consultation and engagement with internal and external stakeholders), developing a timeline, and preparing recommendations to enhance the development effectiveness of the Bank’s safeguard policies. This review of global good practices will provide the opportunity for a discussion of current and emerging practices in both Part I and Part II countries at the national and subnational level. Consultations would be undertaken with governments at various levels, private sector representatives, academic and applied research institutions, professional associations, civil society organizations, nongovernmental organizations and other stakeholders. The Bank will explore, as part of this process, policy and regulatory instruments that can be used in addition to environmental and social impact assessments, to both mitigate adverse impacts and also enhance support for broader environmental and social sustainability in projects.

**Use of Country Systems**

Bank Management agrees that the approach to UCS for Environmental and Social Safeguards to date has been relatively narrow, particularly with regard to the provisions of Operational Policy (OP) 4.00 concerning the determination of equivalency as approved by the Board in March 2005. Bank Management also notes that if a change in the approach toward UCS is to occur, the Bank needs to endorse a more flexible application of OP 4.00. Bank Management believes that although the current approach has been appropriate for a pilot-stage program, a more robust approach is warranted for broader
application of UCS in the future. At the same time, Bank Management fully supports increased emphasis on strengthening country institutions and systems to manage environmental and social impacts and risks especially in low-capacity and fragile countries.

Bank Management believes that, based on the results of the pilot program, there is now sufficient experience to begin a mainstreamed program with a revised version of OP 4.00 that moves beyond the pilot stage and takes Bank practice closer to the vision of the Accra Agenda for Action, in which UCS increasingly becomes the default approach. Bank Management is currently reviewing the implementation of OP 4.00 and plans to expand this work in the context of the global good-practice review in order to develop proposed revisions to the policy that scale up, broaden, and mainstream its use. As part of this review, consideration will be given to several options, including the default use of country systems for European Union and advanced European Union-accession countries, as well as countries whose environmental systems and performance are conditioned by international trade agreements. At the end of the global good-practice review period, Bank Management plans to recommend revisions to OP 4.00 to the Board as part of its overall approach.

Selected Areas for Action
Bank Management would like to highlight several areas for action in response to the findings of the IEG report:

• **Coverage of Social Issues.** Bank Management agrees with the recommendation that a more comprehensive and balanced approach to social issues would be useful in supporting the broad development objectives of the Bank and bring greater consistency between the Bank and IFC, while recognizing the difference between public and private sector clients. A more balanced coverage of those social issues relevant in the public sector context would allow a stronger emphasis on social opportunities, impacts and risks not currently specifically covered by safeguard policies and guidance. While the review on global good practice is under way, Bank Management will address this concern on an interim basis by having SDN, OPCS, and LEG prepare and issue guidance by the third quarter of fiscal 2011 on the scope and coverage of social issues in the context of the preparation and implementation of environmental assessments. This guidance will ensure a more balanced approach between environmental and social risks and impacts, as well as the identification of actions to support more sustainable social benefits from Bank-supported projects.

• **Occupational Health and Safety.** Occupational health and safety, working conditions, and security are recognized as issues that deserve more explicit recognition in the Bank’s safeguard work. SDN, OPCS, and LEG will expand their work with the Regions to ensure a heightened awareness of the need to address these concerns in the context of project preparation, appraisal, and supervision. OPCS has already incorporated these topics more explicitly in its safeguard training program, which entails a rotating series of courses on various safeguard topics on a weekly basis. These topics have been incorporated in three of the courses offered by the OPCS-sponsored training program: (a) Overview of Safeguards; OP 4.01, (b) Environmental Assessment; and (c) Guidance to Staff Working on Joint Bank-IFC projects. In the past year, OPCS has also developed and offered a new course on the WBG Environmental, Health, and Safety Guidelines, which includes many aspects of occupational health and safety and working conditions. Priority is also being given to providing selected staff in the Regions with more intensive specialized training on these issues from external sources. Bank Management will undertake an outreach and training program on these issues during fiscal 2011 and will more broadly disseminate the WBG Guidelines to both staff and borrowers as part of this process.

• **Monitoring, Evaluation and Use of Indicators.** Bank Management agrees with the need to strengthen monitoring and evaluation arrangements. To address this issue, SDN,
OPCS and LEG will collaborate on developing guidelines on monitoring and evaluating safeguard performance for selected types of projects by the third quarter of fiscal 2011. These guidelines will focus on more systematically measuring outcomes, including through the use of core environmental and social performance monitoring indicators, and on evaluating impacts. Reporting will be integrated in the Implementation Status and Results Report (ISR), building on the new Operational Risk Assessment Framework under the Investment Lending Reform which is already enhancing the monitoring of environmental and social risk mitigation measures in ISRs. The proposed guidelines on monitoring and evaluation will further emphasize the need for the Implementation Completion Report (ICR) to evaluate the achievement of the safeguard objectives and identify lessons for future projects.

**Inclusion of Safeguards in Legal Agreements**

Bank Management notes that the IEG found that inclusion of safeguard-related provisions in IFC legal agreements under the IFC Performance Standards is more prevalent than in Bank projects, other than for World Bank Category-A projects. Bank Management notes that this finding was limited in scope to the Category-B projects in the sample survey and is not conclusive as to the percentage of World Bank projects that use safeguard covenants. However, Bank Management takes this finding seriously, and will undertake a review to evaluate the matter further to determine whether there is any gap in coverage in Category-B safeguard-related covenants. As part of the review, Bank Management will discuss with IFC counterparts IEG’s approach toward covenants, including differences that might be related to private sector versus public sector projects. In addition, the Bank’s Legal Vice Presidency has already set up a program for training for all LEG lawyers to become better versed in safeguard application.

