



# STRIKING THE BALANCE: OWNERSHIP AND ACCOUNTABILITY IN SOCIAL AND ENVIRONMENTAL SAFEGUARDS

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## EXECUTIVE SUMMARY

Many governments around the world have put in place systems to help ensure that investments in changes such as infrastructure projects, government programs or new national laws do not bring undue harm to their citizens or environment. The effectiveness of these systems in successfully preventing negative impacts varies widely. Developing countries tend to have a particularly difficult time ensuring that investments within their borders meet minimum social and environmental standards. As a result, many financial institutions have established their own policies to help ensure that their investments do not result in harm to vulnerable communities or ecosystems. These policies are generally known as “safeguards.” Although safeguard policies provide vital protection against risks to people and the environment, properly designing and implementing these policies means navigating complex relationships between financial institutions, governments, and the citizens of recipient countries.

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The World Bank (the Bank) has been at the forefront among multilateral development banks in developing safeguard policies. In recent decades, the Bank has experimented with different approaches to social and environmental protection. These approaches respond in part to variations in the way in which countries receive money from the Bank, such as investments in projects versus policies. They have also emerged in reaction to the changing global landscape. Some developing countries have become richer and created stronger systems to protect people and the environment. The global community has also realized the value of letting developing countries define their own development path. At the same time, the pressing need to protect our global common goods and most vulnerable communities has become more apparent.

This working paper seeks to help the Bank and other financial institutions take stock of experiences to date and distill lessons for the future. We look at four different approaches to protecting against social and environmental harm:

1. The traditional safeguards approach, which applies to most project lending.
2. The Use of Country Systems approach, which the Bank has applied to some project lending on a pilot basis.
3. The approach used for Program for Results investments, which applies to the Bank's results-based lending pilot.
4. The approach used for Development Policy Loans, which applies to loans that support changes to policies and institutions.

## Box 1 | Definition of Key Terms

**Accountability:** the ability of relevant actors to be held to account for a failure to uphold social and environmental protections.

**Mutual accountability:** the notion that both governments and investors are responsible for upholding social and environmental norms, and that there should be a consequence if either fails.

**Development Policy Loans (DPLs):** World Bank investments to support changes in a country's policies and/or institutions in lieu of Bank policies.

**Country safeguard system:** the rules and institutions within the recipient country that protect people and the environment from harm associated with large-scale investments. Some also use the term "borrower" or "national" systems to refer to the same set of rules and institutions. The term "country" is used here in recognition of the fact that not all funding received by countries is in the form of loans. The term "national" is avoided in order to emphasize that sub-national systems are also of importance.

**Ownership:** in this paper we estimate ownership of safeguard systems by the degree to which the system uses the rules and institutions of the recipient country to implement the functions of a safeguard system and the degree to which citizens are engaged in the process.

**Program for Results (PforR):** results-based funding modality for programmatic lending introduced by the World Bank in 2012. PforR uses a unique approach to social and environmental protections that relies to a significant degree on the systems of the recipient country.

**Safeguard:** a rule or institution that provides the functions necessary to meet social and environmental minimum standards. These rules and institutions can be provided by the investor and/or the recipient country.

**Safeguard systems:** the combined set of rules and institutions that provide the safeguard functions and ensure adequate social and environmental protection.

**Traditional safeguards:** safeguard policies that put in place detailed procedural and substantive requirements that governments must follow to obtain funding. At the World Bank these are commonly known as the safeguard policies that apply to investment loans.

**Use of Country Safeguard Systems (UCS):** a safeguard approach that was created by the World Bank in an attempt to increase use of national rules and institutions as safeguards against environmental and social harm associated with a project (or "investment") loan. This approach allows the recipient government to use its own systems if these are found "equivalent" to those of the Bank and if their track record is deemed "acceptable."

The World Bank does not typically use the term “safeguard” to describe the social and environmental protections associated with the Program for Results and Development Policy Loans. However, in this working paper we define the term “safeguard” broadly to encompass any rules or institutions that help ensure that investments meet minimum social and environmental standards.

While all four of the safeguard approaches considered here rely on the rules and institutions of the recipient country, they do so to different degrees. Through an analysis of the strengths and weaknesses of each of approach, we arrive at seven lessons for the World Bank and other financial institutions looking to balance ownership and accountability in their social and environmental policies:

1. Building on country safeguard systems can enhance ownership and incentives for safeguard implementation.
2. Minimum standards and positive incentives can clarify requirements and encourage countries to strive toward more ambitious social and environmental goals.
3. Safeguard implementation requires anticipating risks, planning to deal with those risks, managing and monitoring implementation, and responding to harm.
4. Proper safeguard implementation requires people on the ground to engage, collaborate and problem solve.
5. Recipient country safeguard systems still need support.
6. Citizens play a key role in any effective safeguard system.
7. To successfully balance ownership and accountability, safeguard approaches need to recognize differences among countries, sectors, and projects.

## 1. INTRODUCTION

The global economic landscape is changing. Some formerly poor countries are becoming wealthier and new sources of finance for developing countries have emerged. At the same time, people around the world are coming to understand the urgency of protecting our global natural resources. These changes have created new opportunities and challenges for those seeking to protect vulnerable ecosystems and communities from harm associated with large-scale investments.

Many institutions that invest in developing countries have safeguard policies to reduce the risk that their investments violate minimum social and environmental standards. The changing global economic landscape is making it possible in some cases for international investment bodies to rely on developing countries’ legal and institutional systems to

implement more effective safeguard protections. The challenge, however, is to ensure that the increased reliance on country systems does not weaken protection of vulnerable people and ecosystems.

This working paper explores the question of how the World Bank and other international investors can encourage national ownership over the safeguard process while holding both themselves and governments accountable to minimum social and environmental standards. We consider four approaches to avoiding social and environmental harm implemented by the World Bank in recent years: the traditional safeguards approach, the Use of Country Systems approach, and the approaches used in Program for Results and Development Policy Lending.

### 1.1. Ownership and Mutual Accountability

In light of the world’s changing economic and political dynamics, developed and developing nations have over the past decade agreed on a set of principles and actions to guide development efforts. These are outlined in the Paris Declaration on Aid Effectiveness (Paris Declaration) and subsequent agreements from meetings in Rome, Accra, and Busan.<sup>1</sup> These documents highlight the principles of “ownership” and “mutual accountability.”<sup>2</sup>

Ownership over development is not easily defined. It is clear, however, that it entails giving voice to those most affected by development processes, including both governments and members of the public in developing countries. In this paper, we estimate ownership over safeguard systems by the degree to which these systems rely on the rules and institutions of the recipient country to meet minimum social and environmental standards (see Box 1 for further definitions of key terms). We also recognize that true ownership entails involvement of not only the government, but also many other sectors of society including the media, academia, civil society, and those most vulnerable to negative effects from a particular investment. Further discussion of the concept of ownership as it applies to climate finance can be found in WRI’s forthcoming working paper “Ownership and Accountability in Climate Finance.”<sup>3</sup>

The increasing reliance on country systems reflects the growing sophistication of those systems and an interest in reducing their duplication. Development partners are also recognizing that the use of country systems can make development efforts more effective. According to the Paris Declaration, “using a country’s own institutions

## Box 2 | **Paris Declaration in Action: The Example of Vietnam**

The government of Vietnam was the first country to “localize” the Paris Declaration on Aid Effectiveness, which lays out responsibilities for both recipient countries and donors. The Hanoi Core Statement on Aid Effectiveness brings together the government and the country’s main development partners, including development banks and bilateral donors.<sup>7</sup> The Core Statement provides 28 partnership commitments and 14 indicators aimed at implementing the Paris Declaration in the Vietnamese context.

Indicator 8 asks the government of Vietnam and donor partners to improve environmental and social safeguards, with a particular focus on environmental impact assessments (EIA). As a result, the government and its partners created a thematic group to work on EIAs, which was later replaced by a technical working group. The Swedish Institute for Development Assistance (SIDA), the World Bank, the Asian Development Bank (ADB), and other donors agreed to fund efforts to strengthen the rules and institutions responsible for EIAs in Vietnam.

In 2005, Vietnam passed a new environment law covering EIAs. Since then, the government has issued several decrees directed at EIAs. In 2010, an ADB assessment found Vietnam’s legal framework 62 percent equivalent to ADB’s environmental safeguards, 26 percent partially equivalent, and 12 percent not equivalent. The ADB has since invested in strengthening national systems through three approaches. First, it recommended steps to ensure that the law governing implementation of EIAs in Vietnam lives up to international standards. Second, ADB assessed the institutional capacity to implement the circular. Third, it developed an action plan for strengthening implementation of new assessment procedures, including at the district level.<sup>8</sup>

Vietnam’s commitment to strengthening its systems, and the support it has received from donors, have significantly improved the legal and institutional framework governing EIAs in Vietnam. Its laws are now generally considered to nearly meet international standards, with weaknesses remaining mainly in consultation requirements. The government is planning to review its environmental law during 2013-2014. This review will offer an opportunity to harmonize Vietnamese law with international standards. However, implementation of the legal framework remains a challenge. Although the Ministry of Natural Resources and Environment is committed to implementation, its enforcement power is limited and there is little implementation capacity at the local levels.

and systems, where these provide assurance that aid will be used for agreed purposes, increases aid effectiveness by strengthening the partner country’s sustainable capacity to develop, implement and account for its policies to its citizens and parliament.”<sup>4</sup> In the safeguards context, a well-functioning government can legislate and implement new laws and oversee the effects of investments after funders have left. Governments are also able to implement protections regardless of funding source. Box 2 discusses how Vietnam has implemented the Paris Declaration at the national level.

When it comes to social and environmental protections, the principle of mutual accountability is as important as ownership. Unfortunately, many governments are not yet able to adequately protect their people and environment from harm associated with international investments.<sup>5</sup> Complex historical, political, and economic factors influence the ability of governments to function effectively. Many developing country governments are still establishing stable democracies, and many have a shortage of resources and skilled labor. According to the OECD Development Co-operation Directorate: “Democratic ownership and accountability are two sides of one coin: one is a precondition to the other and vice-versa.”<sup>6</sup>

In this paper, accountability is defined as the ability of relevant actors to be called to account for a failure to uphold social and environmental protections. Mutual accountability refers here to the notion that both governments and investors are responsible for upholding social and environmental norms, and that some form of response should therefore follow if either of them fail to do so.

