

Assessing Environment, Forest and Natural Resource Aspects in Development Policy Financing as per OP 8.60

Input into the 2015 DPF Retrospective

Every three years, the World Bank systematically reviews its experience with Development Policy Financing (DPF) in a Retrospective report. One of the key issues to be reviewed in the 2015 DPF Retrospective is that of the environmental effects of DPF-supported policies (prior actions).

I. Background

The Operations Policy (OP8.60) on Development Policy Financing (DPF) requires that the Bank systematically analyze whether specific country policies supported by an operation are likely to have positive or negative “significant effects” on the country’s environment, forests and other natural resources.¹ For policies with likely significant effects, OP8.60 requires the Bank to assess the Country’s systems for reducing adverse effects and enhancing positive effects, drawing on relevant country-level or sectoral environmental analysis. Therefore, as part of all development policy operations, the team is required to:

- (1) Determine if specific country policies supported by the DPO are likely to have “significant effects” on the environment, forests and other natural resources;
- (2) If the answer to the above is yes, assess country’s environmental and natural resources management systems to determine whether there are appropriate policies and capacity to handle potential effects; and
- (3) If there are material gaps in country’s systems and/or capacity, describe actions which will be undertaken by the borrower within or outside of the operation to address these gaps.

The Bank has to make an initial assessment at the concept stage for each prior action supported by the operation. If it is deemed at this stage that there will be no “significant” positive or negative effect, then the team does not have to do additional work (see Figure 1). If the Bank finds that there will be “significant” negative effects emanating from a prior action, then it has to make an assessment of the country’s systems in the areas relevant to those reforms using relevant analytical work, such as a Country Environment Analysis or sectoral environmental analysis (Policy Strategic Environment Assessments), and/or professional judgment.² In case a specific Bank

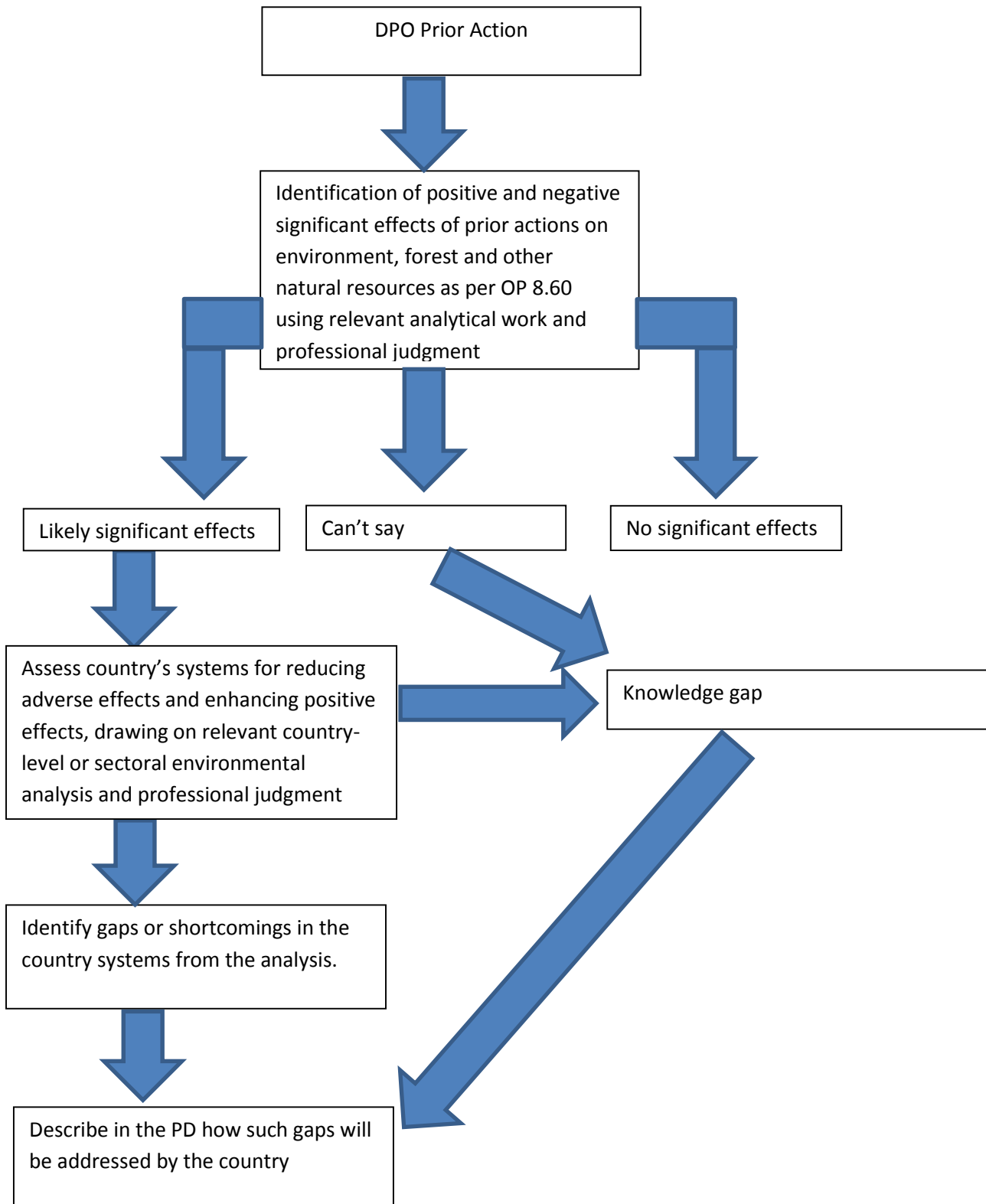
¹ *Environmental effects* mean a policy-induced change in human activity that in turn leads to a change in the quantity or quality of an environmental resource (for example, loss of forest cover or habitat, or a change in the concentration of pollutants in air, soil or water). *Significant effects* are environmental changes of sufficient magnitude, duration and intensity as to have non-negligible effects on human welfare (OPCS, 2005).

