POLICY SEA: CONCEPTUAL MODEL AND OPERATIONAL GUIDANCE FOR APPLYING STRATEGIC ENVIRONMENTAL ASSESSMENT IN SECTOR REFORM

EXECUTIVE SUMMARY

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Around the world, it is increasingly being recognized that for sustainability goals to be reached, efforts need to go beyond compliance with standards and mitigation of adverse impacts, to identifying environmental sustainability as an objective of the development process. This requires a focus on policies that promote integration of environmental, sustainability, and climate change considerations into development strategies and sector reform.

Because sector reform brings about significant policy change involving adjustments in laws, policies, regulations and institutions, it is a sensitive political process often driven by strong economic interests. Policy makers are subject to a number of political pressures that originate in vested interests. The weaker the institutional and governance framework in which sector reform is formulated and implemented, the greater the risk of regulatory capture. In situations such as these, the recommendations of environmental assessment are often of little relevance unless there are constituencies that support them, and with sufficient political power to make their voices heard in the policy process. While strong constituencies are important during the design of sector reform, they are even more important during implementation. It follows that effective environmental assessment in sector reform requires strong constituencies backing up recommendations, a system to hold policy makers accountable for their decisions, and institutions that can balance competing and, sometimes, conflicting interests.

Acknowledging the intrinsically political nature of sector reform, and in response to a mandate for strengthening strategic environmental assessment (SEA) in its activities, in the mid-2000s the World Bank embarked on a testing program for applying SEA at the policy level. Building on experience accumulated in sector reform in middle-income countries, the World Bank proposed an approach known as institution-centered SEA for incorporating environmental considerations in policy formulation (World Bank, 2005 and 2008). This coincided with the development of the OECD Development Assistance Committee SEA Task Team’s Good Practice Guidance on SEA for Development Co-operation (OECD DAC, 2006) which describes SEA as a family of approaches using a variety of tools, rather than a fixed, single and prescriptive approach. It acknowledges that SEA applied at the policy level requires a particular focus on the political, institutional and governance context underlying decision making processes.

The World Bank SEA Pilot Program

The World Bank established a pilot program to test and promote policy SEA applying institution-centered SEA approaches in sector reform beginning in 2005. The main objectives of the program have been to test and validate policy SEA in different sectors, countries and regions;

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1 SEA is the application of environmental assessment to plans, programs and policies.
2 This mandate was provided by the Bank’s Environment Strategy of 2001.
to draw lessons on the effectiveness of policy SEA; and, to yield tools and operational guidance that could be useful in applying SEA in sector reform.

There are two components to the pilot program. The first has provided grants and/or specialized assistance to support eight SEA pilots linked to World Bank’s activities. Six of these pilots were completed and evaluated as follows:

- **Strategic Environmental Assessment of the Kenya Forests Act 2005**;
- **Sierra Leone Mining Sector Reform Strategic Environmental and Social Assessment (SESA)**;
- **Dhaka Metropolitan Development Plan Strategic Environmental Assessment**;
- **Strategic Environmental Assessment for the Hubei Road Network Plan (2002 – 2020)**;
- **West Africa Minerals Sector Strategic Assessment (WAMSSA); and**
- **Rapid Integrated Strategic Environmental and Social Assessment (SESA) of Malawi Mineral Sector Reform**.

The second component of the SEA pilot program consisted of an evaluation of the pilots, conducted in partnership with the Environmental Economics Unit (EEU) at the University of Gothenburg, the Swedish EIA Centre at the Swedish University of Agricultural Sciences, and the Netherlands Commission for Environmental Assessment (NCEA). This report summarizes the main findings and results of this evaluation.

