



ENVIRONMENT DEPARTMENT

TOWARD ENVIRONMENTALLY AND SOCIALLY SUSTAINABLE DEVELOPMENT

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**INTRODUCTION TO  
ENVIRONMENTAL AND SOCIAL  
ASSESSMENT REQUIREMENTS  
AND PROCEDURES FOR  
WORLD BANK-FINANCED PROJECTS**



January 1997

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Environmentally Sustainable Development



The World Bank



**Introduction to Environmental  
and Social Assessment  
Requirements and Procedures  
for World Bank-Financed Projects**

**Environment Department  
The World Bank  
January 1997**

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## FOREWORD

We are pleased to introduce this booklet, which is intended as an introduction to the World Bank Group in general and the Bank's environmental and social policies and activities in particular.

Over the past 20 years, the World Bank's coverage of environmental and social issues has evolved considerably. Between 1987 and 1992, building on earlier preliminary work, Bank environmental and social work was characterized by a major focus on reducing potential harmful impacts of Bank-financed projects through the systematic application of environmental assessments (EAs) and codification of other environmental and social policies. From 1992 to 1995 the Bank environmental and social work expanded with targeted investments in the environment. At a total investment nearly \$11 billion in 65 countries, these projects have made substantial progress in assisting the Bank's client countries address environmental and social concerns. Present Bank efforts are aimed at mainstreaming environmental concerns across the Bank's entire portfolio.

Caring about the environment in Sub-Saharan Africa is not a luxury but a prime necessity because progress in African economies will depend heavily on natural resources. This is of particular importance in respect to the Bank's main goal of alleviating poverty because environmental degradation primarily affects the poor in both rural and urban areas. Reversing the downward spiral of environmental degradation must be a central element of any strategy to reduce poverty in Sub-Saharan Africa. Such a strategy requires every effort to maintain natural capital and to use it sustainably by promoting sound environmental management.

The World Bank and its international partners cannot solve Ugandan environmental problems alone. Nor will the government. Ugandan people—individuals, households, communities, and the private sector—will be the critical actors. However, the World Bank and its partners can and must provide the necessary support.

This booklet is intended to make readily available the lessons learned from the Bank's environmental and social experience. The overall goal is to help in-country project managers use EA and Social Assessment effectively to aid project design and implementation, and contribute to the environmental and social sustainability of the economic development in the Republic of Uganda.

We are particularly grateful to the government of Denmark, which has contributed to financing the Seminar on Environmental Assessment Procedures between the World Bank and the Republic of Uganda that has led to the preparation of this booklet.

We hope you find the booklet useful.

**Andrew D. Steer**  
**Director**  
**Environment Department**

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**Country Director**  
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## **Rio Declaration on Environment and Development<sup>1</sup>**

### **Principle 4**

In order to achieve sustainable development, environmental protection shall constitute an integral part of the development process and cannot be considered in isolation from it.

### **Principle 10**

Environmental issues are best handled with the participation of all concerned citizens, at the relevant level. At the national level, each individual shall have appropriate access to information concerning the environment that is held by public authorities, including information on hazardous materials and activities in their communities, and the opportunity to participate in decision-making processes. States shall facilitate and encourage public awareness and participation by making information widely available. Effective access to judicial and administrative proceedings, including redress and remedy, shall be provided.

### **Principle 15**

In order to protect the environment, the precautionary approach shall be widely applied by States according to their capabilities. Where there are threats of serious irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation.

### **Principle 17**

Environmental impact assessment, as a national instrument, shall be undertaken for proposed activities that are likely to have significant adverse impact on the environment and are subject to a decision of a competent national authority.

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<sup>1</sup> Adopted by UNCED at Rio de Janeiro, June 13, 1992

## **What is the World Bank?**

The International Bank for Reconstruction and Development (IBRD), frequently called the "World Bank," was conceived in July 1944 at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire, U.S.A. The World Bank opened for business on June 25, 1946.

The principle on which the Bank was founded was that many countries would be short of foreign exchange for reconstruction and development, but would not be sufficiently creditworthy to meet all their needs by borrowing commercially. As an official multilateral institution whose share capital was owned by countries in proportion to their economic size, the Bank would be able to intermediate by borrowing on world markets and lending more cheaply than commercial banks. It would also be able to exercise sound judgment about which projects to help finance.

The current goal of the World Bank is to promote sustainable development in developing countries. The Bank provides loans to developing countries to help reduce poverty and to finance investments that contribute to economic growth. Investments include roads, power plants, schools, and irrigation networks, as well as activities like agricultural extension services, training for teachers, and nutrition-improvement programs for children and pregnant women. Some loans finance changes in the structure of countries' economies to make them more stable, efficient, and market-oriented. The World Bank also provides "technical assistance," or expert advice, to help governments make specific sectors of their economies more efficient and relevant to national development goals.

The World Bank operates under the authority of a Board of Governors. Each of the Bank's 180 member countries is represented by one governor, who is usually a ministerial-level government official. The Board of Governors delegates its authority to a smaller group of representatives, the Board of Executive Directors, based at the Bank headquarters in Washington, D.C. The Board of Executive Directors decides policies affecting World Bank operations and approves all loans. Loan decisions are based on economic, social and environmental, rather than political, criteria.

The World Bank Group consists of the International Bank for Reconstruction and Development (IBRD or Bank), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Center for Settlement of Investment Disputes (ICSID). They are inter-governmental organizations. The headquarters of the World Bank Group Organizations are in Washington, D.C. IBRD, IDA, IFC, MIGA and ICSID combined employ an active headquarters-based workforce (including regular and fixed-term staff, long-term consultants and temps) of about 9,300 people from more than 120 countries.

Mr. James D. Wolfensohn, the World Bank's ninth President, took office on June 1, 1995. The President is Chairman of the Board of the Executive Directors and Chief Executive Officer of IBRD, IFC, MIGA and IDA and Chairman of the Administrative Council of ICSID. As Chief Executive Officer, the President is responsible for the overall management of the institutions; representing the institutions to the world at large; formulating policies and programs for approval by the Executive Directors; and more generally, for carrying out the purposes of the institutions in accordance with their Articles of Agreement and the wishes of the shareholders.

**IBRD**<sup>2</sup> The International Bank for Reconstruction and Development had 181 member countries as of June 1, 1996. Some of the money the IBRD lends comes from contributions from member countries, but the majority comes from bonds issued in world financial markets. Generally, countries with annual average per capita incomes above \$1,395 (but less than \$5,055) are eligible for IBRD loans. When a country's average per capita income exceeds \$5,055 the process of "graduating" from IBRD is triggered. Loans generally have a 5-year grace period and must be repaid during periods ranging from 15 to 20 years. The interest rate on World Bank loans to developing countries changes every six months.

**IDA** The International Development Association, established in 1960, had 159 member countries as of June 1, 1996. Although legally separate from the World Bank, this affiliate is administered through Bank's staff and facilities. IDA provides no-interest loans to the world's poorest countries, defined as having annual per capita incomes of less than \$1,395. Most IDA loans are, in fact, provided to countries with annual per capita incomes of \$865 (in 1994 dollars) or less. IDA loans, or credits, have a 10-year grace period and must be repaid in 35 to 40 years (according to the borrowing country's creditworthiness). The money that IDA lends comes from contributions from wealthier nations, an occasional contribution from the profits made by the IBRD, and repayments of IDA credits.

**IFC**<sup>3</sup> The International Finance Corporation, established in 1956, had 169 member countries as of June 1, 1996. IFC promotes economic growth in developing countries by lending directly to the private sector. Unlike the IBRD, it lends without governmental guarantees. The IFC may also take equity positions in companies to which it lends, play the role of catalyst to other investors from the private sector, and work to develop capital markets in developing countries. IFC funds are composed of shares purchased by member governments; IFC's own borrowing, particularly from the IBRD; and retained earnings.

**MIGA**<sup>4</sup> The Multilateral Investment Guarantee Agency, established in 1988, had 131 member countries as of February 1, 1996. This World Bank affiliate promotes private investment in developing countries. It provides guarantees on investments to protect investors from noncommercial risks such as war or nationalization. It also provides advisory services to governments to help them find ways to attract private investment in their countries.

**ICSID** The International Centre for Settlement of Investment Disputes was established in 1966 by the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the Convention). As of April 8, 1996 139 countries have signed the Convention, and of those 126 have ratified to become member countries. ICSID seeks to encourage greater flows of international investment by providing facilities for the voluntary conciliation and arbitration of investment disputes between ICSID member countries and nationals of other member countries. ICSID itself does not engage in conciliation or arbitration. The Centre assists in the initiation and conduct of conciliation and arbitration proceedings, performing a variety of administrative functions in this respect.

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<sup>2</sup> See: Fig 1 Organizational chart of the World Bank and Fig. 2 Organizational Chart of the World Bank Africa Region.

<sup>3</sup> See: Fig. 3 Organizational Chart of the IFC

<sup>4</sup> See: Fig 4 Organizational Chart of the MIGA



## **How Does the World Bank Differ from the International Monetary Fund?**

Although they were conceived at the same time, the World Bank and International Monetary Fund (IMF) are separate institutions with separate goals. Before a country can apply for membership in the World Bank, it must first be a member of the IMF.

The main goal of the World Bank is to promote long-term economic growth that reduces poverty in developing countries. The IMF's purpose is to oversee the international monetary system and to help member countries overcome short-term financial problems.

While the World Bank lends only to developing countries, the IMF can lend to any member country that lacks foreign currency to cover short-term financial obligations to creditors in other countries.

## **World Bank Strategy for Sustainable Development**

The intrinsic relationship between the environment and development, though somewhat controversial in the past, now seems to be universally accepted. This is certainly the case in the World Bank at present, following a series of developments.

The Brandt Commission noted in its report<sup>5</sup> that the United Nations Conference on the Human Environment, held in Stockholm in 1972 (Stockholm Conference), was an important milestone in environmental awareness. Building on the conclusions of this conference, the Commission indicated that the protection of the environment could no longer be seen as an obstacle to development but rather needed to be considered as an essential part of it.

More specifically, after stating that environmental impact assessments should be undertaken whenever investment or other development activities may have adverse environmental consequences, the Commission urged multilateral development banks to be ready to assist in carrying out EAs to ensure that an ecological perspective would be incorporated into development planning.

The relationship between development and environment has been further sharpened by the work of the World Commission on Environment and Development (WCED) also known as the Brundtland Commission, which followed the same line of thinking, but gave prominence to the notion of "sustainable development".

The Bank's concern with the environment predated the work of these commissions. However, the broad realization that development projects have an impact on the environment was clearly articulated by the President of the Bank for the first time in a major speech before the United Nations Economic and Social Council in 1970. In that speech, Mr. Robert McNamara, the Bank's fifth President, stated the Bank's concern with environmental issues and the manner in which it planned to address them, in what may now seem to be only a modest beginning:

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<sup>5</sup> See: Independent Commission on International Development Issues, *North-South: A Program for Survival* 114 (1980)

The problem facing development finance institutions, including the World Bank, is whether and how we can help the developing countries to avoid or mitigate some of the damage economic development can do to the environment, without at the same time slowing the pace of economic progress. It is clear that the costs resulting from adverse environmental change can be tremendous. It is equally clear that, in many cases, a small investment in prevention would be worth many times over what would have to be expended later to repair the damage.

In the Bank, ... even more important, we want to work towards concepts that will enable us and other development financing agencies to consider environmental factors of development projects in some kind of cost-benefit framework.<sup>6</sup>

Twenty years ago, a popular view held that because the earth's carrying capacity was finite, rates of economic growth should be deliberately curtailed. Environmentally sound development allowed no other course. The goals of economic development and environmental protection were thought to be mutually exclusive: economic development was believed to be unavoidably destructive to the environment, and environmental protection was considered a luxury and a constraint to development. Today, this view has largely given way to a better understanding of the interdependence of development and the environment.

It is now four years since almost all countries of the world endorsed the concept of environmentally sustainable development at the 1992 United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro. The World Bank has sought to be an active partner in implementing the "Rio imperatives". The Bank's active portfolio of loans whose primary objective is to strengthen environmental management now stands at \$11 billion in 65 countries.

The accords agreed at UNCED reflect the belief that degradation of the environment and depletion of its valuable natural resources not only impede economic development but also threaten human survival. At the Rio conference, also called the Earth Summit, the world community reached an unprecedented consensus on the need to fully integrate environmental concerns into the mainstream of economic decision-making. This is essential if the economic, demographic, and political forces that underlie environmental degradation are to be redirected at both the local and global levels.

With its unique mandate and diverse capacity in technical assistance, project finance, policy dialogue and research, the World Bank is well placed to adopt, and follow through on the holistic approach championed in Agenda 21, the Earth Summit's call for sustainable development.

As the World Bank is seeking to assist our member countries in making development more sustainable, we are undergoing our own "greening". We like to think we are now in the "third generation" of reform.

- *The first phase* – the "post-Brundtland" reforms – took place in the 1987-92 period. It was characterized by a major (and much-needed) focus on reducing potential harm from Bank-financed projects. It involved putting in place Environment Assessment requirements for the projects we support.

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<sup>6</sup> See: Robert S. McNamara, Address to the UN Economic and Social Council, November 13, 1970

- *The second phase* – the “post-Rio boom” – was characterized by a huge expansion of demand for assistance from our clients. This has required that we equip ourselves for the task. Our technical environmental staff has increased in numbers from a handful a decade ago to about 300 today. We now also run around 100 environmental training courses for staff each year, and have embarked upon a major program to draw upon outside expertise.
- *The third phase* – mainstreaming, as we call it – is now underway. It is characterized by a move “upstream” from project-specific concerns, to an integration of the environment into sector and national strategies. Mainstreaming includes re-examining our assistance strategies in agriculture, energy, infrastructure and even our macroeconomic support through the lens of sustainability, incorporating environmental, social and economic considerations. Important shifts are already underway as a result of this approach; but a great deal remains to be done, especially as we look to the agenda for the next 25 years.

But even as we seek to mainstream issues of sustainability in all we do, we need to acknowledge frankly that the transition is not complete. We have much to learn, and we need to be disciplined and vigilant in ensuring that stated policies and intentions are actually applied on the ground.

The Earth Summit and the Bank’s “1992 World Development Report on Development and the Environment” provided the impetus and intellectual foundation for the Bank’s current four-point strategy for sustainable development.

The World Bank’s environmental activities – which involve policy dialogue, lending, technical assistance, research, and aid coordination – have four objectives:

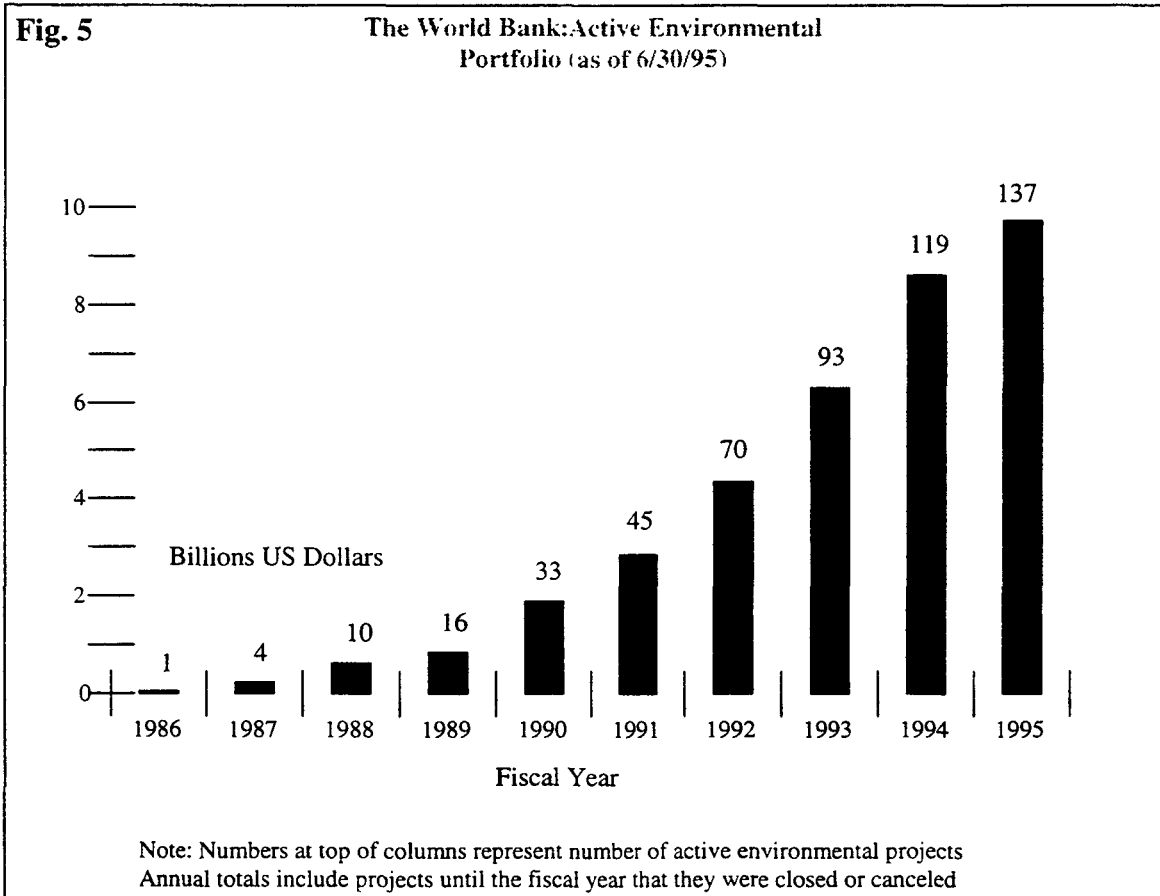
- Assisting member countries in setting priorities, building institutions, and implementing programs for sound environmental stewardship;
- Ensuring that potential adverse environmental impacts from Bank-financed projects are addressed;
- Assisting member countries in building on the synergies among poverty reduction, economic efficiency, and environmental protection; and
- Addressing global environmental challenges through participation in the Global Environment Facility (GEF).