### 1.2. Defining Safeguards

The term “safeguards” was first used at the World Bank to refer to policies that require the Bank to consider the environmental and social impacts of its investments. Safeguard policies emerged in the 1980s and 1990s, after the World Bank and other investors came under increased criticism for the environmental destruction and displacement of people caused by its investments. They were originally meant to ensure that the Bank’s investments did not inflict unintentional harm. Many international financial institutions followed suit and developed safeguard policies of their own, including all of the multilateral development banks and many investors in the private sector.

In recent years, the term “safeguards” has increasingly referred not only to the policies of investors, but also to the rules and institutions of the recipient country. The term has also been used to refer to some policies that go beyond “doing no harm” to “doing good.” As a result, there is no universal definition of a “safeguard.” Here, we define a safeguard as a rule or institution that helps to ensure that investments meet minimum social, environmental, and governance standards. These rules and institutions can come from either the recipient country or the investor. We refer to the totality of these rules and institutions as the “safeguard system.”

Safeguards cover a variety of different substantive areas, from pollution control to involuntary resettlement (see

Table 1). In relation to these substantive areas, a complete safeguard system:

- Anticipates social and environmental risks or impacts,
- Plans to avoid or mitigate those risks or impacts,
- Manages implementation of those plans,
- Monitors implementation, and
- Responds to challenges that arise (see Figure 1).<sup>9</sup>

The rules and institutions that make up a safeguard system can come in various forms. Rules can include national laws and regulations, and policies of investors. Institutions can include government agencies, legislative bodies, judicial systems, or departments within the investing institution (see Table 2).

Table 1 | **Substantive Areas Commonly Covered by Safeguard Policies<sup>a</sup>**

INVESTMENTS	ADB	AfDB <sup>c</sup>	EBRD	IDB	IFC	WB
Environmental and / or Social Impact Assessments	Yes	Yes	Yes	Yes	Yes	Yes
Biodiversity / Habitats	Yes <sup>b</sup>	Yes	Yes	Yes	Yes	Yes
Pollution Prevention	Yes <sup>b</sup>	Yes	Yes	Yes	Yes	Yes
Climate mitigation	Yes	Yes	Yes	Yes	Yes	Yes <sup>d</sup>
Indigenous People	Yes	Yes	Yes	Yes	Yes	Yes
Involuntary Resettlement	Yes	Yes	Yes	Yes	Yes	Yes
Health and Safety	Yes <sup>b</sup>	Yes	Yes	No	Yes	No <sup>e</sup>
Labor Rights	No	No	Yes	No	Yes	No
Cultural Heritage	Yes <sup>b</sup>	Yes	Yes	Yes	Yes	Yes
Transparency Policy	Yes	Yes	Yes	Yes	Yes	Yes
Consultation Requirements	Yes	Yes	Yes	Yes	Yes	Yes
Grievance Procedure	Yes	Yes	Yes	Yes	Yes	Yes

a. Please note that the situation at each institution is more complex than it may appear in the table. For instance, the table merely lists available policies, it does not consider the strength of these policies or the degree to which they are implemented. It also does not include policies, strategies or guidelines that are not considered safeguards by the institution.

b. Covered in policy related to environmental and social assessments.

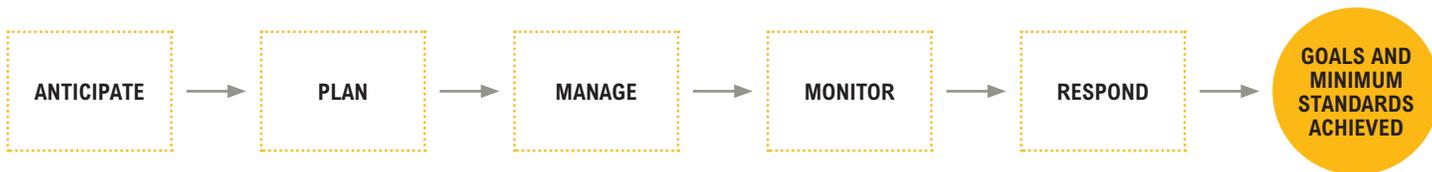
c. The African Development Bank is currently renewing its safeguard policies. This table is based on the draft new policy.

d. O.P. 4.01. states that environmental assessments should consider “global environmental issues.” A footnote states that this includes “climate change, ozone-depleting substances, pollution of international waters, and adverse impacts on biodiversity.”

e. While the safeguard policies do not specifically mention health and safety, they reference the Bank’s Environment, Health and Safety guidelines, which provide relatively detailed requirements for occupational and community health and safety.

Note: ADB=Asian Development Bank, AfDB=African Development Bank, EBRD=European Bank for Reconstruction and Development, IDB=Inter-American Development Bank, IFC=International Finance Corporation, WB=World Bank.

Figure 1 | **Functions of a Safeguard System**



Financial institutions follow several approaches to ensure that their investments do not violate international norms of social and environmental protection. These approaches rely to differing degrees on the rules and institutions of the financial institution and those of the recipient country. This paper explores four approaches used by the World Bank. These four approaches are not all applied to the same type of lending. Some are applied to project loans, some to

program loans, and some to loans for policy changes. Comparison between them is therefore not apples-to-apples. Nevertheless, the different ways in which these approaches guide bank and government staff provide valuable lessons for the World Bank and other financial institutions seeking to create safeguard policies that balance ownership for recipient countries with accountability for ensuring protection for people and ecosystems.

Table 2 | **Examples of Safeguard Rules and Institutions**

	INSTITUTIONS	RULES
Recipient Country	National or subnational government agencies overseeing issues related to land use, planning, finance, indigenous people, environmental conservation, and so on	National laws covering sectors such as pollution, agriculture, land, or indigenous peoples
	Governance bodies of indigenous peoples and community-based organizations	General national laws related to civil procedure or public administration, including freedom of information laws
	Government watchdog agencies or ombudsmen	Regulations providing detail on how to implement national laws
	National, subnational, or local legislative bodies	Voluntary guidelines or operating manuals
	Multi-stakeholder bodies	Subnational or local laws
	Universities and scientific research institutes	Case law, such as judicial decisions regarding the rights of indigenous peoples or the protection of natural resources
	National and subnational law enforcement agencies	Customary or religious law, such as laws governing land tenure within an indigenous community
Financial Institution	Civil, criminal, or administrative courts at national, local, and international levels	Policies and procedures of implementing institutions, such as the policies of the environmental agency or judicial system
	Team at country level	Safeguard policies related to social and environmental protections
	Monitoring teams	Information disclosure policies
	Management and board of investor institution	Policies governing accountability mechanism
	Independent accountability mechanism	Policies governing different types of finance, such as finance for projects or policies
	Independent evaluation mechanism	Laws of investor country, if applicable

The first safeguard approach analyzed below applies primarily to investments in projects, such as infrastructure developments or mining operations (investment lending). They can also apply to technical assistance and trust funds administered by the Bank. This paper uses the term “traditional safeguards” to refer to this approach, which emerged in the 1990s. Traditional safeguards dictate relatively detailed procedural and substantive requirements that Bank staff and governments must follow to obtain funding. As a result, traditional safeguards rely less on country systems than any of the three other approaches analyzed here.

The second safeguard approach discussed here is the “Use of Country Systems approach.” The World Bank adopted this approach to increase the use of national rules and institutions as safeguards against environmental and social harm associated with a project loan. This approach allows the recipient government to use its own systems if the Bank finds they are “equivalent” to those of the Bank, and if the country’s track record is deemed “acceptable.”

The third safeguard approach considered in this working paper is what we call the “Program for Results approach.” The World Bank’s Program for Results aims to enhance development effectiveness by withholding funding until a desired result is achieved. The social and environmental protections associated with the Program for Results reduce Bank safeguard requirements and as a result rely even more on the recipient country’s existing systems than the Use of Country Systems approach.

Finally, the World Bank’s investments to support changes in a country’s policies and institutions—known as Development Policy Loans—are associated with different social and environmental protections. For purposes of this working paper, we refer to the protection efforts associated with these loans as the “Development Policy Loan approach.” Of the four safeguard approaches analyzed here, the Bank provides the least amount of safeguard protections in relation to Development Policy Loans. By default, this approach therefore relies most heavily on the existing rules and institutions in the recipient country.

### 1.3. Methodology and Structure

This working paper is based on interviews with 35 individuals from recipient governments, multilateral development banks, civil society, and the private sector. Most of the interviews took place in Washington, D.C.; Vietnam; and Cambodia. In addition, the authors reviewed official World Bank documents and secondary sources, including

project documents, World Bank policies, and reports from the Inspection Panel and Independent Evaluation Group.

The following sections examine how the different safeguard approaches balance ownership and accountability, and the strengths and weaknesses of each approach. Sections two through five analyze the traditional safeguard approach, the Use of Country Systems safeguard approach, and the approaches to avoiding social and environmental harm associated with PforR and Development Policy Loans. Section six distills lessons and provides recommendations for how to effectively structure safeguards in order to build ownership in recipient countries while maintaining the Bank and government’s accountability for protecting vulnerable people and ecosystems.

## 2. THE TRADITIONAL SAFEGUARDS

### 2.1. Overview of the Traditional Safeguards

Traditional safeguard policies typically apply to investments in tangible projects such as infrastructure developments or power plants. They emerged in response to public outcry at the environmental destruction and social upheaval caused by projects funded by the World Bank and similar investors in the 1980s and 1990s. Today the World Bank has six traditional safeguards focused on environmental risks and two on risks to vulnerable people,<sup>10</sup> as well as two safeguard policies that concern cooperation between neighboring states.<sup>11</sup> The World Bank also has policies regarding transparency and grievances.<sup>12</sup>

### 2.2. Country Systems and the Traditional Safeguards

Traditional safeguard policies are designed to ensure relatively close Bank supervision over safeguard processes. Traditional safeguards emerged because national laws and institutions failed to adequately reduce the harm to vulnerable communities and ecosystems associated with large-scale investments. Traditional safeguards are thus designed to play a duplicative role: they are meant to provide another layer of protection to ensure that projects funded by the Bank meet international standards of social and environmental protection. Day-to-day implementation of the safeguards is largely the responsibility of the recipient government.