**Main Findings**

The lessons drawn from the pilots suggest that policy SEA can, under conducive conditions, contribute to improved formulation and implementation of sector reform. Largely this contribution stems from the ability of the pilots to raise attention to existing priority environmental and social issues affecting stakeholders. The evaluation also confirmed the importance of strengthening constituencies, as the pilots opened up participation in sector reform dialogues to previously sidelined or weakly organised stakeholders. For example, in one of the most promising SEA pilots (WAMSSA), which focused on mining reform in the Mano River Union countries, stakeholders prioritized lack of transparency and weak social accountability linked to mineral resources exploitation as the most critical issue for sustainable development of the mining sector. The WAMSSA policy dialogue involved ten mining communities in three countries; CSOs and NGOs; private mining companies, and government mining sector authorities. This dialogue is expected to continue during mining sector reform through a multi-stakeholder framework recommended by the stakeholders themselves, and later adopted by the countries as the social accountability mechanism for the World Bank’s major programme that will support mining sector reform in the Mano River Union.

In addition, it was found that ownership, capacity and trust are necessary conditions for effective environmental mainstreaming at the policy level. In particular, strong evidence was found that policy SEA only has positive outcomes if it promotes ownership of the policy SEA process by governments, civil society organizations and local communities. The evaluation
confirmed that country ownership has several dimensions. Government ownership can be viewed both in terms of being mandated to control the reform, including the policy SEA, and being accountable for results. When national agencies are put in charge of designing sustainable policies they are equipped to deliver much more powerful measures than those that the World Bank or other agencies would be able to induce. It is important to note, however, that when weak sector ministries take ownership of policy SEA, there is a risk of regulatory capture and associated rent seeking. The WAMSSA pilot showed that institutions such as multi-stakeholder frameworks can guard against this eventuality. Another dimension of ownership is linked to civil society and to potentially affected stakeholders. With well-designed institutional support and multi-stakeholder frameworks for addressing policy and development decisions in sector reform, policy SEA can help to reconcile different interests, and to deal with regulatory capture by enhancing transparency and social accountability.

**Another important finding emanating from the evaluation is the need for long-term constituency-building.** Policy SEA is but a small and bounded intervention in the continuous process flow of policy making, and so positive outcomes from the pilots could be short-lived. To sustain outcomes over the longer term, it is necessary to build constituencies that can sustain policy influence and institutional changes which take a long time to realize. Constituencies that can demand accountability with regard to environmental and social priorities need to be strengthened. Achieving this requires trust-building and common perception of problems. Under the right conditions, as stakeholders start to deal with the complex problems and responses to sustainable development issues and share policy dilemmas and tradeoffs that emerge, common perception of problems and trust in each others’ intentions may surface. As a corollary, the evaluation showed that when constituency building was weak in the pilots, the take-up of policy SEA recommendations was limited.

**A final finding is that contextual factors are of overriding importance in hindering or facilitating the attainment of the main benefits of policy SEA.** In some cases, these factors may be aligned in such a way that pursuing policy SEA is not meaningful. This can happen when – as in the case of the Sierra Leone pilot – a newly elected government decides to postpone reform processes initiated by a previous administration. In all cases, however, preparation and planning must make sure to adapt and adjust the SEA process in view of these factors. In addition, windows of opportunity that close may open over time. In Sierra Leone, for example, interest in mining reform has renewed. Policy SEA may have now an opportunity to influence sector reform as long as there are constituencies that can take up the now three-year-old recommendations.

Linking strongly to the issues of ownership and constituency building, a key message is the need to clearly articulate the potential benefits of policy SEA. Developers of policy SEA must recognize that incumbent actors have certain interests when engaging in SEA activities. Their participation will be driven by the benefits from engaging being greater than the risks and costs. First and foremost, policy SEA must be understood as a strategic decision support process that
will enable governments to put in motion better policy making, and not merely as an environmental safeguard. Speaking directly to the development priorities of the country, policy SEA not only works towards improving policy making from an environmental mainstreaming perspective, but also supports better planning and policy making from an overarching development point of view. As analysis of the potential economic and growth impact of sector reform is undertaken in the “sector review”, policy SEA could complement this analysis by exploring the economic and growth implications of environmental and social priorities. With this perspective of policy SEA in mind, it is much easier to establish country ownership.