#### **First: Assisting Countries in Environmental Stewardship**

The Bank is actively assisting member countries to strengthen their environmental institutions, policies and investments. In the first three years after Rio, the World Bank committed \$5.6 billion in new loans and credits, explicitly for environmental concerns, and \$1.1 billion for 21 projects was added in fiscal 1995 (see Fig 5, and Fig. 5A for Environmental projects in the Africa

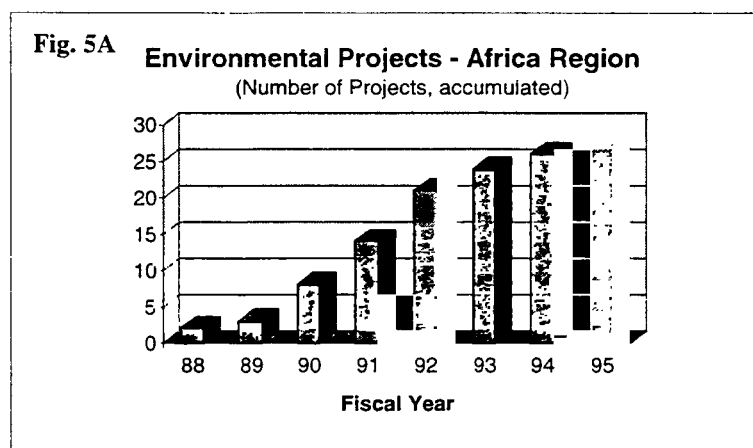
Region). This is apart from the Bank-implemented projects financed by the Global Environment Facility (GEF).

The majority of projects in the currently active portfolio of \$11 billion in 65 countries are new, and \$8 billion is scheduled to be disbursed over the next few years. Ensuring that these projects continue to perform well and that the lessons from their innovative approaches are learned and disseminated will be a major challenge. An increasing number of such investments are being designed in the context of implementing National Environmental Action Plans (NEAPs). These are country-led plans, but they often have technical and financial support provided by bilateral and multilateral agencies. The challenge of the coming years is to turn NEAPs into action; and the World Bank stands ready to play a strong financial and advisory role and will use its role of coordinator of aid groups to help in mobilizing funding.



Of course, individual lending operations still continue to be important vehicles for the Bank to help countries address environmental problems. The environment sector, hence, must assume a central place in the Bank's country dialogue on policies, public expenditures, and

institutions. This will be essential for ensuring the country focus of the Bank's environmental work, and for building country commitment to implement sustainable development strategies. Preparation of NEAPs is an important step in building such commitment, but adequate follow-through is also essential to ensure that the priorities identified and the approaches and policies developed are successfully financed and implemented.



NEAPs and equivalent planning processes are important vehicles for assisting borrowers to set environmental priorities and to map out ways of achieving them. They also facilitate better project selection and design, since NEAPs allow the Bank and other lending institutions and donors to focus support and investments on agreed priority areas.

Clearly emphasis must be put on careful project identification, covering the initial development of project ideas in the context of many competing options. This calls for establishing clear environmental objectives at the outset, by asking: "How much will it cost to achieve various levels of improvement in the exposure to pollution that populations and ecosystems face?" The solutions need to be chosen from among a range of alternatives, including a reliance on economic and/or environmental policy measures, institutional arrangements, or investments in varying levels of technology.

### **Second: Assessing and Mitigating Adverse Impacts of Bank-Financed Projects**

In addition to providing direct support to environmental projects, the Bank continues to strive to make all of its lending environmentally and socially benign. The past years after the Earth Summit have been crucial for the Bank in further strengthening its capacity for environmental and social assessment. The Bank has recently reviewed its experience with EAs, and there is very encouraging evidence that they are increasingly influential in shaping the design and redesign of projects. But there is still a long way to go, and the Bank is heavily active in building capacity for environmental assessment and analysis at the country level.

Environmental concerns became an explicit part of Bank activities in 1970, when the position of environmental adviser was established. Bank environmental policies and assessment

procedures evolved slowly during the following fifteen years, and rapidly during the past decade, reflecting changes in thinking taking place in the international development community. The first internal instruction to Bank staff on the environment which dealt with the social issues associated with involuntary resettlement, Operational Manual Statement (OMS) 2.33, was released in February 1980. This was followed by a statement on tribal peoples in Bank operations issued in February 1982 (OMS 2.34).

The first operational statement on environmental aspects of the Bank's work (OMS 2.36) was issued in May 1984. OMS 2.36 outlined what were seen then as the Bank's "still evolving" policies and procedures "applicable to Bank projects, technical assistance and other work that may have an impact on the environment." The policies and principles of OMS 2.36 are still of significant relevance to current and future Bank environment-related policy and work for two reasons. First, while OMS 2.36 may soon be superseded and issued in the form of a new operational policy statement, it continues to operate to provide guidance on policies and procedures. Second, it has served as the building block for, and has influenced, the subsequent Operational Directives regarding environmental assessment.

OMS 2.36 points out that the Bank's approach was not to adopt environmental "standards," but rather "guidelines". This approach is tailored to local circumstances and respects the "vast differences among (the Bank's) developing member countries".

The OMS summarizes eight principles behind the Bank's guidelines with respect to the environment. These principles are as follows:

- a) The Bank will endeavor to ensure that each project affecting renewable natural resources does not exceed the regenerative capacities of the environment;
- b) the Bank will not finance projects that cause severe or irreversible environmental deterioration, including species extinctions, without mitigatory measures acceptable to the Bank;
- c) the Bank will not finance projects that unduly compromise the public's health and safety;
- d) the Bank will not finance projects that displace people or seriously disadvantage certain vulnerable groups without undertaking mitigatory measures acceptable to the Bank;
- e) the Bank will not finance projects that contravene any international environmental agreement to which the member country concerned is a party;
- f) the Bank will not finance projects that could significantly harm the environment of a neighboring country without the consent of that country. The Bank is willing to assist neighboring members to find appropriate solution in cases where such harm could result;
- g) the Bank will not finance projects which would significantly modify natural areas designated by international conventions as World Heritage sites or Biosphere Reserves, or designated by national legislation as national parks, wildlife refuges, or other protected areas; and

- h) the Bank will endeavor to ensure that projects with unavoidable adverse consequences for the environment are sited in areas where the environmental damage is minimized, even at somewhat greater initial costs.

On the basis of these principles, OMS 2.36 sets forth guidelines applicable to Bank staffing and practice for environmental projects, and for projects with environmental components. It also identifies how "environmental considerations" are integrated into the Bank's project cycle, from the project planning stage (including country economic and sector work), throughout preparation, and continuing through project supervision and project completion reporting. With this OMS, the Bank became the first multilateral development agency to screen projects for their environmental consequences and to adopt environmental guidelines for the evaluation of future lending operations. Moreover, by the mid-1980s, the Bank was financing projects containing specific environmental components.

Since 1984, and particularly since 1989, Bank policies in relation to the environment have become more comprehensive, expanding to include agricultural pest management (1985), management of wildlands (1986), protection of cultural property (1986), collaboration with NGOs (1988), and environmental policy for dam and reservoir projects (1989). In addition, in 1987 the Bank implemented a series of structural changes that strengthened environmental policies, procedures, and staff resources. This process culminated in 1989 with the introduction of Operational Directive (OD) 4.00, Annex A: *Environmental Assessment* (revised in 1991 into OD 4.01: *Environmental Assessment*). This directive requires that all Bank investment projects be screened for their potential environmental effects.

All of these instruments have since been, or are in the process of being, updated and strengthened. More recent directives include ones on indigenous people (1991), water resources management (1993), forestry (1993), and natural habitats (1995). In 1993, all existing ODs began to be revised and incorporated into a new system of operational policies and Bank procedures. The new system comprises three categories of directives: Operational Policies (OP), Bank Procedures (BP) and Good Practice (GP).

OD 4.01 provides guidance to staff on the Bank's policies and procedures for conducting EA of proposed projects. It seeks to ensure that development options are environmentally sound and sustainable, and that environmental consequences are recognized early in the project cycle and taken into account in project design and implementation. This directive also provides guidance on consultation with and disclosure of information to affected groups and local NGOs.

Since the OD 4.01 revision, considerable progress has been made and there will continue to be refinements in the implementation of EA, as Bank staff and borrowing countries gain experience. In the Bank's view, several measures have contributed to this progress:

- 1) the start-up of an accelerated program of EA training for Bank staff and borrowers;
- 2) detailed EA tracking system to keep a handle on the whole portfolio of EAs in the Bank;
- 3) an increase in human and financial resources to expedite the EA process; and

- 4) the publication and regular updating of improved technical guidelines: the three-volume Environmental Assessment Sourcebook and EA Sourcebook Updates.

The Environmental Assessment Sourcebook and a number of Environmental Assessment Sourcebook Updates are important reference publications that provide comprehensive EA guidance on all major sectors. The first volume, dealing with policies, procedures and cross-sectoral issues, was first published by the Bank in July 1991. Specific guidance is provided on social issues, economic analysis, strengthening local environmental management capabilities and institutions, financial intermediary loans, and, most importantly, community involvement and the role of nongovernmental organizations (NGOs). Two other volumes, issued later in 1991, address critical sectoral issues, including agriculture, transportation, urban infrastructure and industry.

The Bank's current EA policy (OD 4.01) requires Bank staff to classify projects into three EA categories, depending on type, location, sensitivity, and scale of the proposed project, as well as the nature and magnitude of its potential impacts. A project is assigned to category A if it is likely to have significant adverse impacts that may be sensitive, irreversible, and diverse; or if it is likely to be comprehensive, sector-wide, or precedent-setting. Category A projects require a full EA to be prepared by the borrower, with technical assistance from the Bank as required. Examples of projects requiring full EA include dams and reservoirs, industrial estates, large-scale irrigation and flood control, land clearance and resettlement.

Projects are assigned to category B when their impacts are not likely to be as sensitive, numerous or as diverse as category A impacts. Although a full EA is not required for a category B project, environmental analysis is required. Examples include small-scale agro-industry, aquaculture and mariculture, rural electrification, tourism, watershed management, and rural water supply and sanitation projects. No EA or environmental analysis is required for category C projects—such as family planning, education, health and nutrition – because they are unlikely to have adverse impacts.

While progress has been rapid, there is no room for complacency. The Bank cannot yet claim that all EAs are satisfactory because that will take time.

Between 1989 and 1995, more than 1,000 World Bank projects were screened for their potential environmental impacts: about 600 of these projects have been screened since UNCED, and 228 were screened in fiscal 1995 alone. Among the investment projects approved by the Bank's Board of Directors in fiscal 1995, 23 projects (10 percent) were classified as category A, which require a full environmental assessment; 81 projects (36 percent) were classified as category B, which require some environmental analysis, and the remaining 124 (54 percent) were classified as category C, which require no EA. In fiscal 1995, category A projects were generally concentrated in the agricultural, energy and power, transport, urban, and water sanitation sectors, reflecting a fairly consistent sectoral distribution over the past three years.

To improve the effectiveness of EAs, the Bank has undertaken two reviews of EAs and is integrating the lessons that emerge into its continuing EA practice. The second review was able to assess the EA process in a more systematic and detailed fashion. It found improvements in the institutional and operational strength of EAs and in the effort to link EA recommendations with project preparation and implementation. The review concluded that the EA process is now firmly rooted in the Bank's normal business activity. An EA's effectiveness in improving the



environmental performance of a project largely depends on two factors: its quality in technical terms and the degree to which it influences a project's conceptualization, design, and implementation.

The second EA review found that as they learn from experience, the Bank and borrower countries are improving the quality of EAs. This has been especially true in the past three years. Direct and site-specific impacts are being identified and evaluated better in EAs for Bank-financed projects within a broad range of sectors and geographical locations. EAs more consistently identify and discuss fully the most relevant issues and impacts, providing a good basis for developing sound mitigation plans and monitoring measures.

Cumulative impacts have proven more difficult to address, because they have indirect or induced impacts. Most EAs focus on the direct impacts of a specific investment rather than on these second – or third – order effects. Reasons for this may include insufficient guidance and training on how to carry out such analysis, lack of attention to these aspects in preparing EA terms of reference, and legitimate questions about the value of such analysis, considering the extra costs involved and relative uncertainty about the validity of findings. Financial limitations in developing countries may also play a role. Clearly, however, it is important to be aware of these factors and, to the extent possible, to ensure that cumulative, indirect, and induced impacts receive the attention they deserve.

Another important issue in environmental assessment is the need to integrate economic and environmental analysis better. To date, few EAs have attempted to quantify environmental impacts in economic cost-benefit terms.

Beyond simply avoiding and mitigating environmental harm, an EA can enhance project design by considering alternative investments from an environmental perspective. To meet Bank standards, EAs must compare systematically a project's proposed design, site, technology, and operational alternatives for their potential environmental impacts. EAs should also compare capital and recurrent costs of each option, their suitability under local conditions, and their institutional, training, and monitoring requirements. Ideally, EAs should quantify each alternative's environmental costs and benefits to the extent possible and attach economic values where feasible.

Considering sectoral investment alternatives adequately from an environmental perspective is far more difficult than simply avoiding or minimizing the negative impacts of a proposal. It is complicated by the fact that borrowers rarely require such an analysis of alternatives in their own EAs. An in-depth analysis of alternatives, including economic analysis of environmental costs and benefits, also requires specialized skills on the part of EA consultants, and many countries and local consultants do not yet have this capacity.

Finally, timing may be a serious constraint when project preparation is not synchronized with the borrowers' planning process. In practice, many EA are carried out at a stage when the major design and location decisions have already been made, and the main available alternatives are either to go ahead with the project, perhaps with limited technological or operational changes, or to abandon it completely. Although these "downstream" planning issues are important, because they may alter the nature and significance of environmental impacts, EAs should ideally also influence the "upstream" planning process. To address this need, the Bank is encouraging the use

of sectoral and regional EAs to introduce environmental concerns before major decisions are made.

The quality of EA mitigation, monitoring, and management plans has improved in the past few years. These plans specify the measures and activities to be undertaken, explain how they will be implemented, indicate their timing and duration, and identify costs, sources of funding, and entities responsible for their implementation.

Many of the problems with these issues have not yet been fully resolved, however, and the Bank is making an effort during appraisal and negotiations to finalize adequate plans and, in particular, to resolve the issue of time in some projects. Further progress is likely with stronger borrower EA requirements, improved borrower capacity to carry out EAs, and more targeted follow-up by the Bank and other donors once draft EA reports have been submitted for review.

In some instances, the Bank's requirements have in themselves led to institutional capacity building in preparing EAs and in preparing mitigation, monitoring, and management plans.

Public consultation plays a key role in identifying and assessing environmental impacts, comparing alternatives, designing appropriate mitigation measures, and building local ownership and participation into the development process. More borrowers are including substantive public consultation as part of the EA and are gaining experience in designing meaningful consultation processes. In many projects, consultations are becoming more open and interactive, using public meetings or new approaches such as interactive television or radio. Consultations include not only local NGOs or representatives of directly affected people but also the whole population in a project area. The quality of EA work has improved significantly as a result.

In some projects, however, borrowers have found it easier to consult with local NGOs than with affected communities, in particular with women and the poor. Some EAs, moreover, still do not sufficiently document the consultation process and its results. Public consultation also remains a challenge in countries whose governments have no similar requirements or cultural traditions in this regard or whose local project and EA consultant teams possess insufficient social science expertise.

To consolidate public consultation in EA, the second EA review suggested the following measures:

- Implementing agencies in borrowing countries should be strengthened to the point where they have sufficient institutional resources to plan and carry out consultations with stakeholders. This requires a staff of qualified professionals in social and communication sciences and a basic office infrastructure.
- Sufficient funds need to be allocated to finance the consultation process. The implementing agency, not the stakeholders, should pay for the necessary equipment, transport, and per diems. Financing institutions like the Bank may be able to help a borrower country identify sources of funding, if needed.

- The borrower agency or EA team should quickly analyze the project's social context to answer the following questions: Who are the relevant stakeholders? What are the customary institutional forms of decision-making in the country? What are the customary forms of communication preceding decision-making?
- Borrowers should be encouraged to identify the appropriate areas and participants in consultation. Not all groups need to be consulted on all details of a project, such as purely technical decisions that do not require public input. However, on decisions that intimately affect local living conditions, the interested communities should take direct part in the decision-making process or make the decisions themselves.

Project agencies should work systematically to ensure that stakeholders are consulted at the main stages of project preparation, particularly the scoping stage, before EA terms of reference are finalized. The conclusions emerging from these consultations should be fed back to the participants for verification.

The second EA review found that, to improve the environmental performance of projects, EAs need to influence overall project preparation and implementation. Even high-quality EAs sometimes lack this dimension and thus have little or no impact on the project. The environmental assessment must be fully integrated with the overall project cycle during project preparation, during negotiation of binding implementation agreements, and during project implementation itself.

In the final analysis, project implementation tests EA effectiveness in two ways. It reveals the extent to which the EA identified and accurately assessed a project's actual environmental impacts. It also reveals the effectiveness of plans and measures intended to avoid or mitigate adverse impacts and to manage and monitor environmental quality. In the process, it demonstrates the performance and capabilities of the institutions responsible for implementing EA-related activities.

