

Chapter 7 Highlights

EA FOR SECTOR ADJUSTMENT LOANS (SECALs)

- Bank experience with EA for SECALs
- Evaluations of Bank Performance
- Recent Research
- Suggestions from External Partners
- Learning from SEAs

SECALs are subject to EA, but few full EAs have been undertaken because most are Category B. Consultations and social and environmental assessment for some of these projects has been of high quality, but many key EA elements have been largely ignored. The Bank is currently sharpening categorization criteria and defining an EA process for SECALs.

EA FOR STRUCTURAL ADJUSTMENT LENDING (SALS)

SALs are not currently covered by OP 4.01 although environmental issues are supposed to be considered and pressure is growing to include them. Most SALs referred only briefly to the environment, but a review identified two best practices in EA for SALs.

SECTORAL AND REGIONAL ASSESSMENTS

- Regional Environmental Assessments
- Bank Experience with REAs
- Principal Benefits of SEAs and REAs

SEAs are being used increasingly and are promising because they take a broad view and occur upstream in the project process, allowing time for analysis of alternatives, careful preparation of legal documents, and public participation. REAs are also effective but tend to be used less because of Bank and client approaches.

COUNTRY ASSISTANCE STRATEGIES

- Linking Environment to the CAS
- Bringing Environmental Issues into the CAS

A study of 39 CASs highlighted the need to incorporate environmental issues more explicitly in Country Assistance Strategies.

NEW LENDING INSTRUMENTS

- Adjustable Program Loans (APLs)
- Learning and Innovation Loans (LILs)
- APLs, LILs, and Safeguards

EA/safeguard work has been carried out for some APLs but not for LILs.

POVERTY REDUCTION SUPPORT CREDITS

- Poverty Reduction Strategy Papers (PRSPs) and the Environment
- PRSC and Safeguards

Review of 19 PRSPs found sharp variations in mainstreaming of environmental issues; the linkages between environment and health and poverty are better understood than linkages between environment and macroeconomic programs and policies.

Special Issues

This chapter focuses on several new lending instruments that have been developed in recent years—most of which did not exist at the time that the second EA report was prepared, and some of which are not strictly subject to Bank safeguard policies. Thus we look here at the use of environmental assessment in sectoral and structural adjustment lending (SAL), country assistance strategies (CASs), learning and innovation loans (LILs), and adaptable program loans (APLs), as well as sector adjustment loans (SECALs). Progress in the area of sectoral and regional EAs (SEAs and REAs) is discussed after the section on SECALs. Environmental assessment is also discussed in the context of Poverty Reduction Support Credits (PRSCs), another innovation built upon the poverty reduction strategies that began rolling out in 1996. The chapter does not focus on Category B projects (one of the special issues highlighted in EA-II) because they have been discussed throughout this text and were assessed, along with Category A projects, in most of the ratings performed on EA generally.

7.1 EA for Sector Adjustment Loans

Operational Policy (OP) 4.01 (para. 10), states that sector adjustment loans are subject to the requirements of the overall policy on environmental assessments.¹ The OP further states that: “EA for a SECAL assesses the potential environmental impacts of planned policy, institutional, and regulatory actions under the loan.” Footnote 15 amplifies that: “Actions that would require such assessment include, for example, privatization of environmentally sensitive enterprises, changes in land tenure in areas with important natural habitats, and relative price shifts in commodities such as pesticides, timber and petroleum.” The provisions of this OP were to apply to SECALs for which a Project Information Document (PID) was issued after March 1, 1999, and they imply that an EA has to be carried out for all Category A and B operations.

As the OP provides a minimum of guidance, applying EA (and by extension other safeguard policies) to SECALs raises a number of challenges beyond those faced by conventional or programmatic investment lending, such as:

- How to classify SECALs into the standard EA categories?
- How best to integrate social issues and environmental aspects?²

- How to conduct truly representative consultations for sector- and country-wide reform programs, which are often proposed under a SECAL?
- Where to find the expertise and funding to carry out a good-quality EA in the very short preparation time usually available for a SECAL?

7.1.1 Experience with EA for Sector Adjustment Loans

Very few examples of well-prepared EAs for SECALs are available. Based on an August 2000 review³ of SECAL operations, six had been approved (all Category B projects) and two had completed EAs (*Indonesia: Water SECAL* and *Russia: Second Coal SECAL*). The EA for *Poland: Hard Coal SECAL* was pending, and the other three loans (*Bulgaria: Second FES*, *Ivory Coast: Transport Sector*, and *Ukraine: Coal SECAL*) use an environmental management plan approach with environmental review procedures.

The *Indonesia Water SECAL*⁴ (also called WATSAL), which may represent current best practice, was prepared through voluntary compliance by government and the Bank team, since OP 4.01 had not been formally issued at the time of loan processing. The East Asia Environment and Social Development Department has published a “Safeguard Note”⁵ that summarizes the experience and presents the highlights of the EA preparation.

As described in more detail in the note, the most important and successful element of the WATSAL EA was its open and comprehensive consultations. The consultations provided important inputs into the risk analysis matrix based on stakeholders’ concerns—dealing with social and institutional issues rather than with typical environmental concerns. These new issues were incorporated into the analysis, and mitigation measures were devised. A major challenge was how to structure the public consultations to make them representative—not only of the wide range of different stakeholders, but also of regional and local interests, all the way down to the farm level—within the severe time constraints imposed by the loan processing schedule. In the end the consultations not only provided valuable inputs for the reform agenda, but also provided reassurance to government and the Bank on the agenda’s appropriateness.