**Projects Using Frameworks and Third Party Monitoring**

Bank Management recognizes that the use of various safeguard framework instruments (Environmental and Social Management Framework, Resettlement Policy Framework, Indigenous Peoples Plan Framework), initially designed to be used as an appropriate instrument as part of Financial Intermediary (FI) lending, has become more widespread as the nature of Bank lending moves increasingly to projects that use a programmatic approach and support the use of subprojects. Bank Management agrees that improvements are needed in supervision of projects that rely on frameworks as the appropriate safeguard instrument for such projects. Bank Management is currently engaged in a Bank-wide
review of the use of frameworks that will examine these types of projects and identify good practices. The review will include an examination of a variety of means to strengthen monitoring of such projects including, in appropriate situations, the use of third-party or community monitoring for selected projects. The review is expected to be completed by the third quarter of fiscal 2011 and will provide the basis for guidance to be issued by SDN, OPCS, and IEG for use by Bank staff and borrowers by the fourth quarter of fiscal 2011.

**Grievance Redress and Conflict Resolution Mechanism**

Bank Management agrees with IEG that there is value in creating a grievance redress mechanism for which Bank Management will take responsibility and which is complementary to, but separate from, the Inspection Panel. Because this mechanism would seek to resolve grievances without examining the issue of compliance with Bank policies, use of this mechanism would not be a precondition to review of requests by the Inspection Panel. Management takes note that similar complementary systems are now in place at the IFC, and at other multilateral financial institutions, such as the Asian Development Bank. A grievance mechanism can also help to complement the Bank’s current accountability system by promptly responding to concerns, including through the use of local mediators and facilitators. Management wishes to underscore that establishing this mechanism would not alter the responsibility of borrowers and recipients for implementing projects, and that in many cases, the grievances are not necessarily with the Bank, but between our clients and project-affected people. Nevertheless, these grievances are often brought for resolution to the Bank.

Therefore, by the end of the third quarter of fiscal 2011, Bank Management intends to complete a survey and review of a wide range of potentially analogous existing grievance-redress mechanisms as a basis for designing one for the Bank. The study will include a review of the cost implications and potential cost savings that could be engendered by using a system similar to the IFC Compliance Advisor/Ombudsman (CAO) or other multilateral financial institutions. Bank Management will present the results of this study to the Board to ensure that any decisions emerging from the study will be consistent with the Board Resolution and related Board decisions concerning the Inspection Panel, and in a manner that takes fully into account the current requirements and experiences with project-based grievance mechanisms (including as required under OP 4.12, Involuntary Resettlement, and OP 4.10, Indigenous Peoples). This study will be coordinated among Bank units with considerable experience in this field to ensure institutional coherence and efficiency. Based on this study and the aforementioned consultations with the Board, subject to cost considerations, Bank Management will establish a grievance mechanism by the first quarter of fiscal 2012, and provide to the Board a detailed report on the initial operation of the grievance mechanism by the end of fiscal 2012.

**Management Observations – IFC**

**Overview**

IFC Management welcomes the evaluation by the IEG and appreciates IEG’s endorsement of the policy and implementation direction IFC has set in recent years. All IEG recommendations and suggestions will be considered in the ongoing review and update of IFC’s Sustainability Framework, consisting of the Sustainability Policy, Performance Standards and Disclosure Policy, as well as in the context of IFC’s ongoing supervision of its portfolio projects. IFC Management concurs with many of the aspects of IEG’s findings and recommendations, such as the recommendation to harmonize thematic coverage and guidance across the WBG, including categorization. IFC Management has also identified a number of implementation challenges, which are described below. Specific action-based responses to IEG’s recommendations are provided in the attached MAR.

**Observations concerning Recommended Actions**

In a limited set of cases the recommended actions proposed by IEG need to be adapted to the IFC business model. This applies particularly to the areas listed below:
• **Supply Chains.** IFC’s approach to supply chains has been to focus client actions on the most immediate and serious risks in their supply chains—such as child labor, forced labor, and potential clearing of critical habitats. In addition, IFC proposes to: (i) strengthen its supply chain assessment methodology as part of appraisal; (ii) make changes to the Performance Standards by adding significant safety issues as a new risk factor to be considered in the supply chain assessment; and (iii) continue supporting certification schemes, both through investment projects and advisory services, including engagement in a number of global commodity roundtables. However, IFC Management notes that the number of credible certification schemes is still limited, and that these schemes could disadvantage small-scale producers and suppliers, particularly those in emerging markets. In addition, IFC clients have varying degrees of control of or influence over their supply chains.

• **Financial Intermediaries, Listed Equities, and Trade Finance.** IFC welcomes IEG’s finding that the quality of Performance Standards implementation in FI projects has improved considerably, with a high quality of appraisal (IEG nonetheless noted that the quality of supervision is still lower than that of appraisal), and that this is starting to translate into outcomes. There are unique challenges associated with financial intermediaries. IFC’s development impact is achieved through the emergence of robust FIs, able to manage financial and nonfinancial risks well. IFC has no contractual relationships with the FI’s subprojects. IFC’s due diligence process therefore involves a risk-based approach, taking into account the nature of IFC’s exposure to environmental or social risks in the FIs’ portfolio, and focusing on their capacity and effectiveness in developing and implementing a Social and Environmental Management System (SEMS). In the case of FIs with higher-risk portfolios, IFC ensures a right to review select subprojects before they are approved. In the proposed revisions to the Sustainability Policy, IFC is further refining its risk-based approach with the introduction of a three-tiered risk categorization for FIs: high, medium, and low, with risk-appropriate due diligence requirements. With regard to listed equities, IFC considers legal and regulatory frameworks in the development of options that are tailored to the respective framework in which the investee companies operate. This informs the way that IFC can include Performance Standards—either in Shareholders Agreements, Policy Agreements directly with the Company, or adopted by the Company’s Board of Directors (and/or incorporated into the Company’s Charter) before IFC invests. The approach used by IFC for the existing trade finance programs (e.g., Global Trade Finance Program, Global Trade Liquidity Program) is to apply the exclusion list and undertake regular reviews of this application. IFC will review this approach from a corporate risk perspective and as additional trade finance products are developed and launched.