### Box 3 | World Bank Indigenous Peoples Plan Requirements

The World Bank's Operational Policy (O.P.) 4.10 requires that governments create an Indigenous Peoples Plan (IPP) if indigenous peoples will be affected by a proposed investment loan. The plan must include:

- A summary of the social assessment;<sup>17</sup>
- A summary of results of the free, prior, and informed consultation with the affected indigenous peoples' communities that was carried out during project preparation and that led to broad community support for the project;
- A framework for ensuring free, prior, and informed consultation with the affected indigenous peoples' communities during project implementation;
- An action plan of measures to ensure that the indigenous peoples receive social and economic benefits that are culturally appropriate, including, if necessary, measures to enhance the capacity of the project implementing agencies;
- An appropriate action plan of measures to avoid, minimize, mitigate, or compensate for potential adverse effects;
- Cost estimates and financing plan for the IPP;
- Accessible procedures to address grievances by the affected indigenous peoples' communities arising from project implementation; and
- Mechanisms and benchmarks appropriate to the project for monitoring, evaluating, and reporting on the implementation of the IPP.<sup>18</sup>

The Bank reviews the plan to ensure that it "has been made available to the affected Indigenous Peoples' communities at an accessible place and in a culturally appropriate form, manner, and language; has been appropriately reflected in the project design; and can serve as the basis for project appraisal."<sup>19</sup>

### Anticipate

Traditional safeguard policies outline requirements for assessing social and environmental risks. The policies spell out when different types of assessments are required, and what these assessments should consider.<sup>13</sup> Governments are then responsible for funding and conducting these assessments according to Bank guidelines. They can borrow from the Bank to cover assessment costs,<sup>14</sup> or they can tap into other sources, including potential supplemental grants from other donors, such as bilateral aid agencies. The recipient government will frequently hire a consultant familiar with the Bank's policies to complete the assessment, and then subject these assessments to internal review processes within the relevant ministry. The Bank, in turn, checks and approves the quality of the assessment before the project moves forward.

Traditional safeguard policies for anticipating risks require public consultation and disclosure. The World Bank's environmental assessment policy, for instance, requires consultation with affected communities at least twice: once before the terms of reference for the project have been completed, and once when the draft assessment is finished.<sup>15</sup> Governments are asked to report to the Bank on these consultations.<sup>16</sup>

### Plan

Traditional safeguard policies also spell out relatively detailed requirements for plans to reduce environmental and social risk. Common plans include environmental management plans, resettlement plans and indigenous peoples plans. As in the case of environmental and social assessments, governments are generally responsible for creating these risk management plans, while the Bank is responsible for ascertaining whether the plans meet Bank requirements. Box 3 provides an example of planning requirements under the World Bank's Indigenous Peoples Policy.

### Manage

Implementation of social and environmental management plans is primarily a government's responsibility. Bank staff provide advisory support. The government is required to, for instance, resettle people according to the resettlement plan, and establish environmental protections in accordance with the environmental management plan, or hire contractors to do this work. The Bank often requires the creation of a project implementation unit, consisting of government staff or a combination of Bank and government staff, to oversee implementation of projects, including safeguards. These units are typically

dissolved at the end of the project.<sup>20</sup> As with assessments and management plans, the Bank typically requires the government to pay for implementation, but will provide financing if the government desires. Third parties may provide grants for this work as well.

## Monitor

Both the Bank and government are involved in monitoring safeguard implementation. Because implementation is the responsibility of the recipient government, governments are tasked with tracking a project's day-to-day progress and will generally use their existing systems to do so (see Box 4). Often several levels of government will be involved in this process. The Bank, in turn, is required to keep track of whether the government is fulfilling its safeguard obligations.

The specifics of Bank monitoring activities depend on the institution and type of project. Typically, the Bank reviews government reports, communicates with implementing agencies, and conducts site visits, all with varying frequency. For example, the Bank may send staff to particularly risky or high profile projects monthly; for other projects, staff may visit only once or twice a year. Bank monitoring generally ceases once the project is closed. In rare cases, however, it is extended. For example, the World Bank set up an Independent Assessment Group to monitor effects of the Chad-Cameroon pipeline for 10 years.<sup>21</sup> Occasionally, the Bank may require the engagement of third parties in the monitoring process, including independent monitors or civil society organizations. The Bank tends to disclose some but not all monitoring reports to the public.<sup>22</sup>

## Respond

As with monitoring, the Bank and recipient governments share responsibility for responding to problems and challenges that arise under traditional safeguards policies. The borrowing government, however, is typically responsible for the greater share of this function. Governments respond to day-to-day problems by, for instance, engaging in additional outreach to resettled households, or replacing a contractor that has not conformed to agreed policies. Significant changes in safeguard implementation are generally made in consultation with Bank staff and potentially Bank management and the Board of Directors. The Bank cannot always ensure an effective response to problems however. For example, if the government has contracted with a third party to perform work, the Bank will have somewhat limited leverage to influence the contractor because it is not party to the contract.

## Box 4 | Recipient Country Monitoring Systems – Example from the Philippines

Although traditional safeguards entail the most detailed Bank requirements of all the safeguard approaches considered here, government systems still play a key role in all phases of safeguard implementation. Governments receiving funding from the Bank under the traditional safeguards approach essentially base their safeguard systems on existing government structures, and add additional requirements as necessary to ensure that they adhere to the Bank's policies.

In terms of monitoring, for example, in the Philippines, the Environmental Management Bureau (part of the Department of Environment and Natural Resources) is responsible for reviewing Environmental Impact Statements and monitoring their implementation.<sup>23</sup> A Multi-partite Monitoring Team (MMTs) composed of stakeholders such as local governments, NGOs, community members and the private sector typically helps validate implementation of assessments and management plans.<sup>24</sup> According to the Filipino government, MMTs are "organized to encourage public participation, to promote greater stakeholders' vigilance and to provide appropriate check and balance mechanisms in the monitoring of project implementation."<sup>25</sup>

Because the Philippines has a relatively well-functioning environmental impact assessments system, the government can largely rely on this system to implement much of the traditional safeguards. For example, the Philippines' national laws and regulations governing environmental assessments provided the overall safeguard framework for a recent Bank investment in wastewater treatment for metro Manila. Relatively minor additional gap fillers were then added in order to adhere to the Bank's standards.<sup>26</sup>

The Bank also provides an accountability mechanism where affected communities can bring complaints. The Inspection Panel investigates whether the Bank has complied with its own policies. While the Inspection Panel can consider all types of investments, the majority of claims relate to project loans applying traditional safeguards.

Once the project is complete, the Bank is generally no longer responsible for ensuring safeguard implementation. The Inspection Panel can review a complaint until 95 percent of funding has been disbursed, after which it loses jurisdiction.

## 2.3. Strengths and Weaknesses of the Traditional Safeguards

### Strengths

The main strength of traditional safeguard policies is their relative success in reducing risks to people and the environment. While traditional safeguard policies have not prevented all harm, they have helped decrease the chance that Bank-funded projects will result in severe social and environmental damage.<sup>27</sup> Among other things, they have given communities access to stronger decision-making and accountability mechanisms than what might otherwise be available in most developing countries. They have also allowed the Bank to implement projects in areas where the government could not adequately mitigate social and environmental concerns on its own.

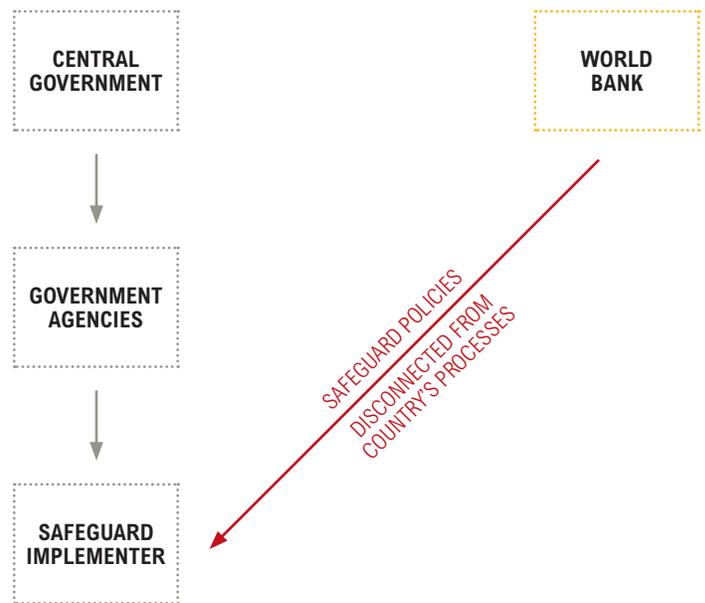
#### Box 5 | The Role of Civil Society – Vietnam’s Trung Son Dam

The public can play an important role in pressing for ownership and accountability in multilateral development banks’ investments. In Vietnam, the World Bank team responsible for overseeing implementation of the Trung Son dam solicited input from civil society early in the planning process. The team encouraged transparency by releasing documents such as a matrix of comments from civil society and responses by the Bank. It also created an additional grievance mechanism for project-affected people. According to the World Bank:

The approach followed during the consultations differed from previous consultations in Vietnam. EVN [Vietnam Electricity] and the World Bank adopted an approach that focused on listening to affected people, asking them to share their concerns, and eventually designing a better project that addresses these concerns and responds to their needs. Consultation was based on an acknowledgment that people affected by the project would have useful ideas about what would be likely to work and what would not work during project implementation.<sup>31</sup>

The Trung Son project has not been problem-free; NGOs and affected communities still express concern about the effects of the project and the Bank’s refusal to disclose certain documents.<sup>32</sup> Nevertheless, the Bank’s proactive engagement seems to have improved project implementation, and communication between civil society and the government in regards to the project.<sup>33</sup>

Figure 2 | Traditional Safeguard Arrangements



Traditional safeguards have also offered a benchmark for other national and international institutions. In Vietnam, for instance, the government recently enacted a resettlement decree that reflects the resettlement policy of the World Bank in several ways.<sup>28</sup> In Uganda, the Ministry of Local Government has used the World Bank Resettlement Policy Framework to guide local authorities.<sup>29</sup> Internationally, other financial institutions have also pulled lessons from the World Bank safeguard policies. The Asian, African and Inter-American Development Banks now have policies very similar to those of the World Bank. Bilateral donors such as the Japanese International Cooperation Agency (JICA) are following suit.<sup>30</sup>

In implementing the World Bank’s traditional safeguard policies, government employees in developing countries gain experience in social and environmental protection. It is common for governments to have relatively strong rules to protect people and the environment, but inadequate implementation. Collaboration between Bank and government staff in implementing safeguard systems appears to have helped give government employees experience with successful implementation of social and environmental protections. In particular, the transparency and consultation requirements of traditional safeguards have helped encourage input from citizens in the borrowing country, a key element in any safeguard system (see Box 5 for an example from Vietnam).

