

## **BIC Comments on 2015 DPF Retrospective Concept Note**

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BIC appreciates the opportunity to provide input into the Bank in the design of the 2015 DPF Retrospective, as well as the openness of OPCS to discuss DPF frequently over the past several years. The proposed Retrospective emphasis on environment and results are both timely and welcomed. These comments are intended to strengthen the proposed design of Chapters IV and V, potentially serving as an opportunity to improve the development effectiveness of future DPF. Many of these concerns as well as recommendations to strengthen DPL risk management under a common safeguard framework are outlined in a DPL Primer produced by Global Witness and BIC.

We believe that the decision to focus on environmental risk management in Development Policy Finance responds to a growing concern about this area of DPF effectiveness. We fully support the plan to employ case study and in-depth country analysis in several areas would complement the PAD, ICR and IEG ICR reviews that have limited the impact of past Retrospectives. We also support the proposal to incorporate the findings of relevant IEG learning products on DPO effectiveness.

Recommendations to strengthen the approach:

**1. Clarify the title and focus of Chapter IV. The focus of Chapter IV is not just about sustainability, but on the effectiveness of DPF environment and social risk management.** The 2012 Retrospective concept note stated:

*"the team will analyze (i) to what extent country policies supported by a DPO were likely to have significant adverse effects on the country's environment, forests, and other natural resources; and (ii) for country policies with significant effects the team will assess whether the Program Document discussed the borrower's systems for reducing those adverse effects and enhancing positive effects, drawing on relevant country-level or sectoral environmental analysis. In addition, the team will discuss the Bank support to country capacity and institutional building to mitigate such adverse effects on the environment, forests, and other natural resources."*<sup>1</sup>

The 2012 DPO Retrospective devoted three paragraphs to "Assessing Environmental Impacts," without entering into any of the issues proposed in the cited concept note in a meaningful way. A comparatively generous 8 paragraphs was devoted to assessing poverty and social impacts of DPOs. Still, this social/poverty analysis focused mostly on the frequency of PSIA's being completed, rather than the quality or outcomes associated with the social risk management of these DPOs. A more dedicated, substantive and detailed focus on environment and social risk assessment is needed to avoid a similar result in the 2015 Retrospective.

In that regard, the title of Chapter IV and the inclusion of economic/financial sustainability of DPF seems to dilute a central focus on the quality of environmental and social risk management. In paragraphs 23-29, the paper explains the approach proposed to assess the sustainability of DPF supported reforms. However, the paragraphs 23-27 on "environmental impacts" seem to outline areas of assessment that are more than and perhaps different from a focus on sustainability. Paragraph 25 lays out five areas of emphasis of the analysis proposed for Chapter IV of the Retrospective that explicitly focus on the mechanics of applying OP 8.60 paragraph 11. While it may be implied in the language of paragraph 25, several aspects of the proposed analysis should be made more explicit.

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<sup>1</sup> OPCS, "2012 Development Policy Lending Retrospective: A Review Focusing on Results, Risks and Reforms," Feb. 2012, paragraph 29, pg. 11.

The inclusion of economic sustainability seems misplaced and could obscure what should be the principal focus of Chapter IV - the effectiveness of assessing the process and substantive quality of DPF environmental and social risk management. Without challenging the merits of this focus, an analysis of economic or financial sustainability of supported reforms more broadly seems more relevant to or duplicates the analysis in the proposed assessment of DPF results (Chapter V). Unless the linkages to the latter analysis of DPF environmental and social effects are made more explicit, it is recommended to separate analysis of economic sustainability into its own chapter, or as a component of the analysis proposed for Chapter V.

**2. The DPF Retrospective must clarify how DPF environmental and social assessment, due diligence and monitoring works internally at the World Bank as a first step to assessing the effectiveness of environmental and social risk management.** Unlike IPF, where the current assessment process is relatively well understood by potentially affected stakeholders due to explicit and predictable requirements for disclosure and consultation of an EIA for the highest risk investments and similar measure for medium risk projects, few outside the Bank understand how environmental assessment and due diligence is actually conducted for DPF. IEG and the Inspection Panel have observed that development policy operations do not require the same level of risk assessment or mitigation systems as investment operations do under the Bank's safeguard system.