**Guidance for Applying SEA in Sector Reform**

A major driver of the pilot program, and of the evaluation, was the development of operational guidance that policy makers, CSOs, NGOs and SEA practitioners could use for applying policy SEA in sector reform. Despite the fact that sector reform is complex and non-linear, and that policy SEA is a time-bounded process, the evaluation suggests that effective policy SEA could follow three stages, as follows:

1. **Preparatory work for policy SEA**

Before implementation of policy SEA can begin, there is a need to understand the context within which it will take place. Various questions need to be asked to ensure that the goals and intentions of the specific policy SEA process are understood by the major stakeholders. The most important questions relate to: issues, initiatives or questions to be addressed; the scale of the process; and assessing windows of opportunity. As clearly shown in the pilot SEA in Dhaka, a reluctant lead agency can set back the general development of the approach. As a general rule, sector agencies should lead policy SEA.

2. **Implementing policy SEA**

*Situation analysis and priority setting.* Policy SEA starts with a situation assessment that accounts for the main environmental and social issues prevailing in a region or associated with a sector, to inform deliberations on priorities by stakeholders. Stakeholders are invited to react to the situation analysis; raise specific and relevant environmental and social concerns; and choose the SEA priorities. The choosing of SEA priorities by stakeholders is critical because it opens up the policy process to their influence. On the one hand, policy SEA priorities reflect the concerns and preferences of stakeholders creating a strong incentive for constituency building or strengthening. On the other hand, policy SEA priorities represent a concrete demand for specific environmental and social direction of sector reform from the stakeholders to the policy makers. This sows the seeds for social accountability of sector reform. Accordingly, special care should be taken to ensure that the voices of the vulnerable and weak in society are effectively heard in priority setting.

*Institutional, capacity and political economy assessment.* The next stage in applying policy SEA in sector reform is to assess the extent to which existing systems have been able to manage
the priorities. A first step is often a thorough review of the policy, institutional, legal and regulatory framework, and of the existing capacities associated with the management of environmental and social priorities. This is followed by an assessment of the effectiveness of these frameworks and capacities for addressing the priorities, and the identification of capacity gaps that affect the management of priority issues. This analysis is complemented by an assessment of the effect that sector reform may have on the identified gaps. This requires consideration of potential reactions of stakeholders or potential conflicts that may adversely affect the effectiveness of the reform. Finally, the gap assessment is validated by the stakeholders. The main purpose of this exercise is to expose stakeholders to the complexities of sector reform, and to call attention to the need for finding common ground in order to prevent or manage potential conflicts.

**Recommendations.** Finally, policy SEA should formulate specific policy, institutional, legal, regulatory and capacity building recommendations for overcoming the gaps and managing the political economy constraints determined during the gap assessment. Validation of the recommendations by stakeholders further strengthens constituencies because it enhances ownership and encourages participation of stakeholders in follow-up and monitoring. Ultimately, this promotes greater accountability of policy makers.

3. **Environmental and social mainstreaming beyond policy SEA**

After completion of the policy SEA report, certain follow-on interventions should be established to ensure that the recommendations are implemented and environmental and social mainstreaming becomes a continuous process. At a minimum, stakeholders should be informed about the results of the SEA by using mechanisms appropriate for different audiences. To the extent possible, dissemination and discussion of the results by the media should also be promoted. Any monitoring and evaluation framework should be designed as a continuation of the multi-stakeholder dialogue established during the policy SEA. At this point, the dialogue should allow for reflection on what was or was not achieved by the policy SEA and sector reform.

**Ways Forward**

Policy SEA can be an effective approach for assisting with the implementation of sector reforms that foster sustainable development. Therefore, the main recommendation of this report is to move forward with further testing and a staged scaling up of policy SEA. It is suggested that scaling-up be undertaken in three phases over approximately ten years. The main expected outcomes are a systematic increase in interest, capacity, country ownership and trust among key stakeholders for undertaking policy SEA in selected countries, where better policy making and successful environmental and social mainstreaming could be featured. The expected development impacts would be contribution to sustainable economic growth, mitigation and adaptation to climate change, and better environmental and social management of key sectors in selected countries.

