

Chapter 8 Highlights

QACU ROLES AND RESPONSIBILITIES

- Clarity of Policies
- Clarification and Alignment of Policies
- Staff Guidance
- Applying Safeguards to Policy-Based and New Instruments
- Review and Clearance System
- Improved Coordination

QACU is improving policies, expanding guidance, and reviewing challenging operations. The Unit is also revising certain policies and coordinates this with key stakeholders within and outside the Bank.

To simplify the application of the safeguards policies for operations and make information more accessible to management and external stakeholders, QACU and LEG are developing an integrated system of review and clearance that covers all 10 safeguard policies and their associated disclosure requirements.

THE ENVIRONMENT STRATEGY

The new Environment Strategy defines how the Bank will work with clients and partners to address environmental problems as an integral part of their own sustainable development policies. Emphasis is on integrating—or “mainstreaming”—environment into country development programs, sector strategies, and investments in conjunction with the goal of improving people’s lives, development opportunities, and prospects for a sustainable future. Reforming the safeguard system is recognized as a dynamic and incremental process that involves both the Bank and its clients in a series of actions that include strengthening compliance with safeguard policies, building an integrated safeguard compliance system, and improving results on the ground.

The Bank recognizes it will have to modify its policies by adapting to a changing lending profile, including lending instruments such as Poverty Reduction Support Credits, Adaptable Program Lending, Learning and Innovation Loans, and Programmatic Structural Adjustment Loans and Credits. Focusing on client capacity and ownership and moving safeguard policies upstream in the decisionmaking process are key elements of this approach. The Bank Group will continue to play an active role in working with other international financial institutions to better coordinate efforts on the development and application of safeguard policies, dissemination of good practice, and specific measures to facilitate harmonization of policies and processes.

The New Safeguard Compliance System and the Bank's Environment Strategy

This chapter provides some insight into current Bank actions with regard to safeguard policies and measures to improve their development effectiveness and future direction. The Bank recently completed a lengthy and comprehensive internal consultation to develop an Environment Strategy for the next 10 years. The strategy addresses, among numerous topics, the future shape of environmental assessment (EA) and safeguard applications. It is discussed here in association with a parallel Bank management report on the history and implementation of the 10 safeguard policies and key issues for consideration. Significant changes that management has undertaken to improve safeguard accountability, budgeting, and compliance are also reviewed.

8.1 Quality Assurance and Compliance Unit Roles and Responsibilities

Bank management is aware of the challenge involved in converting its safeguard policies into reasonable and practical operational guidelines and procedures. The sum of experiences from the last 10 years has created both enormous progress and parallel challenges. As the institution and its Borrowers and executing partners learn, ample opportunity arises to modify past practices and make improvements. This concern and preoccupation with improving the way safeguard business is conducted has resulted in the need to establish clear requirements for safeguard compliance in an ongoing process that involves three complementary measures: safeguard clarity, safeguard guidance, and safeguard review and clearance (Box 8.1). These tasks are the responsibility of the recently created Quality Assurance and Compliance Unit (QACU), and are discussed in detail below.

8.1.1 Clarity of Policies

All safeguard policies are being reorganized into the Operational Policy/Business Procedure (OP/BP) format to achieve greater clarity. The status of these

Box 8.1 Three Key Safeguard Management Functions

- **Clarity.** The policies require clarity with respect to overall objectives, specific procedures and processes, and benchmarks for success. To facilitate this process, QACU has prepared a safeguard criteria matrix that clarifies the requirements of each safeguard policy and relevant triggers at each stage in the project cycle.
- **Guidance.** Detailed guidance on application of policy requirements must be provided in Good Practice Notes, sourcebooks, handbooks, and internationally recognized standards and guidelines to support application of good practice throughout the project cycle. This guidance is currently available for some policies and under preparation for others, and has been developed on the basis of field experience worldwide by the Bank and others. Technical decisions regarding safeguard issues, including application of good practice, are the responsibility of national and Bank technical specialists.
- **Review and Clearance Process.** Policy and guidance cannot anticipate all possible situations associated with the design and implementation of the Bank's development investment projects, which involve a wide array of complex management and technical trade-offs. Therefore, technical specialists and task team leaders require a referral process that allows for institutional review, endorsement, and clearance of decisions. The Environmentally and Socially Sustainable Development Network and the Legal Department are working together to develop such a system for relevant and timely guidance on specific cases and for the definitive resolution of differences of opinion.