The second review of EA found that the general performance of Bank – financed category A projects under implementation is above the Bank-wide average for investment projects; this is encouraging because it suggests that projects subject to full EAs perform better than those not subject to them, even if a direct causal link has yet to be established.

As Bank experience with environmental assessment evolves, important areas of work continue to emerge that require innovative approaches. Among these are Bank work with sectoral and regional EAs, EAs of private sector development projects, and financial intermediary lending.

Just as environmental assessments identify important environmental issues, social assessments (SAs) analyze the social factors that affect development. Like EAs, SAs improve the design and delivery of Bank-assisted projects and analytical work. They also provide a framework for analyzing social factors and for defining the social content of Bank projects and economic and sector work. Social assessment is carried out to order to (a) identify key stakeholders and establish an appropriate framework for their participation in project selection, design and implementation; (b) ensure that project objectives and incentives for change are acceptable to the range of people intended to benefit and that gender and other social differences are reflected in project design; (c) assess the social impact of investment projects and where adverse impacts are identified, determine

how they can be overcome or at least substantially mitigated; and (d) develop capacity at the appropriate level to enable participation, resolve conflict, permit service delivery, and carry out mitigation measures, as required.

Incorporating SA into the Bank's project cycle requires increasing the involvement of stakeholders. In some cases, this can be done during project preparation, but in more and more situations structured learning and SA participation are being built into the project itself.

Some of the good practice lessons<sup>7</sup> from the Bank's recent experience with social assessment are the following:

- SAs must be selective and strategic and focus on issues of operational relevance. Given the range of social factors that potentially affect a project's success, SAs must be tailored to specific problems and situations.
- Good SA involves consulting with stakeholders and affected groups and collecting other forms of data. Often projects are improved when issues are jointly assessed and agreed, or when beneficiaries are given responsibility for identifying problems and solutions. Where local participation in project design and implementation is expected, participatory collection and analysis of data can build trust and mutual understanding early in the project cycle.
- SA design is influenced by the degree of stakeholder involvement required and the complexity of the issues addressed. Where social factors are complex and social impacts or risks are significant, formal studies generally need to be carried out as part of project preparation. Where initial uncertainty is considerable because of lack of awareness, commitment, capacity, SAs contribute to the design of projects that are flexible and responsive to change.
- Task managers need technical and financial support for SAs. Social issues are invariably complex, and task managers need appropriate financial and technical support so that the participatory process and social analysis do not become a source of frustration and delay.

### **Third: Building on the Positive Synergies between Development and the Environment**

The Bank's post-Rio agenda is to build upon the positive win-win links between development and the environment. The Bank is therefore actively expanding programs that are directed towards poverty reduction and economic efficiency and that are also beneficial for the

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<sup>7</sup> The Bank's Social Policy and Resettlement division prepares the Social Assessment Guidelines that support existing Bank policies on Resettlement, Indigenous Peoples, Cultural Property, and Gender by promoting an integrated framework for incorporating participation and social analysis into the design and delivery of Bank-assisted operations and analytical work. The guidelines briefly describe relevant issues – stakeholder involvement, levels of participation, common poverty, participation and project success – and discuss steps in the social assessment process and the range of available methodological tools. Further guidance on specific methods (Beneficiary Assessment) and best practice examples of social assessment are available from the Bank's Environment Department.

environment. Some examples are: the Bank's lending to population activities rose to \$1.2 billion (for 14 projects) and for education to \$8 billion (for 11 projects) in the four years since the Earth Summit, and its support for energy efficiency and for water supply and sanitation has also been increased.

The "Pollution Prevention and Abatement Handbook" has been prepared by the Bank's Environment Department to provide guidance to World Bank and IFC staff and consultants who are involved in pollution-related projects. The Handbook will progressively replace the 1988 World Bank Environmental Guidelines. It is to be used in the context of the Bank's environmental policies set out in OD 4.01, related documents and a new system of operational policies and Bank procedures.

The Handbook promotes sustainable development by focusing attention on the benefits—environmental and economic—of pollution prevention, including clear production and good management techniques. The application of the guidelines set out in the Handbook can minimize the use of resources as well as reduce the quantity of wastes requiring treatment and disposal.

The guidelines represent good pollution management practices which can be achieved and maintained with the levels of skills and resources in the Bank's borrowing countries. The Bank is committed to strengthening management and technical skills and to supporting the development of the necessary institutions. In the absence of relevant national regulations, the guidelines can provide a basis for negotiating site-specific agreements between regulators and industry in those countries.

Part I of the Handbook is under preparation. It will provide a guide to the key policy issues related to pollution management.

Part II provides practical guidance on a wide range of sector-specific topics as well as summaries of good practices in establishing site specific requirements, based on the experience in World Bank projects and lessons from the policies and practices of other agencies and organizations in this field.

Part II presents detailed requirements to be taken into account in the preparation of World Bank industrial projects. It provides a point of reference for good operational targets and acceptable emission levels to protect human health and the environment. It has three subsections:

- An overview of the characteristics of the principal *pollutants*.
- A brief description of the most common *prevention and control technologies* for a number of important pollutants.
- *Sector specific guidelines* that provide a more detailed discussion of cleaner production and pollution abatement for selected industry sectors.

Preparation of the Handbook is an on-going process. Consultations will continue to be held with industry organizations, regulatory agencies and nongovernmental organizations (NGOs).

The Bank also recognizes that poor people are often politically marginalized and excluded from the decision-making and policy implementation processes. Local community participation and consultation can change this by establishing the legitimacy of development efforts and policies at the outset, building powerful constituencies for environmental stewardship, and greatly improving the prospects for successful implementation. The key to effective change is empowering the poor to break the vicious cycle of poverty, population growth and environmental degradation. In this regard, participation by local communities and NGOs in project planning and implementation can give a voice to the marginalized poor whose lives are affected by the development process.

#### **Fourth: Addressing Global Environmental Challenges**

The Bank strategy is concerned with global environmental challenges. The Bank partnership in the Global Environment Facility (GEF) is central to its efforts in this area.

Established in 1991 as a three-year pilot program, the GEF was created to address global environmental issues in four focal areas, namely: climate change, ozone depletion, loss of biodiversity, and international waters. Activities concerning land degradation as they relate to the four focal areas are also eligible for funding. The GEF is jointly implemented by the United Nations Development Program (UNDP), the United Nations Environment Program (UNEP), and the World Bank.

The GEF is a financial mechanism that provides grant and concessional funding to developing countries for projects and programs that protect the global environment in the above-mentioned focal areas. A major objective of the GEF is to “leverage” global benefits from regular bank projects that might not otherwise take these global concerns into account. The GEF covers the difference (or increment) between the costs of a project undertaken with global environmental objectives in mind, and the costs of an alternative project that the country would have implemented in the absence of global environmental concerns. This facility is designed to transfer resources in such a way as to enable governments to address global environmental concerns that otherwise would be neglected and to assist countries in complying with the provisions of international conventions or protocols that target global environmental problems.

In March 1994, negotiations were concluded to restructure the Facility and replenish its Core Fund with over \$2 billion in grant resources to be committed over a three-year period. Thirty countries, nine from the developing world, have pledged over \$2 billion. The contributions of industrialized countries are based on the burden-sharing formula agreed for the pledged additional voluntary contributions, while others will provide co-financing to the Facility.

The GEF has an Assembly, a Council, and a Secretariat. The Council is the main governing body of the GEF. It is composed of representatives of 32 constituencies: 16 from the developing world, 14 from industrialized zones, and 2 from countries with economies in transition. The Council is responsible for developing, adopting, and evaluating the operational policies and programs for GEF activities.

The Assembly consists of representatives of all participating countries. This body, which meets every three years, is responsible for reviewing the general policies of the Facility. Its Chair is elected from among the participants, and all decisions are reached by consensus.

The Secretariat services and reports to the governing Council and the Assembly. It is headed by the Chief Executive Officer of the Facility, who is appointed by the Council on the joint recommendation of the Implementing Agencies.. The Secretariat is functionally independent but supported administratively by the World Bank.

Countries can obtain GEF funds if they are eligible to borrow from the World Bank (IBRD and/or IDA) or receive technical assistance from UNDP through its country Indicative Planning Figure (IPF). The goal is universal membership. As of June 1996, there were 156 participating countries. Any member state of the United Nations may become a GEF Participant by depositing with the GEF Secretariat a Notification of Participation. This form is annexed to the instrument establishing the GEF.

Pursuing poverty alleviation and environmentally sustainable development successfully at the national level depends on preserving the regional and global commons, such as internationally shared water resources. Although actions need to be taken locally, and should be part of national development strategies and programs, problems that traverse national borders often need to be addressed cooperatively with other nations. This is particularly true in the case of transboundary water resources (see the box); efforts to preserve quality of water and ecosystems related to such resources require regional solutions to address global concern for sustainable use of water resources.

The challenge for the Bank is to work with governments to ensure that regional and global objectives are integrated into national environment and development policies. The Bank seeks to do this, on the one hand, through its own regular lending programs. On the other hand, the Bank is the implementing agency of an important global financing mechanism: the GEF.

The four fold agenda of the Bank is a big agenda. As the President of the World Bank Group, Mr. James D. Wolfensohn stated:

At the World Bank we regard the promotion of environmentally sustainable development as one of our fundamental objectives.<sup>8</sup>

Mr. Wolfensohn further elaborated on this issue in his address to the Board of Governors, October 10, 1995:

We must heed the warnings of the Rio Earth Summit and act to protect the world for our children ... without environmental protection, development can be neither lasting nor equitable. My commitment to the task is unequivocal.

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<sup>8</sup> See: Foreword by James D. Wolfensohn, President, The World Bank, to: *Financing Change. The Financial Community, Eco-Efficiency, and Sustainable Development*. Stephen Schmidheiny, Federico J.L. Zorruguin with the World Business Council for Sustainable Development. The MIT Press, London, England, 1996.

## Toward Environmentally Sustainable Development in Sub-Saharan Africa—A World Bank Agenda<sup>9</sup>

*Environmental Issues and Challenges.* More than any other part of the world, Sub-Saharan Africa relies on its environmental resource base, from both an economic and a social perspective. Its environment, however, is at risk for a number of interdependent reasons.

*Heavy reliance on natural capital.* Most economies in Sub-Saharan Africa depend heavily on their natural capital. About two-thirds of the population lives in rural areas and derives its main income from agriculture. African countries consistently identify land degradation, deforestation, lack of access to safe water, and loss of biodiversity compounded by climatic variability as their major environmental concerns.

*Extreme poverty along with very fast population growth.* Poverty is both a cause and a result of environmental degradation. Of the thirty poorest countries of the world, twenty-one are in Africa. The entire region had an average income level of about \$520 per capita in 1993 and a negative (-0.8 percent) per capita income growth rate from 1980 to 1993. The extreme poverty is exacerbated by a demographic explosion unprecedented in human history, with a current annual average growth rate of about 3 percent.

*Urbanization and migration.* Sub-Saharan Africa is the fastest urbanizing region in the world. Thirty years ago only one city had more than a million inhabitants; by 1990, eighteen cities had attained that size. Although cities provide many economic opportunities, they also confront a range of environmental problems: the inadequacy of physical infrastructure and services, the health consequences of crowding and increased exposure to concentrated wastes, unsustainable consumption of resources, and increasing settlement on ecologically sensitive areas. Much of the continent's urban population already lives in coastal cities, and African coasts are attracting increasing numbers of people. As a result, coastal zones are often affected by a wide range of interdependent environmental issues relating to agriculture, forestry, and fisheries and water management at the interface between marine and freshwater ecosystems, as well as infrastructure, urban, and industrial development.

Sub-Saharan Africa contains about 35 million transnational migrants, including some 4 million refugees. These population movements, which are likely to grow, put tremendous strain on traditional social fabrics and concentrate the environmental pressure in certain hot spots.

*Evolution to market economies unsupported by environmental policies and regulations.* Most countries in Sub-Saharan Africa are evolving toward a market economy with an increasingly selective role for the public sector. In parallel, many countries are pursuing economic adjustment to redress macroeconomic distortions. This evolution will promote economic growth and holds great potential for improving environmental management, provided that appropriate environmental policies and regulations, including the use of market-based instruments, are in place and enforced—which is not yet the case for most countries in Africa.

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<sup>9</sup> This has been derived, with the permission of the authors, from: "Toward Environmentally Sustainable Development in Sub-Saharan Africa. A World Bank Agenda." World Bank, Washington, D.C., 1996. Messrs. Francois Falloux, Jan Bojo and Robert Clement-Jones prepared the original report that is the basis for this book.



*Political transition in an extremely fragmented continent.* Most of sub-Saharan Africa is in political transition. The change to more open societies has a positive impact on the environment because, in countries progressing toward political pluralism, decisionmaking becomes decentralized and people are empowered in managing their natural resources. Conversely, countries suffering from political breakdown and civil strife suffer high environmental costs.

The extreme political fragmentation of the continent and the lack of effective mechanisms for regional cooperation hamper environmental management. The current division into forty-eight countries makes it difficult to address subregional issues, such as the management of watershed for the major river basins, the conservation of marine and coastal ecosystems, and the protection of primary rain forest. It also limits the capacity of each government to deal with its own country's environmental concerns.

All these constraints are interdependent and make sustainable development difficult to achieve. Poverty and high population growth often induce land degradation and deforestation, which lead to growing food insecurity and loss of biodiversity. The severity of these mutually reinforcing constraints is compounded by low investment in human capital, which often forces individuals to continue to rely on their own unskilled labor and on short-term exploitation of natural resources as the only ways to survive.

In the next three decades, population growth, migration, and settlement will dramatically change the face of Sub-Saharan Africa. By 2025 the population of Sub-Saharan Africa will total more than a billion people and be growing, with resulting increases in food requirements and environmental pressures. Urbanization will persist; by 2025 the urban population is expected to reach about 700 million, more than half of Sub-Saharan Africa's population.

It is under these circumstances that African countries must make their transition to Environmentally Sustainable Development (ESD). Specifically, they will face six major environmental challenges: achieving food security; facilitating a demographic transition to a more stable population level; influencing migration toward a better distribution of the population; making urbanization sustainable; managing energy, water, and other natural resources in an integrated and sustainable fashion; and speeding development of modern education, information, and communication systems.

***Lessons from World Bank Experience.*** A review of the World Bank's experience in integrating environmental concerns into its assistance to African countries has produced ten main lessons.

- Local environmental planning through National Environmental Action Plans (NEAPs), or equivalent, raises environmental awareness, introduces new environmental policies, and builds institutional capacity.
- Parallel environmental planning in the World Bank through country environmental strategy papers is instrumental in defining the World Bank's environmental work in many Sub-Saharan African countries.

- Promoting ESD requires greater consistency between the World Bank's recommendations on macroeconomic policy and those on environmental management.
- Addressing environmental issues requires cross-sectoral and transboundary approaches and operations, as well as more attention to subregional ecosystems rather than to individual sectors.
- Integrating environmental considerations in investment lending is essential for all sectors since investment lending represents the major part of the World Bank's portfolio.
- Because adjustment lending corrects price and policy distortions, it is a powerful instrument for improving environmental management, provided that environmental policies are incorporated and measures are adopted to avoid potential negative environmental impacts.
- The World Bank's environmental investment lending, although representing only about 10 percent of the portfolio, requires special attention because it is targeted to institutional development and capacity building, the foundations of environmental management.
- Environmental assessment is an essential tool in project design but needs to be used more systematically and effectively: it should be better integrated in the economic analysis of projects, apply to entire sectors, and incorporate geographic information.
- The Global Environment Facility (GEF) is a key instrument to leverage support for global environmental issues and pioneer new approaches to adopt win-win solutions at the national and subregional levels.
- Although the World Bank has significantly increased its environmental capacity, it still needs to invest more in environmental training to fully integrate environmental concerns in its development assistance.

***A Proposed Agenda for the World Bank.*** The World Bank's agenda aims at better assisting African countries in their transition to esd, which is a critical ingredient for reducing poverty—the World Bank's overarching goal in Sub-Saharan Africa. The agenda focuses on the poorest segments of society, who are currently both victims and key agents of environmental degradation. It also focuses on gender issues, since in Africa women play a greater role in environmental management than in any other region of the world.

While reflecting the World Bank's continued environmental commitment during the past decade, the agenda aims to integrate the environment further into the development process. The agenda is anchored in the above lessons and good practices experienced in World Bank operations.

It has been conceived within the guiding principles of the World Bank's Africa Region: to incorporate the views of Africans and assess their priority demands, to select actions with the highest potential for success, to improve cost-

effectiveness, to monitor results for quick feedback, and to develop partnerships. The agenda identifies three overall objectives.

*Achieve food security and improve rural income while conserving ecosystems* through intensified but sustainable agriculture built on two types of improvements: soil fertility management through the use of increased organic and inorganic fertilizer and erosion control techniques and integrated pest management. Improving the security of access to land and other natural resources will require special attention.

*Increase emphasis on urban environmental management* to meet the demands of a rapidly growing urban population for safe water, sanitation, waste management services, and air pollution abatement.

*Develop human capital* both by emphasizing primary education—particularly for girls and with greater attention to environmental knowledge and its practical application—and by strengthening public and private capacity for environmental management. These measures will also facilitate the essential demographic transition to lower population growth rates, combined with improved health and family planning services. Meeting these broad objectives will require actions on several fronts.