The EA for the *Poland: Hard Coal SECAL* provides a good example of a balanced assessment including both environmental and social issues. The environmental concerns deal mostly with mining waste disposal, handling polluting emissions, and the technical solutions needed to address them.⁶ The social impacts result from large-scale mine closures to be mitigated through employment restructuring, social packages, and other social support, including follow-up evaluations and labor surveys. A functional EA procedure was required for each individual mine site. The *Ukraine: Coal Mining SECAL*, addressing a similar situation, used an EMP without carrying out a full EA; key social issues were identified in a separate social assessment.

The *Bulgaria: Second Financial and Enterprise SECAL* did not use a full EA, but relied on a safeguard review procedure for a program of reforms and privatization in the financial and enterprise sectors, including the initial phase of energy sector restructuring. As such, the procedures deal with the impacts of privatizing often highly polluting enterprises. An environmental impact assessment requirement was introduced for each state-owned enterprise to be privatized, and special attention was given to dealing with past liabilities, their assessment, remediation, and responsibilities for hidden liabilities.

The *India: Karnataka Power Restructuring Program*, originally proposed as a SECAL operation, was being prepared at the end of FY2000 and was able to draw from the experience of a number of past and ongoing SECALs to draft comprehensive terms of reference for an EA. The early draft set out a broad objective: to “maximize positive and minimize negative social and environmental risks.” A later draft⁷ restricts the language to cover only environmental assessment, seeking to examine linkages between the power sector and the environment and review existing and recommend new policies to mitigate any negative impacts. The EA is to draw extensively on recent work on environmental issues in India’s power sector.

Although to date no SECAL operations have been classified as Category A, the comprehensive EA work and resulting reports carried out for some of the Category B projects mentioned above could serve as adequate models for EAs of Category A SECALs.

7.1.2 Evaluations of Bank Performance

A 1999 limited desk review⁸ performed an evaluation of past operations, and found that only 3 of 17 non-financial sector SECALs (of those approved during FY98 and FY99) included a substantial discussion of environmental issues and developed EA audits and mitigation plans. The same review also showed that “the institutional capacity and organizational constraints facing borrowing countries are not fully assessed, the connection to poverty is abstract, stakeholder analysis is weak . . . and the sustainability of the programs in terms of their impact on the poor and the natural environment is not fully considered.” An FY2000 “Review of Safeguard Risk for Sectoral Adjustment Loans” found that 3 of the 12 projects that issued a PID after the March 1, 1999, cutoff date would justify a Category B classification; moreover, 8 of the 16 remaining operations (with PIDs issued before March 1999) could potentially be Category B—and thus require an EA—if OP 4.01 had applied at the time.

7.1.3 Further Research

Since Management’s 1997 decision, in principle, to require EAs for SECAL operations, the Bank has considered how to address environmental and social issues in the context of adjustment lending (both SECALs and structural adjustment loans, or SALs). A 1999 draft paper⁹ sets out four steps for the EA process: screening/classification, analysis, mitigation, and follow-up/monitoring (see box 7.1). The paper also proposes general criteria for the classification of loans, taking into account key factors (type of sector, characteristics of country economic and environmental structure, and country institutional structure) when assigning the EA category (see Box 7.2).

A discussion brief prepared in early 2000 uses the term “strategic EA,” and sets out a reference framework for conducting EA for SECALs.¹⁰ The framework includes links to, and inputs from, CAS development strategies, as well as National Environmental Action Plans. The paper also emphasizes the need not only to minimize negative impacts but also to maximize positive impacts, implying an important shift from “do no harm” to “do good” when it comes to policy reform.

Box 7.1 Four Steps for an EA Process for SECALs

1. **Screening/Classification.** SECALs must be screened and categorized according to their potential environmental impacts. During this stage major environmental impacts that might be associated with proposed sectoral reforms and/or policy measures must be identified and carefully assessed. Broad and representative public consultation should be conducted during this stage.
2. **Analysis.** An Action Impact Matrix of “broad economic measures and their social and environmental impacts” can be employed to help identify potential impacts of sector-wide reforms identified in the first step.
3. **Remediation/mitigation.** Targeted complementary policies or investments need to be formulated (to mitigate predicted environmental damage and enhance beneficial effects). Where linkages are difficult to trace ex-ante, greater reliance should be placed on preparing contingency plans to be invoked ex-post. Given the uncertainty of possible impacts, *flexibility* is key in the design of policies and plans.
4. **Follow-up/monitoring.** A system for monitoring the impacts of economic or sectoral reform programs in environmentally and socially sensitive areas should be designed at the time of project preparation, and resources should be made available to address environmental problems that may arise during implementation.

7.1.4 Suggestions from External Partners

Some international nongovernmental organizations have put forward their own ideas on suitable approaches for environmental and social assessments of (sectoral) adjustment lending operations. In a brief note, Friends of the Earth¹¹ makes preliminary recommendations for a “dynamic assessment,” including a public consultation and process for evolving review. Three main stages are envisaged for such an assessment: initial impact assessment (involving information disclosure and public

Box 7.2 Suggested Criteria for Classification of SECAL Operations

Category A

- The sector is generally sensitive from an environmental perspective.
- The sector is associated with significant environmental problems in the country; that is, significant existing environmental problems can be traced to policy, legal, or institutional characteristic within the sector.
- The institutional capacity of the country to conduct sectoral adjustment activities is weak. For example, the capacity of the institutions to design socially and environmentally sound policies, strategies, plans, or programs is weak, and/or the proposed policy, legal, or institutional adjustments of the SECAL could cause significant adverse social and/or environmental impacts.

Category B

The sector is generally sensitive from an environmental perspective, but is not associated with significant environmental problems in the country. The institutional capacity of the country to conduct sectoral adjustment activities is good or can be strengthened with relative ease.