• **Local Disclosure.** IEG recommends IFC to improve its disclosure practices, including local disclosure to ensure access to information by affected communities and other key stakeholder groups. IFC Management agrees with this recommendation. The existing IFC Disclosure Policy takes a hybrid approach, specifying the types of information IFC will disclose, subject to a list of exceptions (which is a standard approach among private sector financial institutions). The Policy emphasizes disclosure of information up to the point of Board approval. Management is currently considering a number of revisions to its Disclosure Policy in order to enable more disclosure of information throughout the IFC investment lifecycle, including disclosure of development impact during project implementation. However, this will not include disclosure of all environmental and social reporting from clients since there has to be a balance between client confidentiality and disclosure. IFC will continue its practice of holding its clients responsible for reporting to the local community. IFC understands that not all communities have access to the information that it discloses, and will be reviewing translation requirements in line with the WBG Translation Framework.
**Supervision**

The IEG report points out that the quality of supervision has improved. Many of the challenges to implementation and supervision specified by IEG are consistent with those identified through IFC’s ongoing review and update of its Sustainability Framework. IFC Management agrees with IEG’s identification of the key challenges, and has the following observations on the recommendations:

- **Capacity of Clients.** The capacity of clients, especially in higher-risk country contexts or industries, can present obstacles to implementation of Performance Standards. IFC’s environmental and social specialists routinely provide support to its clients during appraisal and supervision. However, there are situations where clients would benefit from additional or more targeted support, and use of advisory services is an option that IFC can use for this purpose, especially for low-capacity clients in high-risk environments. IFC is currently working to define how best to target and prioritize this type of support.

- **Third Party Monitoring.** IFC Management agrees with some aspects of IEG recommendations on third-party monitoring. IFC proposes to selectively make greater use of third-party monitoring, including participatory monitoring where practical, particularly in higher-risk situations. A key priority for IFC is to strengthen client capacity and ownership for environmental and social issues, and third-party monitoring should be viewed in that context, not just in terms of independent verification. IFC Management agrees that there should be independent grievance mechanisms where possible, and this should be combined with regular engagement and outreach conducted by the client.

- **Subproject Level Supervision.** IFC Management agrees that supervision of financial intermediaries should focus on the overall environmental and social management system of the financial intermediary and include some level of subproject oversight consistent with a risk-based approach. Monitoring of all subprojects is not appropriate or required under a risk-based approach, and IFC will conduct its supervision of subprojects on a selective basis. The methodology and selection criteria for this will be developed as part of the review and update of the Sustainability Framework.

**Accountability and Grievance Redress**

IFC Management recognizes that as a private sector development institution it is key to have an independent office with effective compliance and mediation functions. IFC Management notes that the recommendation with respect to the CAO will not require any management action. At the same time, IFC Management has not noted any concerns with the effectiveness of the current grievance and mediation function. IFC Management is awaiting with interest the outcome of the Board’s ongoing reviews of oversight and accountability mechanisms.

**Management Observations – MIGA Overview**

The Multilateral Investment Guarantee Agency (MIGA) management thanks the IEG for its evaluation, and would like to comment on several points raised that specifically address MIGA’s capacity and performance.

- **Improved Performance.** MIGA Management welcomes the IEG finding that MIGA’s social and environmental preparation and appraisal under the Performance Standards have improved compared with projects prepared under previous safeguard policies; and that all the projects approved under the Performance Standards were found to be satisfactory by IEG in terms of identification and screening, disclosure and consultation, and preparation and social and environmental appraisal.

- **Environmental and Social Trust Fund.** MIGA Management appreciates and agrees with the recommendation that the Japan-supported Environmental and Social Trust Fund for Africa should be expanded in terms of size and eligibility, to allow projects in other regions to be eligible for Trust Fund support as well. MIGA believes that the first three pilot years showed that the Trust Fund has been valuable and the evaluation notes that MIGA’s
follow-up client surveys indicate that client satisfaction with these activities has ranged from very good to excellent. MIGA has started taking steps to extend the Trust Fund, including initiating contact with several potential donors. MIGA Management sees considerable value in maintaining and extending this facility, but at the same time notes that the ability to comply with this recommendation will largely be driven by the willingness and capacity of external donors to be involved.

**Small Investment Program.** MIGA Management partially agrees with IEG’s recommendation that Category-B Small Investment Program (SIP) projects follow the same disclosure requirements as regular Category-B projects. MIGA will review its Disclosure Policy after IFC completes its own review in fiscal 2011 and will make changes as warranted at that time. In the meantime, MIGA will continue to post the Summary of Proposed Guarantee (SPG) for all SIP projects, which may include a more detailed explanation of environmental and social issues, and will attach the project Environment and Social Impact Assessment (ESIA) if warranted by the nature of the project. MIGA will still require its clients to disclose the project’s social and environmental impacts to local communities.