- Help countries develop their capacity for environmental management through institutional reforms to foster stakeholder participation and decentralization of decisionmaking, policy measures that balance regulatory mechanisms and legal reform with market-based instruments, investments in priority areas, and donor coordination.
- Combat inconsistent sectoral approaches by addressing cross-cutting issues in a coordinated manner, such as the integrated management of coastal zones, water resources, energy, and rural infrastructure.
- Enhance information and communication through improved collection of data, more systematic use of environmental and geographic information systems and electronic networking, and improved communication through the media.
- Focus on areas under greater environmental pressure, such as certain coastal zones, tropical forests, major urban areas, critical watersheds, and biologically diverse ecosystems.
- Address global environmental challenges by supporting the international conventions on desertification, climate change, and biodiversity, as well as efforts to reduce pollution of international waters. This would be achieved through the strategic use of the GEF to leverage conventional lending.

***A Plan of Action.*** To implement this agenda, the World Bank has already started the following plan of actions:

*Help African countries pursue environmental planning as a participatory process at the national and local levels.* The World Bank will provide support to update the first generation of National Environmental Action Plans (NEAPs) and to translate their NEAPs into local environmental action plans.

*Promote national environmental support programs to implement NEAPs.* Several countries have prepared their programs, which are now being implemented with financial support from the donor community.

*Develop the environmental content of investment lending.* The necessary creation of national environmental agencies needs to be complemented with the development of environmental capacity at the sector level. The World Bank's initiative to base its support on integrated sector programs provides such capacity.

*Create a regional network to better coordinate donors assistance in addressing soil fertility problems more effectively.* This network should monitor soil fertility through land quality indicators, identify critical areas, mobilize financial sources, promote awareness of land degradation, promote programs to enhance soil fertility, and support research.

*Incorporate environmental concerns in adjustment lending more systematically and forcefully.* Special effort will be made both to carry out environmental assessment of adjustment operations and implement mitigation plans.

*Enhance the capacity to prepare and manage cross-cutting operations to complement the sectoral approach.* Several new types of environmental programs have started to deal with issues such as integrated coastal zone management and transboundary environmental problems.

*Strengthen environmental training public information and communication.* Capacity building will be essential to firmly establish new cross-sectoral environmental agencies as well as environmental units in the sectoral ministries. Training will be equally important for the private sector and nongovernmental organizations (NGOS). Public information and communication on environmental matters will be supported.

*Develop financial instruments to effectively finance ESD.* More specifically, the Institutional Development Fund should be adjusted and expanded to help establish transboundary mechanisms to deal with subregional ecosystems. The fund should also be open to supporting NGOs directly as financial intermediaries to reach local communities without necessarily involving governments.

To implement the above plan of action, the World Bank will further integrate the environment in its internal instruments and procedures and enhance its environmental capacity. In particular, the Bank will

- Integrate the environment in country assistance strategies. Similar efforts are planned for public expenditure reviews, poverty assessments and country economic memoranda.
- Use environmental assessments to design a larger number of projects, sectoral programs, and adjustment operations so as to select the best alternative in terms of sustainable development.
- Invest in environmental training, particularly for staff not involved in environmental work.

- Improve internal environmental staffing, organization, and networking. All relevant units will be equipped with adequate environmental staff, which will constitute departmental and regional environmental networks and be linked to clients' and partners' networks.
- Develop environmental information systems and expand them systematically to the overall environmental portfolio as well as to sector lending with environmental components.
- Enhance environmental partnerships and networks both within the World Bank Group and with a broad range of external institutions, particularly those in Africa.
- Monitor the implementation of the plan of action and issue periodic assessments of progress.

While dealing with the overall region, the plan will focus on the environmental priorities of each of the six subregions.

*Sudano Sahelian Belt.* Within the new context of implementing the United Nations Convention on Desertification (the Desertification Convention), the World Bank will support national programs addressing drought preparedness, integrated water resource management, and sustainable fuelwood supply, with special attention to sanitation and waste management.

*Humid West Africa.* Focus on implementing integrated coastal zone management (particularly from Cote d'Ivoire to Nigeria), conserving the remaining primary rain forest, and protecting the high watersheds of major river systems (particularly in Guinea and Sierra Leone). Because about a third of the population in the subregion lives in coastal zones, special attention is required to improve urban and industrial environmental management.

*Congo Basin.* Focus mainly on conserving the second largest contiguous primary tropical rain forest in the world by monitoring its evolution and planning its sustainable use. The World Bank is preparing a project for environmental monitoring in the basin to be financed by the GEF. Attention will also be paid to coastal zones, particularly in areas with intense urban development.

*East Africa.* Focus on reversing land degradation through erosion control, agroforestry, and intensive sustainable agriculture while helping preserve the region's unique biodiversity. Major cities will also need support to improve urban environmental management, particularly in the coastal areas.

*Southern Africa.* Focus on pollution control and improved urban living conditions, which are essential in this highly urbanized region. In the countryside, efforts should balance the conservation of biodiversity and more sustainable agriculture. These measures will help achieve food security and land reform, soil conservation and rehabilitation, adjustment to drought and climatic variability, and integrated water resource management. Support to integrated coastal zone management will also be required, in particular in Mozambique.

*The Islands of the Indian Ocean.* Focus on reversing land degradation while intensifying efforts to protect the unique biodiversity in Madagascar. Control of pollution from urban and industrial development will be a priority on the small islands to make such development compatible with booming tourism.

## **World Bank Organizational Responsibilities for Environmental Activities**

The World Bank's formal structure for carrying out environment-related activities consists of a central Environment Department, Regional Environment Divisions (REDs), and a growing number of environmental units within country departments.<sup>10</sup> Following the Africa Region's recent reorganization, the Region is now served by an Environment Group that both manages the environmental projects and programs and monitors the Region's environmental performance. The Bank's Legal Department has its own Environmental and International Law Unit (LEGEN), and the Economic Development Institute (EDI) emphasizes environment as a major cross-sectoral theme in its training activities for borrowing countries. In addition, senior specialists with environmental expertise are increasingly being integrated into operational units.

The Environment Department is located in the Vice-Presidency for Environmentally Sustainable Development (ESD), along with two other departments, the Agriculture and Natural Resources Department (AGR) and the Transportation, Water and Urban Development Department (TWU). The mandate of ESD is to help develop an effective response to three environmental challenges: (1) the challenge of food production, requiring a major new effort to enhance rural development and agricultural productivity; (2) the challenge of urbanization, requiring special efforts in urban management, mobilizing more affordable housing and utility services, and controlling pollution to create a healthy urban environment; and (3) the challenge of natural resource and ecosystem management, including biodiversity protection and wetlands management. ESD is a policy-oriented, interdisciplinary group that is responsible for planning, formulating, and coordinating the Bank's overall environmental policies and approaches. It recommends environmental and social policies, initiatives, guidelines, and standards to Bank management.

The Environment Department has four divisions: the Land, Water, and Natural Habitats Division (ENVLW); the Pollution and Environmental Economics Division; a new Social Policy and Resettlement Division; and the Global Environment Coordination Division (the coordinating unit for all GEF investment projects managed by the Bank, as well as projects implemented with resources from the Multilateral Fund for Implementation of the Montreal Protocol).

The Environment Department works closely with regional operations and technical departments, particularly with the REDs, as well as with the Legal Department in the implementation of Bank policy. It provides policy interpretation and strategic guidance, assists in the preparation and analysis of country and sector environmental strategies and action plans, and identifies best practices and practical means of project implementation. The department also works with the regional Technical Departments to ensure that the social and environmental assessment process is effectively integrated into the Bank's decision-making and to support the development of effective environmental institutions in borrowing countries.

The Environment Department strives to integrate environmental concerns into the Bank's activities through cross-sectoral and cross-regional policies, to ensure that policy and operational directives and guidelines will be applied consistently across different geographic regions. It also helps in transferring experience gained from one region to another, initiates the development of

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<sup>10</sup> See: Fig. 6 Formal Environmental Structure of the World Bank.

standards and guidelines, and monitors and prepares an annual review on the EA process throughout the Bank.

The Environment Group in the Africa Region works closely with the Country Directors and the Country Teams. They have a review and clearance responsibility for environmental assessments and support the preparation of environmental action plans. They also provide specialized project support when such support is required by the country teams.

Collaboration between the Environment Department and the External Affairs Department is growing and will continue. Areas for cooperation include following up on UNCED, monitoring environmental concerns of Bank policy interest in major international forums, and strengthening communications with the international community generally, NGOs, and the public at large.

The Legal Department, through LEGEN, provides advice on the legal and institutional framework for environment and natural resource management both in sector work and in specific operations. It also provides advice on all legal issues arising under the GEF and other environment-related programs.

The Operations Evaluation Department (OED) plays an important role in the environmental agenda of the Bank. Although the OED does not have an environmental division as such, selected projects are evaluated for their environmental impacts in various sectors within the OED, and the department has undertaken several specific environmental case studies. The Economic Development Institute (EDI) and the International Finance Corporation (IFC) each have an environmental program and responsibilities. IFC provides oversight of environmental and social issues for MIGA.

### **World Bank Project Cycle**

Economic development is a complex process, and progress can be reflected in a number of indicators: GDP, health, literacy, consumption levels, and so on. Correspondingly, there is no single definition of the project concept, and no single archetype for a development project. Nevertheless, projects have certain elements that define them: a set of actions to be accomplished, a managerial system to be activated, and a set of goals to be achieved. Over the years, therefore, a project<sup>11</sup> has come to mean a set of interrelated events designed to achieve, within a specific period and a given budget, defined objectives for: (1) increasing, rehabilitating, maintaining better or using fully the productive capacities of economic or social infrastructure; (2) strengthening local institutions concerned with preparing, implementing, or operating such projects through technical assistance and training; or (3) providing services related to such expenditures (such as for design, engineering, supervision of construction, or other assistance in implementation).

The World Bank has played a key role in developing and applying the project concept. The Articles of Agreement adopted at the Bretton Woods conference in 1944, on which the work

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<sup>11</sup> For the purpose of this publication, we can offer the following definition of a project: "a discrete package of investments, policy measures, and institutional and other actions designed to achieve a specific development objective (or set of objectives) within a designated period." This definition is from : Baum, W.C. and S.M. Tolbert (1985), *Investing in Development: lessons of World Bank experience* , World Bank/Oxford University Press, New York.

of the World Bank rests. stipulate that “loans made or guaranteed by the World Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction and development.”

The World Bank’s project cycle concept recognizes several distinct stages in project preparation and implementation, and several different viewpoints from which the outcomes of projects may be judged. The Bank’s procedures form an integrated approach to deciding what to do, how to do it, where resources will come from, how to deliver and manage the products of the project, and how to integrate lessons learned into preparing and designing future projects. The Bank’s procedures provide a way to analyze the effects of a project from all points of view: those involved in the project, the economy at large, the institutions that will implement the project, the natural and social environment for the project. The Bank’s procedures are concerned that the project design is economically and technically sound, considering not only the engineering or strictly technical aspects of design, but also the management and financing systems, institutional capacity for implementation and the overall sustainability of the project’s outcomes.<sup>12</sup>

Borrowing countries have full responsibility for the design, preparation, and implementation of individual projects, but the World Bank is deeply involved in each of these stages. Once a project has been identified as having a high priority and being able to contribute significantly to the economic development of the country, it undergoes intensive preparation and analysis by the borrower and the Bank to ensure that it is of sound design, is well organized, and measures up to standards of economy and efficiency. This process of project identification, preparation, appraisal, negotiation and loan approval, implementation and supervision, completion and evaluation, is referred to as the project cycle.<sup>13</sup>

Experience has shown that for an investment to be successful, the project must be owned by the borrower and built in partnership with the Bank. How the task managers, both on the borrower’s and the Bank’s side, manage this complex task, develop participatory approaches and integrate the different interests involved in project development will to a great extent determine the positive outcome of the project.

The full integration of environmental concerns in the regular operation of a proponent agency requires an understanding of both likely substantive technical issues and project processing procedures for integrating these issues. The process that has evolved to achieve this integration is known as EA (or project and environmental impact assessment preparation, and their subsequent environmental review) and the underlying principle is that the earlier an EA is undertaken for a proposed project and findings are integrated into project design, the better the overall project result, including the environmental result.<sup>14</sup> Therefore, EA is to be synchronized with the project cycle, from identification through to implementation and evaluation.

The following discussion describes the place of environment in the traditional project cycle. New streamlined procedures are being put in place in the Africa Region and may be

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<sup>12</sup> There are four steps that GEF projects go through that are different from Bank projects. First, the concept is reviewed for GEF eligibility. Second, an independent technical review is conducted. Third, the project must be reviewed by the GEF Operations Committee and the GEF Council for entry into the GEF work program. Fourth, the project is reviewed a second time by the GEF Council, culminating in GEF CEO endorsement.

<sup>13</sup> See: Fig. 7 World Bank Project Cycle; see also Fig. 7A, 7B and 7C.

<sup>14</sup> See: Fig. 8 EA at the World Bank.



followed elsewhere in the Bank. Environmental concerns will be fully addressed by these new procedures, which are based on Bank policies and on the country assistance strategies whose goal is environmentally sustainable development.

### **Identification**

The first phase of the project cycle – identification – usually is based on background information developed through country economic and sector work. Although only governments can propose projects for financial assistance, identification can come from several sources, including Bank identification missions, the work of other United Nations agencies, or even private sponsors in some cases. However, for the project to be formally identified as a priority investment and included in the Bank's multi-year lending program or "pipeline" of projects, it must have the provisional support of both the borrowing country and the Bank to ensure that its objectives are shared by both. A sound project idea should address a key development need, meet the Bank's basic development and investment criteria, and be "owned" by the borrower and stakeholders.

The Bank's task manager (TM) acts within a project cycle as a technical facilitator, explaining the Bank's procedures and processing requirements and outlining how the Bank and other donors can provide assistance. The TM is responsible for the quality of the project at identification and for maintenance of quality throughout the process.

This identification stage may last several weeks or months. It ends when the Initial Executive Project Summary (IEPS) is completed and has been reviewed within the Bank. During identification, all projects also are environmentally "screened" by Bank staff – that is, they are assigned to an EA category which should be approved by REDs. In screening, the Bank's TM and the Borrower review the project to determine the nature and extent of the environmental and social issues potentially involved and, thereby, the scope of further EA that is needed. Summary information of these initial findings is made available to the public through the Monthly Operational Summary (MOS), which contains information on all proposed Bank-financed projects, and, for projects requiring a full EA, an annex of environmental data sheets. The Project Information Document (PID), which sets out basic information on the project's objectives, rationale, design, and environmental and social aspects, is made available to the public through the Bank's Public Information Center.

### **Preparation**

Preparation begins when the Bank and borrower agree on project objectives. The process of preparing a project entails developing an idea into a detailed proposal that considers all aspects of the project – technical, economic, financial, social, environmental and institutional. The goal is to come up with the best method to achieve the project's objectives, by comparing alternatives on the basis of their relative costs and benefits.

Responsibility for project preparation, which can last for 6-18 months, rests primarily with the borrower. The Bank has an obvious interest and tries to ensure that the work is done properly.

The Bank's TM plays a pivotal role by helping the borrower prepare terms of reference (TOR), identify consultants, arrange funding for technical studies, EAs and so on. To a large extent, the quality of intervention and the attitude of the TM determine the outcome of quality at entry. The TM must conduct at least one mission to review the borrower's preparation progress and to provide technical or institutional assistance. This will avoid any last-minute modifications that might be needed to meet the Bank's basic requirements, including environmental and social.

The borrower is expected to complete the EA for Category A projects during the preparation stage. The EA examines possible environmental problems and follows the schedule established in the interagency meeting. When preparation is complete, the borrowing country government sends the project documents and EA report to the Bank. The EA report for a category A project (and a category B project that requires a separate report) must be formally submitted to the Bank prior to departure of the appraisal mission.

The TM informs the borrower of the need to have the EA Report submitted to the Bank in English, French or Spanish. The requirement for an Executive Summary, to be prepared in English, should be specifically called to the borrower's attention. The TM also (i) agrees with the borrower on EA procedures: EA schedule; EA Report Outline; and the scope of the EA; (ii) obtains borrower's permission for releasing EA Report to EDs; (iii) assists the Borrower in drafting TORs for the EA (ensuring that the TORs provide for adequate interagency coordination and consultation with affected people and local NGOs) and with EA financing; and (iv) advises that once the EA Report is made public locally and officially received by the Bank, it will also be made available at the PIC.

When a project is classified as category A, a full-scale EA is undertaken, resulting in an EA report. Category B projects are subject to a more limited EA, the nature and scope of which is determined on a case-by-case basis. The main components of a full EA report are the following:

*Executive Summary:* The Executive Summary should consist of a concise discussion of significant findings of the EA and recommended actions in the project.

*Policy, Legal and Administrative Framework:* Discussion of the policy, legal and administrative framework within which the EA is prepared. The environmental requirements of any cofinanciers should be explained.

*Project Description:* In this section, staff should provide concise descriptions of the project's geographic, ecological, social and temporal context, including any off-site investments that may be required by the project, such as dedicated pipelines, access roads, power plants, water supply, housing and raw material and product storage materials.

*Baseline Data:* For EA purposes, baseline data includes an assessment of the study area's dimensions and a description of relevant physical, biological, and socioeconomic conditions, including any changes anticipated before the project begins, and current and proposed development activities within the project area, even if not directly connected to the project.

*Impact Assessment:* This section includes identification and assessment of the positive and negative impacts likely to result from the proposed project. Mitigation

measures, and any residual negative impacts that cannot be mitigated, should be identified. Opportunities for environmental enhancement should be explored. The extent and quality of the available data, key data gaps, and uncertainties associated with predictions should be identified/estimated. Topics that do not require further attention should be specified.