Category C

The sector is neither environmentally sensitive nor associated with significant environmental problems in the country. The institutional capacity of the country to conduct sectoral adjustment activities is good.

consultation); monitoring and retrofitting; and evaluation. The World Wide Fund for Nature has proposed a framework¹² for assessing the environmental impacts of macroeconomic reforms, which could also be applied to sectoral policy components.

The World Resources Institute looked at structural adjustment and forest policy reform.¹³ The research concluded that sustained sectoral engagement (such as performing a thorough sectoral EA), conducting a dialogue with stakeholders, selecting the right conditions, and tackling governance issues were the key elements for successful adjustment operations.

7.1.5 Learning from SEAs¹⁴

To date staff has been given little formal guidance on how to apply EA safeguard policies to SECALs, and there is little practical experience from which to draw. Probably the most relevant and useful

examples are some very good sectoral EAs prepared in accordance with *EA Sourcebook Update 4* (October 1993) on “Sectoral Environmental Assessment.” These guidelines are intended to apply most commonly to sector investment programs involving multiple sub-projects, but could also be used for sectoral time-slice or line-of-credit operations, or even for sector adjustment loans or evaluation of sector policies. Although the *Sourcebook Update* is geared toward sectoral investment operations or sector analysis, paragraphs addressing review and analysis of the policy, legal, and administrative framework—national and sectoral—are very useful.

7.2 EA for Structural Adjustment Lending

Currently, structural adjustment lending is not covered by the safeguard requirements of OP 4.01.

However OD 8.60 (Adjustment Lending) *suggests* that staff: (a) review the borrower's environmental policies and practices, (b) take these into account in the design of the adjustment loan, and (c) identify linkages between the adjustment program and the environment. The OD suggests that where there are negative impacts upon the environment, the practice should be to reform country policies on environment and natural resources, rather than to delay the adjustment program.

While the new OP 8.60 is being drafted, the June 5, 2000 Operational Memorandum on "Clarification of Current Bank Policy on Adjustment Lending" states that:

It is good practice for the Bank staff, in preparing appropriate assistance programs, to review environmental policies and practices in the country, take account of any relevant findings and recommendations of such reviews in the design of structural adjustment programs, and identify the linkages between the various reforms proposed and the environment. If there are negative linkages, it is good practice to devise specific measures to counteract the possible negative effects, or explain how mitigation is being achieved elsewhere within the Bank's Country Assistance Strategy.

A desk review of the President's Reports for the most recent tranche of structural adjustment loans and credits (23 operations that went to the Board between February 1999 and April 2000) shows that of 23 loans, 15 (65 percent) had an explicit environmental section, while 10 (44 percent) mentioned environment as a factor linked to the loan objectives. Another 9 (39 percent) had environmental conditionality, and 6 (26 percent) mentioned environment in the risk section and included measures aimed at environmental mitigation. The 65 percent of SALs with an explicit environmental section in the most recent tranche generally had a heading and one sentence to the effect that no environmental impacts could be expected from the loan. Interestingly, a large majority of these loan documents in fact referred to OP 4.01, and rated themselves as category C for environmental impact assessment purposes—even though that policy

does not apply to adjustment lending. None of the loan documents referred to OD 8.60 or its requirements, although OD 8.60 *does* apply to these operations.

The review also identified two cases of probable best practice. The *Madagascar Structural Adjustment Credit II* (April 1999) features: (a) a description of the natural endowment as a source of wealth in the "Country Context" section; (b) policy reforms in land tenure to permit tourism development; (c) reforms in the mining sector, including a new Mining Code with transparent granting of concessions and the application of environmental standards; (d) conditions on petroleum sector privatization to deal with environmental cleanup; and (e) reforms in the fishery sector, including the auction of quotas. This wide range of environmental interventions is integral to a wider reform program.

The *Bulgaria: Environment and Privatization Support Adjustment Loan* (January 2000) presents a comprehensive program for dealing with environmental liability, as a companion to the *Bulgaria: Financial and Enterprise Sector Adjustment Loan II*. The loan: (a) prescribes amendments to the Privatization Law to clarify the liability of the state for environmental damages resulting from past actions; (b) establishes environmental impact assessment requirements and risk assessment methodologies for privatization; and (c) requires remediation plans and execution agreements as part of the privatization process. Privatized establishments become subject to Bulgarian regulations for environmental management. This loan effectively sets the standard for other countries seeking to deal with issues of environmental liability in privatization.

These examples of best practice are replicable to the extent that environmental and natural resource management issues are large, relative to the macroeconomy. Madagascar, for example, relies heavily on natural resources and has further potential to benefit from its environmental assets. Bulgaria faces a large overhang of polluting waste products capable of damaging human health and other assets. At the same time, in both cases there are clear economic benefits to dealing with environmental issues. Bulgaria stands to lose substantial sums if investors bid down prices for state assets

as a result of concerns over the risk of environmental liability. Without better management, Madagascar risks the collapse of a fishery sector that is a significant foreign exchange earner.

Over the past year there have been suggestions from within the Bank (in addition to recommendations from external partners and critics), that there should be one common safeguard policy for SAL and SECAL, preferably as part of the new OP 8.60. The two have the same structure (short timeframe, no physical investments, quick-disbursement) and similar conditions, and there is a risk of perverse incentives that could lead Bank staff to classify an operation as a SAL (rather than a SECAL) just to avoid a more burdensome EA. In fact, a number of recent SALs are a bundle of SECAL components.

After considering that SALs make up an increasing share of Bank lending (38 percent in 1999) and usually have a number of potential linkages to environmental and social issues covered under the safeguards policies (trade liberalization, privatization, increased foreign investment, and reduction in government spending), the Latin America and Caribbean Region's Environmentally and Socially Sustainable Development department has gone one step further to recommend: "that all proposed lending operations (including SALs) be made subject to mandatory environmental screening, but that follow-up action (the actual environmental assessment) for SALs be decided on a case-by-case basis."

