



Environment Department  
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## *The World Bank and Environmental Assessment: An Overview*

*The sustainability of economic development has become one of the most important challenges facing the World Bank in recent years. In response to growing awareness regarding environmentally sustainable development, the Bank is promoting a variety of initiatives ranging from environmental assessment (EA) for specific projects or sectors to national environmental strategies and action plans.*

*This first issue of EA SOURCEBOOK UPDATE provides a brief review of Bank efforts to integrate environmental concerns into the mainstream of its lending activities during the last two decades. It also gives a summary of the main findings and conclusions of the first EA Annual Review, and institutional responsibilities for implementing the EA process in Bank operations. This Update belongs to Chapter 1 in the Update Binder and does not replace any section of the EA Sourcebook.*

### **Background**

A brief review of policy statements and directives during the past decade reveals the World Bank's increasing efforts to broaden its traditional approach to project development. Environmental concerns first became an explicit part of Bank activities when the position of Environmental Advisor was established in 1970. The Bank played an active role in this area by becoming the first multilateral development agency to screen projects for their environmental consequences and to adopt environmental guidelines for the evaluation of future lending operations.

One of the first significant policy statements issued was *Operational Manual Statement 2.36: "Environmental Aspects of Bank Work,"* in May 1984, requiring that environmental considerations be introduced at the time of project identification and preparation, and recognizing that modification could also occur at the time of appraisal, negotiations, and implementation. For all projects, staff were instructed to use prudent judgement when assessing environmental effects that were potentially irreversible (for example, the extinc-

tion of species or ecosystems). The new policy further stipulated that projects with severe environmental impacts would not be financed without mitigatory measures acceptable to the Bank (para. 9[b]).

By the mid-1980s, the Bank was financing projects containing environmental components, including several free-standing environmental projects, which had specific environmental objectives, such as reforestation, pollution control, and water resource management. Although these measures were designed to help both borrowers and the Bank improve the environmental quality of projects, problems remained. In developing countries, serious environmental degradation accelerated and began to constrain economic development. It became apparent to Bank management that the degree of effort devoted to environmental issues and the approaches actually used were insufficient to ensure full consideration of adverse environmental impacts during project identification, design, and implementation.

This, combined with a few well-publicized cases in which Bank-financed projects were found to have

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negative environmental consequences — such as contributing to the destruction of tropical rain forests and posing threats to wildlife, indigenous people, and established human settlements — prompted the institution to adjust its policies toward environmental management and to systematically bring environmental issues into the mainstream of its lending activities.

In 1987, the Bank implemented a series of structural changes that included strengthening of environmental policies, procedures, and staff resources. A central Environment Department and Environment Divisions in each of the four regional Technical Departments were created, leading the way to a significant expansion of Bank staff assigned to execute, monitor, and support environment-related activities. The new Environment Department would help set the direction of Bank environmental policy, planning, and research and take the lead in developing strategies to integrate environmental concerns into Bank lending and policy work. The regional divisions would review and give clearance to Bank-financed projects and provide technical support on individual projects, sector programs, and country or regional strategies, thus helping borrowing countries to design and implement more sustainable approaches to development.

### EA Guidelines for the World Bank

Since the 1987 reorganization, the Bank has moved decisively in institutional strengthening and policy reform. A notable achievement was the introduction of an *Operational Directive on Environmental Assessment* (OD 4.00, Annex A) in October 1989. This comprehensive and detailed new policy mandated an environmental assessment for all projects that may have significant impacts on the environment. Bank staff were required to screen and categorize all prospective loans (Category A through D) for potential adverse environmental problems at the time of project identification.

Although the borrower had the responsibility for carrying out the environmental assessment, the Bank would play a review and follow-up role to ensure that the project had been adequately prepared; for example, assisting the borrower in preparing the terms of reference (TOR) for the environmental assessment. With careful planning, generally in the form of a mitigation plan, adverse environmental effects could be avoided or mitigated. The directive recommended regional and sectoral assessments to reduce the work subsequently needed on specific investment projects. It also required that the borrower undertake appropriate consultation with and disclosure of information to affected groups and local nongovernmental organizations.