*Analysis of Alternatives:* A key purpose of EA work is to assess investment alternatives from an environmental perspective. This is the more proactive side of EA—enhancing the design of a project through consideration of alternatives, as opposed to the more defensive task of reducing adverse impacts of a given design. The Bank's EA OD calls for the systematic comparison of the proposed investment design, site, technology, and operational alternatives in terms of their potential environmental impacts, capital and recurrent costs, suitability under local conditions, and institutional, training and monitoring requirements. For each alternative, the environmental costs and benefits should be quantified to the extent possible, economic values should be attached where feasible, and the basis for the selected alternative should be stated.

*Environmental Management Plan (EMP):* An EMP consists of the set of measures to be taken during implementation and operation to eliminate, offset, or reduce adverse environmental impacts to acceptable levels. The plan identifies feasible and cost-effective measures and estimates their potential environmental impacts, capital and recurrent costs, institutional strengthening and development, and training and monitoring requirements. The plan should provide details on proposed work programs and schedules to help ensure that the proposed environmental actions are in phase with construction and other project activities throughout implementation. The plan should consider compensatory measures if mitigation measures are not feasible or cost-effective. Environmental monitoring specifies the type of monitoring, who will do it, how much it will cost, and what other inputs, such as training, are necessary.

### **Appraisal**

After project preparation has been completed by the borrower, the Bank reviews the proposals and undertakes a project appraisal. There is a comprehensive review of the technical, economic, financial, environmental and institutional aspects of the proposal. It is conducted by Bank staff, sometimes supplemented by outside consultants. Bank staff also reviews the EA findings and prepare a draft Staff Appraisal Report (SAR) and a Final Executive Project Summary (FEPS) that discusses how the borrower will address social, environmental and other issues. Appraisal can take 2-3 months.

When Bank staff go to the borrowing country to appraise the project they: (i) review procedural and substantive elements of the EA with the borrower; (ii) assess the adequacy of the institutional responsibilities for environmental management in light of the SA findings; (iii) ensure that the environmental management plan (EMP) is adequately budgeted; (iv) determine whether the EA's recommendations are properly addressed in project design and economic analysis; and (v) review the borrower's Project Implementation Plan (PIP) to ensure that it incorporates the EA's findings and recommendations, including the EMP. The Bank team decides whether and how to fund the project and then revises a draft SAR to reflect findings of the appraisal mission, which

also includes evaluation of the EA report and its findings, and the understanding reached during the appraisal mission. The SAR also discusses significant environmental and social impacts, and normally contains an environmental annex when the issues are significant. Bank management must approve the SAR before loan negotiations may begin.

Cofinancing may be provided by bilateral aid agencies, regional development banks, export credit institutions, or commercial banks. These and other details of the project are outlined in an appraisal report.

### **Negotiations and Board Approval**

After the appraisal mission returns and the appraisal report is issued and reviewed, formal loan negotiations begin between the Bank and the borrower. Both sides must agree on the conditions necessary to ensure the project's success, including detailed schedules for implementation.

It is increasingly important to transfer EA findings and recommendations into appropriate language for environment-related conditions, covenants and implementation schedules in the legal agreements. For this particular purpose, several effective options are available:

(i) *Conditions for loan negotiations, Board approval or effectiveness.* This approach limits flexibility and thus implies certain risks. However, it may be the best way of ensuring appropriate progress up to the point of effectiveness, and of creating a sense of momentum that carries over into project implementation.

(ii) *Conditions for disbursement.* While Bank's leverage is reduced as projects proceed with their implementation, conditioning disbursement on the achievement of certain key environmental milestones still carries considerable weight. When subprojects that may be environmentally sensitive are only identified or respective project-specific EAs finalized after project approval, as is frequently the case in sector loans or programmatic operations, it is necessary to condition disbursement on the completion and review of EA reports.

(iii) *Dated covenants.* They are used rather frequently and usually relate to borrower's management decisions. As a result of these covenants, the Bank supervision could effectively address problems and delays in the areas in which implementation performance improved. Covenants have the advantage of bringing key issues to the full attention of both Bank supervision staff and the implementing agencies on the borrower side;

(iv) *Reference to the EMP and other EA-related measures as described in the SAR.* In this case, the legal agreement simply states that these measures will be implemented as described in these documents. As the SAR lacks legal status, the effectiveness of this approach depends on the quality and clarity of these measures described in the SAR and the commitment of the borrower to implement the project along those lines.

(v) *Inclusion of environmental objectives and particular activities derived from the EA as part of the Description of the Project under Schedule 2 in the legal agreement.* This approach is useful insofar as it underscores that the environmental aspects are considered an integral part of the project, on an equal footing with other components. It is also a most useful place for providing a detailed timetable to carry out the required activities as well as the EMP. Again, borrower's commitment and timely Bank supervision should also ideally be reinforced by covenants and conditions in the main sections of the legal agreement.

(vi) *General statement.* This is common approach that provides a standard, general statement to the effect that the borrower commits itself to follow applicable national environmental regulations and/or international standards and practices acceptable to the Bank. This is often used in combination with one or more other options. To the extent that borrower implementation and enforcement are in place, this may be sufficient. However, such a statement alone may lack the clarity of an EMP and may make supervision and performance evaluation more difficult.

It has emerged from the Bank experience that a key condition for effective environmental implementation is the extent to which there are clear and specific environmental deliverables and performance indicators in the EMP and PIP, including adequate budgeting and specificity about financing of environmental measures, and associated environmental clauses in loan agreement and contract documents. When this is not the case, there is frequently less commitment on the part of the Borrower and its implementing agencies; it is more difficult to supervise projects in terms of their environmental aspects; the supervision is less effective in terms of influencing the subsequent course of implementation; and there is generally less environmental information in supervision reports. Lack of specific environmental clauses also makes it more difficult for implementing agencies and contractors to know what is expected of them.

The agreements, including procurement arrangements, are formalized in loan documents, which are submitted to the Bank's Executive Directors for approval. After approval, the loan agreement is signed by the Bank and the borrower and thus becomes a legal obligation of both parties.

The Bank and the borrower agree on remaining environmental issues and actions to ensure that the project is environmentally sound. Environmental conditions are incorporated in loan documents where necessary. The Bank ensures that the bidding documents and contracts incorporate appropriate measures to protect the environment. Consistent with economy and efficiency in the execution of the project, the contractor must prevent, minimize or mitigate environmental damage during all project implementation activities.

### **Implementation and Supervision**

After the loan is approved, funds are made available to implement the project and purchase the items, works, and expertise needed. Implementation of the project, including procurement of goods and services, is the responsibility of the borrower. The World Bank is not a party to any contract, but it does require that procurement follow agreed procedures as reflected in the legal documents.

The purpose of the Bank's supervision of the implementation of the projects it finances is to help ensure effective project execution by identifying and dealing with problems and issues as or before they arise. As a lending and development institution, the Bank must, on one hand, monitor progress in implementation and compliance with loan conditions, ensuring that loan proceeds are used only for the purpose of the project, and on the other hand, must also help the borrower obtain the greatest benefits from its loans, in particular by identifying and assisting in the resolution of operational and managerial problems. Should borrowers fail to respect their obligations, the Bank may stop loan disbursements, cancel the loan, or request early repayment.

Strong Bank supervision of EA-derived aspects is essential throughout the project cycle because the institutional framework as well as the project itself can change over time, and because Bank expertise and leverage may help resolve critical bottlenecks. The Bank should be more flexible in the frequency and timing of supervision in accordance with the relative seriousness of the problems observed during implementation as well as it should make every effort to maintain contacts with local implementation offices between supervision missions. The Bank may also require periodic progress reports from the borrower that discuss compliance with environmental mitigation measures.

### **Evaluation**

Once the project is completed and the loan is fully disbursed, the Bank undertakes an independent evaluation. It compares actual results with what had been expected when the project was begun. Valuable lessons are learned over time from the successes and failures

At the close of each project, that is, after the last loan disbursement, the Implementation Completion Report (ICR) must be submitted to OED. The ICR discusses, in part, environmental and social impacts, and evaluates programs according to how they prevented or mitigated these impacts. The purpose of the ICR is not to "fix" particular problems, but rather to draw lessons for improving future projects.

There have been serious arguments for extensive post-project environmental impact monitoring for a long time. Two major propositions in support of post-project and post-EA audit are typically articulated: one concerns enhancing forecasting capabilities; the other is focused on improving project outcomes.

The second argument supporting post-project and post-EA monitoring concerns opportunities to ameliorate adverse environmental impacts and evaluate the effectiveness of the EMP, including mitigation measures. The EA recommendations and impact prediction is such that unanticipated impacts occur rather often. Monitoring provides an opportunity to identify adverse environmental impacts and intervene with adequate mitigation measures if impacts are unacceptable.

Although post-project and post-EA monitoring to mitigate adverse environmental impacts lies beyond the scope of the project and loan agreement and they are not commonly undertaken, there are a lot of good arguments to demonstrate the benefits of such monitoring.

In contrast with supervision, which is understood in the Bank to apply during the project execution period, ex post evaluation looks more broadly at the probable impact of a completed project in relation to original expectations.

To ensure its independence and objectivity, this ex post audit is carried out by the Operations Evaluation Department (OED), which is functionally separate from the operating staff of the Bank and which reports directly to the Executive Directors. To assess the performance of completed operations, OED looks at their technical, financial, economic, social and environmental aspects and provides ratings of overall performance and sustainability. The results and recommendations are meant to be fed back into design and implementation of policies and operations. OED has developed a program of impact evaluations that take a second look at a project five to ten years after the completion of loan disbursements.

### **What is Successful Project Implementation?**

Finally, it is important to describe exactly what a "successful project" is. In its simplest terms, project success can be thought of as incorporating the following four basic facets:

- (i) Comes in on schedule – time criterion
- (ii) Comes in on budget – monetary criterion
- (iii) Achieves basically all the goals originally set for it – effectiveness and sustainability criterion
- (iv) Is accepted and used by the clients for whom the project is intended – client satisfaction criterion.

### **The Inspection Panel**

An independent Inspection Panel was established by the Executive Directors in September 1993 to help ensure that the Bank's operations adhere to the institution's operational policies and procedures. Bank-supported projects are designed to conform to the institution's policies and procedures. However, any group of individuals who may be directly and adversely affected by a Bank-supported project or projects can now use the Panel to investigate complaints that the Bank has failed to abide by its policies and procedures.

Detailed guidance for filing requests is provided in the Panel's Operating Procedures. These are available from the Panel's office in Washington, D.C.; the Bank's Bookstore; the Public Information Center in Washington, D.C.; the Bank's offices in London, Paris, and Tokyo, and field offices. They are also available over the Internet (IPANEL@WORLDBANK.ORG).

## World Bank Public Information Center<sup>15</sup>

Effective January 3, 1994, publicly available information about the Bank's activities is available at the Bank's Public Information Center (PIC). A wide variety of documents are available at the PIC; many are also available free through the Internet. The Center is located at 1776 G St., NW, Washington, DC 20433; Tel: (202) 458-5454; Fax: (202) 522-1500, E-mail: pic@worldbank.org. Hours of operation are Monday to Friday, 10:00 a.m. to 4:00 p.m.

Documents available from the PIC include Staff Appraisal Reports, Country Economic Reports, Environmental Assessments and Project Information Documents (PIDs). The PIDs, two- to three-page detailed project summaries produced during project preparation, are a useful supplement to the World Bank Monthly Project Summary. Most documents are available on the Internet at the following address: "Mosaic" or "gopher" at <http://www.worldbank.org//> or [gopher.worldbank.org](http://gopher.worldbank.org).

Public Information Center reading rooms, with documents and workstations, are also located in World Bank offices in Paris, London and Tokyo. Please note the PIC only accommodates requests for specific documents, not blanket requests for information.

The World Bank publications may be ordered by calling the Office of the Publisher at (202) 473-1155, or by faxing an order to (202) 676-0581. Computer users with access to the Internet can link up to the Bank's Index of Publications by using "Mosaic" or "gopher" at <http://www.worldbank.org//> or [gopher.worldbank.org](http://gopher.worldbank.org).

### Conclusion

The detailed account provided in this booklet demonstrates the pervasive involvement of the World Bank in environment issues; the Bank has become in fact the leading international organization concerned with these issues in developing countries. This is a particularly interesting phenomenon. Not only is environment not mentioned in the Bank's Articles of Agreement, other international programs were established exclusively to deal with the environment.

Two reasons account for the Bank's deep involvement and for the increasing prominence of environment issues in its work. *First*, the Bank, like many others concerned with the processes of economic growth and development, has come to realize from hard experience the possible detrimental effects of proceeding with economic development without paying adequate attention to the effects on the environment. It has also become fully aware of the mutually reinforcing relationship between poverty and environmental degradation. "Sustainable development", as it has widely come to be called, cannot be really achieved at the expense of the environment. *Second*, many governments and intergovernmental and nongovernmental agencies concerned with the environment have also come to realize the formidable role the Bank can play in the environment field. Not only is it the premier development finance institution that can be counted upon to help mobilize the needed financial resources; it also plays an acknowledged role as an intellectual leader that often sets the world agenda on development issues. Furthermore, the Bank assumes an important research and advisory function with respect to developing countries. The Bank has thus

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<sup>15</sup> Additional information on the PIC is provided in Fig. 9 and Fig. 9A.



become for good reasons a focal point for concerted demands and frustrations of many of those concerned with the environment.

The Bank's involvement with environment issues goes far beyond its activities as a provider of financial assistance which accepts a social responsibility in ensuring that its assistance enhances or at least does not undermine the quality of life in its borrowing countries. In addition to what may be termed "environment conditionality" in its project loans, the Bank now provides assistance to countries in the preparation of environmental action plans and strategies. Furthermore, it plays an important role in institution building in the environment field by helping countries to introduce appropriate legal and regulatory frameworks and to build up institutions capable of applying and monitoring the application of such regulations. This is particularly evidenced by the Bank's free-standing environment loans and some of its adjustment loans.

The Bank's country-specific actions are complemented by international endeavors addressing global environmental concerns through international legal action (treaties and organizations) and through the concessional funding of activities of global interest which individual countries may find of low priority from a narrow national perspective. The restructured Global Environment Facility, administered by the Bank in cooperation with UNDP and UNEP, provides a general framework within which funding of global and regional activities under present and future international conventions may be channeled to developing countries.

The Bank's role in the protection and improvement of the environment and the changes it has introduced in its internal organization to allow it to play this role effectively may not be adequately known or appreciated. Nor could the effects of this role be measured in a particular country or region in the short term. This booklet is meant to contribute to a better understanding of this role. It should not, however, hide the fact that the Bank, like others, is still a beginner in this field and inevitably makes mistakes in the learning process. Its critics should also realize that the Bank was established to undertake activities which by their very nature introduce changes to the natural state of affairs. It has gone a long way to reconcile this developmental objective with conservation and preservation concerns that are now seen as vital for the sustainability of the developmental projects it finances.

The Bank cannot be expected, however, to act only as a conservationist agency at the expense of the economic development objective it has been established to pursue. Nor should it do so. The inherent and circular relationship between poverty and environment degradation points to the fact that the absence of economic development, rather than its presence, may greatly contribute to environmental damage. What is required in the global interest is that a judicious and workable balance be struck between the requirements of development and of a safe environment. Neither of these essential goals needs to be achieved at the expense of the other. On the contrary, the compatibility of the two goals requires that both should be fully reflected in the work of the Bank and the future efforts of its members.

In today's world, the World Bank is in fact playing the role of a monitor for the protection of the environment with respect to the projects it finances in its borrowing member countries. Increasingly, it also supports broader efforts to save the environment in these countries and to address the effects of their actions on the global environment. Regrettably, no other international organization plays a similar role for the countries that do not borrow from the Bank, and to which most of the damage to the world environment has been attributed.

## **List of World Bank Environment- and Social-Related Policies and Procedures Statements**

An Operational Directive (OD) is a statement of Bank policy covering Bank operations, areas in which the Bank is active, and issues that relate to the effects of Bank lending. Since 1993, the Bank has been working to convert ODs and other statements into a new system of Operational Policies (OPs), and Bank Procedures (BPs). The main objectives that guide the Bank's environmental work are described below.

### **Statements on Environment and Social Issues**

**OD 4.01      Environmental Assessment (EA)  
(to be issued as OP/BP/GP 4.01)**

This directive outlines Bank policy and procedures for the environmental assessment and environmental analysis of Bank lending and operations. Environmental consequences should be recognized early in the project cycle and taken into account in project selection, siting, planning, and design.

**OP/BP/GP  
4.02      Environmental Action Plans (EAP)**

This statement outlines Bank policy and procedure for preparation of Environmental Action Plans (EAPs) by borrowing governments. This includes support to foster preparation and implementation of an appropriate EAP in each country, reflect the findings and strategies of the country's plan in Bank work, and provide technical assistance as requested. The EAP aims to identify key environmental problems, set priorities, lead to natural environmental policy, and guide investment programs. It should be reflected in Bank operational work.

**GP 4.03,  
Parts I - IV      Agricultural Pest Management**

The Bank's policy is to promote effective and environmentally sound pest management practices, and advocates the use of integrated pest management techniques in Bank-supported agricultural development projects. Any Bank loan that provides substantial funding for pesticide procurement or increase of the use of pesticides in the project must include specific measures to promote environmentally sound pest management, as well as safety in pesticide handling and use.

**OP/BP/GP  
4.04**      **Natural Habitats**

Bank policy is to support projects that protect and enhance wildlands, and projects that may affect wildlands so long as appropriate conservation measures are incorporated, including measures to avoid conversion wildlands of special concern.