7.3 Sectoral and Regional Assessments

Sectoral environmental assessments are a much-needed complement to project-specific EAs in development planning. Whereas project EAs focus on the impacts of specific investments, and often treat sector strategic planning as a given, SEAs offer an opportunity for sector-wide environmental analysis *before investment priorities have been determined*. SEAs support the integration of environmental concerns into long-term development and investment planning. Sectoral environmental assessment is most commonly applied in the context of sector investment programs involving multiple sub-projects. The use of SEA can be defined in three ways:

- To ensure that the notion of "sustainability" trickles down from the highest levels of decisionmaking to the project level
- To select projects that ensure sustainability, and drop those that do not, after a complete review process
- To approach the design of projects in a generic sense, allowing for alternative options that would otherwise be out of scope.

SEA avoids the inherent limitations of project-specific EAs by addressing issues related to policy and planning and the legal and institutional framework. By moving upstream in the planning process to a stage where major strategic decisions have not yet been made, SEA offers better opportunities not only for analyzing existing policies, institutions, and development plans in terms of environmental issues, but also for supporting environmentally sound sector-wide investment strategies.

7.3.1 World Bank Experience with Sectoral EAs

The number of SEAs carried out as part of Bank projects have been increasing since FY92, when the first Bank-financed project subject to a sectoral EA was approved. SEAs have been prepared for sectors such as urban development (solid waste management); transport (roads, highways); water (rural water resource management); agriculture (irrigation); and energy (power development, district heating).

Numerous SEAs have been carried out within the Bank's Regions. In the South Asia Region, for example, six SEAs are currently being carried out in India and Bhutan. In addition, eight SEAs are under preparation in India—covering the water resources, urban, and transportation sectors. In the Europe and Central Asia Region SEAs have already been conducted for the energy and power industry in Romania and Russia. Another has been carried out as part of the nearly completed Poland Hard Coal Restructuring project. A mining sector EA will be done for the Mining Sector Loan Project under preparation in Romania.

In the Middle East and North Africa Region SEAs were conducted for the water and wastewater sector. An SEA was prepared under the Egypt Sec-

ond National Drainage Project, consisting of a review that addressed the policy, institutional, and technical aspects of the water sector in regard to irrigation and drainage. Sector EAs for the Sana' Water Basin project in Yemen and the Jordan Rift Valley Improvement Project were being planned at the time of this report.

In the Africa region SEAs were conducted in Ethiopia, Zambia, and Mozambique, primarily in the transport and agriculture sectors. The purpose of these EAs was to assess the countries' policy and institutional frameworks, strengthen EA capacity in sectoral agencies, devise participatory processes, and make appropriate recommendations. The Africa Region has completed 3 SEAs; 4 are under preparation, and about 10 additional SEAs are planned for the agriculture, transportation, and power sectors.

In the East Asia Region sectoral EAs were conducted in Indonesia and Thailand for the water and energy sectors. One of the first SEAs completed in the region was for the Indonesia Water Resources Sector Adjustment Lending. This was the first of its kind in the Bank, in that it was prepared in anticipation of the new OP4.01 that made EA for SECAL mandatory. The second SEA completed in the region was for a Power Sector Project in Thailand. Although this was a guarantee operation, the SEA was prepared for the EGAT (Thai Power Co.). This has been identified as a best practice, because the SEA went beyond EGAT's requirements to look at the whole power sector. An SEA is also scheduled for the Indonesia Forestry Sector Adjustment Loan.

The Philippines National Road Improvement Project adaptable program loan was not subject to an SEA, but very significant advances were made in incorporating social and environmental assessment into the operations of the Department of Public Works and Highways and establishing a Memorandum of Agreement on procedure between the relevant partners. The Philippines Portfolio Review (chapter 6) is an example of a portfolio-wide review of risks of projects under implementation.

In the Latin America Region several SEAs were carried out in the water, power, and transportation sectors. In Argentina, for example, a sectoral EA was conducted for the Water Sector Reform Project.

Additionally, SEAs are under preparation for the Colombia Water Sector Reform Project and the Venezuela Power Sector Reform Project.

The SEA prepared in 1997 for the *Nepal: Power Development Project* contains an excellent example of an analysis of alternatives, performed for power generation, transmission, and distribution as well as for demand-side management. This SEA used traditional, economic least-cost analysis and added environmental and social criteria to minimize the environmental and social costs of power development.

Another very good SEA was performed for the *Senegal: Second Transport Sector Program*. It is comprehensive in its examination of all transport subsectors, presentation of case studies, and review of laws and regulations and resulting recommendations for improvements to address environmental concerns. This SEA also proposes specific clauses for insertion into tender and constructions contract documents, as well as Operation and Maintenance manuals for the various subsectors. The EA for the *Ivory Coast: Transport Sector II SECAL* followed the Senegal example.

7.3.2 Regional Environmental Assessments

Regional Environmental Assessment are normally carried out in conjunction with, or as part of, a regional development plan, with the goal of helping to define investment priorities and activities at the regional level. They are intended particularly to address those sectors (such as transport and hydroelectric power development) that frequently trigger unintended or induced development processes, which then influence the environment in multiple and cumulative ways.

7.3.3 World Bank Experience with REA

The Bank's experience to date with regional EA is considerably more limited than is the case for sectoral EA. Two examples of approved projects with REAs are the *Paraguay Natural Resources Management Project* and the *Indonesia Biodiversity Conservation Project* (Kerinci-Seblat). In Latin America REAs were undertaken for the *Flood Protection Project in Argentina*, the *Colombia Power Sector Project*, and the *El Salvador Power*

Sector Project. Several other regional EAs are in various stages of preparation including the Jubba Development Analytical study (Hydropower) in Somalia, Bali Urban Infrastructure Project in Indonesia, the Lebanon Solid Waste and Environmental Management Project, and the Integrated Watershed Development (Hills) Project II in India.