The Retrospective would seem to require a detailed description, with clarity about roles and responsibilities, of how environmental screening, due diligence and monitoring is intended to work as a baseline for assessing the adequacy of this process in practice. In contrast to IPF, the details of the DPF project cycle and decision points related to environmental and social risk are less accessible or discernable. Analogous to the regional safeguard advisor (RSA) clearance of the social and environmental integrity of IPF, who in the Bank clears the E/S aspects of DPF at concept and appraisal stage of the project cycle? Does this clearance process reflect adequate independence? Have any DPF environmental or social effects been considered significant enough to merit the convening of an expert panel, or a stakeholder advisory mechanism or independent monitoring? How consistently are these procedures applied across the regions?<sup>2</sup>

**3. How are significant environmental and social effects for DPF defined?** How the conclusion is reached that a potential environmental or social effect is significant or not should be explained in detail. The finding of so few significant potential environmental effects in the last (2012) cohort of DPOs (**less than 10 of the 2000+ prior actions**) was both surprising and called into question the quality of this fundamental aspect of the assessment process.<sup>3</sup> Upon what principles or references was the environmental risk determination is made? The approach paper indicates that the reference to CEAs or Policy SEAs will be one area of the review (noting the decline in use of either instrument over the past five years). The existence of this type of valuable analytical input worth noting. However, a more interesting question deals with whether the quality of the reports was adequate or whether the actual uptake of CEA or SEA recommendations occurred (see point 5 below).

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<sup>2</sup> Consistency of OP 8.60 interpretation and application is concerning not only because of the lack of external accountability for procedural standards, but also when explicit advice is provided to custom fit OP 8.60 to regional needs. See Good Practice Note 4, Environmental and Natural Resource Aspects of Development Policy Lending, Paragraph 16, fn. 12. "Each region will have to develop its own procedures to ensure that environment and natural resource aspects are addressed adequately in accordance with OP 8.60."

<sup>3</sup> See [Panel Discussion](#) organized by BIC and Global Witness at the World Bank Annual Meetings, October 2013, Safeguarding Development Policy Operations: What should be the standards?, for analysis of several DPOs with significant environmental and social effects.

We also have some concern with resting too heavily on the IEG independent ICR validation process as an assurance that significant environment and social effects were not missed. For the majority of IEG ICR reviews, an 'N/A', or 'no issues' explanation in the environment and social risks category is not questioned by the IEG reviewer beyond a review of the information provided by the desk review of the PAD and ICR.

**4. Consultation and Participation:** With regard to the definition of the significance of environmental and social effects, to what extent do these decisions reference consultation with potentially affected or interested stakeholders?<sup>4</sup> Recent CSO analysis has observed that because DPOs lack full transparency and almost no space for participation during various stages of the project cycle, civil society is unable to monitor, evaluate or correct progress in the execution of the loan. We would welcome evidence provided by the Retrospective that challenges this assertion. How frequent is direct external consultation of DPF stakeholders in the design of the DPF itself (as opposed to indirect consultation on related national policy or background analytical products)? Here it is important to distinguish between borrower consultations or feedback on the proposed policy reforms, but more precisely, consultation or feedback on the DPF as an instrument designed to advance selected parts of a broader reform program. Equally important is the assessment of whether a **potentially harmed population** can be defined when significant adverse environmental effects are identified. Finally, what is the standard practice for providing **grievance response mechanisms** with DPF, particularly in contexts of significant effects?

**5. Indirect impact assessment.** The assessment of potential adverse or positive indirect effects may be one of the thorniest aspects of social and environmental risk assessment. Indirect effects may also be where DPF realizes significant impacts. DPF guidance provides some examples of the types of indirect effects that might occur, and the possible transmission channels through which indirect effects might harm or benefit people or the environment. The Bank argues, correctly, that the transmission of indirect environmental and social effects is complex, due to contingency on how reforms are regulated and implemented and on the response of other actors/forces.<sup>5</sup> However, as with the analysis of indirect social effects, the assessment of indirect environmental effects is feasible in many contexts. The SORT is presumably intended to help disaggregate and classify the components of risk that may influence the significance of environmental and social effects. Several considerations are mentioned in the Bank's PSIA sourcebook that are applicable more generally to assessing indirect environmental effects.<sup>6</sup>