**OP 4.07**      **Water Resources Management**

This policy promotes economically viable, environmentally sustainable, and socially equitable management of water resources. It includes the provision of potable water, sanitation facilities, flood control, and water for productive activities. Among priority areas for Bank assistance and involvement are the development of a comprehensive framework for designing water resources investments, policies, and institutions; adoption of appropriate pricing and incentive policies for water resources; decentralization of water service delivery; restoration and preservation of aquatic ecosystems against overexploitation of water service delivery; avoidance of water quality problems associated with irrigation investments; and establishment of standard legal and regulatory frameworks to enforce policies. In cases where the borrower has made inadequate progress in priority areas of water resources management, Bank lending is limited to operations that do not draw additionally on water resources.

**OP 4.09**      **Pest Management**

This policy supports safe, effective, and environmentally sound pest management. It promotes the use of biological and environmental control methods. In Bank-financed projects, pest management is carried out by the borrower in the context of the project's environmental assessment.

**OD 4.20**      **Indigenous Peoples**

This directive provides guidance to ensure that indigenous people benefit from development projects, and to avoid or mitigate adverse effects of Bank-financed development projects on indigenous peoples.

**OD 4.30      Involuntary Resettlement  
(to be issued as OP/BP/GP 4.12)**

This directive describes Bank policy and procedures on involuntary resettlement, as well as the conditions that borrowers are expected to meet in operations involving involuntary resettlement. Where large-scale population displacement is unavoidable, a resettlement plan, timetable, and budget are required. The policy aims to ensure that the population displaced by a project is provided with the means to improve, or at least restore, former living standards, earning capacity, and productivity levels.

**OP/GP 4.36    Forestry**

This policy statement provides guidance to Bank staff involved in forestry projects, detailing that the Bank will not finance commercial logging operations or acquisition of equipment for use in primary moist tropical forests; and in forests of high ecological value, the Bank will finance only preservation and light, nonextractive use of forest resources. Objectives are to provide for a sustainable stream of direct or indirect benefits to alleviate poverty and to enhance community income and environmental protection.

The Bank expects governments to have adequate provisions in place for conserving protected areas and critical watersheds, as well as for establishing environmental guidelines and monitoring procedures.

**OD 9.01      Procedures for Investment Operations under the Global  
Environment Facility  
(to be issued as OP/BP/GP 4.05)**

This directive describes the steps additional to standard Bank investment lending procedures—including environmental assessment—required to process Global Environment Facility (GEF) operations.

**OD 4.00,  
Annexes  
B-B4**

**Environmental Policy for Dam and Reservoir Projects**

This annex sets out policy for dam and reservoir projects and codifies best practices, including preparation of preliminary environmental reconnaissance to identify potential environmental effects and ascertain the extent of needed environmental studies and actions. Policy requires creation of an independent, expert, environmental panel for large dams and other projects with major environmental implications. Adverse environmental impacts should be avoided, minimized, or compensated for wherever possible during project design (e.g. by modification of dam location or height), and by measures implemented as part of the project.

**Operational  
Policy Note  
No.11.03**

**Management of Cultural Property in Bank-Financed  
Projects  
(to be issued as OP/BP/GP4.11)**

Bank policy is to assist in the preservation of cultural property where part of a Bank-financed operation, and to avoid its elimination. The Bank normally declines to finance projects that will significantly damage nonreplicable cultural property, and assists only those projects that are sited or designed so as to prevent such damage.

**OP/BP  
10.21**

**Investment Operations Financed by the Multilateral Fund of  
the Montreal Protocol**

This policy describes the identification process, the eligible activities, and the steps required to receive grants from the Multilateral Fund for the Implementation of the Montreal Protocol. The processing of operations and procedures for appraisal under the Ozone Projects Trust Fund of Montreal Protocol follow the Bank's general procedures.

### **Statements that are Supportive of Environment**

#### **OP/BP/GP 8.41 Institutional Development Fund (IDF)**

This directive describes the purpose and use of the IDF as a small grant facility for financing technical assistance for institutional development work in policy reform, country management of technical assistance, and areas of special operational emphasis, particularly poverty reduction, public sector management, private sector development, and environmental management.

#### **OD 14.70 Involving Nongovernmental Organizations (NGOs) in Bank-Supported Activities. (to be issued as GP 14.70)**

This directive sets out a framework for involving NGOs in Bank-supported activities, and provides staff with guidance on working with NGOs, including those organized to address environmental and social issues

### **Statements with Environmental References**

#### **OD 2.00 Country Economic and Sector Work (CESW)**

CESW analyzes the macroeconomic and sector development problems of borrower countries. As the long-term quality and sustainability of development depends on other factors in addition to economic ones, country economic work may also focus on questions of the environmental effects of alternative policy options.

**BP/GP 2.11 Country Assistance Strategies**

The country assistance strategy (CAS) is the central vehicle for review by the Bank's Executive Directors of the Bank Group's assistance strategy for IDA and IBRD borrowers. It is a concise, analytic, and issue-oriented statement that provides information on the historical perspective and recent economic and portfolio performance; the country's external environment in terms of external trade, investment, and financial policies; and the Bank Group's country assistance strategy. The CAS presents the main objectives of the Bank's program of assistance for the country, including efforts to reduce poverty and sustain the environment.

**OD 2.20 Policy Framework Papers  
(to be issued as OP/BP 2.20)**

Policy Framework Papers (PFPs) are vehicles for governments to reach agreements with the Bank and International Monetary Fund on the broad outline of medium-term programs to overcome balance of payments problems and foster growth. PFPs should maintain an adequate balance in the coverage of macroeconomic, sectoral, social, environmental and institutional aspects. In diagnosing the current situation, any long-term constraints on development, including the environment, should be covered briefly.

**OD 4.15 Poverty Reduction  
(to be issued as OP/BP/GP 4.15)**

Sustainable poverty reduction is the Bank's overarching objective. Maintaining the environment is critical if gains in poverty reduction are to be sustained and if future increases in poverty are to be avoided. In sector work, particular attention is paid to the impact of sector policies on the links between environmental issues and poverty.

**OP/BP/GP 7.50      Projects on International Waterways**

The Bank recognizes that projects involving the use of international waterways for development purposes may affect relations between the Bank and its borrowers and also between states, whether members of the Bank or not. The international aspects of Bank-supported projects on international waterways are dealt with at the earliest possible opportunity and, where appropriate, other riparians are notified of the proposed project and its project details. Any proposed project's potential to harm the interest of other riparians through deprivation of water, pollution, or otherwise is determined and affected riparians are notified. The Bank attaches great importance to riparians making appropriate agreements or arrangements for the use and protection of the waterway; where differences exist, prior to financing, the Bank urges states to negotiate to reach appropriate agreements or arrangements.

**OP/BP/GP 8.40      Technical Assistance**

Technical assistance (TA) for policy and project preparation includes support for environmental action plans, project preparation, and environmental assessment. Institutional development TA addresses the need to strengthen capacity for environmental analysis and enforcement.

**OD 8.60              Adjustment Lending Policy  
(to be issued as OP/BP/GP 8.60 under the title  
Adjustment Lending)**

Analysis of adjustment programs considers implications for the environment. Bank staff review the environmental policies and practices in the country. The design of programs takes into account the findings and recommendations of such reviews.



**OP/BP 10.00      Investment Lending: Identification to Board Presentation**

During project identification, Bank staff decide on the environmental category assigned to a project, the type and timing of any environmental assessment, and the environmental and natural resource management issues to be examined. The Project Identification Document (PID) and Staff Appraisal Report (SAR) address or track these same points. The Memorandum and Recommendation of the President discusses the project's environmental impact, the main findings of the environmental assessment, consultation with affected groups, and feedback to these groups in the findings of the assessment.

**OP/BP 10.04      Economic Evaluation of Investment Operations**

The economic evaluation of Bank-financed projects takes into account any domestic and cross-border externalities. A project's global externalities – normally identified in the Bank's sector work or in the environmental assessment process – are considered in the economic analyses when (a) payments related to the project are made under an international agreement, or (b) projects or project components are financed by the Global Environment Facility.

**OD 13.05      Project Supervision  
(to be issued as OP/BP 13.05)**

For each project, a supervision plan is prepared and discussed with the borrower during project appraisal. The plan covers the entire supervision period and includes aspects of the project, such as the environment, that require special Bank attention during supervision. In addition, in the project implementation summary, the project is rated in terms of both implementation of any environmental component included and any unforeseen environmental deterioration resulting or threatening to result from implementation of the project.

**OP/BP/GP  
13.55**

**Implementation Completion Reporting**

This policy requires an implementation completion report (ICR) for each lending operation in the Bank finances. The ICR assesses the degree of achievement of the project's major objectives (including environmental objectives), prospects for the project's sustainability, Bank and borrower performance, project outcome, and the plan for the project's future operation. Special attention is given to evaluation of environmental and other objectives, in order to improve project performance in these areas and build a store of information for expanded evaluation. For projects requiring an environmental assessment, the ICR evaluates specific concerns raised in the environmental assessment process, including environmental impacts anticipated in the environmental assessment report, the effectiveness of the mitigation measures taken, and institutional development and training regarding the environment.

**BP 17.50**

**Disclosure of Operational Information**

This statement describes the Bank's policies and procedures with respect to the disclosure of project information documents, Staff Appraisal Reports, gray cover economic and sector work reports, sectoral policy papers, and environment-related documents. Copies of environmental assessments (EAs) required for Category A projects must be made available in the borrowing country at some public place accessible to affected groups and local NGOs and must be submitted to the Bank; once they are locally released and officially received by the Bank, country departments send a copy to the Public Information Center. Copies of environmental action plans are also sent to the Public Information Center once the Bank has officially received the plan and obtained the government's consent. This policy applies also to documents prepared for projects financed or cofinanced from trust funds, including the Global Environmental Trust and the Ozone Trust Fund.

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in the World Bank Africa Region**

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## ABBREVIATIONS/ACRONYMS

|                 |  |
|-----------------|--|
| <b>AGR</b>      | Agriculture and Natural Resources<br>Department                      |
| <b>ARPP</b>     | Annual Report on Portfolio<br>Performance                            |
| <b>ASTEN</b>    | Asia Technical Environment Division                                  |
| <b>AFTEI</b>    | Africa Technical Environmentally<br>Sustainable Development Division |
| <b>BP</b>       | Bank Procedures  |
| <b>BTO</b>      | Back-to-Office Report  |
| <b>CAM</b>      | Country Assistance Management  |
| <b>CEM</b>      | Country Economic Memorandum  |
| <b>CESW</b>     | Country economic and sector work                                     |
| <b>CIR</b>      | Country Implementation Review  |
| <b>CPPR</b>     | Country Portfolio Performance<br>Review                              |
| <b>CSP</b>      | Country Strategy Paper   |
| <b>DECVP</b>    | Development Economics and Chief<br>Economist Vice Presidency         |
| <b>EA (EIA)</b> | Environmental Assessment<br>(Environmental Impact Assessment)        |
| <b>EAP</b>      | Environmental Action Plan  |
| <b>ECAVP</b>    | Vice Presidency for Europe and<br>Central Asia                       |
| <b>ECIII</b>    | Country Department III   |
| <b>EC3AI</b>    | Agriculture, Industry and Finance<br>Division                        |
| <b>ECIV</b>     | Country Department IV  |
| <b>EC3IV</b>    | Infrastructure, Energy and<br>Environment Operations Division        |
| <b>EDI</b>      | Economic Development Institute (of<br>the World Bank)                |
| <b>EMP</b>      | Environmental Management Plan  |
| <b>EMTEN</b>    | Europe, Middle East and North Africa<br>Environment Division         |
| <b>ENVLW</b>    | Land, Water, and Natural Habitats<br>Division                        |
| <b>EPS</b>      | Executive Project Summary  |
| <b>ERL</b>      | Economic Recovery Loan   |
| <b>ERL</b>      | Emergency Reconstruction Loan  |
| <b>ESDVP</b>    | Vice Presidency for Environmentally<br>Sustainable Development       |
| <b>ESW</b>      | Economic and sector work   |

|                  |  |
|------------------|--|
| <b>FEPS</b>      | Final Executive Project Summary  |
| <b>FPDVP</b>     | Vice Presidency for Finance and<br>Private Sector Development            |
| <b>GEF</b>       | Global Environment Facility  |
| <b>GP</b>        | Good Practices   |
| <b>HROVP</b>     | Vice Presidency for Human Resources<br>Development and Operations Policy |
| <b>IBRD</b>      | International Bank for Reconstruction<br>and Development                 |
| <b>IDA</b>       | International Development<br>Association                                 |
| <b>IEPS</b>      | Initial Executive Project Summary  |
| <b>IFC</b>       | International Finance Corporation  |
| <b>IFIs</b>      | International Financial Institutions                                     |
| <b>IM</b>        | Initiating Memorandum  |
| <b>IMF</b>       | International Monetary Fund  |
| <b>IPM</b>       | Integrated Pest Management   |
| <b>ITPAL</b>     | Industrial and Trade Policy<br>Adjustment Loan                           |
| <b>LATEN</b>     | Latin America and the Caribbean<br>Region Environment Division           |
| <b>LEGEN</b>     | Legal Department Environmental and<br>International Law Unit             |
| <b>M &amp; E</b> | Monitoring and evaluation  |
| <b>MIGA</b>      | Multilateral Investment Guarantee<br>Agency                              |
| <b>MOP</b>       | Memorandum and Recommendation<br>of the President                        |
| <b>MOS</b>       | Monthly Operational Summary  |
| <b>NEAP</b>      | National Environmental Action Plan                                       |
| <b>NGO</b>       | Nongovernmental organization   |
| <b>OD</b>        | Operational Directive  |
| <b>ODA</b>       | Official Development Assistance  |
| <b>OECD</b>      | Organization for Economic<br>Cooperation and Development                 |
| <b>OED</b>       | Operations Evaluation Department   |
| <b>OMS</b>       | Operational Manual Statement   |
| <b>OP</b>        | Operational Policies   |
| <b>OPN</b>       | Operations Policy Note   |

|              |   |
|--------------|---|
| <b>OPR</b>   | Operations Policy Department  |
| <b>PCR</b>   | Project Completion Report   |
| <b>PFP</b>   | Policy Framework Paper  |
| <b>PIC</b>   | Public Information Center   |
| <b>PID</b>   | Project Information Document  |
| <b>PIP</b>   | Project Implementation Plan   |
| <b>PIR</b>   | Project Implementation Review   |
| <b>PMU</b>   | Project Management Unit   |
| <b>PPF</b>   | Project Preparation Facility  |
| <b>PPR</b>   | Project Performance Report  |
| <b>RED</b>   | Regional Environment Division   |
| <b>SA</b>    | Social assessment   |
| <b>SAL</b>   | Structural adjustment lending   |
| <b>SAL</b>   | Structural Adjustment Loan  |
| <b>SAR</b>   | Staff appraisal Report  |
| <b>SECAL</b> | Sector adjustment Loan  |
| <b>SPPF</b>  | Special Project Preparation Facility  |
| <b>TA</b>    | Technical assistance  |
| <b>TAL</b>   | Technical assistance loan   |
| <b>TM</b>    | Task manager  |
| <b>TOR</b>   | Terms of reference  |
| <b>TWU</b>   | Transportation, Water and Urban<br>Development Department                         |
| <b>UNCED</b> | United Nations Conference on<br>Environment and Development<br>("Earth Summit")   |
| <b>UNDP</b>  | United Nations Development Program  |
| <b>UNEP</b>  | United Nations Environment Program  |
| <b>WCED</b>  | World Commission on Environment<br>and Development (the Brundtland<br>Commission) |