conversions is shown in Box 8.2. Of these, four policies on environment and natural resource management are completed, and the forestry policy will be revised when the Forestry Policy Implementation Review and Strategy is finalized in 2002. The two policies overseen by the Bank's legal department (LEG) have been converted and are under internal discussion (International Waterways and Disputed Areas).

Involuntary resettlement and indigenous peoples are among the more complex and controversial safeguard policies. Their conversion has generated intense interest among internal and external stakeholders. Management has recognized the importance of external consultation on all policies, but particularly on these sensitive social policies, and has provided incremental resources for external consultation and completion of the revised policies. The resettlement policy has been completed and will be sent to the Board in the fall of 2001. The indigenous peoples policy will be sent to the Committee on Development Effectiveness (CODE) in advance of proposed consultations. A draft policy on cultural property is under discussion internally.

8.1.2 Clarification and Alignment of Policies

Work is also under way, in the context of the ongoing policy revisions, to fill gaps, clarify requirements, provide clear guidelines, and ensure reasonable consistency among safeguard policies. For example, Bank management has proposed a single, uniform disclosure and consultation process. Currently, the various safeguard policies have different disclosure requirements, and in some cases disclosure requirements vary between International Bank for Reconstruction and Development and International Development Association operations, which often causes confusion for Bank and client staff (see Chapter 2, section 2). In the short term, work already initiated on the integrated safeguards assessment system will address many of these questions. In the longer term, Bank management will continue to assess whether the Bank has the right set of safeguard policies and, when gaps or shortcomings are identified, take appropriate steps.

8.1.3 Staff Guidance

A series of actions to strengthen tools, incentives, and skills has been devised to improve safeguard compliance:

Box 8.2 Conversion* of Safeguard Policies—Status

- **Environmental Assessment (OP/BP 4.01).** Conversion completed January 1999.
- **Natural Habitats (OP/BP 4.04).** Conversion completed; updated June 2001.
- **Pest Management (OP 4.09).** Conversion completed; updated December 1998.
- **Indigenous Peoples (OP/BP 4.10).** During FY99/00 Bank staff discussed an approach paper for revisions to this policy both internally and externally and a first was prepared in FY00 and discussed internally. Technical staff worked in collaboration with LEG to subsequently revise this document, and the second draft was discussed with the Regions in September 2001. External discussions are completed with submission to the Board pending.
- **Cultural Property (OP/BP 4.11).** Conversion of the policy on cultural property builds on the experience with the resettlement and indigenous peoples policies. An oversight group made up of experts in the cultural resources management field has provided guidance to the drafting team, and the revision of the policy has benefited from both an internal review of current operational trends and a survey of international best practice. The final draft is expected to be submitted to the Board in 2002.
- **Involuntary Resettlement (OP/BP 4.12).** Policy revised with direct participation by technical staff representing various networks. During a four-month external consultation process, the drafting team also received and reviewed nearly 300 comments from NGO representatives, resettlement researchers, and government officials from around the world. This draft was approved in October 2001.
- **Forestry (OP/GP 4.36).** The revision of the current forestry policy follows completion of the Forestry Policy Implementation Review and Strategy and is expected to be presented to the Board in 2002.
- **Safety of Dams (OP/BP 4.37).** Conversion completed; updated October 2001.
- **International Waterways (OP/BP 7.50).** Conversion completed; updated June 2001.
- **Disputed Areas (OP/BP 7.60).** Conversion completed; updated June 2001.