- **Positing assumptions about the counterfactual.** Some baseline for the policy change process should be established, at a minimum, through clearly stated assumptions about the likely scenario without the DPO. The counterfactual may be about the likelihood of the current conditions and their continuity or about the scenario in which a policy reform is inevitable with or without a DPO.
- **Process tracing and path analysis.** Indirect impacts are traced through careful exploration of the Bank role, beginning with the decisions related to the origin of the policy reforms, either through analytical inputs, technical assistance or otherwise supporting the reform selection, design and implementation. Qualitative performance indicators are necessary to capture some of the evidence of indirect impacts produced by effective policy process tracing. A focus on

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<sup>4</sup> See Good Practice Note 4, para. 17, fn 13: 17. "The Bank considers it important and a matter of good practice in its analytic work to consult and engage the stakeholders in the process of defining country priorities and in identifying and designing appropriate interventions."

<sup>5</sup> Good Practice Note 4, para. 9, fn 8

<sup>6</sup> World Bank (2007) Tools for Institutional, Political and Social Analysis of Policy Reform.

institutions as transmitters of the indirect effects of policy reforms requires an assessment of change in power relations, which can not always be reduced to quantitative indicators.

**From Box 2.4 - Six Transmission Channels for PSIA:**

*"Authority: This transmission channel covers changes in power, structures, and processes that govern the formal and informal function of public institutions. It can operate at the macro level (such as public service reform), at the meso level (such as decentralization of administrative authority), and even the micro level (such as redirecting welfare payments from men to women). This channel encourages analysis of the likely impact on state actors and citizens of changes in decisionmaking behaviors and interaction that result from new alignments of rights, obligations, incentives, and sanctions. Second-round analysis through this channel might also explore, for example, how individuals and groups react by expanding or diversifying their livelihood strategies or by changing their behavior on the understanding that there is greater responsiveness and accountability in the system. These changes in behavior will, in turn, affect absolute and relative changes in power and influence. Some groups might seek to undermine the new decisionmaking structures or sets of rights by limiting their implementation or by using other influences to stop others from making use of their new entitlements."<sup>7</sup>*

As an example, the Peru Environmental DPL series included a prior action to strengthen environmental governance, which identified an outcome target indicator that the Environment Ministry (MINAM) be able to demonstrate the capacity to review EIAs, based on a review of a random sample of 10 project EIAs approved during the term of the DPL. The selection of a purely quantitative outcome indicator to assess a subjective EIA evaluation process points to one of the weaknesses of the Peru DPL – the lack of qualitative results indicators. Lacking any DPL completion report, civil society has no information about this performance indicator and the extent to which it represents real progress in strengthening MINAM EIA review capacity.<sup>8</sup> Another DPL indicator is the implementation of a Strategic Environment Assessment, for which there is no evidence of such an occurrence. Other progress indicators focused on the approval of environmental legislation, norms and procedures, without necessarily assessing the quality of implementation.

The potential negative risks associated with the pursuit of institutional strengthening goals that are poorly specified or not actually met in turn contribute to a loss of public confidence in Peru's environmental institutions, an asset that is not easily restored. These negative risks were not adequately identified in the DPL program document, which forecasted mostly positive benefits from the DPL supported reforms. Prevailing discontent and lack of public confidence with the quality of assessment of environmental and social risks related to large mining and hydrocarbons investments, such as Newmont's Conga gold mine and the expansion of oil and gas production in a protected indigenous reserve of Lot 88 (Camisea) has resulted in frequent protests, conflict and the delay or withdrawal of planned sector investments.

This context of distrust contributed to the 2012 Government proposal for a new institution – the National Institute for the Certification of EIAs (SENACE) within the Environment Ministry. SENACE is designed to ensure higher uniform standards for the process of contracting, reviewing, approving and implementing EIAs. Viewed as a positive step, SENACE has yet to begin operation due to political resistance and poor inter-sectoral coordination and is the source

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<sup>7</sup> Op cit, pg. 19-20.