The proposed scaling up would focus on promoting:
• **Country ownership.** There is strong evidence from the evaluation of the pilots that unless country ownership is ensured, policy SEA is unlikely to be effective. Therefore, the proposed scaling up suggests that donors, multilaterals and the World Bank should encourage partner countries to undertake policy SEA for informing policy dialogue. However, as has happened with environmental impact assessment, financial support to client countries would be required during the first stage of testing and experimentation, until SEA becomes ingrained in the regular process of sector planning and policy making. It is suggested that a policy SEA fund be established where low income countries could gain access to grants, specialized advice, and technical assistance to undertake or to engage in policy SEA for sector reform.

• **Capacity building on policy SEA in sectors that are critical for economic growth and climate change.** The evaluation also provides ample evidence that policy SEA effectiveness is constrained by the punctuated, short-lived nature of sector reform design when policy SEA typically takes place. In this new phase of piloting policy SEA a more strategic approach is consequently suggested. Capacity building should focus on raising awareness on SEA as an approach for improving planning and policy making by supporting the accumulation of SEA skills in key sectors of the economy at the level of public agencies, consultants, and civil society. The idea is to set in motion a process that ensures that proposed institutional, legal, regulatory, capacity and policy adjustments originated in individual policy SEAs reinforce each other, thereby creating a virtuous cycle of environmental, social and climate change mainstreaming. Countries could participate in the program on a self selection basis provided that they are interested in applying SEA in sectors critical for economic growth and climate change.

• **A system of incentives that reward successful reform and gradual environmental, social and climate change mainstreaming.** The evaluation has also shown that unless there are incentives for sustaining the mainstreaming effort and strong constituencies that demand it, the process may be derailed or thwarted by vested interests.

• **An alliance of donors and partner countries for environmental, social and climate change mainstreaming.** In the context of the Paris Declaration on Aid Effectiveness, the proposed program aims at seizing the window of opportunity that seems to be opening for fostering policy SEA with the development of the World Bank Group’s New Environment Strategy, the scaling-up of the UNDP/UNEP Poverty and Environment Initiative (PEI), and environmental and climate change mainstreaming initiatives being undertaken by other multilateral and bilateral development agencies. It seems that the time is ripe for the establishment of a broad “environmental mainstreaming alliance”, which would clarify the roles and niches of the different interested parties. The World Bank could add its more specialized experience in sector reform to a potentially influential alliance. The alliance would promote exchange of experiences across partner countries in applying policy SEA in sector reform to address common and global
challenges such as climate change. This will render policy SEA implementation globally more efficient.

If this proposal for scaling up is not fully realized, policy SEA could still make an important contribution to enhancing sector reform. Based on the evidence provided by this evaluation, it is suggested that donors and partner countries join efforts to foster policy SEA in sector reform under the following conditions:

- country ownership is ensured;
- policy SEA is undertaken along with sector reform design and not as an isolated exercise; and,
- follow-on activities recommended by the SEA can be supported during sector reform implementation.

For the World Bank a possibility would be that SEA is included as an environmental assessment instrument in the Operational Policy on Environmental Assessment (OP 4.01) thus allowing that countries can fulfil the requirement for environmental assessment in technical assistance and adjustable program loans by undertaking SEA at the policy level. Also, Operational Policy on Development Policy Lending (OP 8.60) allows the use of SEA in development policy loans to assess significant effects on countries’ environment, forests and other natural resources, and on their shortcomings for addressing these impacts. However, in contrast to OP 4.01 where environmental assessment is the responsibility of the borrowing country, SEAs associated with development policy loans are often part of the due diligence undertaken by the World Bank as it happened in the Sierra Leone SEA of the mining sector. As shown in this report, this situation adversely affects the effectiveness of the policy SEA. It is suggested, therefore, that in the case of development policy loans, country ownership of the SEA process should be ensured. Finally, when SEA is undertaken associated with technical assistance, adaptable program and development policy loans, the SEA recommendations should be included in specific recommendations for the components or triggers of these loans. It follows that the new Environment Strategy for the World Bank Group should maintain SEA as a key tool for promoting sustainable development, including adaptation and mitigation to climate change.

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3 Of course, SEA is also applicable to plans and programs.