² Borrower’s or country systems broadly refers to the capacity underlying the policy and institutional framework to identify and address environmental problems/priorities in an effective manner taking into account concerns of

analytical work is not available, the team should use similar information available in the country and analyses by other donors. If gaps in the analysis or in the environmental management systems are identified, the team should ascertain the measures that the government plans to undertake to address those gaps and include their description in the program document. The teams should also describe measures to enhance positive effects. Figure 1 presents the decision tree that teams should follow to comply with the requirements of OP8.60.

stakeholders (including the most vulnerable groups). It also embodies processes to adequately monitor and evaluate progress to overcome these problems. This could also include private initiatives/mechanisms for promoting sustainable development (OPCS, 2005)

Figure 1: Requirements of OP8.60 regarding the assessment of environmental effects



II. Scope of work

A Bank team of environmental policy specialists and environmental economists will carry out a detailed analysis (desk review) of all prior actions supported by DPF in the three-year period under review. During this period, 165 DPOs were approved by the Board, supporting a total of 1,378 prior actions.

In line with the requirements of OP8.60, Part 1 of the analysis will focus on the following aspects: (i) what percentage of prior actions supported by all the Development Policy Operations (DPOs) approved in the period under review were/are likely to have significant negative or positive environmental effects, and what are the key characteristics of these prior actions; (ii) to what extent Program Documents adequately identified such effects; (iii) whether specific analytical tools or studies have been used to make this assessment; (iv) whether, in the case of potential significant negative (or positive) effects, the PD discussed the borrower's systems for reducing (or enhancing) such effects; (v) whether the assessment of the borrower systems is grounded on analytical foundations (Country Environment Analyses, policy Strategic Environment Assessments, among others); and (vi) whether the PD describes how the borrower will address gaps in the analysis and in its systems for managing environmental effects related to the prior actions.

In addition to assessing the information presented in the Program Documents, Part 2 of the analysis will review each prior action independently and classify them according to their likely significant effect on the environment, based on the likely transmission channels (see below). This classification may differ from the assessment provided by the task teams in the Program Document and will provide information on the extent to which task teams' assessments of environmental effects could be strengthened in the future.

Furthermore, the desk review of PDs and prior actions will be complemented by in-depth analysis at the country level in a number of examples (Part 3).