*Conversion of policy to the OP/BP format is intended to clarify mandatory and advisory policy requirements.

- **Help Desk.** In the interest of further strengthening and integrating the advisory work of QACU and regional safeguards experts, a Help Desk on Safeguards is being established and will become operational once a staff selection process has been completed. The Help Desk will promote consistency across the Regions in the interpretation and application of key safeguard policy provisions.
- **Sourcebooks and Guidelines on Safeguard Policies.** To facilitate interpretation and application of safeguard policies by staff, sourcebooks and guidelines on each of the safeguard policies are under preparation. Guidelines on addressing safeguard policy issues during the various stages of the project cycle are also being incorporated into a comprehensive “Safeguards CD-ROM.”
- **Training.** The extent and quality of compliance with safeguard policies depends on how well Bank staff, clients, and consultants understand the policies and their implementation and monitoring in all phases of the project cycle. The World Bank Institute, QACU, and Regions, in cooperation with clients, are supporting safeguard training actions that include mandatory training for Bank staff, development of client and consultant capacity, and regional training workshops. Major regional training activities are planned in FY01 for the Africa and South Asia Regions.

8.1.4 Applying Safeguards to Policy-Based Lending and New Instruments

As the Bank's lending portfolio changes, safeguard policies must be adapted to new contexts. Experience shows that safeguard requirements for investment projects are often not well suited to policy-based lending and community-driven development (CDD). Thus the following steps are being taken to ensure a systematic approach to safeguard policies across instruments:

- *Guidance on Safeguard Policies for Structural and Sector Adjustment Lending.* Structural adjustment loans are subject to a general Operational Directive on adjustment lending (OD 8.60), which provides broad guidance for dealing with environmental issues. Since March 1999 sectoral adjustment loans (SECALs) have been subject to the Bank's environmental assessment policy (OP 4.01). A process is under way to revise the directive on adjustment lending and convert it into an operational policy in the OP/BP format. The QACU is reviewing compliance with safeguard policies in adjustment lending, including the application of OP 4.01 to SECALs (see chapter 7, section 7.1). This work includes a literature review and a retrospective on trends in environmental and social conditionality in adjustment lending, and collaboration with the Development Economics vice presidency for research on structural adjustment and the forestry sector. The results will serve as input into guidelines for best practice for addressing environmental and social issues in adjustment lending, and will form a key part of the revised operational policy to be issued by the end of FY01.
- *Guidance on Addressing Safeguard Policy Issues in Community-Driven Development Projects.* The Bank's portfolio of operations involving community-based operations is likely to increase over the next few years. Guidelines will be developed to help Bank staff adapt the application of safeguard policies to CDD operations. They will elaborate on the "Environmental Assessment of Social Fund Projects" (*EA Sourcebook Up-*

date 24) and relevant social safeguards guidance. Development of guidelines has been initiated in the Africa Region, building on previous Bank and Regional experience in addressing safeguards in the context of social funds and related types of operations. Updated guidance on these issues will be available at the end of FY01.

8.1.5. Review and Clearance System

To simplify the application of the safeguards policies for operations and make information more accessible to management and external stakeholders, QACU and LEG are developing an integrated system of review and clearance that covers all 10 safeguard policies and their associated disclosure requirements. The system provides a link between risk-management reviews and identification of corporate risk operations and the review and oversight functions of both QACU and the Regions for safeguard functions. It will include features such as improved guidance on safeguard procedures, greater information concerning triggering of the policies, and standardization of disclosure requirements. This approach will allow for comprehensive review of safeguard policies throughout the project cycle, and will be linked with the clearance and compliance monitoring systems described earlier.