<sup>8</sup> The DPL series closed in August 2010, but a project completion report has yet to be disclosed by the Bank.

of significant tension in different sectors. Recent policy reversals in Peru's EIA requirements have weakened the mandate of SENACE and have further weakened public confidence in the capacity of MINAM as a rector of environmental governance. The Environment DPL did not adequately anticipate this new direction in the reform of environmental management policy and therefore did not include possible mitigation actions.

Without an assessment of social and environmental risks that is properly informed by consultation with the full range of policy reform stakeholders prior to the approval of the DPL, these risks are often not adequately assessed and are frequently underestimated. The opportunity to mitigate these risks is therefore diminished. Despite the good intentions of the Peru Environmental DPL, the result has been increased distrust of the EIA system, of MINAM and of the Bank.<sup>9</sup> Because DPLs lack full transparency and almost no space for participation during various stages of the project cycle, civil society is unable to monitor, evaluate or correct progress in the execution of the loan.

- **Accountability.** An important area for examining DPF social and environmental risks is the status of accountability within institutions targeted by the policy reforms. However, a full assessment of accountability is often missing, which may bias the design and limit the performance of the DPO. The preference exhibited in most DPOs is for strengthening the institutions that are charged with governance, almost invariably from the top down. In other words, DPOs tend to target the supply side for better governance. In contrast, strengthening the demand side for governance - such as the institutions that demand accountability are rarely targeted by DPOs (or most World Bank lending). Therefore, when accountability is assessed at all as a risk factor for policy reforms, the demand side is typically ignored. Recent lessons from research on environmental governance indicate that greater attention in the assessment of DPF indirect effects on the demand side for accountability is needed.

A recent survey of Bank support for strengthening environmental institutions found that "*Development Policy Loans (DPLs) could be applied more directly to strengthen institutional accountability. DPLs have been used to reform formal rules that govern environmental institutions and to recognize achievements. These loans could also be made more effective by fully incorporating recommendations from CEA and SEA.*"<sup>10</sup> An earlier study found that CEA recommendations were not typically picked up in DPL policy matrices, suggesting that stand-alone environment DPLs may be required to move the recommendations of CEAs forward.<sup>11</sup>

Moreover, to close the gap between CEA recommendations and DPF design, Bank research has underscored the need to focus more on building up demand for accountability. The 2010 portfolio review by Eltz et al. found that the critical institutional function of accountability was relatively under-emphasized in DPF design. The study recommended that "*efforts to improve accountability may include greater civil society engagement, strengthening the role of the judiciary, and improving the*

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<sup>9</sup> See recent letter signed by over 200 Latin America CSOs regarding the perceived safeguard dilutions in the World Bank safeguards and their analog in the safeguard policy reversals in countries like Peru, which was presented at the Feb. 2 Lima consultation.

<sup>10</sup> Melanie Eltz, Urvashi Narain, Alessandro Orfie, Robert Schneider (2010) Strengthening Environmental Institutions and Governance : What Should be the Role of the World Bank Group? World Bank 2010 Environment Strategy Background paper.

<sup>11</sup> P. Pillai. 2008. Strengthening Policy Dialogue on Environment: Learning from Five Years of Country Environmental Analysis. Environment Department Papers: Institutions and Governance Series # 114. WBG, Washington DC.

*independence of oversight institutions. It is important that DPLs be used to strengthen all four key abilities of capable institutions and good governance structures---ability to pick-up signals, ability to formulate balanced policy, ability to implementation, and ability to be held accountable."*<sup>12</sup>

Of the four noted governance capabilities, greater attention is needed to the identification and assessment of the potential indirect DPF effects in the bottom-up or demand side of institutional accountability.

**6. Adequate discussion of borrower systems.** Paragraph 25 states that in the case of potential significant negative (or positive) effects, the analysis will focus the adequacy of the discussion of borrower systems capacity for reducing (or enhancing) such effects. The World Bank's definition of what constitutes an adequate assessment of borrower systems has substantial and far reaching significance. Under PforR and the ongoing discussion of the proposed ESF, additional language about criteria for assessing borrower systems has been introduced.