The findings of the analysis will be a key input for the 2015 DPF Retrospective report. They will also inform revisions to guidance, procedures and rules to ensure that DPF supports policies that promote poverty reduction and shared prosperity in a sustainable manner.

III. Proposed methodology

The methodology was reviewed by a group of independent, external experts from think tanks and academic institutions in the United States and Europe.

Part 1: Review of task teams' assessments

The analysis will be based on the Program Documents and the database of all prior actions supported by DPF during the period under review (i.e. 1 April 2012 through 31 December 2014). The database captures the exact wording of the prior actions from the legal agreements and classifies them by sector and theme. In line with the requirements of OP8.60, the team will review the task team's assessment of the environmental effects of each prior action following the checklist presented in Table 1. The answers to each question, as well as additional relevant information, will

be recorded in a spreadsheet. The review will also help identify a number of DPOs that could be highlighted as good practice, or as examples of where there were shortcomings in the assessment of environmental effects.

Table 1: Checklist for Assessing Environmental Aspects of DPLs

Action by the Task Team	Reviewer Response Checklist	Remarks
Has the team identified the environmental effects of the prior actions in the appropriate section of the PD with reference to OP 8.60?	Yes/No	Assessment of “likely significant effects” as per OP 8.60
What is the team’s assessment of the likely effects?	Significant positive/ significant negative/ no significant/ can’t say/both significant positive and negative	
If the team has concluded “significant effects” (positive and/or negative), then does it present a justification using relevant country/sector analysis and/or professional judgment?	Yes/No	It will be a good practice to mention the transmission channels. But the analysis should refer at least to relevant country/sector analysis and/or professional judgment. The most common types of analytical products used by the teams will be noted.
If the team has concluded that “significant effects” are likely, is there an assessment of the adequacy of relevant environmental management systems in the country using relevant country/sector analysis and/or professional judgment?	Yes/No	This should also be with reference to sectors if need be. For example, if the policies are supporting forest sector or mining sector reforms there has to be an assessment of capacity of the sectors.
If the team concludes that there is no relevant analysis, has the document described steps to undertake such work during the course of the DPF Program and support action on its recommendations, as part of or in parallel with the operation?	Yes/No	This is important especially in Programmatic DPF.

If the team concludes that there are likely significant effects, has the team identified gaps in the country systems to manage these effects?	Yes/No	This is important especially in Programmatic DPF.
If gaps were identified, is there a description of how the borrower plans to address these gaps?	Yes/No	This is important especially in Programmatic DPF.

Part 2: Independent assessment of likely environmental effects³

For the independent assessment, the team will carefully review each prior action and assess the potential channels through which it may have an effect on the environment. The classification developed for the DPL toolkit on “Assessing the Environmental, Forest and Other Natural Resource Aspects of Development Policy Lending” will serve as the basis for this assessment.

The toolkit presents the potential transmission mechanisms for a number of policy and institutional reforms frequently supported by DPF. It also provides an indication of whether such reforms typically have no significant effects, significant positive effects, significant negative effects, or whether the effect is uncertain. For more information on the transmission channels, please refer to Module I of the toolkit (available [here](#)).

As a rule of thumb, reforms in certain sectors are more sensitive from an environmental perspective (forests, environment, energy, mining) than others (education, health, governance, etc.). A significant number of reforms, however, are country and action specific and do not lend themselves to a quick conclusion, and may therefore be initially classified as “uncertain”. The team of experts will review these cases one by one to classify them appropriately, taking into account additional information available in the PD and drawing on their experience and professional judgment. The expert team’s familiarity with policy strategic environmental assessments and other approaches will be important in this process.

Based on a sample of prior actions, the expert team has developed a protocol to consistently assess the universe of prior actions using the toolkit and other guidance (see Annex 1). Using this protocol, the expert team’s assessment will also be recorded in the spreadsheet and provide a different perspective to that of the task teams. It may yield interesting findings on whether there is a disconnect between task teams’ assessments and assessments based on more consistent criteria; and if so, whether there are particular sectors or themes in which this disconnect is particularly pronounced. This will help the team understand where to focus the next step of the work, i.e. the revision of staff guidance and toolkits.