Several projects include studies and plans aimed at strengthening environmental planning on a regional scale—in order to reduce negative environmental impacts of ongoing and planned investment activities—although these approaches are not specifically referred to as “regional EAs.” Examples include the river-basin management approaches in the *Sao Paulo/Parana and Minas Gerais Water Quality and Pollution Control Projects* and in the *Ceará Urban Development and Water Resources Management Project* in Brazil. Also included are the coastal zone management plan funded by the GEF and linked to the *Private Sector Tourism Infrastructure and Environment Project* for the Red Sea coast of Egypt, the coastal zone protection plan for the *Outer Islands Power Project in Indonesia*, and the urban environmental planning framework for the *Colombo Management Project in Sri Lanka*. All these examples attempt (a) to establish a sound planning and management framework that allows for identification and assessment of potential cumulative impacts of ongoing and planned investments in a given area, and (b) to follow a spatial approach to mitigation, management, and monitoring. In this sense, they are similar to REAs.¹⁵

7.3.4 Principal Benefits of SEAs/REAs

Sectoral environmental assessments in Sector Loan Projects assist decisionmaking in the following ways:

- Key environmental issues are identified at a very early stage.
- They provide a better framework for preparing conditions and legal agreements to govern future operations of projects.
- Better decisionmaking can be achieved by a more systematic and structural framework for analysis, more objective and credible information, and increased rigor in evaluating environmental information.

- Environmentally sensitive areas can be avoided through identifying a better project location at an early design stage.
- They simplify the process of environmental investigations at the individual project level.
- They enhance the transparency of the processes of planning and winning public support for preferred options or strategies.

SEA is increasingly being applied upstream in sectoral planning to help in the design of projects with a sector-wide scope and to address problems at the level of the sector policy, regulatory, and institutional frameworks. The Second EA Review lists the Environment, Industry, and Mining Project in Bolivia and the Large-scale Irrigation Project in Morocco as good examples. Sectoral EA for the Bolivian project helped design project components aimed at strengthening environmental management and planning capacity in the two sectors, and enforcement capacity in the Ministry of Sustainable Development and Environmental Protection.

The reasons for the limited use of REA appear to include two main factors: first, most borrowers are more oriented toward sector-specific than multisectoral projects and regional planning. Second, the Bank’s traditional *modus operandi* is also more sectorally than regionally oriented. Finally, at the methodological level REA is less developed than SEA.

While experience is still limited, REAs appear to have a strong potential for improving the environmental dimension of regional development planning and for contributing to the formulation of more sustainable investment patterns and strategies at a regional level. Like sectoral EAs, REAs move environmental analysis upstream in the planning process into the policy arena, at a stage before major strategic decisions have been made.

In sum, SEA and REA are very useful tools to address safeguard issues upstream, and provide a good opportunity for inserting safeguard policy dialogue within the regions/sectors. SEA and REA facilitate intensive public participation and policy dialogue in the early stages of planning. Therefore the “timing” and “strategic” aspects of SEA/REA are vital.

7.4 Country Assistance Strategies

7.4.1 Linking the Environment to the CAS

Country Assistance Strategies¹⁶ are a central part of the policy process that determines World Bank support to client countries. Each CAS presents a comprehensive picture of a country's economic development, identifies the government's principal concerns, and makes a case for new World Bank services. Thus it is important to ensure that environmental considerations are part of the CAS, and that their role in promoting development outcomes is given sufficient attention.

The World Bank is currently attempting to sharpen its poverty mandate by tying most of its lending and policy advice more strategically to poverty reduction. Partly as a result, the Bank's new Environment Strategy makes a major effort to prioritize its environmental actions based on their impacts on the poor. Given this strategic shift in focus, it becomes important to link environment and poverty efforts within the context of the CAS. Furthermore, given pressures to be selective in CASs, environmental issues can be included only if they are mainstreamed into sectoral and poverty reduction efforts.

An environmental review was undertaken of 37 CASs developed in 1999. The main objective of the review was to obtain a baseline understanding of how CASs treat environmental concerns. Nine CASs from Africa, 1 from the Middle East, 11 from Eastern Europe and Central Asia, 9 from South and East Asia, and 6 from the Latin America and Caribbean region were reviewed.

The review assessed three broad questions: (1) Do CASs identify environmental concerns and use Bank instruments to address these concerns? (2) Are natural resource and environmental issues mainstreamed by linking them to policy concerns in general and macro and sectoral initiatives in particular? (3) To what extent are environmental strategies linked to poverty reduction efforts?

To address these questions, CASs were ranked on the basis of key criteria such as identification and treatment of environmental issues, whether or not environmental issues were mainstreamed, whether the CAS included a discussion of incentive mechanisms and whether connections between

poverty reduction efforts and environmental concerns were identified.

In addition, country case studies in Azerbaijan, the Dominican Republic, Pakistan, Tunisia, and Zambia were selected to chart a process for incorporating environmental considerations into the CAS. At the end of each case study, a CAS paper was presented to Bank country teams. The paper included a description and diagnosis of environmental problems, a "CAS analytical matrix" allowing the reader to draw logical conclusions about the links between environment and development outcomes, and a set of environmental indicators that compare the country's environmental status with other similar countries and identify changes over time.

7.4.2 Expanding the Incorporation of Environmental and Resource Issues into the CAS

Based on the analysis of the case studies (see Box 7.3), a set of practical actions to improve the environmental quality of Country Assistance Strategies was suggested.