## Weaknesses

There are both benefits and weaknesses to the traditional safeguard approach. Several of its weaknesses relate to the disconnect between the World Bank safeguard policies and the legal, institutional, and political realities of recipient countries.

While traditional safeguard policies entail relatively detailed requirements, recipient governments are primarily responsible for their implementation. However, governments can have limited incentive to thoroughly implement these policies. Although some governments appreciate Bank guidance in implementing projects with challenging social and environmental dimensions, governments are often less willing to invest in systems imposed by an outside institution. In addition, detailed safeguard requirements can sometimes appear to simply duplicate national processes. Government employees, in turn, are familiar with their own structures and incentives systems. For instance, government staff members do not receive bonuses from the World Bank if they succeed with safeguard implementation; their salaries and positions are determined by the government (see Figure 2).

Most of the World Bank's activity in traditional safeguard policies comes in the earlier stages of a project, when the Bank may require changes to risk assessments and management plans. Once money is disbursed and projects under way, Bank engagement in safeguard implementation is reduced. Technically, the Bank's main leverage is its ability to withdraw funding if governments do not adhere to contractual safeguard commitments, but this step is only taken in exceptionally egregious cases.<sup>34</sup> The focus on preparatory documents may cause Bank staff to focus their efforts primarily on ensuring that Bank procedures have been followed, rather than on whether the systems are strong enough to ensure long-term social and environmental sustainability.

The focus on safeguard paperwork is reflected in the fact that the Bank tends to have few people on the ground to monitor and support implementation. Interviewees from both inside and outside the World Bank expressed concern that the Bank does not invest enough resources in ensuring that its staff is able to adequately collaborate with the local governments and citizens to monitor the effects of its investment. For more on the importance of investing in implementation and relationships on the ground see Box 6.

## Box 6 | **Safeguard Challenges in Cambodia**

In 2009, the World Bank suspended funding to Cambodia when it could not agree with the government about how to proceed on the Land Management and Administration Project (LMAP). LMAP had supported land titling for thousands of primarily rural families. However, an investigation by the World Bank's Inspection Panel found that by only titling land that was not in dispute, the project had indirectly contributed to the involuntary resettlement of thousands of people residing on more valuable land.

The preparatory documents for the project stated that it would "not title lands in areas where disputes are likely until agreements are reached on the status of the land."<sup>35</sup> According to the Inspection Panel, however, interpretation of this sentence "seems to have changed over the course of Project implementation. The current interpretation is that the Project will not title lands in areas where disputes are likely."<sup>36</sup> Several factors apparently contributed to this change in interpretation, including push-back from the government and weak monitoring on behalf of the Bank, made worse by turnover in Bank staff.

The Cambodian government decided to cancel the project rather than comply with World Bank requirements. The World Bank, in turn, suspended funding for any new investments in Cambodia.

### CITIZEN ENGAGEMENT

The World Bank did not follow the same approach to engaging citizens in the LMAP project as it did with the Trung Son dam (Box 5). Original planning documents specified that NGOs would be engaged in the project to inform citizens about the activities, and to provide legal assistance to "disadvantaged individuals and communities involved in land disputes."<sup>37</sup> This did not occur, however, which according to an Enhanced Review Report conducted by the Bank, "made the process less participatory and transparent for the most vulnerable communities seeking land titling in an area to be adjudicated in urban areas."<sup>38</sup> Cooperating with NGOs may have allowed the Bank to either correct the project or withdraw at an earlier stage. According to the Inspection Panel's investigation:

It seems evident from a review of the supervision reports that the events that unfolded in the [Boeng Kak Lake] area since 2007 were not viewed by the Bank as serious and directly linked to the Project until much later, in late 2008 and early 2009, when local NGOs started raising their concerns with Bank staff and evictions of other communities in Phnom Penh were happening.<sup>39</sup>

## 3. THE USE OF COUNTRY SYSTEMS APPROACH

### 3.1. Overview of Use of Country Systems Approach

In 2005, the World Bank launched a pilot program on Expanding the Use of Country Systems (UCS) to explore using recipient country rules and institutions to reduce social and environmental risks.<sup>40</sup> The pilot project was renewed and scaled up in 2008.<sup>41</sup> The World Bank defines country systems in this case as “a country’s legal and institutional framework, consisting of its national, subnational, or sectoral implementing institutions and applicable laws, regulations, rules, and procedures.”<sup>42</sup>

### 3.2. Country Systems in the Use of Country Systems Approach

#### Anticipate

Under the UCS approach, recipient country systems can be used if the Bank deems them “equivalent” to its own systems. Equivalence is determined by whether the government’s system is designed to achieve certain objectives and operational principles that have been distilled from the Bank’s social and environmental safeguard policies.<sup>43</sup> These principles are set out in Table A1 of O.P. 4.00, which governs the UCS pilots. The table includes nine objectives and 64 operational principles. Examples of operational principles include:

- Resettlement operational principle No. 7: For those without formal legal rights to lands or claims to such land that could be recognized under the laws of the country, provide resettlement assistance in lieu of compensation for land to help improve or at least restore their livelihoods.
- Natural habitats operational principle No. 2: Avoid significant conversion or degradation of critical natural habitats, including those habitats that are (a) legally protected, (b) officially proposed for protection, (c) identified by authoritative sources for their high conservation value, or (d) recognized as protected by traditional local communities.

#### Box 7 | Safeguard Diagnostic Review for the Republic Of Mauritius

The World Bank’s review of Mauritius’ environmental safeguard systems under the UCS approach entailed seven activities:

1. An analysis of Mauritius’ laws, regulations, and environmental codes of practice for environmental safeguard policies related to environmental assessment, natural habitats, forests, physical cultural resources, pest management, and safety of dams as defined by OP 4.00;
2. Interviews with government of Mauritius officials, the private sector, and members of civil society who are responsible for or otherwise involved in the implementation of Mauritius’ legal and administrative framework relating to the environment;
3. Consultation with other key donors engaged in projects to support the development of Mauritius’ legal system and its institutional capacity;
4. Review of environmental assessments underway for several projects, financed independently of the World Bank or other donors, that apply environmental safeguard conditions;
5. Site visits to projects under construction that are not supported by the Bank or other donors;
6. Stakeholder workshop to review and discuss findings and recommendations of the Bank-prepared draft safeguards diagnostic review; and
7. Review of the draft and final versions of the comprehensive study commissioned by the Ministry of Environment and the proposed Environmentally Sensitive Areas Conservation and Management Act.<sup>47</sup>

- Forests operational principle No. 10: Disclose any time-bound action plans in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders.<sup>44</sup>

In addition to equivalence, the Bank assesses the “acceptability of the government’s implementation practices, track record, and capacity.”<sup>45</sup> There are no set rules for how to assess the acceptability of safeguard systems within a country. Methods used to date have included a combination of desktop reviews of prior assessments, interviews, and site visits (see Box 7). Equivalence and acceptability assessments have come to be known as “Safeguard Diagnostic Reviews.” So far, the World Bank has conducted and paid for these assessments.

Once the Bank has assessed the recipient country’s system, the government is responsible for conducting any impact assessments. If the Bank deems the country’s impact assessment system equivalent to the Bank’s, the government will use its own system. If the country’s system is not deemed equivalent, and if gap-filling measures cannot make it equivalent, the Bank’s impact assessment policy (O.P. 4.01) applies.

In terms of transparency and public participation, the World Bank must disclose equivalence and acceptability assessments to the public before they are finalized. Instead of the specific consultation requirements in the World Bank’s EIA policy that call for a minimum of two consultations, the UCS policy states that government must “involve stakeholders, including project-affected groups and local nongovernmental organizations, as early as possible, in the [EIA] preparation process and ensure that their views and concerns are made known to decision makers and taken into account.”<sup>46</sup>

## Plan

Under the UCS approach, once equivalence and acceptability assessments are complete, the Bank and government will determine the most appropriate steps forward. Steps may include gap-filling measures that bring the country system in line with Bank standards.<sup>48</sup> In the second phase of the UCS pilot program started in 2008, governments can receive up to \$50,000 in incentive funds from the Bank to defray the cost of achieving equivalence and acceptability. If the Bank and country systems are too far apart, the Bank’s policies will apply and any relevant management plans will be made under those policies. As with the traditional safeguards approach, the Bank reviews any plans before signing off on them, regardless of the system used.

The World Bank and government generally plan together how gaps in the country system will be filled. Examples of gap-filling measures include:

- Revising general EIA guidelines to provide for assessment of direct, indirect, cumulative, and associated impacts and to require sectoral and regional environmental assessments where appropriate (Mauritius).<sup>49</sup>
- Disseminating EIAs among stakeholders for their opinions and comments, and then posting those comments on government websites (Tunisia).<sup>50</sup>
- Reviewing adequacy of resources (staff, equipment, and budget) allocated to environmental assessments in the energy sector and optimizing as appropriate (Ghana).<sup>51</sup>

It is possible that the government will use its own systems for some safeguards but not for others. For instance, most Safeguard Diagnostic Reviews conducted so far have found country systems an adequate alternative to the Bank’s standards for environmental assessments, but not its standards for involuntary resettlement.<sup>52</sup> A review of the first pilot phase of the UCS approach found that in terms of involuntary resettlement “the gaps between the requirements of Bank policy...and corresponding borrower systems may be too substantial in most cases to be filled by measures that are feasible to implement at the project level.”<sup>53</sup>

## Manage

Once the World Bank and recipient government have agreed upon the systems that will be used to reduce social and environmental risks, the government is responsible for managing their implementation.