After two years of Bank experience with environmental assessments, the operational directive was revised to broaden its scope and applicability. The

Bank recognized that projects aimed at achieving environmental objectives could sometimes have negative and unanticipated effects. In October 1991, OD 4.00, Annex A was replaced by OD 4.01 (see summary of revisions in Box 1). The revised directive, which incorporated the guidelines contained in OD 4.00, Annex A, introduced a new system for classifying projects according to the nature and extent of their environmental impact. It provided more specific instructions to staff on public consultation and disclosure of information. It also recommended that the *Environmental Assessment Sourcebook*, published in the World Bank's Technical Papers Series during fiscal 1991-92, be used for guidance throughout the environmental assessment process.

### First Environmental Assessment Annual Review

The first annual EA review, initiated in late 1991, covered the period from October 1989 to October 1991 and extended through the end of fiscal 1992. It was prepared in close collaboration with the Regional Environment Divisions and reviewed by the Environmental Assessment Steering Committee, as well as staff throughout the Bank. The main findings and conclusions were based on interviews with Bank regional environmental staff and selected task managers, a survey of twenty projects for which environmental assessments had been completed and evaluated by the end of fiscal 1992 under the requirements of OD 4.00, Annex A, and detailed case studies of seven of these projects.

The Bank's EA procedures were proven to be realistic, workable, and instrumental in helping to improve development planning and environmental management. Even in countries with minimal or no prior experience, the EA process was a valuable tool for identifying project problems and the means to avoid or mitigate them. Although the review documented considerable progress, it also revealed that the new policy required additional human and financial resources for Bank EA work. The review identified the following areas where Bank efforts should be continued and/or strengthened to make the EA process more effective:

- Borrower capacity building, including technical assistance, institutional support and in-country training should be given greater attention to help ensure that environmental assessment becomes an effective planning tool during project preparation and that the EA report presented to the Bank adequately covers all relevant issues and are of acceptable quality.
  - Borrower requirements should be explicitly taken into account in defining the EA preparation schedule to ensure that the EA process is initiated at an early enough stage to accommodate in-country review procedures.
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## Box 1. Operational Directive 4.01: “Environmental Assessment”

The revised OD 4.01: “Environmental Assessment” includes the following principal changes from O.D. 4.00, Annex A:

*Screening.* Projects with multiple components are to be classified according to the component with the most significant adverse impact, i.e., if there is an “A” component, the entire project is “A” (para. 17 and Annex E). The “D” Category has been eliminated as well as combined categories (A/D, or B/D) to reduce screening differences.

*Consultation.* Consultation with affected groups and NGOs should include: (i) making available to the groups being consulted a summary description of the project, its objectives and potential adverse impacts, shortly after assignment of the EA category; (ii) providing a summary of the conclusions of the draft EA report, in a form and language that are meaningful to the groups being consulted; and (iii) taking consulted groups’ views fully into account in the design of the EA study and the project, as appropriate (paras. 19-21).

*Release of the Environmental Assessment to the Executive Directors (EDs).* The Bank requests the borrower’s advance permission to release the EA report to the Executive Directors (EDs) because the report is the borrower’s property. On receipt of a copy of the EA

report from the borrower, an English-language summary is made available to the EDs, and a copy of the report is deposited in the project file (para. 22).

*Environmental Mitigation Plan.* Annex C outlines items to be covered in the environmental mitigation plan and incorporated into the project.

*Global Environment Facility.* GEF projects and components are subject to EA requirements under OD 4.01 (para. 1 and footnote 1).

*Environmental Advisory Panels.* The borrower “should normally engage” advisory panels of environmental specialists for “major, risky or contentious” projects; this section tightens the original OD 4.00, Annex A, which recommended that establishment of such panels for projects with major environmental concerns be “explored” with Government (para. 13).

*Relation Between Preparers of EA and Feasibility Study.* In the case of projects with potentially major adverse impacts, the preparer of the EA should not be affiliated with the project, but should liaise closely with project preparation/feasibility teams (para. 16).