- *Mainstream environmental issues into different country activities.* The Country Assistance Strategy is the final product of a series of actions that include negotiations and discussions among country team members and government agencies, project outcomes, and country priorities. Any efforts to integrate environmental concerns into country activities will trickle down into the CAS.
- *Environmental issues can be integrated into CASs by identifying linkages between economic development and environmental change.* For example, in the Dominican Republic, Tunisia, and Zambia a strong connection was identified between tourism, a major driver or potential driver of economic growth, and environmental degradation. Therefore, when either environmental management offers a means for economic development, or degradation is beginning to have negative impacts on growth, country teams are more likely to be open to environmental interventions.

Box 7.3 Findings from the CAS Environmental Review

The review of FY1999 CASs indicates that *environmental considerations figure in almost all CASs*. Most identify environmental concerns in the CAS analytical matrix, and often in the CAS text as well. A majority of the CASs have a lending or non-lending project related to environmental or natural resource issues.

There are *significant regional differences in the treatment of environmental issues*. The East Asia CASs do well, while the Eastern European and Central Asian CASs do relatively poorly in their consideration of environmental issues. The high score received by East Asian CASs results from consistent efforts to mainstream environmental issues and the use of innovative economic tools in doing so. The low score received by Eastern European and Central Asia partly reflects a major focus on transition-related issues in these countries. In general, there is a need to strengthen the environmental quality of CASs in low-scoring countries. There are ample opportunities for these countries to learn from best practices across the Bank.

Environmental and resource considerations are currently mainstreamed into CASs in several ways. Policy issues are generally addressed through lending for environmental policy reforms and integration into sectoral strategies. Incentive mechanisms such as tariff reform and property rights issues feature in several CASs, but not as frequently as other policy concerns. There is, however, very little integration of environmental considerations into macroeconomic analyses or reforms.

Insufficient attention is paid to the links between poverty reduction and environmental change. More than half of the reviewed CASs failed to connect poverty and environmental concerns. These links are addressed mainly within the context of natural resource management.

- *In countries where the link between economic development and environmental change is dynamic and longer-term, it is prudent to engage task managers in robust discussions.* Several areas need attention, such as:
 - Reforming sectoral policies that affect environmental issues, with particular attention to energy and infrastructure policies
 - Ensuring that countries with a heavy foreign exchange dependence on natural resources develop sustainability criteria for managing both their natural resources and the revenue streams from resource depletion
 - Identifying prices, property rights, fiscal, and other incentive mechanisms that influence environmental considerations—especially to correct environmental externalities or improve efficiency of resource allocation.

7.5 New Lending Instruments

7.5.1 Adaptable Program Loan

Adaptable program loans provide phased support for long-term development programs. They involve a series of loans that build on the lessons learned from the previous loan(s) in the series. APLs involve agreement on (a) the phased, long-term development program supported by the loan; (b) sector policies relevant to the phase being supported; and (c) priorities for sector investments and recurrent expenditures. Progress in each phase of the program is reviewed and evaluated, and additional analysis undertaken as necessary, before the subsequent phase can be initiated.

APLs are used when sustained changes in institutions, organizations, or behavior are key to successfully implementing a program. They can be used to support a phased program of sector

restructuring, or systemic reform in the power, water, health, education, and natural resource management sectors, where time is required to build consensus and convince diverse actors of the benefits of politically and economically difficult reforms.

7.5.2 Learning and Innovation Loan

The learning and innovation loan supports small, pilot-type investment and capacity-building projects that, if successful, could lead to larger projects that would mainstream the LIL's experience and results. LILs do not exceed US\$5 million, and are normally implemented over two to three years—a much shorter period than most Bank investment lending. All LILs include an effective monitoring and evaluation system to capture lessons learned; they are used to test new approaches, often in start-up situations or with new borrowers. LILs may be used to build trust among stakeholders, test institutional capacity and pilot approaches in preparation for larger projects, support locally based development initiatives, and launch promising operations that require flexible planning, based on learning from initial results.

7.5.3 EA/Safeguards Experience with APLs, LILs

Since FY98 both APLs and LILs have undergone safeguard applications in the project preparation process. However, LILs are generally smaller and preparatory in nature and do not have significant safeguard policies applied.¹⁷ There have been several LILs with Category Bs and one classified as an A. However, three APLs in the power sector in India (Haryana, Uttar Pradesh, and Andhra Pradesh Power Sector Restructuring Projects) have developed environmental frameworks and safeguard applications. The first APL in Morocco adopted an EA framework that concentrated on the national environment policy framework and institutional capacity, as well as program specifics.

The overall categories of projects is highlighted in Table 7.1. It is readily noted that APLs have a greater percentage of category Bs (slightly more than half) in comparison to LILs (only a quarter of the projects).

Table 7.1 Environmental Classification for APLs and LILs, FY 98–00

Environmental Category	APLs		LILs	
	No.	(%)	No.	(%)
Category A	4	7	1	1
Category B	38	57	19	24
Category C	24	36	60	75
TOTAL	67*		80	

* there was 1 FI

7.6 Poverty Reduction Support Credits

The Poverty Reduction Support Credit is a CAS-based development assistance instrument designed to support a country's policy and institutional reform and public expenditure priorities. It is grounded in the principles of the Comprehensive Development Framework. Over time, the PRSC is expected to become an important vehicle of the International Development Association financial support to well-performing low-income countries, providing an anchor for overall Bank overall support for a country's development program and poverty reduction strategy that is closely linked to the International Development Goals strategy.¹⁸ These guidelines will be kept under review and revised, as necessary, in light of the early experience with PRSCs.