## Monitor

According to World Bank policies, projects using the UCS approach are subject to the same monitoring requirements as those using traditional safeguard policies. Projects following the UCS approach entail the same degree of documentation and involve the same degree of interaction between Bank and government as projects following the traditional safeguards approach.<sup>54</sup> However, under the UCS approach the Bank’s monitoring focuses on whether the country is implementing its laws in a manner that is consistent with the broad operational principles outlined in the UCS policy.

The World Bank Inspection Panel has, as of March, 2013, looked at one project governed by the UCS approach. The project consisted of a loan to Eskom, a South African public utilities company. According to the Inspection Panel, “while a borrower/country system may meet the equivalence and acceptability criteria, the specifics of the

particular project may fall short of meeting the requirements of that system, presenting a risk to the Bank of non-compliance with its policies.”<sup>55</sup> The World Bank is therefore “committed to using the same requirements in supervising environmental and social aspects for projects using borrower safeguard systems as for a project using Bank Safeguards, with South African regulations as benchmarks for compliance.”<sup>56</sup> As in the case of traditional safeguards, the World Bank’s monitoring of safeguards under the UCS approach typically ends when the project is closed. In the Eskom case, however, the Bank agreed to continue monitoring air quality after the project’s closing date, in part due to demand from local citizens groups.

## Respond

As with traditional safeguards, the government is the first-line responder for problems that arise under the UCS approach. If the country’s systems are deemed equivalent and acceptable, these systems may be used to respond to challenges. In practice, this may not differ significantly from the traditional safeguards approach, since under the traditional safeguard approach governments also often rely on their own response mechanisms.

The World Bank is also responsible for responding to problems, even in the UCS approach.<sup>57</sup> The Inspection Panel is authorized to investigate both the assessment process and project implementation.<sup>58</sup> In the Eskom case, the Inspection Panel found that the Bank had not adequately assessed the acceptability of South Africa’s system or the range of project impacts.<sup>59</sup>

### 3.3. Strengths and Weaknesses of Use of Country Systems Approach

#### Strengths

One benefit of the UCS approach is its focus on country safeguard systems both within and across recipient countries. The Safeguard Diagnostic Reviews present an opportunity to systematically outline the merits of recipient country systems, as well as areas needing improvement. This has improved understanding of the strengths and weaknesses of domestic processes in protecting people and the environment from harm associated with large-scale investments. The focus on implementation has been particularly useful. The reviews have generally found, for instance, that laws for environmental protection are typically relatively strong, but track records for implementation and monitoring are often weak.<sup>60</sup> At the same time, the reviews have made clearer the discrepancy between

recipient country and Bank policies regarding social safeguards, including systems for ensuring transparency and public participation.

Investments in gap-filling measures have brought needed funding to recipient country systems, which hopefully will continue to provide benefits beyond the projects funded by the Bank. Meanwhile, a Bank decision that a country’s systems are equivalent to those of the World Bank provides positive recognition to governments that have emphasized environmental or social protections. Some MDB staff members report that governments have become more interested in developing their country’s safeguard systems now that the opportunity is emerging to use those systems for projects funded by multilateral development banks.<sup>61</sup> The UCS pilot appears to have been particularly valuable for governments that plan to implement several similar projects in the future, since the Safeguard Diagnostic Review and gap-filling measures can more easily be transferred to these future projects. Croatia, Bhutan, and Mauritius, have opted to have Safeguard Diagnostic Reviews conducted at a national level, so that these can then be applied to multiple projects.

Finally, the World Bank’s UCS policy provides both flexibility and adequate guidance. By eliminating some of the policy requirements in traditional safeguards, the UCS approach has helped focus efforts on the most important social and environmental protections, while allowing country systems to dictate precisely how these protections are achieved. The policy has also maintained the Bank’s accountability for ensuring that its own standards are upheld. For example, very few of the country systems for involuntary resettlement come close enough to the Bank’s standards to justify gap-filling measures. Countries therefore often used the Bank’s systems to address involuntary resettlement issues.

#### Weaknesses

Despite its benefits, UCS approach is not without challenges. This is evidenced by the relatively small number of governments that have opted into this approach. By June 2010, the World Bank had implemented 24 pilot projects in 15 countries. Very few SDRs have been initiated since then.

There are many explanations for this low uptake. One hurdle is the cost associated with implementing the UCS approach. The relatively detailed equivalence and acceptability assessments, with site visits and interviews, cost on average about \$104,000 for each project. Since the World Bank is responsible for paying this cost, Bank staff members have sometimes struggled to secure funding within the institution.<sup>62</sup> Governments, in turn, have sometimes been reluctant to pay for the costs associated with bringing their country systems in line with Bank standards, including the costs of trainings government staff or holding additional public consultations. Some originally thought of the UCS approach as a cost cutting measure, because they assumed that countries could reuse a finding of equivalence for other projects. Doing so is not always easy, however, given the often significant differences between projects in which the Bank invests.

Another concern voiced by recipient governments is that the UCS approach as implemented to date is too rigid. Some have experienced the approach as essentially the same, in practice, as the traditional safeguard approach. According to one assessment “while OP 4.00 was intended to simplify safeguards, in most cases it essentially added a layer to what is done already while creating more points of potential exposure for non-compliance.”<sup>63</sup> A few of the operational principles appear to have exacerbated this feeling by, in essence, requiring use of the Bank’s systems regardless of the strength of the country’s system. For instance, the UCS operational principle 5 for environmental assessments states that the government should apply the World Bank Group’s Pollution Prevention and Abatement Handbook unless it can justify not using it. Some country representatives also appear to have resisted the term “equivalent,” which they feel implies that the country systems need to be essentially identical to the Bank’s.

Some recipient governments have also expressed concern about the lack of clarity around how countries are assessed, particularly in relation to the concept of “acceptability.” This lack of clarity can potentially result in several negative effects, including distrust from both governments and observers regarding the rigor, objectivity, and fairness of the process by which the assessments are conducted.

Finally, the Bank has generally not been able to use the UCS approach for social safeguards, since the laws of recipient countries commonly do not provide the same minimum standards as the Bank’s policies.

## 4. THE PROGRAM FOR RESULTS APPROACH TO SAFEGUARDS

### 4.1. Overview of the Program for Results Approach

The concept of results-based finance is to withhold funding until the desired results are accomplished, rather than provide all funds up front. Results-based finance methodologies are becoming more popular in international development finance. Results-based lending mechanisms have emerged from an interest in enhancing development effectiveness by focusing on outcomes rather than inputs.

In 2005, the IDB was the first development bank to introduce a lending instrument that disbursed after a program reached a desired development outcome.<sup>64</sup> The World Bank introduced its Program for Results (PforR) on January 24, 2012 as a two-year pilot. PforR provides loans for government programs, which are disbursed after achievement of pre-determined results. The pilot limits PforR investments to 5 percent of the Bank’s total financial commitments, and excludes Category A projects, that is, projects that are likely to result in significant negative impacts. The Bank approved the first five PforR projects in 2012. While the IDB applied its regular safeguard policies to its results-based lending,<sup>65</sup> the World Bank created a new safeguard methodology for PforR.

### 4.2. Country Systems in the Program for Results Approach

#### Anticipate

Through PforR, the World Bank invests in government programs, which consist of many subprojects. The Bank’s primary responsibility is to assess the overall program to determine if it includes an adequate system for managing environmental and social risks. In order to do so, the Bank conducts Environmental and Social Systems Assessments (ESSAs).

Responsibilities for identifying and managing subproject risks are devolved to the recipient. In Uganda, for instance, a PforR loan will finance a program to support municipal infrastructure projects in secondary cities.<sup>66</sup> In Tanzania, a PforR loan is supporting the strengthening of urban local governance,<sup>67</sup> while in Vietnam, a PforR loan is going toward a government program to provide rural water supply and sanitation.<sup>68</sup> ESSAs are structured to assess the ability of the government to oversee the pro-

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gram. The government is then responsible for conducting its own assessments of the subprojects, following the laws of the country and any additional requirements agreed to under PforR.

Like Safeguard Diagnostic Reviews, the ESSAs look at not only the presence of social and environmental risks, but also the ability of recipient country systems to avoid or mitigate those risks. Instead of an equivalence and acceptability assessment though, these assessments are based on a list of six “core principles” and 13 “key planning elements” spelled out in OP and BP 9.00 respectively.<sup>69</sup> The assessments are meant to consider “whether the Program institutions have the capacity to carry out adequate planning, decision making, execution, reporting, monitoring and evaluation, auditing and information disclosure under the Program.”<sup>70</sup> Like Safeguard Diagnostic Reviews, ESSAs are created and paid for by the World Bank. They are subject to public consultation before becoming final.

## Plan

After conducting the ESSA and other assessments, the Bank and government formulate a Program Action Plan. The Action Plan spells out, among other things, the steps the government will take to fill any gaps identified in the ESSA. The Action Plans are published by the Bank as part of the Program Appraisal Document and can spell out both loan covenants and the indicators that will be used to verify results (so-called development linked indicators or DLIs).