³ This independent assessment does not represent a definitive judgment at the level of individual operations; rather, it is meant to provide information on the overall level of alignment of task teams’ assessments with consistent, criteria-based assessments.

Part 3: Country examples

The country examples are designed to provide lessons learned and inform staff guidance going forward, rather than to represent definitive ex post evaluations of the actual environmental effects of DPO-supported policies. The case studies will be identified during the review of PDs and will include a sample of three types of operations: (i) those where significant positive effects were identified by the task team; and (ii) those where significant negative effects were identified by the task team. The country examples will include interviews with task teams, in addition to a more thorough review of program documentation (including ISRs, ICRs and IEG evaluations, where available). The proposed scope of these reviews is as follows:

- In cases where likely positive effects were identified, the country examples will review to what extent the expected results were achieved. These examples will focus on DPOs with a strong focus on environmental sustainability, which are designed to have positive effects. In those cases, the country examples would draw extensively on the Implementation Completion Reports (ICR) in assessing if the likely positive effects were achieved. If they are found to have had the desired contribution, the reasons for this success will be explained. If they are found not to have contributed positively, the case studies will also review the reasons for this, based on the information available in the ICR.
- In cases of likely negative effects, the country examples will summarize to what extent the country systems to manage these risks were assessed, whether there were any gaps in the assessment, and whether the PD discusses the client's mitigation measures (based on the review conducted in Part 1, see above). Monitoring of the clients' mitigation measures will also be discussed. The examples will include a good practice case which can provide important inputs into the staff guidance going forward.

Annex 1: Protocol for review by independent expert

The review of the prior actions is based on the information provided in the DPL Program Document. No other document will be analyzed to determine the nature of the potential environmental effect of the prior actions. All prior actions are classified into the following categories: no significant effect likely, significant positive effects likely, significant negative effects likely, both significant positive and negative effects likely or can't say in cases where adequate information was unavailable in the Program Document to make an informed decision. Professional judgment along with established guidance documents are key in assessing the environmental effects.

Guidance Documents

The toolkit on “Assessing the Environmental, Forest and Other Natural Resource Aspects of Development Policy Lending” informs the assessment. This toolkit presents the potential transmission mechanisms for a number of policy and institutional reforms frequently supported by DPOs. It also provides an indication of whether such reforms typically have no significant effects, significant positive effects, significant negative effects, or whether the effect is uncertain. This toolkit provides a foundation on which to base the assessment. As prior actions are country specific and policies and institutional capacity differs between countries, the possibility that a particular assessment in the toolkit may not necessarily apply to a prior action will be taken into account. This difference in classification is noted in the assessment.

The context of the prior action within the analysis provided in the DPL is quite important as negative environmental effects may occur due to pre-existing policy, market and institutional failures. Country level analytical work such as Strategic Environmental Assessments or Country Environmental Analysis, when summarized in the Program Document, guide the analysis.

Importance of country context

Read in isolation, prior actions alone rarely provide a clear indication of their likely significant positive or negative effects. Whether a significant effect is likely or not depends not only on the policy content of a reform, but also to a large extent on the country context, including the rule of law, enforcement of environmental regulations, transparency of environmental management, the demand side of environmental governance, etc. Prior actions likely to have a significant effect in one country may potentially not be significant in another depending on these factors. To ensure that the assessment is objective and consistent, the analysis will be conducted by World Bank specialists with experience in DPF and familiar with the complexities of assessing environmental effects in the context of policy reform.

For example, setting up a one-stop shop for construction permits by streamlining the permitting requirements to enable faster and easier permitting processes could have positive or negative effects, depending on the specific context. Negative environmental effects may materialize if environmental requirements are reduced and/or the systems in place to evaluate and manage the likely environmental effects from construction are not in place. But if the environmental requirements are strengthened and made clearer through consolidation of the permitting requirements and the country has the systems in place to

evaluate and manage likely effects, then the same action can have positive environmental implications. Thus, each prior action will be assessed in accordance with the policy and institutional setting, environmental management systems of the country and actions as detailed in the Program Document.