The PRSC is constructed based on a country's Poverty Reduction Strategy Paper (PSRP) or Interim Poverty Reduction Strategy Paper (I-PSRP), which sets out the country's poverty reduction strategy and the priority public actions it needs to achieve its goals.¹⁸ Utilizing country-based economic and sector work integrated and summarized in the Development Policy Review, Bank and Fund staff provide a joint staff assessment of the adequacy of the PRSP—and of the country's commitment and capacity to implement it—as a strategy for achieving sustained growth and poverty reduction. A PRSC typically involves a series of two or three tranches that together support the government's medium-term development and reform program to implement its poverty reduction strategy.

7.6.1 Poverty Reduction Strategies and the Environment

A review was undertaken to assess the extent of environmental mainstreaming in the Poverty Reduction Strategy Papers.²⁰ Nineteen interim and full PRSPs in Africa, Latin America, and Eastern Europe/Central Asia were reviewed, with the following four questions as a framework:

- (1) What issues of environmental concerns and opportunities are identified in the PRSPs?
- (2) To what extent are poverty-environment causal links analyzed?
- (3) To what extent are environmental management responses and indicators put in place as part of the poverty reduction efforts?
- (4) To what extent has the design and documentation of the process allowed for mainstreaming of environment?

The contents of the PRSPs were scored according to 15 criteria on a scale from 0 (no mention) to 3 (best practice). The main findings were:

- There is considerable variation in the degree of mainstreaming: from a high score of almost 2 (Kenya) to a low of 0.3 (Senegal). This indicates that the level of attention given to environmental issues varies considerably. While some variation is legitimate and to be expected, there is no reason to believe that the lower scoring countries are free from concerns of environmental health and natural resources degradation linked to poverty.
- The average score was low, which indicates that there is considerable room for improvement.
- The 3 full PRSPs ranked high in comparison to the 16 interim PRSPs.
- Best practice does exist, and this paper provides many examples that can serve to inspire future work (see Box 7.4).

Specific conclusions included several focus areas. First, even though the poor in most PRSP countries are overwhelmingly and directly dependent on natural resources, this is not explicitly articulated in many cases. Problems are not generally well defined, if at all. Consideration of poor (envi-

ronmental) health, however, is generally better recognized and understood. Most PRSPs did not recognize the significance of natural resources and environment, nor did they focus on elaborating poverty-environment linkages. However, countries that systematically analyzed poverty-environment links were successful in incorporating environmental concerns as part of poverty reduction objectives. For example, the Burkina Faso, Honduras, and Kenya PRSPs present relatively holistic treatment of poverty-environment links and poverty/natural-resource dependence.

Overall, the analysis of how macroeconomic policies and programs influence environment is rather poorly developed. Most PRSPs did not explicitly present the legislative, institutional, and regulatory interventions needed to reduce poverty through better environmental management. An important issue not addressed by several PRSPs was the cost of environmental interventions and the sources of funding. Costs of inputs and the relationship between inputs and outcomes is generally absent, except in the Kenya PRSP.

Although countries describe the processes of discussion, stakeholder participation, and consensus-building in PRSP preparation, there is little discussion at this stage of the proposed implementation of the PRSPs. It is also difficult to determine to what extent environmental constituencies have been included, and to what extent poor people in general voiced environmentally related concerns. The full PRSPs are expected to bring about a considerable improvement on this point.

7.6.2 PRSC and Safeguards

The first collection of PRSCs are expected to go to the Board in FY01. At the time of production of this report, no final operational guidance was available on how to approach the issues of social and environmental safeguards. The Operations Policy and Strategy office issued preliminary guidance on these new instruments, instructing that they are consistent with adjustment lending, including Operational Directive 8.60, and the general guidelines on programmatic structural adjustment loans and credits. Specific reference to safeguard issues includes the following:

Box 7.4 PRSP Best Practices for Environmental Linkages

Kenya

The Kenya PRSP describes environmental issues related to land use and water and suggests strategies, monitoring indicators, and implementation costs of the strategies in these areas and energy. The Kenya PRSP is also sensitive to biodiversity loss and makes detailed proposals for biodiversity management and action plans, such as an inventory of ecosystems to assess the potential uses of plant and animal species to local communities. The proposal called for the creation of three environmental bodies at the national level, as well as an Environmental Trust Fund and information system. In addition, detailed proposals were made for restructuring forestry institutions and forest management, including a full forest inventory, new licensing procedures, and collaborative agreements with local communities. A detailed participation plan for the preparation of PRSP included consultation with stakeholders and a timetable and indicators to measure performance.

Rwanda

Rwanda's PRSP notes that most of the energy currently consumed by the poor is in the form of fuelwood. Shortage of fuelwood imposes time and financial costs on poor households, which makes it harder for children to attend school. Poor access to energy impedes the development of non-agricultural activities and agro-processing, compromising prospects for economic diversification. Access to potable water in rural areas fell from 64 percent in 1984 to 50 percent in 1996. One-third of the water supply infrastructure does not function and poor households cannot afford the fees for drinking water. Note was made that 250,000 households live in camps under plastic sheets, and more than 60,000 live in damaged housing. The government has initiated a resettlement program to ensure that new settlements have access to basic public services such as water and sanitation. The PRSP was prepared through a process of extensive consultation at the central government and prefecture levels, involving civil society. The consultation process was to be expanded through focus groups at the prefecture level and participatory poverty assessments to be carried out in 60 communities. A Participation Task Force was established to implement consultations.

Ghana

On the theme of how policies influence natural resources management, the Ghana PRSP highlights that the water sector has benefited tremendously, in terms of both policy and funding, from structural adjustment. Community water and sanitation and urban water supply enjoyed the injection of new capital, as well as a new framework for management. In the urban water sector, the Ghana Water and Sewage Corporation has been restructured into a limited liability company. A program to increase tariffs to safeguard the financial viability of the utility is under way, and takes into account whether poor households can pay. Furthermore, a set of policy changes are under way to encourage cocoa growers through such incentives as raising producer prices, reducing the export tax, and allowing licensed buying companies to export a fixed quota of domestic production. Such measures will influence the trade-off between cocoa bushes, which are a perennial tree crop with good ground cover, and alternative crops. Further study would be required to determine how these policy changes affect the environment.