Covenants and indicators play different roles. Covenants are contractual requirements that governments have agreed to meet. Money should, at least theoretically, not be released if all the covenants are not met. The Program Action Plan of the Tanzanian Urban Local Government Strengthening Program, for instance, requires that the government create a Technical Manual for Environmental and Social Management, which must be finished before the project moves into the implementation stage.<sup>71</sup> The indicators, on the other hand, are linked directly to a percentage of loan payments. If a specific indicator is not met, the loan should be reduced by the correlating percentage. The indicators may be expressed as “outcomes, outputs, intermediate outcomes or outputs, process indicators, or financing indicators” and “could include actions for improving...social and environmental issues.”<sup>72</sup>

To date, PforR initiatives have not tended to link the indicators directly to environmental and social protections. A number of the programs though have tied indicators

to general improvements in governance, which if implemented will likely have positive social and environmental effects. In Tanzania for example, all indicators focus on improving relevant institutions and their capacity to deliver results, with the goal of ensuring, among other things that “environmental and social management conditions are in place such that the [local government] can absorb the increased funding.”<sup>73</sup> Indicator 3.2 of the rural water supply and sanitation PforR in Vietnam requires each of the eight participating provinces to disclose program reports to the public, which could enhance transparency around social and environmental concerns.<sup>74</sup>

## Manage

The borrowing country is primarily responsible for implementing the program and relevant safeguard policies. These responsibilities include paying for implementation, although some of this may be deferred through additional funding from third parties, as in the case of traditional safeguards. In Vietnam, for instance, AusAid is funding a technical assistance program that will run in parallel with, and support, the PforR program.<sup>75</sup> The government can also receive up to 25 percent of the PforR loan as an advance payment to support implementation costs for one or more of the indicators.<sup>76</sup>

## Monitor

As with the other safeguard methodologies, the government provides the first line of monitoring of safeguard implementation in PforR initiatives. Since PforR programs generally consist of a number of smaller projects, several branches of the recipient government will tend to be involved in monitoring either individual sub-projects or the program as a whole. In Tanzania, the Prime Minister’s Office for Regional Administration and Local Government oversees implementation of the program, while urban local government authorities monitor implementation at the sub-project level. Several of the programs approved to date have focused on supporting governments in creating or strengthening monitoring and evaluation systems in order to allow for improved accounting of results. Some of these efforts have been captured in loan covenants or indicators.

The Bank is involved in monitoring primarily through annual, mid-term, and final reviews. In Vietnam, for instance, the Bank and government agreed to annual management meetings to assess program progress. Although independent assessments of results are not required by the policy, the Bank and governments have frequently agreed to date to provide such verification. In Vietnam, the

State Audit Office holds this responsibility; in Tanzania, a private company will be hired to conduct an assessment.<sup>77</sup> It is unclear whether the independent verifiers will look at implementation of environmental and social protections, particularly if these are not listed as indicators.

## Respond

PforR is structured to provide the Bank and governments a new way to respond to challenges related to implementation of programs and projects. Unlike other types of funding, the Bank can withhold financing if pre-determined results are not met. Theoretically at least, this is true for social and environmental safeguards as well, although the degree to which financing can be reduced due to social and environmental concerns will vary based on the degree to which these concerns are embedded in covenants or indicators.

As the program implementer, the recipient government is primarily responsible for responding to problems. To date, several governments have built results-based management into their own systems for implementing PforR programs. According to the PforR plan in Tanzania, for instance, the central government will reward local governments based, among other things, on their ability to show that they have met certain environmental and social criteria. Indicators upon which the local governments will be evaluated include:

- Systematic records maintained on all environmental and social management activities implemented by local governments;
- Robust system established for handling social, environment and resettlement grievances;
- All participatory consultative processes on local government activities address the relevant environmental and social considerations;
- Resettlement Action Plans implemented and Environmental Management Plans prepared prior to initiating civil works.<sup>78</sup>

The Inspection Panel continues to have jurisdiction over PforR projects. However, given the novelty of PforR, the Panel has not yet received any complaints regarding PforR investments.

## 4.3. Strengths and Weaknesses of the Program for Results Approach

Use of results-based approaches to lending by the Bank and other institutions is still in its infancy. Accordingly, it is difficult to evaluate the benefits and drawbacks of this approach in relation to social and environmental protections. However, some early lessons are evident.

### Strengths

Compared with the traditional and UCS safeguard approaches, PforR's slimmed-down environmental and social principles provide even greater flexibility for using a country's rules and institutions as safeguards. If used appropriately in the right context, this flexibility can help ensure that social and environmental protections are implemented in a manner that fits into the governance structure of the recipient country. In so doing it can allow government staff to follow policies and procedure that they are familiar with, and provide an increased sense of ownership to both recipient governments and stakeholders. Several members of the Vietnamese team working on developing the PforR initiative, for instance, noted that implementing the safeguard policies felt easier than implementing traditional safeguards, as they were already familiar with how the country system functioned.

Another benefit of the PforR approach is the relatively high level of attention given to country systems, at least to date. Like the Safeguard Diagnostic Reviews, ESSAs are meant to look more carefully at the government's environmental and social systems than assessments associated with traditional safeguard policies. The process of creating documents like the ESSA and the accompanying Program Action Plan can encourage both Bank and government staff to become more knowledgeable of the unique opportunities and challenges associated with the country's systems.

Finally, the ability to withhold funding until results are met can provide both the Bank and governments more leverage for ensuring that social and environmental protections are implemented. Several World Bank staff members interviewed expressed the view that PforR projects have resulted in more active and higher level discussions between the Bank and government representatives about how to implement social and environmental protections. An environmental expert in the Ugandan government expressed cautious hope, in turn, that the results-based structure would elevate environmental and social concerns

## Box 8 | Requirements Regarding Natural Habitats and Cultural Resources

The Bank's policies require that programs include plans to deal with risks to natural habitats and physical cultural resources:

"Environmental and social management procedures and processes are designed to avoid, minimize, and mitigate against adverse impacts on natural habitats and physical cultural resources resulting from the program. As relevant, the Program to be supported:

- Includes appropriate measures for early identification and screening of potentially important biodiversity and cultural resource areas.
- Supports and promotes the conservation, maintenance, and rehabilitation of natural habitats; avoids the significant conversion or degradation of critical natural habitats, and if avoiding the significant conversion of natural habitats is not technically feasible, includes measures to mitigate or offset impacts or program activities.
- Takes into account potential adverse impacts on physical cultural property and, as warranted, provides adequate measures to avoid, minimize, or mitigate such effects."<sup>79</sup>

The Bank offers no further explanation in this policy about what "appropriate measures" for early identification might be, for instance, or what it means to "promote and support" environmental conservation. Nor is there any further explanation about when a program has adequately taken into account potential adverse impacts on physical or cultural property.

to a more prominent position in project development, and that it would provide the central government with a stronger leverage to ensure compliance with social and environmental rules.

### Weaknesses

While the slimmed-down nature of the safeguard approach chosen by the World Bank for PforR brings increased flexibility, it also enhances the risk that the Bank and governments will not be held accountable for negative social and environmental effects resulting from investments. Most of the PforR safeguard principles are quite

vague, leaving room for interpretation and confusion (see Box 8 for an example). The lack of detail may also present a hurdle for the Inspection Panel when it looks to determine compliance with the policy. The risks associated with PforR's principles are heightened by the fact that none of the principles emphasize procedural protections, such as access to information or grievance procedures for affected people. Several of the early PforR projects required disclosure of subproject documents, such as environmental or social assessments, in their Action Plans. It is very worrying, however, that the policy does not explicitly require such disclosure.

Another potential weakness of the PforR approach is the lack of emphasis on social and environmental results. The results-based funding is PforR's primary accountability mechanism, and social and environmental protections have generally not featured strongly. Indeed none of the programs to date have included a DLI specifically focused on results related to environmental or social protections. Some of the PforR projects have opted to establish social and environmental protections as covenants instead, which in effect makes them mandatory because a government cannot choose to forgo implementing a covenant. Covenants, though, are generally focused on procedures, such as the creation of assessments and monitoring reports. There is risk that like traditional safeguards, those implementing social and environmental protections focus on documents rather than implementation. It also threatens to disconnect social and environmental safeguards from the accountability that comes with providing finance based on results.

Finally, the reduced emphasis on safeguards in the PforR policy may lend itself to further reduction in the amount of Bank staff time dedicated to monitoring and supporting safeguard implementation, especially compared with traditional safeguards.

## 5. THE DEVELOPMENT POLICY LOAN APPROACH TO SAFEGUARDS

### 5.1. Overview of the Development Policy Loan Approach

Whereas other types of loans tend to focus on specific projects or programs, such as a new road or healthcare system, policy loans provide direct budget support tied to changes in national policies and institutions. Policy-based lending evolved from "adjustment" lending, which was originally introduced to help countries deal with short-

term balance of payments support. Today, the World Bank provides policy support through Development Policy Loans (DPLs) under O.P. 8.60, introduced in 2004. DPLs differ from the three safeguard approaches discussed thus far because of the type of investments they fund. Nonetheless, we consider the DPL approach to social and environmental protection here because it offers insight into experiences with investments that rely heavily on country safeguard systems.

## 5.2. Country Systems in the Development Policy Loan Approach

### Anticipate

To anticipate the environmental and social risks of DPLs, the World Bank is required to determine “whether specific country policies supported by the operation are likely to cause significant effects on the country’s environment, forests, and other natural resources” or have “poverty and social consequences, especially on poor people and vulnerable groups.”<sup>80</sup> In order to adhere to this requirement, the Bank generally conducts some form of due diligence assessment of the proposed policy changes in order to obtain a basic understanding of the social and environmental risks. If initial assessment indicates “likely” risk of “significant” harm, the Bank’s policy calls for further analysis of the ability of existing systems to adequately reduce that risk.

Unlike the other approaches, the DPLs are not accompanied by social and environmental principles or other indicators to guide these assessments, although the Bank provides relatively thorough voluntary guidance,<sup>81</sup> particularly in relation to Poverty and Social Impact Assessment (PSIAs).<sup>82</sup> The Bank does not need to reveal the full due diligence assessments to the public.

The DPL voluntary guidelines suggest use of an in depth Strategic Environmental Assessment (SEAs) to further understand the potential effects of the policy changes.<sup>83</sup> Whether these assessments are conducted depends largely on the circumstances, including the project type and availability of resources. Support for financial sector reform is generally deemed to have no meaningful social and environmental risks, and so further assessments are not conducted. DPLs directed at, for instance, the health or environmental sectors are more often subject to some form of additional social and/or environmental assessment. It is still relatively rare for the Bank to conduct a full SEA.