**Capacity of the Environmental and Social Unit.** The evaluation recommends increasing the capacity of the Environmental and Social Unit to the level needed to provide credible assurance on performance against the standards for every project guaranteed by MIGA, and should MIGA be unable to increase its resources devoted to implementation of the Performance Standards, it should revise its Policy on Social and Environmental Sustainability to disclaim any responsibility for monitoring the project’s social and environmental performance. While past performance in this area may have left room for improvement, the situation today is different and improving. MIGA has taken a number of important steps that squarely address this issue, including the strengthening of MIGA’s Environmental and Social Team, which has increased significantly in terms of staff size since fiscal 2006. While keeping its current risk-based approach, MIGA Management will consider whether more resources can and should be allocated to project monitoring to allow for more frequent visits to complex projects. The IEG alternative of MIGA declaring it will not monitor projects’ environmental and social performance is not consistent with MIGA’s mandate as a development institution, and MIGA Management would like to know the rationale for this alternative. MIGA Management instead recommends continuing with its risk-based approach, but increasing the number of site visits for those projects where issues are most likely. At the same time, MIGA would maintain routine contact with those projects where the risks are viewed to be less.

**Financial Sector Guarantees.** Finally, in the case of financial sector guarantees, IEG recommends MIGA focus on the SEMS specifically of the project enterprises, rather than the corporate policies of the parent banks. MIGA Management appreciates this comment, but wishes to add a clarification. In the case of guarantees provided in support of shareholder loans from a parent bank to a subsidiary, MIGA looks to the SEMS that the parent company imposes as a matter of corporate policy on its subsidiaries (at local project enterprise level), which the subsidiaries are expected to follow. These are normally part of the company’s credit policies and standards, and the parent company provides guidance, training, and enforcement of these policies. MIGA Management plans to start examining how the client (i.e., corporate parent) implements its policies at the local project enterprise level during the guarantee period, but will conduct this monitoring exercise on a selective basis.

Management Observations – World Bank Group

**Project Categorization**

Management recognizes that two key challenges exist in establishing consistent approaches to categorization between the Bank, IFC, and MIGA. The first challenge is in the definition: the current definitions of Category A and C are relatively clear to most project teams when
projects occur at the far “ends” of the bell curve that characterizes the distribution of projects at various levels of project risks and impacts. The definition of Category-A has been particularly useful in focusing attention on the relatively small number of high-risk projects. The current definition, and interpretation, of Category B covers a wide spectrum of risk levels, however, with no clear distinction regarding the location or width of the “threshold” between Category A and B or Category B and C. A second challenge is in the significant difference in business models with respect to the client’s project cycle: whereas the Bank frequently engages in a very early stage of project concept and makes initial determinations of categorization based on “potential” impacts for a project that is still at a conceptual level, the IFC and MIGA most frequently find themselves becoming involved with a potential client either in a clearly defined project or an existing operation, where risks and impacts may be well defined and mitigation measures already built into project design or operations.

During the first half of fiscal 2011, Management will convene a small group of senior-level environmental and social specialists from the World Bank, IFC, and MIGA to discuss how their respective units’ policies on categorization can be improved in practice and what approaches to a shared set of objective criteria are possible. There is ongoing work in this regard. IFC is proposing changes to its approach to environmental and social categorization as part of the review and update of its Sustainability Framework. The proposed changes, if endorsed by the Board, will bring IFC categorization more in line with the World Bank approach, while allowing for adaptations that are important for IFC, such as a three-tiered risk approach for Category FI. IFC will consider these recommendations in its revised Sustainability Framework, which will be presented to the Board. IFC Management will provide internal guidance to staff regarding categorization as part of the update of Environmental and Social Review Procedures, which will be finalized at the completion of the ongoing process of updating the Sustainability Framework. The recommendations of this review will be factored into Management’s review of global good practice, which will be carried out in preparation of an update of Bank safeguards.
## Management Action Record

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<td>1. Revise the policy frameworks to harmonize thematic coverage and guidance across the Bank Group and enhance the relevance of those frameworks to client needs</td>
<td><strong>World Bank, IFC, and MIGA: Agreed.</strong> Bank, IFC, and MIGA Management will convene within the first half of fiscal 2011 a small group of senior-level environmental and social specialists to discuss approaches to either a shared set of objective criteria or alternative approaches to categorization that are more refined in scope and clearer to teams. The recommendations of this review will be factored into Bank Management’s review of global good practice, which will be carried out in preparation of an overall update of Bank policies on project safeguards. IFC will consider these recommendations in its revised Sustainability Framework, which will be presented to the Board. IFC Management will provide internal guidance to staff regarding categorization as part of the update of its Environmental and Social Review Procedures, which will be finalized at the completion of the ongoing process of updating IFC’s Sustainability Framework. MIGA will review its Policy on Social and Environmental Sustainability to make necessary changes and bring its categorization more in line with IFC and the Bank, after IFC revises its Sustainability Policy and proposed changes are endorsed by the Board. <strong>Timeline:</strong> In parallel with the update of Bank safeguards (see below) and following Board approval of the updated IFC Sustainability Policy and Performance Standards.</td>
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**IFC, MIGA, and the World Bank** should jointly adopt and use a shared set of objective criteria to assess social and environmental risks to ensure adequacy and consistency in project categorization across the WBG, using the more inclusive criteria for category A, and refining the categorization system to address the bunching of higher- and lower-risk projects within the current category B. |

The **World Bank** should: Ensure adequate coverage of social effects—integrating community and gender impacts, labor and working conditions, and health, safety, and security issues not currently covered by its safeguard policies—by consolidating existing social safeguards with other World Bank Group policies on social risks as requirements under one umbrella policy on social sustainability. Consolidate the environmental policies as requirements under one umbrella policy on environmental sustainability. Revise the current approach to safeguards pilots on use of country systems to focus on strengthening country institutions and systems to manage environmental and social risks. **Disagreed.** While Bank Management recognizes, as does IEG, the importance of undertaking a comprehensive updating and consolidation of its safeguard policies, it is not yet ready to agree in this detail on the final outcome of that process. Instead, taking into account IEG’s analysis and consideration of IFC’s Performance Standards for its private sector support in the context of the Bank’s public sector support, Bank Management plans to engage in a learning and consultative process with a diversity of shareholders and stakeholders on global good practice (in developing countries as well as industrial countries). Bank Management plans to complete this process in the next 24 months and then report to CODE and the Board on how it intends to further strengthen environmental and social sustainability in its projects, including presentation, for their consideration, of a policy paper setting out its updated and consolidated approach. A period of 24 months has been proposed to provide adequate time to undertake an interactive review process, develop a draft umbrella safeguard policy, prepare translations, and conduct consultations within and outside the WBG. Periodic briefings are planned to be held on a regular basis with representatives of CODE and the Board to keep them apprised of developments and to seek their guidance to the joint team as needed. **Timeline:** 24 months. During this process, on an interim basis, Bank Management will address concerns related to the balance between environmental and social issues by preparing and issuing guidance on the scope and coverage of social issues in the context of the preparation and implementation of environmental assessments. **Timeline:** Guidance issued by the end of the third quarter of fiscal 2011. |