Burkina Faso

The Burkina Faso PRSP specifies a program of soil and water conservation designed to break the vicious circle of soil degradation, poverty, and food insecurity. It also refers to new legislation pertaining to environment, water, and mining. Related to environmental management is the testing of ways to provide for more secure property rights to land under a national land management program. The cost of the program to strengthen environmental management is derived, and includes development of irrigation schemes to combat vulnerability, rural development projects, and strengthening of institutional capacity.

- Drawing on the PRSP/I-PRSP and other work, PRSC documentation should summarize the likely social impact of policy and institutional reforms supported by the Bank—and of the associated macroeconomic policies—as well as the measures that authorities are taking to enhance positive and mitigate adverse impacts.
- PRSCs may focus on economy-wide policy or institutional issues, such as broad public sector reform. However, if a PRSC includes a significant focus on sectoral policies, institutions, and regulatory actions, it would be treated as a sector adjustment operation for purposes of the Bank's operational policies on environmental assessment.²¹

Consequently, safeguard staff have approached the PRSC in a similar fashion to SALs/SACs and SECALs (see section above), and have applied OP 4.01.

7.7 Conclusions

Although environmental assessment and safeguards issues are generally being considered in the development of relatively new Bank instruments, few quantitative studies have been undertaken to assess effectiveness—mainly since the body of projects available is still small and not all of the instruments are subject to safeguards. However, the studies that have been prepared—for PRSPs and SECALs—indicate that while some projects have developed good practice, most do not adequately take the various components of EA and safeguards into consideration. The PRSP study of 19 projects in Africa noted “considerable room for improvement,” but pointed out that complete PRSPs scored better than interim PRSPs. The 1999 and 2000 studies of 17 and 12 SECALs, respectively, also highlighted serious weaknesses. Structural adjustment loans, which are not subject to safeguard policies at present, nonetheless appeared to have a better record for including environmental considerations in the lending process.

Despite what appear to be discouraging results, ample examples of good practice in all of the areas covered can be identified. Moreover, the Bank was, at the time of publication, strongly considering a more uniform approach to the application of safeguard policies that would clarify requirements

for staff and clients and facilitate implementation and the application of good practice in one area to others. Finally, the foregoing analysis reveals that numerous Bank units are working toward the development of frameworks for a more thorough and consistent application of safeguards, with useful input from civil society organizations.

Notes

1. Footnote 1 of OP 4.01 clarifies that the applicability of EA to adjustment loans would be covered by the forthcoming OP 8.60 on adjustment lending.

2. OP 4.01 states in paragraph 3 that: “EA considers natural and social aspects in an integrated way.”

3. K. Green and others, “Review of Safeguard Risk for Sectoral Adjustment Loans,” World Bank, 2000.

4. Approved in May 1999.

5. “Environmental Assessment for Sectoral Adjustment Loans: The Case of the Indonesia Water Resources Sector Adjustment Loan,” EASES Environmental and Social Safeguard Note 3, World Bank, 2000.

6. It appears, however, that the government's regulatory and institutional weaknesses were not adequately addressed in the EA.

7. Revised version 3, September 2000 draft. Note: This SECAL has since evolved into a broader SAL operation.

8. “Social and Environmental Aspects, A Desk Review of SECALs and SALs Approved during FY 98 and FY 99, ESSD,” World Bank, September 1999 (draft).

9. M. Munasinghe, “Environmental Assessment of Sectoral Adjustment Loans (SECALs),” September 1999 (draft for *EA Sourcebook Update*).

10. A. Belle and R. Lubis, “Framework of EA for SECAL (Strategic EA),” World Bank discussion brief, n/d.

11. A. Durbin and others, “Recommendations for Policy Cohesion on Structural and Sectoral Adjustment Lending,” World Bank, n/d.

12. P. Edwards, “Environmental Impact Assessment for Macroeconomic Reform Programs,” Macroeconomics for Sustainable Development Program Office, Worldwide Fund for Nature, March 2000.

13. F. Seymour and N. Dubash, “The Right Conditions: The World Bank, Structural Adjustment and Forest Policy Reform,” World Resources Institute, 2000.

14. The terms sectoral environmental assessment and EA for SECAL are sometimes used interchange-

ably, but are not necessarily the same thing. The former is an assessment of a sector, while the latter is concerned with assessing the impacts of a (policy) reform program, conditioned by the SECAL, on the sector.

15. Second EA Review, World Bank, 1997.

16. P. Shyamsundar, K. Hamilton, L. Segnestam, M. Sarraf, and S. Frankhauser, "Country Assistance Strategies and the Environment," Environment Department, World Bank, April 2000.

17. R. Goodland, 1999.

18. See *A Better World for All: Progress towards the International Development Goals*, 2000.

19. See *Interim Poverty Reduction Strategy Papers (I-PRSPs): Guidance on I-PRSPs and Joint Staff Assessment of I-PRSPs*, Joint Note to World Bank and IMF Staff, September 7, 2000.

20. Jan Bojo and Rama Reddy, *Poverty Reduction Strategies and Environment, A Review of Interim and Full PRSPs*. Africa Region Environment and Social Development Unit, World Bank, December 2000.

21. See World Bank, OP/BP 4.01, *Environmental Assessment*, January 1999. See also World Bank, *Operational Memorandum on Clarification of Current Bank Policy on Adjustment Lending*, June 5, 2000.