# ORGANIZATION CHART OF THE WORLD BANK - November 1996

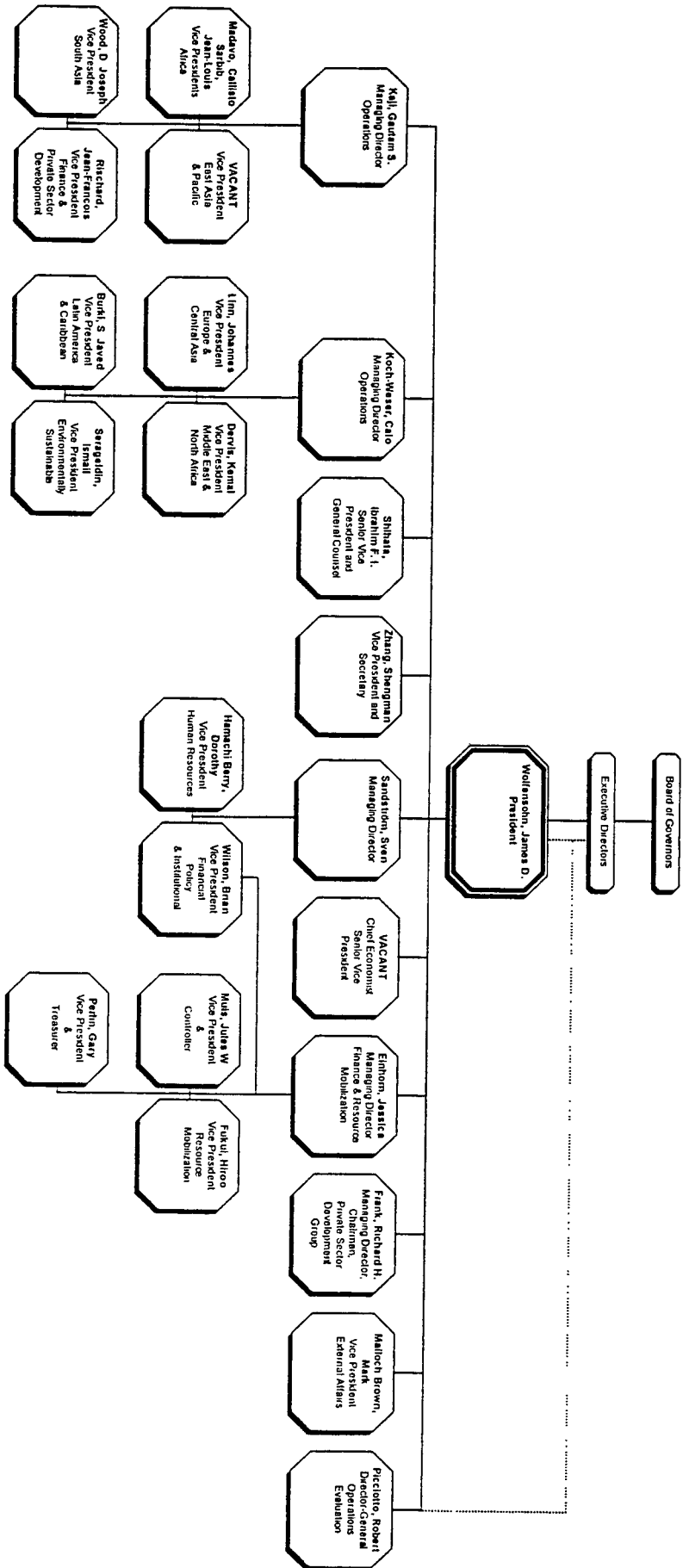


Fig. 1

**Africa Region Organization Structure**  
November 4, 1996

Fig. 2

|   |   |
|---|---|
| <b>Regional Front Office</b>                            |   |
| Vice Presidents   | Callisto Madavo & Jean-Louis Sarbio         |
| Chief, Regional Front Office                            | Pratib Patel                                |
| Special Advisor, Agriculture                            | Daniel Bender                               |
| <b>Knowledge Center</b>                                 |   |
| Technical Director                                      | Kevin Cleaver                               |
| Regional Initiatives                                    | Ohane Owusu Nyanin                          |
| <b>Economic Management &amp; Social Policy</b>          | Alan Gelb                                   |
| <b>Human Development</b>                                | Birger Fredriksen                           |
| <b>Agriculture and Environment</b>                      | Randolph Harris (acting)<br>Hans Binswanger |
| <b>Infrastructure</b>                                   | Peter Watson                                |
| <b>Operations Support</b>                               | Stephen Weissman                            |
| <b>Resource Management &amp; Information Technology</b> | Charlotte Jones-Carroll                     |

**Countries and Country Directors/Resident Representatives**

|   |   |  |   |   |   |   |   |  |  |   |  |  |   |   |  |
|---|---|--|---|---|---|---|---|--|--|---|--|--|---|---|--|
| South Africa (Judith Eastrom),<br>Botswana, Lesotho, Swaziland, Namibia<br>Pamela Cox | Mozambique (Roberto Chaves),<br>Zambia (Gordon Moko),<br>Phyllis Pennington | Angola (Philip Owusu),<br>Madagascar (Jani Zulliger), Zimbabwe (David Cook),<br>Barbara Kallia | Tanzania (Ruaidh Brighan),<br>Uganda (Brian Falconer),<br>James Adams | Kenya (Keneth Oshu), Djibouti,<br>Haiti (William) | Ethiopia (Fayez Omar), Eritrea,<br>Somalia, Sudan<br>Ory Mestobek | Cameroun (Robert Lacey), Chad,<br>Zaire, Gabon<br>Andrew Rogerson | Comoros, Madagascar (Philippe La Houerou),<br>Seychelles, Mauritius<br>Michael Sams | Congo (Pierre Demangel),<br>Burundi (Francis Nantobogo),<br>Rwanda (R. Venkateswaran), Equatorial Guinea,<br>Central African Republic (Sakomon Sambo),<br>Ivory Coast (John) | Burkina Faso (Albert Osei),<br>Chad (Kenneth Framji),<br>Serge Achouffir | Cote d'Ivoire (Chantal Dajou),<br>Shiguo Matsui | Nigeria (Trevor Byers),<br>Suget Singhastang | Benin (Michael Azor), Togo (Monique Garity),<br>Niger (Edward Brown),<br>Theodore Anders | Senegal (Cedman Mills), Cap Verde,<br>Guinea Bissau, Gambia<br>Mamadou Ayob | Mali (Grace Yabudiy),<br>Mauritania (Claude Desplaine),<br>Sao Tome and Principe<br>Hanan Tulay | Guinea (Esauelo Louzaki),<br>Liberia, Sierra Leone<br>Mamadou Da |
|---|---|--|---|---|---|---|---|--|--|---|--|--|---|---|--|

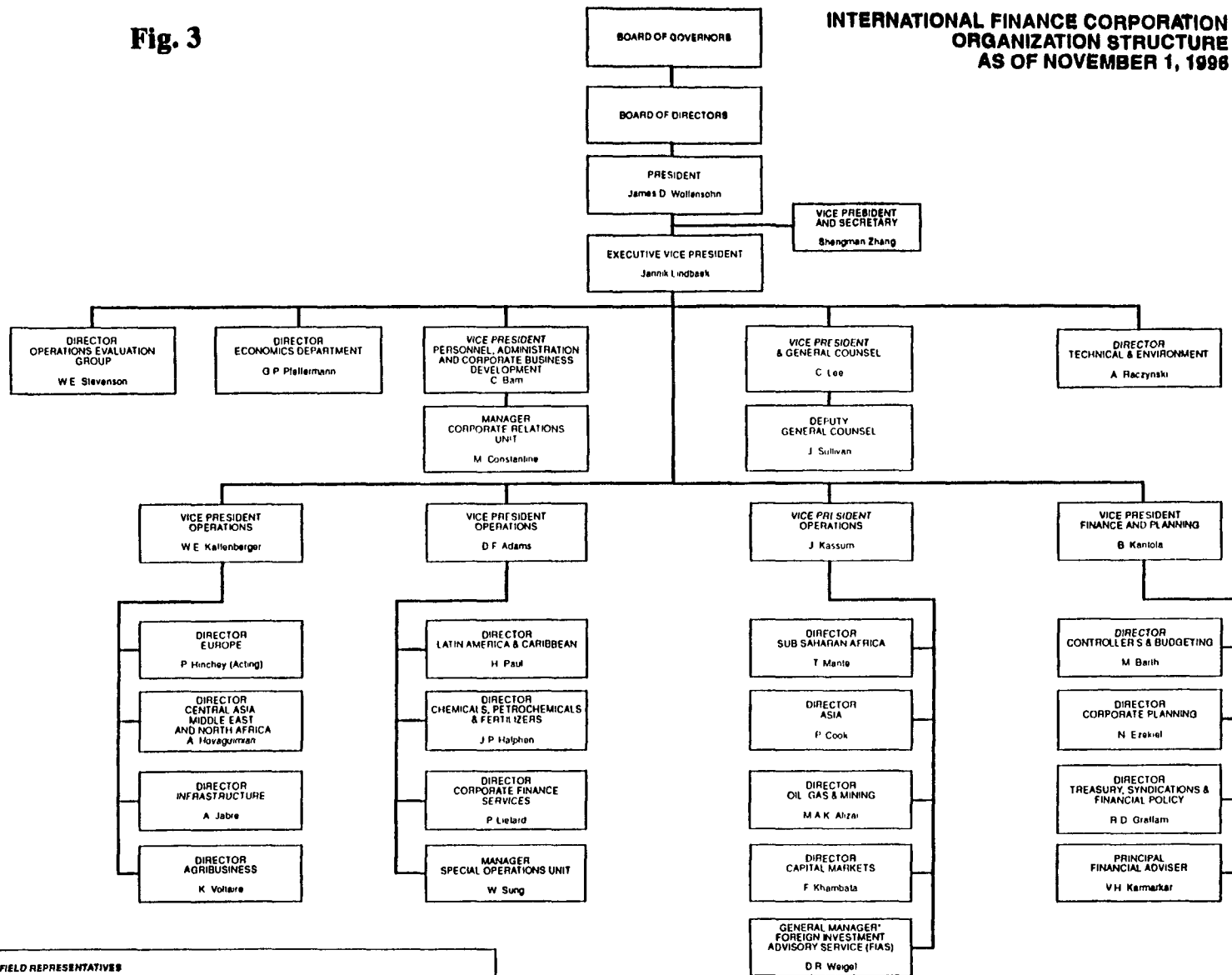
|  | CD1 | CD2 | CD3 | CD4 | CD5 | CD6 | CD7 | CD8 | CD9 | CD10 | CD11 | CD12 | CD13 | CD14 | CD15 | CD16 |
|--|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|------|------|------|------|------|------|
| <b>Macroeconomics 1</b><br>Ataman Akay                             |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Macroeconomics 2</b><br>Roger Orsma                             |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Macroeconomics 3</b><br>Emmanuel Akpa (acting)                  |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Macroeconomics 4</b><br>Charles Njupraya                        |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Macroeconomics 5</b><br>Peter Harold                            |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Private Sector Finance</b><br>Thomas Akin (acting)              |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Infrastructure and Social Policy</b><br>Roger Sullivan (acting) |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Human Development 1</b><br>Ruth Kagia                           |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Human Development 2</b><br>Ok Pannenberg                        |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Human Development 3</b><br>Hajana Riba                          |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Agriculture 1</b><br>Sushma Ganguly                             |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Agriculture 2</b><br>Joseph Besh-Dwomoh                         |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Agriculture 3</b><br>Jean-Paul Cheusse                          |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Environment</b><br>Cynthia Cook                                 |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Transport 1</b><br>Mary-Ann Pressis-Fraser                      |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Water, Urban &amp; Energy 1</b><br>Jeremy Reid                  |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Transport 2</b><br>Mary-Ann Pressis-Fraser                      |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Water, Urban &amp; Energy 2</b><br>Max P. Vidal (acting)        |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Operations Support 1</b><br>Surindra Agarwal                    |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Operations Support 2</b><br>Florence Agueh                      |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Operations Support 3</b><br>Bertrand de Chazal (acting)         |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Resource Management 1</b><br>Christine Berg                     |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Resource Management 2</b><br>Elsine Hubert                      |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Resource Management 3</b><br>Mahyar Hashemzadeh                 |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Resource Management 4</b><br>Mike Dilbard                       |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |
| <b>Information Technology and Systems</b><br>Hugh Sloan            |     |     |     |     |     |     |     |     |     |      |      |      |      |      |      |      |

Technical Staff Groups and Technical Managers



**Fig. 3**

**INTERNATIONAL FINANCE CORPORATION  
ORGANIZATION STRUCTURE  
AS OF NOVEMBER 1, 1998**



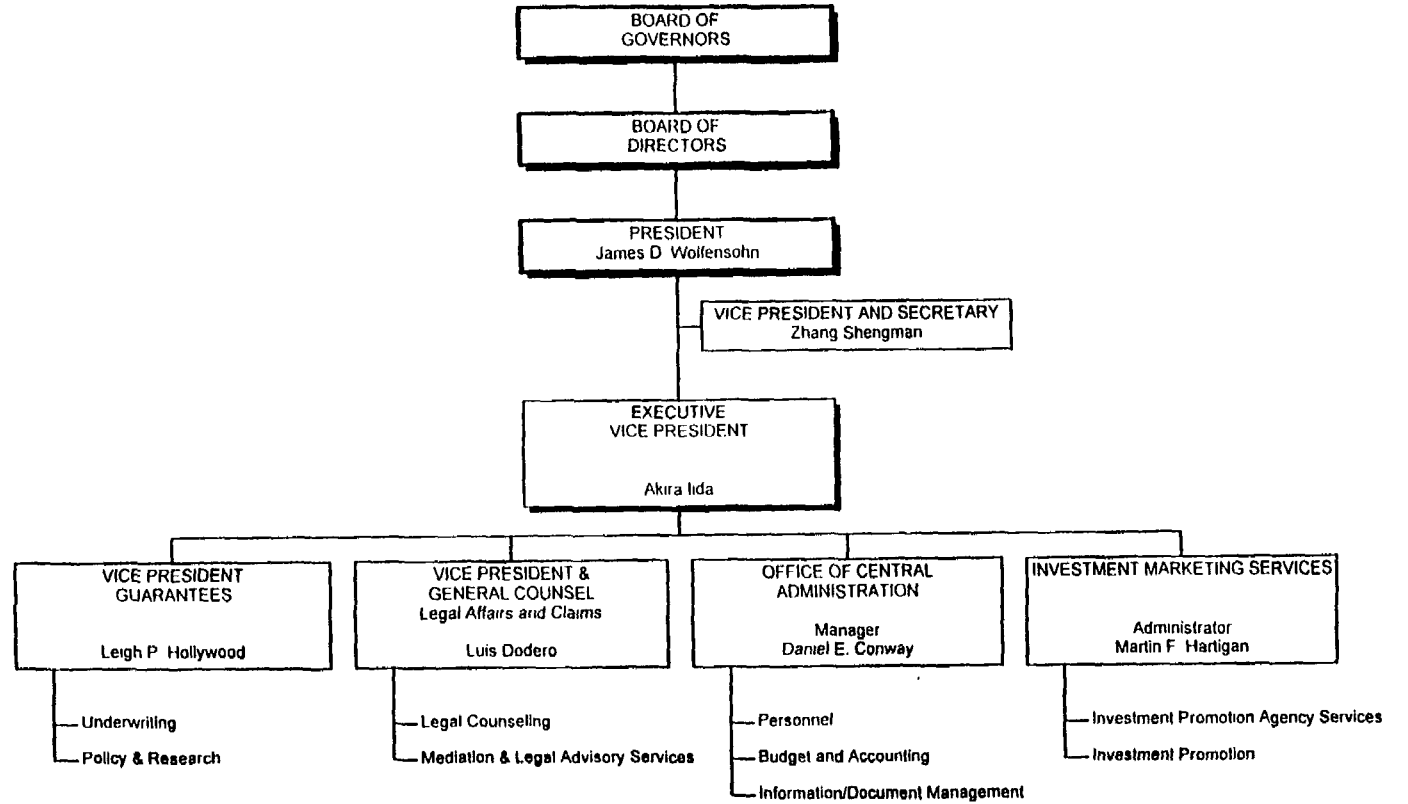
**IFC FIELD REPRESENTATIVES**

|                            |                            |                          |
|----------------------------|----------------------------|--------------------------|
| Abidjan Vacant             | Harare M Mwachoh           | Nairobi M Hooper         |
| Bangkok D Litaonwala       | Islamabad M G Essex        | New Delhi M D Leonard    |
| Beijing D Mackenzie        | Istanbul S Balasubramanian | Paris V Thapar           |
| Budapest Vacant            | Jakarta A H David          | Sao Paulo B R Leighton   |
| Buenos Aires P Batalla     | Johannesburg V Ragus       | Sydney R Pearson (CFASP) |
| Cairo M Nunez              | Legos M Wikramanayake      | A Proctor (CFAP)         |
| Casablanca M Kelada Antoun | London D Gustafson         | Tokyo M Iritani          |
| Czech Republic Vacant      | Manila Vacant              | Warsaw J H Stevenson     |
| Douala Vacant              | Mexico City M Alonso       |                          |
| Frankfurt E Holmann        | Moscow E Nassim            |                          |