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| **IFC** should: Strengthen the provisions on sustainability to address emerging issues, notably climate change and supply chains and their commodity certification. | **Agreed.** IFC has proposed changes through the ongoing review and update of its Sustainability Policy and Performance Standards, which will address climate change, supply chains, and biodiversity, among others. Management feels that the proposals put forward with regard to climate change—including the consideration of low-carbon technology options and resource efficiency, and to strengthen reporting on greenhouse gas emissions—are consistent with good business, and with good international industry practice.  
*Timeline: Following Board approval of the updated Sustainability Policy and Performance Standards.*  
Proposed changes to the Performance Standards include extending supply chain considerations to significant safety issues. Regarding certification, IFC is generally supportive of these schemes and has an active and ongoing engagement in a number of global commodity roundtables. *Timeline: Following Board approval of the updated Sustainability Policy and Performance Standards.*  
**Disagreed:** Management notes that the number of credible certification schemes is still limited, and that these schemes could disadvantage small-scale producers and suppliers, particularly those in developing countries. In addition, IFC clients have varying degrees of control of or influence over their supply chains. |
| Develop more robust approaches to the implementation of the Performance Standards in financial intermediary projects, listed equities, and trade finance. | **Agreed/Ongoing.** With regard to FIs, IFC has been implementing a number of measures to strengthen its environmental and social risk management approach and implementation of the Performance Standards. A risk-based approach was developed and adopted as the basis for managing risk in FI operations, supported by a global team of staff and consultants that are specialized in this line of business. This approach has led IFC to review select due diligence work undertaken by FIs as a standard approach to supervision. In the proposed revisions to the Sustainability Policy, IFC is further refining its risk-based approach with the introduction of a three-tiered risk categorization for FIs: high, medium, and low, with risk-appropriate due diligence requirements. For higher-risk operations, IFC has established the practice of a right to review before investments are made (Funds), in accordance with the provisions set out in the legal agreement.  
The approach used by IFC for the existing trade finance programs (e.g., Global Trade Finance Program, Global Trade Liquidity Program) is to apply the exclusion list and undertake regular reviews of this application. IFC will review this approach from a corporate risk perspective and as additional trade finance products are developed and launched. |
| Strengthen policies and practices on disclosure, including at the local levels. | **Agreed.** IFC’s current Disclosure Policy is a hybrid approach, specifying what information it will disclose, subject to a list of exceptions, which is the standard approach among private sector financial institutions. IFC is currently reviewing proposals that will move disclosure to a process that spans the investment lifecycle. IFC is proposing revisions to the Disclosure Policy to provide stakeholders with updated information regarding development impact during project implementation.  
*Timeline: Following Board approval of the updated IFC Disclosure Policy.* |

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<td><strong>MIGA</strong> should: Increase the capacity of the Environmental and Social Unit to the level needed to provide credible assurance on performance against the standards for every project. Should MIGA be unable to increase its resources devoted to implementation of Performance Standards, it should revise its Policy on Social and Environmental Sustainability to disclaim any responsibility for monitoring the projects’ social and environmental performance and ensuring that they comply with the standards. Under this option, MIGA’s role would be limited to reviewing the client’s assessment of the project’s environmental and social risks against the standards, identifying corrective actions as needed, and securing the client’s commitment to implement these actions.</td>
<td><strong>Agreed/Ongoing (Improvement of Monitoring).</strong> While MIGA Management agrees that past performance in this area may have left room for improvement, the situation today is different and still improving. MIGA has taken a number of important steps that squarely address this issue, including the strengthening of MIGA’s Environmental and Social Team, which has increased significantly in terms of staff size since fiscal 2006, and the introduction of new safeguard (Performance Standards) and disclosure policies. While keeping its current risk-based approach, MIGA Management will review whether more resources should be allocated to monitoring, and recommends continuing with its risk-based approach, but increasing the number of site visits for those projects where issues are most likely, and regular monitoring reports are received from investors, while maintaining routine contact with those projects where the risks are viewed to be less. MIGA’s Environmental and Social Team has begun development of a monitoring strategy to this end.</td>
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<td>Require that category-B Small Investment Program projects follow the same disclosure requirements as for regular category-B projects.</td>
<td><strong>Disagreed (Disclaiming Responsibility for Monitoring).</strong> The IEG alternative of MIGA declaring it will not monitor projects’ environmental and social performance is not consistent with MIGA’s mandate as a development institution. <strong>Timeline:</strong> MIGA’s Environmental and Social Team has started developing a monitoring strategy, and plans to start implementation in the second quarter of fiscal 2011, after the program has been reviewed by the MIGA Senior Management Team.</td>
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### 2. Enhance client capacity, responsibility, and ownership