Key elements of the safeguard compliance system include:

- *Safeguard categorization.* All projects will be screened for safeguard-specific and cumulative safeguard-related risks and impacts. This process will trigger preparation for designated projects of a single, integrated safeguard assessment, following on the particular safeguard or safeguards triggered by the projects.
- *Integrated Safeguards Data Sheet.* As part of the integrated safeguard assessment system, QACU has designed an "Integrated Safeguards Data Sheet" (ISDS) covering all 10 safeguard policies. This data sheet complements the more detailed environmental and social data sheets used in each Region, and will provide a broader framework for QACU

and regional oversight and management of safeguard procedures under the integrated safeguard assessment mechanism.

- *Review process.* QACU will serve as the central, corporate “one-stop” review station to ensure that all ISDSs are complete, consistent, and meet information requirements. QACU will review the contents of each ISDS and provide feedback to the task team manager and Regional units concerning the treatment of safeguard issues and arrangements for consultation and disclosure.

8.1.6 Improved Coordination

This approach should improve standardization and coordination of the preparation and supervision of safeguard policies. However, the single safeguard assessment will not supercede current Bank (and in many cases client) requirements for preparation, review, and implementation of specialized studies, such as Environmental Assessments, Resettlement Action Plans, Indigenous People Development Plans, Pest Management Plans, and/or Dam Safety Reviews. As discussed earlier, adoption of the integrated safeguard assessment process provides an important mechanism for application of uniform disclosure and consultation requirements for all types of operations concerning any safeguard policy.

8.2 The Environment Strategy

A Bank-wide initiative undertaken between late 1999 and early 2001, the new Environment Strategy defines how the Bank will work with its clients and partners to address environmental problems as an integral part of their own sustainable development policies. The Strategy recognizes three important obstacles encountered in work undertaken to date, which echo conclusions reached in many of the EA reviews.

- *Our commitments have sometimes outpaced our capacity to deliver.* We were overoptimistic in setting environmental objectives, designing complex interventions, and targeting tight deadlines, without giving sufficient attention to the practicalities of implementa-

tion and to competing pressures in client countries.

- *The environment has yet to be fully “mainstreamed” into the Bank’s operations.* Although Bank professionals are aware of the importance of environmental issues, some have not yet been able to ensure linking them to their core task of supporting development and poverty reduction.
- *Awareness of the importance of environmental issues is still evolving in many of our client countries.* While they increasingly recognize that environmental concerns are important to make development sustainable, our clients face difficult choices in allocating scarce resources among pressing development needs, and environment often has a hard time competing with other goals.

The Environment Strategy emphasizes the importance of integrating—or “mainstreaming”—environment into country development programs, sector strategies, and investments in conjunction with the goal of improving people’s lives, development opportunities, and prospects for a sustainable future. Several key areas are targeted for improvement.

Early attention to environmental issues. EAs are now routinely used at the project level by the Bank, its clients, and its partners. It is much more difficult to address environmental and social concerns when strategic decisions are being made at the sectoral and program levels. Recognition that better environmental outcomes can be achieved at lower cost by integrating such concerns at the planning and design stages has spread slowly throughout the world. This recognition has led to an increased use of EAs at the strategic level (strategy, program, region, and sector, for example), complemented by project-specific EAs or related types of environmental planning and management actions, so that decisionmakers can evaluate development options and alternatives in a more comprehensive manner. The application of SEAs in client countries is also evolving, with encouraging examples, such as experience in South Africa and Central Europe.

Increased emphasis on supervision during project implementation. Implementation of safeguard policies during supervision is generally

weaker than compliance during preparation. The relative weaknesses in implementation of environmental action plans and delays in addressing the environmental and social aspects of project implementation have been attributed to weak borrower commitment and capacity, as well as to inadequate resource allocation to supervision. Addressing this problem also requires careful evaluation of client countries' commitment, access to resources, and skills needed to undertake the agreed environmental and social actions during the project implementation process.

Consistency in the application of safeguard policies. Problems in the implementation of policies have also been linked to perceived ambiguities in the scope, intent, and requirements of the policies among staff and management. Management is addressing these issues through a number of mechanisms, including the conversion and clarification of policies, as well as management accountabilities. A major implication of new lending instruments will be an expanded need to increase country capacity and to develop new types of monitoring approaches for Bank supervision of the application of safeguard policies.