Some policy reforms have the potential for both significant positive and negative effects. An example is the enactment of a Foreign Investment Law. Opening up the country to foreign investment could attract large multinational companies, which often abide by high environmental and social corporate standards, which may contribute to raising environmental standards in the sector or country. Yet, foreign companies that have a poor environmental record or lower environmental standards may also invest in the country. In such cases, there is a potential for significant negative effects if environmental rules and regulations are not strictly enforced. The effect may also depend on the types of sectors that will attract foreign investment, with investments in natural resources and infrastructure having a greater potential for negative effects than investments in service industries. Unless the program document provides information on these aspects, this prior action may be classified as having likely significant positive and negative effects.

Specific policy reforms may also have environmental effects through their differentiated impact on different stakeholders. For example, energy price reforms in general promote fuel efficiency with possible positive environmental effects. However, in some countries an increase in tariffs without adequate safety nets in place for poor households could lead to negative environmental effects through increased use of firewood for cooking or heating, with adverse effects on air quality and subsequently on human health and the forests. As a result, tariff reforms may be classified as having likely significant positive, likely significant negative or both significant positive and negative effects, depending on the context and the information provided in the PD.

It is also important to keep in mind that environmental effects from policies are, in the vast majority of cases, indirect. They will occur as a result of changes in individual behaviors. As a result, cause and effect relationships from prior actions to potential significant effects cannot be established in a definitive manner, but only elucidated for specific cases or countries. As a rule of thumb, the potential for (positive or negative) environmental effects is higher in the case of policies related to agriculture, mining or infrastructure; and lower in the case of health, education or social protection. **Table 1** provides an overview of the policy areas most commonly supported by DPF and their likely environmental effects.

Table 1. Common policy reforms in DPOs and their potential environmental effects

Sector	Policy reforms	Potential positive effects	Potential negative effects	Comments
Energy	Tariff increase; change in pricing structure.	Energy efficiency; less dependence on wood and charcoal having health benefits and reducing environmental degradation	Higher tariff without subsidies to assist the poor can lead to a switch to less environmental friendly alternatives such as fuel wood	Tariff increase typically occurs to close the revenue gap for utility companies allowing investments for improving efficiency and increasing the share of renewables for energy production
	Extractives law	Improving environmental management of extractive industries	Encouraging exploitation without reference to environmental due diligence; loosening of environmental standards	Extractives law such as those on mining have the potential to improve environmental practices when strong environmental provisions are incorporated into the laws
Agriculture	Enhancing agriculture productivity; supporting irrigation; incentivizing better seed technology; adopting climate change resilient technologies; input subsidy programs (incl. fertilizer)	The reforms could lead to higher yields, reducing the demand for more land thereby reducing pressure on forests	Increased agricultural output by increasing irrigation or fertilizer use could lead to increased runoff, ground water use, waterlogging, increased soil salinity and nitrate leaching	If adequate training on fertilizer application and irrigation management are given, potential for negative effects can be minimized.
Financial	Privatization; microfinance	Promotion of responsible and sound investments; eco-friendly microfinance activities	Poor environmental practices by businesses; undertaking activities that can harm the environment such as discharging waste into rivers from tanneries or pollution from pesticide and chemical manufacturers	Most small-scale informal sector activities do not cause significant harm to the environment but location and scale can lead to cumulative impacts
Fisheries	Fishing licenses	Minimizes the potential for illegal		Publishing fisheries license ownership

		fishing		increases transparency in fisheries
Tax reform	Changes to tax rates	Taxes can be earmarked for environmental use including resource royalties. Direct taxes such as vehicle emission taxes, taxes on polluting inputs such as energy or carbon tax and can minimize pollution	Distributional effects causing change in behavior that may affect the environment.	
Private sector development	Public Private Partnerships; lower administrative barriers for private investors	More readily application of environmental policies.	Lowering of environmental standards	
Trade reform	Regional trade agreements; promoting foreign direct investment	These can promote access to cleaner technologies and investments by corporations with high environmental standards. It can raise the environmental standards to meet regional standards such as those of the European Union.	Increased exports causing unsustainable exploitation of natural resources	Appropriate policies have to be in place to ensure trade reforms do not harm the environment.