The **World Bank** should: Increase the synergies between safeguards work and broader Bank engagement on environmental and social sustainability by investing in upstream analytical work, technical assistance, and lending to strengthen country and sector institutions and capacities in client countries. | **Agreed.** Bank Management agrees and will work among SDN, OPCS, LEG, and the Regions to promote this approach. This issue will also be an element of the global good practice review discussed above. For example, as part of the updated Environment Strategy process, SDN is developing guidelines on how to incentivize analytical work, technical assistance, and lending that strengthens environmental governance, institutions, and capacity in client countries. |
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| Require regular reporting by the borrower on implementation and outcomes of safeguards in Bank-supported projects, and work with clients to develop instruments and indicators to help in such monitoring. | While Bank Management agrees, it suggests that it not be included in future Management Action Records for monitoring because there is no clear way of demonstrating its implementation.  
**Not Agreed.** Instead, this issue will be included in the process outlined above in response to Recommendation 1. |
| **IFC** should:  
Develop incentives for investment officers to share ownership of the Performance Standards and mainstream their implementation. | **Agreed/Ongoing.** With regard to staff incentives, these are constantly evolving and incentives related to environmental and social issues have become more prominent in recent times, especially in areas where environmental and social performance is a core aspect of project sustainability. IFC Management has reinforced environmental and social issues as a shared and core agenda and will hold staff accountable for this. Environmental and social due diligence is required for success in approval of investments. IFC will consider opportunities to include environmental and social aspects in the performance management process.  
**Not Agreed.** Instead, this issue will be included in the process outlined above in response to Recommendation 1. |
| Use advisory services to build social and environmental management systems and implementation capacity, especially among small and medium enterprises, financial intermediaries, and clients in countries and sectors with weak environmental and social management. | **Agreed.** With regard to advisory services, IFC will work to strengthen the capacity of select clients to develop and manage their environmental and social management systems through a mix of tools and approaches, including the selective and strategic use of advisory services. IFC will also use other approaches, as appropriate, including the use of environmental and social specialists who engage with clients in developing action plans and use supervision to verify and support implementation of environmental and social standards; and country-based expertise, especially in middle-income countries.  
**Timeline:** Work with advisory services has been initiated and a strategic approach is expected before the end of fiscal 2011. |
| Mobilize resources at appraisal for energy and clean production audits, using auditors with relevant sector knowledge. | **Agreed/Ongoing (energy and cleaner production audits).** IFC includes energy/cleaner production audits as part of appraisal or ongoing improvement of clients’ operations when deemed useful and appropriate.  
**Disagreed (resource mobilization approach).** IFC disagrees with the proposed resource mobilization approach. Resources are mobilized through different avenues not linked to timing of appraisal and may include funding of audits directly by clients. |
| Define areas of influence and requirements to better address supply chain risks and opportunities, particularly related to biodiversity and forestry, expanding the application of material biodiversity along the supply chain for suppliers. | **Agreed.** IFC requirements on supply chains apply to all sectors with a focus on the highest risks, such as child labor, forced labor, and clearing of critical habitats. The proposed changes to the Performance Standards expand this to include significant safety issues. IFC has included provisions under PS1, PS2, and PS6 to ensure an adequate assessment of supply chains is undertaken as part of appraisal.  
**Timeline:** Following Board approval of the updated Sustainability Policy and Performance Standards.  
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<td><strong>MIGA</strong> should: Focus the due diligence reviews of financial sector projects on the Social and Environmental Management Systems of developing-country subsidiaries the project supports, rather than the corporate policies of the parent banks.</td>
<td><strong>Agreed.</strong> MIGA Management wishes to clarify that in the case of guarantees provided in support of shareholder loans from a parent bank to a subsidiary, it looks to the SEMS that the parent company imposes as a matter of corporate policy on itself and its subsidiaries (at local project enterprise level), which the subsidiaries are expected to follow. MIGA Management plans to start examining how the client (i.e., corporate parent) implements its policies at the local project enterprise level during the guarantee period, but will conduct this monitoring exercise on a selective basis. <strong>Timeline:</strong> Will start in second quarter of fiscal 2011.</td>
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<td>Expand the size and eligibility of the Trust Fund for Addressing Environmental and Social Challenges to all low-capacity clients on the basis of need.</td>
<td><strong>Agreed/Ongoing.</strong> MIGA Management has started taking steps to extend the Trust Fund, including initiating contact with several potential donors. The first three pilot years showed that the Trust fund is a very valuable tool and resource for MIGA. MIGA Management sees considerable value in maintaining and extending this facility, but at the same time notes that the ability to comply with this recommendation will largely be driven by the willingness and capacity of external donors to be involved.</td>
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### 3. Revise guidelines, instruments, and incentives to strengthen supervision arrangements

The **World Bank** should: Assign responsibility and budget for safeguards oversight and reporting to environmental and social units in each operational Region—in line with IFC practice—in place of the delegation of safeguards processing and supervision to sector management units. | **Disagreed.** Bank Management agrees with IEG that there is a need to strengthen supervision of medium- and low-risk projects. How this will be done may need to differ from region to region, depending on country capacity and project type and mix. Bank Management does not agree with the specific recommendation on giving the responsibility and budget for safeguard oversight and reporting to environmental and social units in each operational Region and this will need to be dropped from further monitoring by IEG. Bank Management plans to undertake a review by the second quarter of fiscal 2011 concerning current practices with respect to responsibility, accountability, incentives, staffing, and budgeting for safeguard processing and supervision. This review will also cover the issue of financial intermediary projects and projects that use environmental and social policy frameworks (see below). Based on this review, practices will be updated with the objective of enhancing effectiveness and efficiency and maximizing the synergies between safeguard work and broader Bank engagement on environmental and social sustainability. **Timeline:** Bank Management action, based on the review, by the third quarter of fiscal 2011. Bank Management notes that, as part of Investment Lending Reform process, it has actions ongoing to enhance the effectiveness and efficiency of implementation support. These include: (a) the assignment of staff and budget in line with the level of risk associated with an operation, using the new risk assessment and management procedures; and (b) the embedding of grievance redress mechanisms more broadly into projects. |