8.2.1 Improving the Safeguard System

Reforming the safeguard system is a dynamic and incremental process that involves both the Bank and its clients in a series of actions designed to create better linkages between policies and their application to projects and programs.

Short-term priorities. In the short term, the Bank will focus on improving compliance with the safeguard policies, establishing an integrated compliance system, and improving results on the ground, as follows:

- *Strengthen compliance with safeguard policies.* The Strategy places increased emphasis on the implementation of safeguard policies, primarily through greater attention to the consistency of application across the Bank, stronger central oversight, and greater transparency in monitoring and reporting. It is committed to improving supervision, particularly the implementation of environmental management plans and other commitments related to project-level safeguards.

- *Build an integrated safeguard compliance system.* The Bank will complete the process of integrating the implementation of the safeguard policies both at the regional and central level. A major focus of ongoing work by QACU and the Regional Environment Units has been the elaboration of an enhanced compliance system that includes the use of a new instrument, the Integrated Safeguard Data Sheet, as part of the project identification, preparation, and appraisal process. The ISDS will provide for the comprehensive review of the application of all 10 safeguard policies, and will better capture potential cumulative impacts. This approach will allow the safeguard policies to be viewed in relationship to each other, reduce the risk of individual policies being overlooked in the project process, and provide for more effective disclosure of information. Following the adoption of the ISDS, priority will be given to improving coordination between environmental and social analysis of project impacts and risks.
- *Improve results on the ground.* Our ultimate objective is to improve project performance on the ground. To this end, the participation of local communities and independent organizations in monitoring activities will be increased. A comprehensive set of environmental indicators, which has been developed by the Bank over the years, will be incorporated into operational work. Fuller integration of safeguard principles within project design, and especially project implementation, ultimately requires greater reliance on national-level safeguard systems. Thus, the Bank will strive to support in-country improvement in safeguard capacity, effective implementation, and transparency in processes.

8.2.2 Responding to New Challenges

Over the long term, the Bank seeks to develop a new integrated framework to replace the current 10 free-standing safeguard policies. Development of a single unified safeguard policy would strengthen performance, provide for a consistent, broad-based approach, allow greater flexibility in

application, and permit harmonization of requirements and processes with client countries. This integrated framework will improve the Bank's performance in internalizing the environmental objectives and principles embedded in safeguard policies in several ways, highlighted below.

- *Adapting to a changing lending profile.* A gradual shift in Bank lending can be discerned toward using programmatic lending instruments, such as Poverty Reduction Support Credits (PRSCs), Adaptable Program Loans (APL), Learning and Innovation Loans, and Programmatic Structural Adjustment Loans and Credits (PSALs/PSACs). Programmatic lending instruments may involve lending for a series of projects (for example, APLs); support for policy reforms (for example, PSALs/PSACs); or approaches for low-income countries (for example, PRSCs). While most Bank projects and programs are carried out by government entities, CDD projects are implemented at the grassroots level. These new types of lending operations and instruments provide important opportunities and challenges for the innovative application of the principles of the safeguard policies in cooperation with clients and partners. In this context the Bank will develop and apply a systematic review system, enhanced analytical and diagnostic tools, guidelines for good practice, and indicators to ensure that the environmental implications of the changing lending profile are properly considered. As the CDD initiative progresses in Bank operations, greater emphasis will be placed on strengthening environmental assessment and monitoring capacities at the local level. The use of new instruments and the application of safeguard policies to these activities will require a targeted training program for Bank and client staff involved in these activities and evaluation of experiences to develop good practices and to internalize the lessons learned.
- *Focusing on client capacity and ownership.* Successful medium- and long-term environmental and social performance of clients, in both the public and private sectors, mandates mainstreaming of the principles of safeguard

policies, effective use of EA and other instruments, and client ownership of the consultation and disclosure processes. To achieve this, the Bank and its partners will need to increase their emphasis on capacity development in national and local governments, academic and applied research organizations, private sector and consulting firms, and non-governmental organizations (NGOs). These capacity-building measures should recognize the importance of national policies, laws, and procedures and seek to adapt the application of safeguard policies to local conditions. Gaps between Borrower and Bank requirements will be narrowed through initiatives focused on achieving greater levels of harmonization between Bank and client procedures. The Bank plans to assess the EA capacity and systems of our client countries and consider such capacity in the review, clearance, and monitoring process of Bank-funded projects.