What is lacking to advance a forward looking and informed discussion is a common set of criteria to evaluate, strengthen and monitor the performance of these types of borrower driven risk management tools. Capacity to manage risk, allow for public participation, ensure adequate and timely disclosure to affected people, provide accountability and define leverage are just some of the areas where the Bank and stakeholders lack common, minimum indicators and information to decide if borrower systems are equivalent and acceptable in comparison to the highest standards.

The notion of a track record as a key attribute of borrower system capacity and performance has drawn attention as a potentially useful indicator, yet lacks the precision necessary to meet that expectation. Illustration of how borrower system capacity and performance are assessed, with the identification of gap filling measures, and the implementation of these actions, would be a useful contribution to the broader discussion of how to conceptualize, benchmark and ensure greater accountability for the use of borrower systems going forward.

**7. Potentially significant positive environmental and social risks.** We appreciate the emphasis placed on managing the potential significance of positive environmental effects. There is no guarantee that DPF will deliver on the positive, welfare-enhancing outcomes premising in the policy reform intent and the DPF support. As the current Corporate Strategy argues, the greatest risk of DPF may be that of not delivering on the positive changes promised by the reforms. Some additional detail is needed regarding how the assessment of managed environmental risks associated with positive reforms will be addressed. A key concern here is how satisfactory is the political economy or **distributional analysis** of the factors that could block or capture the positive benefits of the intended reform as well as the mitigation actions proposed and /or taken in light on such risks? What is the evidence (often unavailable at the time of the ICR) to demonstrate the satisfactory quality of this type of analysis?

For example, a recent \$340 million DPO supporting fiscal reforms in Guatemala (P133738 approved on June 17, 2014). This recent DPO shared many features of a prior DPO series that presumably supported similar fiscal reforms in 2008-2009 (P112312 and P114373). Yet, income and inequality in Guatemala have actually increased from already extremely high levels since 2009. The most recent DPO acknowledges that shared prosperity has worsened in Guatemala, but emphasizes "progress achieved under the previous operation," and places renewed faith that the current Government will somehow reverse these trends.

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<sup>12</sup> Eltz, et al (2010: 36)

To take just one example, a recent study by the University of Tulane documents the persistence of inequality and poverty as well as the chronic failure of fiscal reforms in Guatemala:

Guatemala is one of the most unequal countries in Latin America and has the highest incidence of poverty. The indigenous population is more than twice as likely of being poor than the non indigenous group. Fiscal incidence analysis based on the 2009-2010 National Survey of Family Income and Expenditures shows that taxes and transfers do almost nothing to reduce inequality and poverty overall or along ethnic and rural urban lines. Persistently low tax revenues are the main limiting factor. Tax revenues are not only low but also regressive. Consumption taxes are regressive enough to offset the benefits of cash transfers: poverty after taxes and cash transfers is higher than market income poverty.<sup>13</sup>

The mitigation actions to address the risk of not meeting the DPF conditions are not apparent in the most recent fiscal DPF series, which underscores the challenge for the DPF Retrospective of how to assess whether the distributional analysis for these and similar DPF is robust rather than wishful thinking.

**8. DPF risk mitigation options.** We often hear that since DPF is based on prior actions, after Board approval mitigation actions are mostly about planning the next DPO than measures related to the DPO already approved. The Retrospective could clarify what are the range of possible mitigation actions that are considered when significant social and environmental effects are present. More precisely, what mitigation actions distinguish those DPOs that are determined to have significant social or environmental effects from other DPOs?

**9. Consideration of in-depth country analysis.** Looking beyond the PADs and ICRs is necessary for understanding and explaining (as opposed to describing) the challenges and performance of DPF environmental risk management. Paragraph 27 indicates that OPCS may consider "in-depth analysis at the country level," and will be considering IEG's learning product on environment and social assessment of DPOs. The approach might expand on the range of possible sources of "in-depth" country analysis that could be considered, since several recent IEG products have explicitly addressed the environmental and social risk management performance of DPOs (2012 Forest Evaluation, 2014 Brazil SEM DPL and ENV PRG 1 PPAR). Also, given the timetable that involves producing a draft by April, additional detail is needed regarding how extensively these types of complementary analysis will be used.

**10. SORT and DPF environmental and social risk classification.** The paper notes that as of Oct. 1, 2014, all DPF operations will include a new standardized framework for operations risk management (SORT). The Retrospective attention to how the SORT is working for DPF is welcomed, particularly as it relates to the environmental and social risk component for the operation.