*Grandfathering.* OD 4.01 applies to projects with IEPS issued after October 1, 1991

- EA training within the Bank should continue, as should the use of case studies for this purpose. However, training should become more sector-specific. Bank case studies should be developed to provide greater orientation to staff on methods of local consultation and regional and sectoral environmental assessments.
- Additional guidance on project screening should be provided to Bank task managers to ensure that classification for purposes of environmental assessment is consistent across regions.
- Field visits, including consultation with affected populations and local NGOs, should be a consistent part of scoping activities for projects requiring a full EA.
- The “Checklist of Potential Issues for an Environmental Assessment” (OD 4.00, Annex A-2) should be used for Terms of Reference (TOR) preparation for EA work and associated scoping so that key aspects and possible impacts are not missed.
- The potential benefits of regional and sectoral EAs should be more widely disseminated to borrowers and Bank staff and utilized to a greater extent.

- Work is currently underway to follow up on these recommendations, particularly in the area of EA training.

### Institutional EA Responsibilities

Country Departments in the operational vice presidencies, working closely with the Regional Environment Divisions, are directly responsible for overseeing and appraising project preparation. The project task manager, in consultation with the Regional Environment Divisions, is responsible for environmental screening, preparation of terms of reference for EA work when an environmental analysis is required, monitoring of the EA process, and review of the report in draft and final form. A summary of the findings is prepared as an annex to the project staff appraisal report. The Regional Environment Divisions oversee the work in their respective regions and offer technical expertise and policy advice to TMs and borrower governments.

The Environment Department works closely with operational vice presidencies, particularly the Regional Environment Divisions, to ensure that the environmental assessment process is effectively integrated into Bank activities. To this end, the role of the Department, now housed in the Environmentally Sustainable

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Development Vice Presidency (ESDVP), is to give clearer focus to analytical, policy, and operational support to activities related to “brown” (e.g., industrial pollution and urban infrastructure) as well as “green” (e.g., agriculture, forest management and biodiversity) issues in its work program. Recently, the Department has also become a focal point for addressing social and resettlement issues in Bank lending operations.

The “green” unit of the Environment Department, the Land, Water and Natural Habitats Division (ENVLW), oversees and coordinates the Bank’s work on environmental assessment. The Division provides operational support for analytical work, project preparation, and supervision on issues related to biodiversity, forestry, coastal zone management, and environmental information management. The Division’s EA team systematically monitors the Bank’s follow-up of the EA Operational Directive and is responsible for preparing the EA Annual Review, which is submitted to the President. The team is also responsible for continuously updating the EA Sourcebook as a “living” reference manual for Bank staff and external users through the series of “EA Sourcebook Updates”. Finally, the team offers project-specific operational support on EA-related issues, especially during the preparation and supervision stages of the project cycle. Special attention is given to sectoral and re-

gional environmental assessments, and environmental aspects of privatization activities, financial intermediary and adjustment operations.

The “brown” unit, the Pollution and Environmental Economics Division (ENVPE), provides technical and economic analytical support with respect to issues relating to land and water pollution, atmospheric emissions and air quality, and global climate change. It is also responsible for work on the economic valuation of environmental damage and the impacts of economic policies on the environment. The Division offers guidance to Bank staff on how to internalize environmental costs and benefits in economic analysis, which is particularly important when considering alternative project options.

The Social Policy and Resettlement Division (ENVSP) addresses the social dimensions of sustainable development, particularly the social organization of resource management. It provides leadership in social impact assessment, and support work on the social strategies in project design and implementation. The division supports the EA process by improving social analysis in specific areas of Bank activity, e.g., involuntary resettlement, treatment and rights of indigenous peoples and other ethnic minorities, public participation and consultation, NGO intermediation and institutional capacity building.

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**EA SOURCEBOOK UPDATE** is designed to provide the most up-to-date information on the Bank’s policy and procedures for conducting environmental assessments of proposed projects. This publication should be used as a supplement to the *Environmental Assessment Sourcebook*, which provides guidance on the subjects covered in Operational Directive 4.01. Please address comments and inquiries to Olav Kjørven, Managing Editor, EA Sourcebook Update, ENVLW, The World Bank, 1818 H.St. NW, Washington, D.C., 20433, Room No. S-5123, (202) 473- 1297.

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