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<td><strong>Introduce a certification program to expand</strong> the pool of staff qualified to undertake social and environmental preparation and supervision while ensuring quality and consistency, and provide orientation training on environmental and social sustainability to all task team leaders.</td>
<td><strong>Agreed/Ongoing.</strong> OPCS is developing, in coordination with SDN and LEG, a mandatory Operational Core Course for task team leaders which includes modules on safeguard policies and their implementation. Bank Management also has several ongoing and planned initiatives to expand the pool of qualified environmental and social staff that can provide support on safeguards and sustainability issues. Bank Management supports the initiation of a certification/accreditation program for environmental and social staff working on sustainability and safeguard issues starting in fiscal 2011. SDN is working on the design of a core environmental and social sustainability and safeguards course, which will act as a mentoring and certification/accreditation program for environmental and social staff, selected staff of other sectors, and safeguard consultants. The certification/accreditation program will commence by the end of fiscal 2011. SDN also has launched several complementary initiatives to improve the staffing and skills mix for sustainability and safeguards, and to align incentives with the mainstreaming of environmental and social sustainability throughout the portfolio. These include: (a) a Bank-wide analysis of staffing for environmental and social sustainability and safeguards; (b) the development of competencies that emphasize skills in sustainability and safeguards, on both the environment and social issues; (c) consistent management signaling regarding the importance of working on sustainability and safeguards; and (d) the organization of field-based training sessions on sustainability and safeguards. <strong>Timeline: Processes in place (subject to cost considerations) by the beginning of fiscal 2012.</strong></td>
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<td><strong>Develop and implement an action plan to ensure regular supervision of financial intermediary projects and investment projects that use social and environmental policy frameworks through third-party or community monitoring for higher-risk projects, and disclosure of monitoring and supervision reports.</strong></td>
<td><strong>Agreed/Ongoing.</strong> Bank Management is currently engaged in a Bank-wide review of the use of frameworks that will examine these types of projects and identify good practices. The review will include an examination of a variety of means to strengthen monitoring of such projects, including, in appropriate situations, the use of third-party or community monitoring for selected higher-risk projects. The review is expected to be completed by the third quarter of fiscal 2011 and will provide the basis for guidance to be issued for use by Bank staff and borrowers by the fourth quarter of fiscal 2011. <strong>Disagreed.</strong> See above on supervision. To be clear, Bank Management does not agree and will not be held accountable in future Management Action Records for asking clients to implement third-party or community monitoring. <strong>Timeline: Action completed by the end of fiscal 2011.</strong></td>
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<td><strong>IFC should:</strong> Enhance the supervision of financial intermediaries at the subproject level by developing clear guidelines for applying the Performance Standards at the subproject level and by adopting a systematic approach to environmental and social specialists’ site visits to selected subprojects.</td>
<td><strong>Agreed/Ongoing.</strong> IFC has been strengthening the oversight of its investments in and through financial intermediaries at the portfolio, company, and subproject levels. This approach has been developed and is being implemented in accordance with a risk-based approach, which is intended to deploy resources efficiently where the risk is highest and/or performance is poorest. IFC provides guidance on the application of Performance Standards at the subproject level through its ongoing engagement with clients. <strong>(continued on next page)</strong></td>
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<td>Use loan covenants, including Conditions of Disbursement to enforce compliance with environmental and social requirements and reporting if the clients lack commitment and are continuously out of compliance.</td>
<td>There is an ongoing multiyear effort to ensure that IFC’s approach continues to be suitable. The approach to the subproject level supervision will be codified in IFC’s Environmental and Social Review Procedure. <strong>Agreed/Ongoing.</strong> The use of loan covenants to support compliance with environmental and social requirements is a standing practice. IFC has several instruments to support client compliance. These include specific provisions in the loan agreement or legal documentation and action items linked to disbursement and specific deadlines. There are covenants in legal documentation through which IFC monitors compliance, including a “policy put” in some cases, whereby noncompliance of policy provisions would trigger the option for IFC to sell its shares.</td>
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4. **Strengthen safeguards monitoring, evaluation, and completion reporting**

The **World Bank** should:  
Include performance indicators on environmental and social outcomes in project results frameworks and ensure systematic collection of data to monitor and evaluate safeguards performance.  

**Partially Agreed/Ongoing.** Bank Management agrees with the need to strengthen monitoring and evaluation arrangements. To address this issue, the Bank will collaborate on developing guidelines on monitoring and evaluating safeguard performance by the third quarter of fiscal 2011. These guidelines will focus on more systematically measuring outcomes, including through the use of core environmental and social performance monitoring indicators, and on evaluating impacts. Reporting will be integrated in the ISR, building on the new risk framework under the Investment Lending Reform, which is already enhancing the monitoring of environmental and social risk mitigation measures in ISRs. The proposed guidelines on monitoring and evaluation will further emphasize the need for the ICR to evaluate the achievement of the safeguard-related objectives and identify lessons for future projects.  
**Timeline:** Guidelines issued by the end of the third quarter of fiscal 2011.  

Ensure that Implementation Completion Reports and IEG reviews of those reports rate and report effectively on the outcomes of safeguards and, for all projects with significant environmental and social effects, ensure the results are incorporated as an essential dimension when assessing achievement of the project’s development objective, as has already been done for IFC and MIGA.  

**Not Agreed.** Bank Management does not agree and will not be held accountable in future Management Action Records for asking clients to use performance indicators on environmental and social outcomes in all project results frameworks.  