### Plan

If the DPL is found to entail sufficient levels of risk, and if existing country systems are not deemed strong enough to adequately reduce these risks, the Bank requires the Program Document to outline how “gaps or shortcomings would be addressed before or during program implementation, as appropriate.”<sup>84</sup> Theoretically, various options are available, including adding policy changes related to environmental and social protections, providing technical assistance to tackle the relevant problem, or forgoing the particular investment or requirement.

### Manage

The government is generally responsible for managing implementation of social and environmental risk associated with a DPL. The government is responsible for ensuring that any relevant policy changes are implemented, and that rules and institutions are in place to reduce risks associated with these changes. The government will typically rely on existing institutions to do this work, such as environmental protection agencies, law enforcement agencies, or agencies dealing with land use planning. Sometimes a new structure will be created to coordinate or oversee the activities. For example, in Indonesia, a steering committee and technical committee were created to guide implementation of a climate change DPL.<sup>85</sup>

### Monitor

Both the Bank and government are involved in monitoring whether the agreed policy changes have been implemented. This monitoring is typically based on indicators developed prior to implementation. If environmental and social factors have been embedded in the conditions for releasing funds, then these will be monitored by the Bank as well.

Environmental and social risks that are not rooted in policy reforms are typically not directly monitored by the Bank, including risks that were originally identified but deemed adequately controlled by the country’s systems. Any monitoring of such risks is therefore usually conducted by the government or other interested parties, such as members of civil society. The Bank also does not typically monitor how funding is used once disbursed. The funding goes into the country’s general budget to be used as the government finds necessary. The Bank engages in a review of DPLs every three years, but the analysis is based on existing information gathered in relation to disbursement.<sup>86</sup>

## Respond

The government is responsible for responding to the challenges that arise in meeting the requirements linked to a DPL, including any policy changes related to social or environmental protection. The Bank, in turn, may engage with the government to reach agreement on potential solutions. If a solution cannot be found, the Bank can ultimately withhold funding (or the government can refuse to accept it). If successful implementation of the required policy changes brings negative social or environmental consequences after the loan has closed, the Bank generally does not act since such action is not part of the contractual agreement with the government. The Inspection Panel does have jurisdiction over DPL lending. It can, for instance, investigate whether the Bank adequately assessed and planned for risks presented by the investment.

### 5.3. Strengths and Weaknesses of Development Policy Loan Approach

#### Strengths

Policy loans can be a valuable tool for supporting important systemic changes to governance in developing countries, including governance of environmental and social concerns. Unlike project-based loans, policy loans can assist a country in tackling the systemic problems that lead to poor environmental or social outcomes at the project level. If implemented properly, they can help countries restructure policies or sectors in a manner that takes not only economic growth, but also social and environmental concerns into consideration. This can be done through loans primarily focused on environmental or social concerns, such as the World Bank's recent climate change DPLs to Mexico, Vietnam and Indonesia, which have provided valuable resources to support national systems to mitigate and adapt to climate change. Or it can be done through the inclusion of environmental and social requirements in loans with other development objectives.

Since the Bank has limited safeguard policies in place for DPLs, these loans rely heavily on the country's systems by default. As a result, the social and environmental protections for such loans are generally fully embedded in the country's processes and structures. In the right context this can bring several advantages including seamless integration into existing systems aimed at reducing environmental and social risks.

#### Box 9 | Forests in the Democratic Republic of the Congo

The lack of clear safeguards for DPLs has resulted in a relatively large percentage of loans relying solely on the country's systems to avoid social or environmental harm. The majority of initial assessments find that the loan presents no negative risks, or that the risks are mitigated by country systems.<sup>87</sup> As a result, no further actions are required by the Bank.

However, these findings are not always an accurate reflection of the impacts of the loan conditions. This has become particularly clear in relation to forest investments. One example is seen in the case of the World Bank's Transitional Support for Economic Recovery Grant to the Democratic Republic of Congo. The preparatory documents for the project found that the effects on the environment would be "felt only indirectly." Still, pygmy communities and other communities in the region feared that the loan's emphasis on logging concessions would harm the ecosystems upon which they relied. The Inspection Panel agreed. In investigating the Transitional Support for Economic Recovery Grant, the Panel observed: "The conclusion regarding the lack of environmental impact may be the result of Management's lack of sufficient analytical resources (such as CEAs and SEAs) to properly measure the impact of policy reforms on environment, forests and other natural resources."<sup>88</sup>

#### Weaknesses

The primary weakness of DPLs in relation to social and environmental protections is the lack of a solid system to ensure that the Bank and government are held to account for social and environmental harm that occurs as a result of the investment. Policy loans rely heavily on recipient country rules and institutions without requiring the Bank to thoroughly understand and support these systems.

While DPLs require Bank staff to conduct risk assessments as part of their due diligence, there are no clear standards against which the risks should be assessed. The assessments are also frequently not shared with the public, which can further compromise their quality. It is true that assessing risks associated with policy changes can be more difficult than assessing the risks of projects, which often have more direct impacts and a defined geographic

scope. This does not eliminate the need to understand the potential effects of the investment however.

The rules governing DPLs only require the anticipation of “direct” and “significant” risks. While the Bank and government can perhaps not be expected to predict all potential consequences of the changes in policy, focusing too narrowly on the direct impacts of the change can entail undue risk to people and ecosystems. Box 9 provides an example of an assessment associated with a DPL to the Democratic Republic of the Congo that the Inspection Panel found to have incorrectly determined whether a risk was direct or indirect.

In addition to the weakness of the assessment process, DPL documents often fail to provide a clear line between the findings of the risk assessment and changes made to the investment requirements. Unlike the ADB, which requests a matrix of social and environmental impacts and mitigation measures if a policy change is found to bring social or environmental risks, the World Bank does not require its staff to spell out how findings of risks link to plans to mitigate those risks. This can make it difficult for stakeholders to understand whether changes were made based on the risk assessment, and what these changes were. In terms of public participation, DPLs supported by the Bank have often been predetermined by the government in Poverty Reduction Strategy Papers or similar documents. The Bank tends to trust that governments engaged with stakeholders in the creation of these prior documents, and so does not require public consultations in the determination of policy loan requirements.

Finally, the lack of minimum standards and the rapid disbursement of DPLs limit the ability of the Bank to understand the long-term effects of the policy changes being funded. A relatively small percentage of policy loans are brought to the Inspection Panel compared with project loans. The low figure may be due to a lack of harm resulting from these investments, or it may be due to the nature of policy lending. The impact of DPLs on individual communities is more difficult to trace than that of tangible projects such as infrastructure developments. In addition, policy lending is meant to be spent out quickly. Since the Inspection Panel loses jurisdiction once disbursement is complete, the window of time in which affected persons can bring complaints is more limited than for project loans.

## 6. LESSONS LEARNED

The strengths and weaknesses of the World Bank’s four safeguard approaches analyzed in this paper provide lessons for the Bank and other financial institutions looking to encourage both national ownership and investor and government accountability for social and environmental protections.

### **Lesson One: Building on country safeguard systems can enhance ownership and incentives for safeguard implementation.**

Bank, government and citizen experiences with the four safeguard approaches indicate that building on country safeguard systems not only supports the principle of country ownership, if done correctly it can also enhance safeguard effectiveness in the long term. As seen in the UCS and PforR approaches, building on country systems can help change the conversation from one of how the country has complied with Bank policies, to one that looks at how systems in recipient countries operate. It also allows national actors to work within their own familiar policy and institutional structure, which may enhance their ability and commitment to successfully complete safeguard tasks.

Using country systems will not always allow the investors to meet minimum standards, and in such cases other arrangements should be made. If strong national laws exist but implementation is poor, the Bank can focus on supporting implementation. If the legal framework is not strong enough, the Bank should have policies in place capable of filling the gap for the investment in question. The focus though should be on using the systems that do exist, and on supporting increasingly strong domestic systems to protect people and the environment.

### **Lesson Two: Minimum standards and positive incentives can clarify requirements and encourage countries to strive toward more ambitious social and environmental goals.**

The four safeguard approaches discussed here establish the social and environmental requirements that apply to investments in varying degrees. The DPL approach, for example, gives little direction about the acceptable level of social and environmental risk. The PforR approach creates a similar challenge. The traditional safeguards, on the other hand, provide so many details that it may sometimes be difficult to determine the most important protections that should be in place. The operational principles of the UCS approach come closer to providing distinct standards.

Box 10 | **Examples of International Agreements Outlining Safeguard Norms and Best Practice**

*The International Covenant on Civil and Political Rights* – 167 states are currently party to the International Covenant on Civil and Political Rights, which explains the civil and political rights listed in the Universal Declaration of Human Rights. Norms applicable to investments affecting vulnerable communities include the right to legal recourse when their rights have been violated (article 2); the right to life and survival (article 6); the right to equality before the law and equal protection (article 26); and the rights of members of religious, ethnic or linguistic minorities (article 27).

*International Covenant on Economic, Social and Cultural Rights* – 160 states had ratified the treaty as of 2013. Norms under the International Covenant on Economic, Social and Cultural Rights include the guarantee of the right of self-determination, including the right to freely pursue economic, social and cultural development (article 1); the right to work (article 6); the right to just conditions of work (article 7); the right to food, clothing, and housing (article 11); and the right to the highest attainable standard of health (article 12).

*The Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (Aarhus Convention)* – The Aarhus Convention grants the public a right of access to information, public participation and justice concerning the environment. As of September 2012, 46 countries were party to the Aarhus Convention.

*Extractive Industries Transparency Initiative (EITI)* – “The EITI . . . is a globally developed standard that promotes revenue transparency at the local level.”<sup>89</sup> The EITI establishes a process by which resource-rich countries publicly disclose revenues from extractive industries. The EITI currently has 20 compliant countries and another 17 countries that are candidates for compliance.

Providing clear minimum standards can help clarify the steps that country systems must take to satisfy safeguard needs, and aid those seeking to hold the institution and government accountable for their actions. When safeguards fail to clearly distinguish between acceptable and unacceptable behavior, several negative consequences can follow, including uncertainty about how to implement safeguard poli-

cies, and lack of information about the impacts of investments. The minimum standards should be flexible enough to account for different country contexts, clear enough to identify the most important criteria, and detailed enough to support efficient and effective implementation.