- *Moving safeguard policies upstream in the decisionmaking process* by integrating them into the strategic planning processes used at the national, regional, program, and sectoral levels. This can be accomplished by improving the analytical underpinning as a routine part of Bank and client development planning processes. Increased attention will be given to early identification of issues, evaluation of alternatives, and assessment of risks at the country and sector levels. SEAs will be prepared to evaluate complex short-, medium-, and long-term environmental issues in critical sectors. This approach will support integration of safeguard policy issues during early planning stages and allow for cross-sectoral and ecosystem-based analysis. Over the next five years a program for SEAs will be introduced, SEA application will be gradually increased, and a system will be put in place to identify good practices and disseminate lessons learned.

8.2.3 Working with Partners on Coordination, Dissemination, and Harmonization

The Bank Group will continue to play an active role in working with other international financial institutions to better coordinate efforts on the

development and application of safeguard policies, dissemination of good practice, and specific measures to facilitate harmonization of policies and processes. The primary mechanism for this process is a Working Group on the Environment of International Financial Institutions (IFIs), which has an ongoing work program that includes a comparative review of policies and procedures and identification of key elements of environmental management systems. The Bank is actively cooperating to transfer experience between institutions in addressing environmental aspects of operations that use financial intermediaries. Comparable steps to improve coordination on safeguard policies with the private sector will be undertaken in cooperation with the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the IFI Working Group.

8.3 Conclusions

The steps outlined here, which the Bank is in the process of taking after lengthy review, respond quite clearly to many of the weaknesses pointed out in the numerous studies and assessments cited throughout this report. Among the important advances will be efforts to make the safeguard policies—including environmental assessment—more uniform throughout all projects, thus eliminating inconsistencies and uncertainties that create confusion and have led to problems in areas such as classification, disclosure, and consultations. Also crucial are efforts to ensure that safeguards are taken into consideration early in the lending process and that they “fit” all of the Bank’s lending instruments. The Bank’s plan to work toward coordinating safeguards practices with client countries and other donors will also contribute toward a more uniform and transparent approach to the

EA/safeguards process, thereby helping all staff and stakeholders cognizant of the parameters within which the success of implementation can reasonably be judged. And, of course, continuing to build capacity in EA and safeguards in client countries will help to build the base of national actors capable of incorporating the principles that underlie the concept of social and environmental safeguards into future project planning. The Environment Strategy reinforces many of these goals by calling for a comprehensive, integrated approach Bank-wide and for more capacity building within the Bank and in client countries. It also stresses the importance of carrying out EA early in the project process, through an emphasis on strategic environmental assessment. Overall, the Strategy focuses on strengthening compliance in an effort to improve results on the ground, which is the purpose underlying both this review and the reviews included in it. It is to be hoped that the planned refinements to the safeguard system and implementation of the Environment Strategy will result in a continuation of the generally positive results reported here.

Improvements in the area of disclosure have been marked, and are likely to improve further with the new tracking system. In regard to supervision, evidence suggests that one way to increase environmental supervision efforts in a resource-constrained environment may be greater reliance on field-based local staff and consultants, who could provide more sustained supervision and follow-up, possibly within the current limited budgets. At the same time, still more attention needs to be given to building institutional capacity and awareness in borrower government, NGOs, and communities for sustainable environmental management, especially at the local level, where local staff may prove to be effective and successful.