**IFC** should:  
Disclose project-level environmental and social information from monitoring and supervision reports.  

**Agreed (disclosure of some project-level information).** IFC is reviewing its Disclosure Policy to determine where it is most appropriate to make modifications to the policy and to practices throughout the project life cycle.  
**Disagreed (disclosure of all information).** However, this will not include disclosure of all environmental and social reporting from clients since there has to be a balance between client confidentiality and disclosure. IFC will continue its practice of holding its clients responsible for reporting to the local community.  
**Timeline:** Following Board approval of the updated Disclosure Policy.  

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<td>Make use of independent/third-party or community monitoring and evaluation for its projects, particularly for projects with involuntary resettlement and higher-risk financial intermediary and agribusiness projects.</td>
<td><strong>Agreed (community and select independent/third-party monitoring and evaluation).</strong> IFC Management will explore how to strengthen community engagement, participatory monitoring and how, in selected high-risk cases, third party monitoring or advice can be incorporated. <strong>Timeline:</strong> Following Board approval of the updated Sustainability Policy and Performance Standard. <strong>Disagreed (independent/third party monitoring across the board).</strong> IFC Management does not see third-party monitoring as an approach that should be appropriate for all projects, but rather one that may be considered in selected higher-risk situations. Since a key priority is to strengthen client capacity and ownership, third-party monitoring should be seen in that context, not just in terms of independent verification.</td>
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<td><strong>MIGA</strong> should: Disclose project-level environmental and social information from supervision reports.</td>
<td><strong>Disagreed.</strong> At this stage this recommendation is too early to be acted on. MIGA Management will review its Disclosure Policy after IFC completes its own review and any modifications are endorsed by its Board. MIGA will continue its practice of it being the client’s responsibility to report to the local community. <strong>Timeline:</strong> fiscal 2012, following Board approval of IFC’s disclosure policy. <strong>Agreed/Ongoing (Project Enterprise SEMS).</strong> The term “credible mechanism” is not entirely clear to MIGA Management. If this means that MIGA should ensure that for financial sector projects the project enterprise has a Social and Environmental Management System (SEMS) consistent with MIGA’s Policy and Performance Standards, then MIGA Management agrees, notes that this is ongoing, and wishes to echo the clarification made above. In the case of guarantees provided in support of shareholder loans from a parent bank to a subsidiary, MIGA looks to the SEMS that the parent company imposes as a matter of corporate policy on itself and its subsidiaries (at the local project enterprise level), which the subsidiaries are expected to follow. MIGA Management plans to start examining how the client (i.e., corporate parent) implements its policies at the local project enterprise level during the guarantee period, but will conduct this monitoring exercise on a selective basis. <strong>Disagreed (Third Party Monitoring).</strong> If “credible mechanism” means third-party monitoring, as with IFC, then MIGA Management disagrees that third-party monitoring is needed or cost effective for all projects. MIGA Management suggests that this be prioritized to focus on high-risk situations. It should be noted that it is MIGA’s current practice to require independent (third-party) assessments as warranted by the nature of the project.</td>
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<td>Develop a credible mechanism to ensure that Performance Standards are adhered to by financial sector projects.</td>
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<td>5. Improve systems and instruments for accountability and grievance redress</td>
<td><strong>IFC, MIGA, and the World Bank</strong> should: Seek greater symmetry in the structure of Bank Group accountability and grievance redress mechanisms. For the World Bank this would entail creation of a grievance redress and conflict resolution mechanism to complement the Inspection Panel. For IFC and MIGA this would entail a more independent compliance review process, ensuring that the CAO submits its audits directly to the Board. <strong>IFC:</strong> IFC management recognizes that as a private sector development institution it is key to have an independent office with effective compliance and mediation functions. IFC Management notes that the recommendation with respect to the CAO will not require any management action. At the same time, IFC Management has not noted any concerns with the effectiveness of the current grievance and mediation function. IFC Management is awaiting with interest the outcome of the Board’s ongoing reviews of oversight and accountability mechanisms. <strong>MIGA:</strong> Like IFC, MIGA Management recognizes that having an independent office with effective compliance and mediation functions is key to a private sector development institution. MIGA Management notes that the recommendation with respect to the CAO will not require any management action. At the same time, MIGA Management has not noted any concerns with the effectiveness of the current grievance and mediation function. MIGA Management is awaiting with interest the outcome of the Board’s ongoing reviews of oversight and accountability mechanisms. <strong>World Bank:</strong> Agreed/Ongoing. Bank Management agrees with IEG that there is value in creating a grievance redress mechanism for which Bank Management will take responsibility that is complementary to, but separate from, the Inspection Panel. Bank Management wishes to underscore that establishing this mechanism would not alter the responsibility of borrowers and recipients for implementing projects, and that in many cases, the grievances are not necessarily with the Bank, but between our clients and project-related stakeholders. Nevertheless, these grievances are often brought for resolution to the Bank. Therefore, by the end of the third quarter of fiscal 2011, Bank Management intends to complete a survey and review of a wide range of potentially analogous existing grievance redress mechanisms as a basis for designing one for the Bank. The study will include a review of the cost implications and potential cost savings that could be engendered by using a system similar to the IFC CAO or other multilateral financial institutions. Bank Management will present the results of this study to the Board to ensure that any decisions emerging from the study will be consistent with the Board Resolution and related Board decisions concerning the Inspection Panel, and in a manner which takes fully into account the current requirements and experiences with project-based grievance mechanisms (including as required under OP 4.12, Involuntary Resettlement, and OP 4.10, Indigenous Peoples). This study will be coordinated among Bank units with considerable experience in this field to ensure institutional coherence and efficiency. <strong>Timeline:</strong> Bank Management will (subject to cost considerations) establish a grievance mechanism by the first quarter of fiscal 2012, and provide to the Board a detailed report on the initial operation of the grievance mechanism by the end of fiscal 2012.</td>
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