Minimum standards can be defined in different ways. On the one hand, safeguards are associated with the concept of “doing no harm,” which is often thought of as not making things worse than before the investment occurred. Status quo within some countries though may fall below a standard that is acceptable to the World Bank and its shareholders. The Bank and other institutions may therefore wish to define the minimum standard based on internationally accepted environmental and social norms, rather than on status quo. These norms are embodied in international environmental and trade agreements, customary international law, industry standards, and legal systems across the world (see Box 10 for some examples).

The minimum standards should also be realistic. To encourage countries to go beyond the minimum, the Bank and other financial institutions may wish to offer positive incentives in the form of, for instance, grants, additional loan concessions, or awards for safeguard champions within a government.

**Lesson Three: Safeguard implementation requires anticipating risks, planning to deal with those risks, managing and monitoring implementation, and responding to harm.**

The traditional, UCS and DPL approaches to safeguards tend to emphasize impact assessments and plans over support for implementing and monitoring these plans. At times, this has resulted in poor implementation. Experience indicates the importance of not only anticipating impacts, but also dealing with the actual effects of the investment. Regardless of whether a safeguard system is based on national rules and institutions or those of the financial institution, the system should:

- Anticipate social and environmental risks and impacts,
- Plan to avoid or mitigate those risks and impacts,
- Manage implementation,
- Monitor the results of investments, and
- Respond to problems as they arise.

When the Bank and other institutions rely on recipient-country systems to implement social and environmental

protections, these systems should be able to perform all five of these functions. If they are unable to do so, the Bank should step in to help fill the gaps.

The bank and other financial institutions should stay engaged in all functions of a safeguard system, including responding to challenges that arise. In order to balance the ownership provided through the use of country systems, financial institutions should continue to remain accountable for ensuring that minimum safeguard standards are met, as in the case of the UCS approach.

**Lesson Four: Proper safeguard implementation requires people on the ground to engage, collaborate and problem solve.**

Interviewees across the board expressed concern that the World Bank does not invest enough resources into their own safeguard systems. The World Bank's own reviews of safeguard implementation express a similar sentiment.<sup>90</sup> The Bank consistently has few people engaged in monitoring and supporting safeguard implementation on the ground. Social and environmental safeguard specialists and monitoring specialists employed by the Bank often work on several investments at once, and visit project sites relatively infrequently. Governments and stakeholders have also noted the lack of Bank investments in safeguard staff. Low staffing levels can create an impression that the Bank is not truly serious about safeguard implementation.

There also appears to be a tendency for safeguard experts to receive less recognition than other types of Bank employees, perhaps because rewards are linked more closely to lending levels than social or environmental protection. Successful safeguard systems ultimately depend on the motivation and skills of those tasked with implementation. The World Bank should therefore provide positive incentives to attract high quality employees to both Bank and government safeguard teams, and to encourage them to stay for the long term.

Moving toward more use of country safeguard systems should not mean a reduction in costs for the World Bank, at least not in the short term. Bank staff will need to collaborate with government employees in implementing the country's safeguards, and domestic systems will often move more slowly than those implemented by the Bank due to, for instance, a lack of resources or the involvement of multiple national and subnational institutions. As stated by Stephen Knack of the World Bank Development Research

Group: "The benefits of using country systems are mostly external...and realized only over the long term, while costs are short term and fully internalized by the donor."<sup>91</sup>

**Lesson Five: Recipient country safeguard systems still need support.**

While many developing countries have succeeded in strengthening their legal and institutional systems in recent decades, many challenges still remain. Poverty, political instability, growing stratification between the rich and poor, corruption and other problems continue to hinder the development of effective systems to protect people and the environment. This is true even in countries that have seen rapid growth in recent years.

In a sense, the Bank has engaged in strengthening country safeguard systems for a long time, through implementation of its traditional safeguard policies and programs to enhance the legal and institutional frameworks in recipient countries. This work can be augmented and improved. For example, the Bank invested \$850 million in 36 projects to strengthening justice systems between 1994 and 2011.<sup>92</sup> A World Bank report from 2012 indicates, however, that investments in justice systems to date focus on efficiency and effectiveness, not the rights and needs of the most vulnerable and marginalized.<sup>93</sup> The Bank should seek to coordinate its work across the institution and continue to investment in governments systems to protect vulnerable people and ecosystems.

The ADB's technical assistance program aimed at strengthening country systems offers a promising example.<sup>94</sup> This work, along with the World Bank's experience so far with PforR, suggests that recipient governments appreciated engagement from financial institutions that focuses on improving domestic processes.

**Lesson Six: Citizens play a key role in any effective safeguard system.**

Engaging the public in the recipient country is vital to both ownership and accountability. Ensuring ownership over projects means turning not only to national governments, but to a variety of different actors, including NGOs, community representatives, academics, the private sector, and private individuals. Citizens are a highly diverse and knowledgeable group of people, who can contribute to every stage in the safeguard process, from anticipating risks to responding to problems that arise.

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They can, for instance, help assess risks to their communities, develop plans that most effectively meet community needs, manage implementation of these plans, monitor community well-being long after the funder has gone home, and ensure that problems are rectified in a manner appropriate for the local context. The World Bank and other financial institutions should therefore seek to enable citizens to participate in their country's safeguard systems. The new Global Partnership for Social Accountability, led by the World Bank, is an interesting initiative to support accountability through civic engagement.<sup>95</sup>

A first step in citizen engagement, and a key element of any effective safeguard process, is to provide information openly and proactively to the public. Transparency can help enhance both government and stakeholder trust in the World Bank, and improve safeguard implementation across the board. The Bank has taken important steps toward increasing transparency in recent years, and should continue to strive to be a model for transparent governance. To support transparency the Bank must first ensure that their decisions are appropriately documented. The four safeguard methodologies analyzed here showed various degrees of weakness on this front, particularly in relation to documenting the link between risk assessments, plans to deal with risks, and implementation results. Stakeholders, governments and the Bank itself will all benefit from greater availability of such information.

The Bank should also ensure that recipient country safeguard systems uphold the principle of transparency through disclosure of information and active involvement of communities in all aspects of the safeguard system. The relationship between governments and different sectors of civil society often involve complex political dynamics. Understanding and engaging with these dynamics can be challenging. Ignoring them though will tend to lead to, at best, subpar development efforts and, at worst, harm to people or the environment.

**Lesson Seven: Recognizing differences between countries, sectors and projects is necessary to successfully balance ownership and accountability.**

Experience with safeguards to date has shown that the ability of governments to implement social and environmental protections varies greatly between countries. The safeguard policies of the World Bank and other financial institutions need to be flexible enough to adapt to these differences. In some countries, national rules and institutions can prevent harm more effectively than the

policies of the Bank or any other financial institution. In other countries, the investor will need to be significantly involved in every function of the system.

There may be benefit in categorizing countries based on the strength of their safeguard systems. While this will likely bring political challenges, it could also encourage positive competition. Care should be taken though to differentiate between activities within a country, since some nations may have poor governance overall, but strong systems in a particular sector (or vice versa). Rankings could take into consideration the government's commitment to sustainability and to improving their safeguard systems.

Categorizing countries based on the strength of their social and environmental safeguard systems will necessitate in-depth understanding of these systems. The World Bank's Safeguard Diagnostic Reviews and ESSAs are a good step towards developing sound processes for assessing country systems, not just on paper but in practice. To improve this process, the Bank should provide further clarity around the standards and methodologies for determining the strength of the country's rules and institutions. The assessments should acknowledge the often complex socio-economic, political, and historic context in which the country's systems function. Assessments should include an explanation of the quality of the relationships between different sectors of government, and between the government and non-governmental stakeholders. To encourage both ownership and accuracy, the Banks should conduct its assessments in collaboration with recipient governments and local citizens, including those likely to be affected by an investment. It can be wise to conduct assessments of safeguard systems separate from individual investments in order to allow for an analysis of wider systemic issues, and to give more time for the assessment by disconnecting it from the timeline of a specific investment. This can also help spread the cost of such assessments more broadly across investments.

Finally, individual investments should also be categorized according to the risks that they entail. These categorizations should be based on the nature of the investment as well as the strength of the legal institutional framework in which it is being implemented. In order to conserve resources, low-risk projects can be subject to fewer safeguard mechanisms, while high-risk projects should receive special attention. Projects should not be ranked solely based on the type of funding involved. Rather, similar risks should receive similar treatment.

## 7. CONCLUSION

Governments have primary responsibility for ensuring that investments within their borders include adequate protections for people and the environment. Governments also have the right to determine how these protections are put in place. However, large-scale investors should also protect people and the environment from the potential adverse consequences of their investment, regardless of the country. When governments are incapable of putting in place effective safeguard systems, investors should fill the gaps.

The World Bank and other financial institutions are currently grappling with how to best support government ownership over safeguard systems while maintaining Bank and government accountability for ensuring that investments do not result in undue harm. The Bank's experiences with different types of safeguard approaches provide some useful lessons. These lessons suggest that the Bank and other financial institutions will benefit from building on the safeguard systems of recipient countries, producing clear minimum standards, incentivizing positive action, putting more people on the ground, empowering citizens within the country, investing in the systems of countries, and responding to differences between countries and sectors.

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14. See World Bank, *Bank Policy (B.P.) 6.00, Annex A*.
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## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AfDB	African Development Bank
AusAid	Australian Agency for International Development
B.P.	Bank Policy (World Bank)
CEA	Country Environmental Assessment
DPL	Development Policy Loan
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
ESA	Environmental and Social Assessment
ESSA	Environmental and Social Systems Assessment
IDB	Inter-American Development Bank
IFC	International Finance Corporation
NGO	Non-Governmental Organization
O.P.	Operational Policy (World Bank)
PforR	Program for Results
PSIA	Poverty and Social Impact Assessment
SE(S)A	Strategic Environmental (and Social) Assessment
SIDA	Swedish International Development Association
UCS	Use of Country Systems
WB	World Bank

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