**11. Results Frameworks and Monitoring.** We support the proposed analysis for Chapter V. The concept note for the 2012 Retrospective also proposed to focus on DPO results, so it will be important to distinguish if or how 2015 will provide a different type of analysis or not.

Several methodological concerns are worth considering:

**1) Quality of outcome evidence.** Some caution will be expected in the strict reliance of DPO ICR data for the proposed regression analysis of DPF success. IEG PPARs for DPOs point to weaknesses in the monitoring and evaluation frameworks and to the questionable relevance and precision of some DPO outcomes. To help qualify the ICR outcome evidence, as part of the descriptives section of this chapter, it would be helpful to know the trends in the realism metrics of DPF self - assessment, such as the Candor

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<sup>13</sup> [Maynor Cabrera, Nora Lustig and Hilcías E. Morán \(Oct 2014\) FISCAL POLICY, INEQUALITY AND THE ETHNIC DIVIDE IN GUATEMALA. CEQ Working Paper No. 20](#)

Gap and the Net Disconnect percentage, and the share of DPOs with high or substantial M&E quality ratings for operations reviewed by IEG.<sup>14</sup> The average DPO preparation and supervision costs could also be included in the descriptives section of Chapter V or in Chapter I. IEG points out in several DPO PPARs that process oriented triggers can too often be relied upon as outcomes, rather than measurable change on the ground. The distinction between one-off, single tranche DPOs versus DPO series is pertinent in this regard in terms of justification of the creation of a "policy space" alone as more of a legitimate outcome in the former, but perhaps not in the latter type of operations.

**2) Additionality - Value for Money.** Past Retrospectives have presented evidence that DPF provided budget support has contributed to positive policy outcomes. However, a stronger evidence basis is needed to know with greater confidence in the counterfactual - whether the borrower would have gone ahead with the reforms without the DPO. What added value in the DPO's support for the policy reforms can be reasonably attributed to the DPO?

The IEG Country Program Evaluation for Brazil highlight this dilemma by citing a \$1.3 billion DPO that sought to support a wide range of policy actions to strengthen Brazil's environmental management system, including efforts for BNDES to adopt and apply a new environmental and social policy to project screening, approval and monitoring. IEG points out that there is no documented impact on BNDES project selection, project design or project supervision. The loan size was significant in relation to total IBRD exposure in Brazil and the question (among others) that emerged in the PPAR that IEG conducted on this DPO is "whether other avenues to mainstream effective implementation of environmental and social safeguards practice might have been more cost effective."<sup>15</sup> At a minimum, an explanation of the methodological approach for exploring this question of additionality is needed, complemented perhaps by are more in-depth analysis through specific DPF examples.

**3) Monitoring of results.** As the 2013 IEG Forest Strategy Evaluation has demonstrated for certain DPLs, such as those used in forest sector policy reforms, the potential for DPL supported policy reforms to result in far reaching, long-term impacts is clear and established. While such harms might take a while to materialize, OP 8.60 includes no provisions for long-term monitoring of those impacts. How long is it appropriate to monitor DPO supported reforms to assess results? Perhaps some indication of the range of monitoring durations for recent DPOs would provide a useful input into further discussion of this question.

**Revising OP 8.60:** The concept note does not make clear whether the World Bank intends to revise OP 8.60, although Management has indicated with the conclusion of Investment Lending Reform in 2012 that a harmonization of all policy related to Lending Operations will occur. As the paper notes, the Bank has revised OP 8.60 multiple times over the past several years, often in response to issues that emerged in the Retrospectives. However, no formal policy review was initiated as the basis for making these OP revisions. Clarification is needed about the plans for modification of OP 8.60 at the conclusion of the 2015 Retrospective process or at some future date.

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<sup>14</sup> Aggregate indicators for all Bank projects are given in OPCS Review of World Bank FY13 Portfolio and Update on Actions to Assure Quality (Report OM 2014-0021), April 15, 2014.

<sup>15</sup> See IEG Brazil CPE and forthcoming PPAR of the Sustainable Environmental Management DPL (2015).