\* Reports jointly to IFC and IBRD

**Fig. 4**

**ORGANIZATION CHART: MULTILATERAL INVESTMENT GUARANTEE AGENCY  
November 1996**



**Fig. 6 Formal Environmental Structure of the World Bank\***

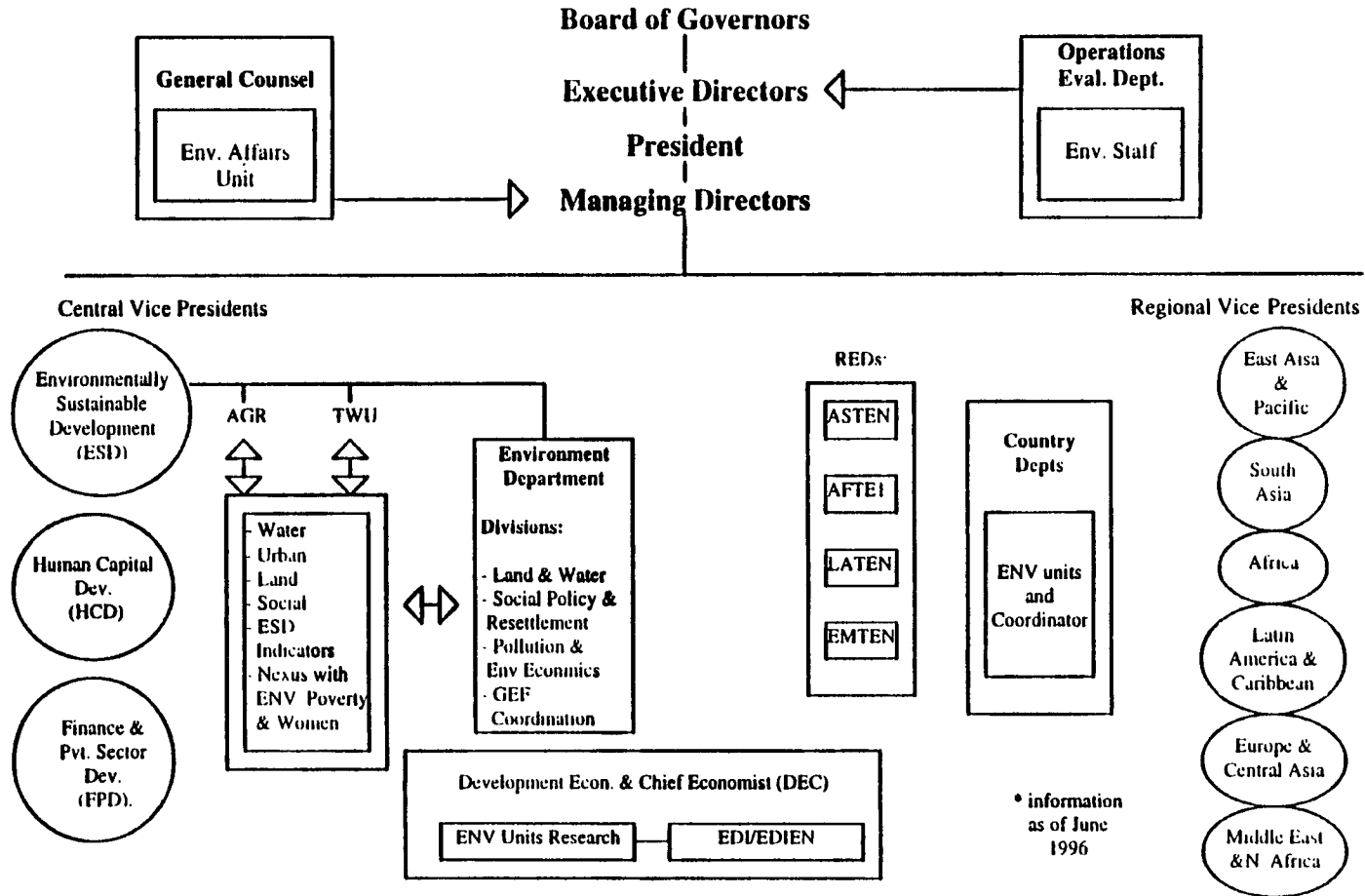
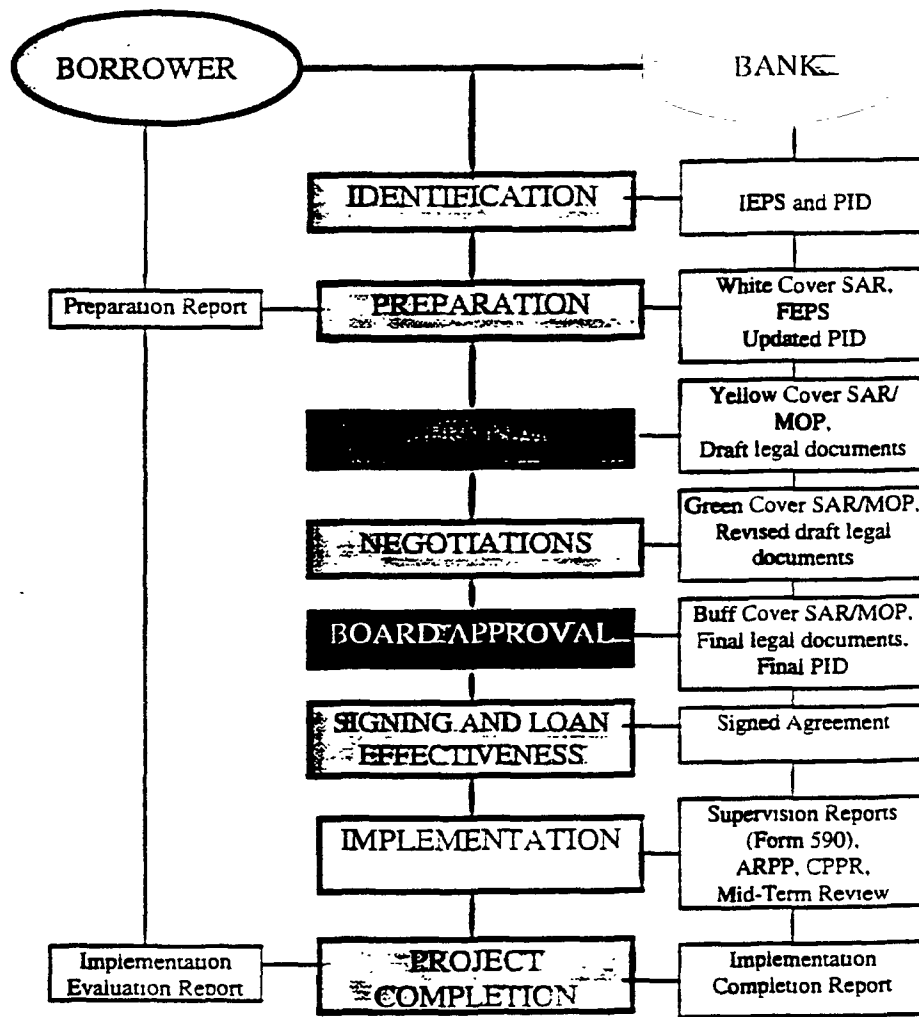


FIG. 7A

# The Project Cycle Documentation



**Key Responsibilities:**



Borrower: Primary  
Bank: Advisory



Joint



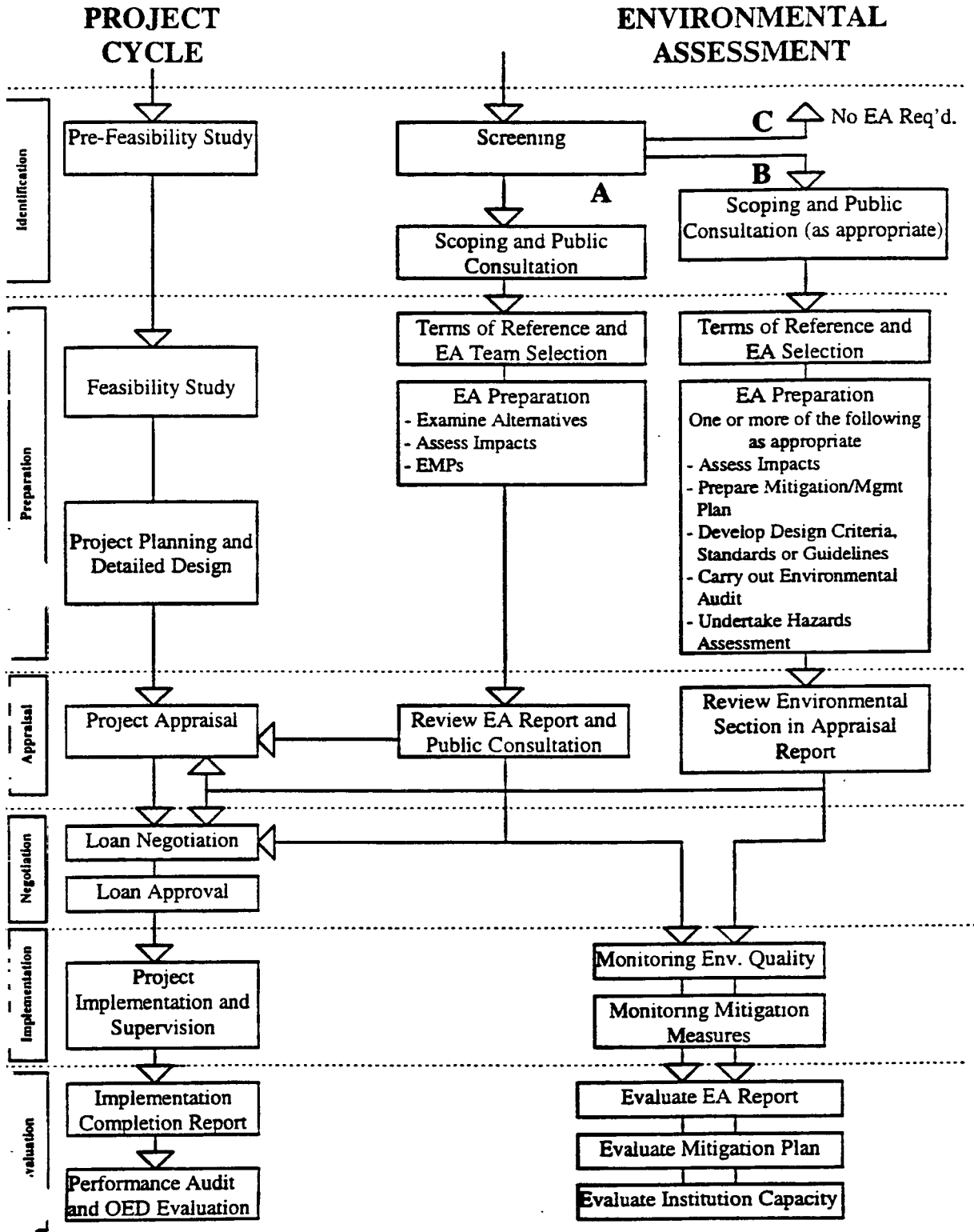
Bank: Primary  
Borrower: Advisory



Bank: Sole

Fig. 7C

### Environmental Assessment and the World Bank Project Cycle



## FIG. 9A

### *Documents Available through the PIC*

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Ⓢ = standard charge of \$15.00      Ⓝ = no charge

#### **IBRD/IDA Documents**

- Ⓢ ***Economic and Sector Reports*** include macroeconomic analysis of a country's economy, analyses of major economic sectors, and other reports on specified issues such as poverty assessment, private sector investment, and public expenditures. (*Abstracts are available on the Internet.*)
- Ⓝ ***Environmental Analysis*** are required for projects that will have an impact on the environment that may not be significant or irreversible. The report may be presented as an annex to the Project Information Document for the project or may be issued as a separate report and listed along with the Environmental Assessments
- Ⓢ ***Environmental Assessments (EAs)*** are detailed studies required for projects likely to have significant impact on the environment. Such studies are available before the final appraisal of the viability of a project. (*Abstracts are available on the Internet.*)
- Ⓝ ***Environmental Data Sheets (EDS)*** give summary information on the expected areas of environmental impact of a proposed project and announce the studies that are to be done to address the issues raised. EDSs are prepared for every project and are updated quarterly. (*Full texts are available on the Internet.*)
- Ⓢ ***Loan and Credit Agreements*** are the legal documents that are signed by the government and the Bank following Board approval of each IBRD loan or IDA credit. The documents are made publicly available at the time the loan or credit is declared ready for disbursement.
- Ⓢ ***National Environmental Action Plans (NEAPs)*** of borrowing governments describe the major environmental concerns of a country, identify the principal causes of problems, and formulate policies and concrete actions to deal with the problems. (*Abstracts are available on the Internet.*)
- Ⓝ ***Operational Policies (OPs) and Bank Procedures (BPs)*** establish the parameters for the conduct of Bank operations. They include the core set of Bank policies and procedures for ensuring quality and consistency across the regional and central vice presidencies. (*The table of contents is available on the Internet as well as the texts of the OPs and BPs.*)
- Ⓝ ***Project Information Documents (PIDs)*** give a brief summary of an evolving project and area subject to updating and expansion as project preparation proceeds. (*Full texts are available on the Internet.*)

## FIG. 9A

### ***Documents Available through the PIC*** (continued)

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#### **Operations Evaluation Department Documents**

- ⌘ ***Sector Policy Papers*** present reviews of major issues relevant to a specific economic sector and give the broad guidelines on the Bank's policy for assistance to that sector. (*Abstracts are available on the Internet.*)
- ⌘ ***Staff Appraisal Reports (SARs)*** contain a description of a project and the plan for its implementation, including procurement procedures. Certain types of projects (structural adjustment operations, technical assistance loans, emergency loans) do not have an SAR. In these cases a *Technical Annex (TA)* may be publicly available. (*Abstracts are available on the Internet.*)
- ⌘ ***Lessons & Practices*** are short publications that provide recommendations and "best practice" guidelines for development practitioners, drawn from the Bank's development experience. (*Full texts are available on the Internet.*)
- ⌘ ***OED Précis*** are short publications offering ready access to key findings and recommendations from OED's evaluation program. (*Full texts are available on the Internet.*) The Operations Evaluation Department (OED) is an independent evaluation unit of the Bank. It rates the development impact and performance of all the Bank's completed lending operations. Results and recommendations are fed back into the design and implementation of policies and lending operations. OED also evaluates the Bank's policies and processes. In this category, documents issued on or after November 8, 1994 are publicly available.
- ⌘ ***Reviews and Studies*** track and analyze trends in the Bank's portfolio and draw conclusions and recommendations of policy and practice, based on the Bank's experience. "Country Assistance Reviews" assess the suitability of the Bank's assistance strategy in particular countries and the effectiveness of the instruments chosen. "Sector Reviews" feed into the Bank's reviews of its sector lending policies. "Impact Evaluations" assess the economic worth of completed projects and the long-term effects on people and the environment. (*Texts of executive summaries are available on the Internet.*)

#### **IFC Documents**

- ⌘ ***Environmental Review Summaries*** present key findings of studies carried out for projects that may result in specific environmental impacts and require adherence to certain predetermined standards. (*Full texts are available on the Internet.*)
- ⌘ ***Environmental Assessments*** are studies required for projects that may result in diverse and significant environmental impacts. (*Titles are available on the Internet.*)
- ⌘ ***Summaries of Project Information (SPIs)*** provide a brief factual summary of the main elements of the evolving project. (*Full texts are available on the Internet.*)





# Manual Transmittal Memorandum

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April 28, 1989

## Operational Directive 4.00, Annex B: Environmental Policy for Dam and Reservoir Projects

1. This annex sets out the Bank's environmental policy for dam and reservoir projects. It codifies "best practice" prevailing Bank-wide in four areas:
  - (a) in all cases, carrying out a preliminary *environmental reconnaissance* to ensure that potential environmental effects are identified and to ascertain the extent of environmental studies and actions required (para. 8);
  - (b) *bidding documents* and contracts to include environmental clauses (para. 12);
  - (c) for large dams and other projects with significant environmental implications, creation of an *environmental unit* within the project agency (para. 17); and
  - (d) normally, for large dams and other projects with major environmental implications, an independent, expert, *environmental panel* (parallel to the approach required for dam safety) to be established (para. 18).
2. Questions on this directive should be referred to the Chief, Environmental Operations and Strategy, Environment Department.
3. Additional copies are available on a self-service basis in H 4234

Attachment



# Operational Directive

## Environmental Policy for Dam and Reservoir Projects

### Introduction

1. Dam and reservoir projects improve water supply for irrigation and households, provide power, control floods, and reduce fossil fuel depletion and the environmental effects of fossil fuel burning. However, as with many other projects, particularly in the tropics, there may be adverse as well as beneficial environmental impacts (see Annex B1). With careful planning, such adverse effects can be minimized or mitigated, and the beneficial effects enhanced. This annex sets out the Bank's environmental policies for dam and reservoir projects.<sup>1</sup> The Bank will normally finance projects only in compliance with this annex.

### Policies

2. Governments need to have environmentally and economically sound macroeconomic and sector policies on matters which affect dam and reservoir projects. In the context of individual investment projects, the Bank should review these policies and seek to improve them where necessary.

### Basic Planning Principles

#### Area of Influence

3. Dam and reservoir projects often affect a very large area (see Annex B2), which should be determined at an early stage with the advice of environmental specialists.

### Costs and Benefits

4. Adverse environmental impacts should be avoided, minimized, or compensated for wherever possible during project design (e.g., by modification of dam location or height), and by measures implemented as part of the project, bearing in mind the need to balance environmental, economic, social, and other concerns. Opportunities to increase benefits should be sought in the design of the project, such as by using reservoirs for waterfowl, tourism, and fisheries. Cost-benefit analyses should explicitly include estimates for all necessary mitigatory measures, as well as for quantifiable environmental losses and enhancements due to the project.<sup>2</sup> Special attention is necessary if the proposed project depends on another future project to attain its full economic potential.

### Design Alternatives

5. Design of investment programs for supplying water or energy should consider demand management as well as supply options (e.g., conservation of water and energy, efficiency improvements, system integration, cogeneration, and fuel substitution). Environmental analysis is essential in decisions on the need for a project, its type (e.g., thermal versus hydro), size, location, and area of influence. Where viable alternatives exist, careful dam siting is critical to minimize the inundation of forest or other wildland areas, and the dislocation of people. The creation/protection of compensatory forest or

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1. The Bank's general guidelines on environmental policy are in OMS 2.36, *Environmental Aspects of Bank Work* (to be reissued as OD 4.00, *Environmental Policies*). Issues relevant to many dam and reservoir projects include involuntary resettlement of people (OMS 2.33, *Social Issues Associated with Involuntary Resettlement in Bank-Financed Projects*, to be reissued as OD 4.30, *Involuntary Resettlement*), tribal people (OMS 2.34, *Tribal People in Bank-Financed Projects*, to be reissued as OD 4.40, *Tribal People*), wildlands (OPN 11.02, *Wildlands: Their Protection and Management in Economic Development*, to be reissued as OD 4.00, Annex D), cultural property (OPN 11.03, *Management of Cultural Property in Bank-Financed Projects*, to be reissued as OD 4.50, *Cultural Property*), international riparian rights (OMS 2.32, *Projects on International Waterways*, to be replaced by OD 7.50), and dam safety (OMS 3.80, *Safety of Dams*, to be reissued as OD 7.70). Guidance on sedimentation and induced seismicity can be obtained from AGR and ENV.
  2. See para. 27 of OMS 2.21, *Economic Analysis of Projects*, (to be reissued as OD 10.40, *Economic Criteria*).

## Operational Directive

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other wildland areas should be promoted. The feasibility of preparing the reservoir area prior to inundation should be determined. Removal of vegetation will improve the water quality of the reservoir and reduce growing conditions for aquatic weeds, while removal of timber and other obstacles will improve the possibility for net fishing and enhance water circulation, important for oxygen distribution.

### *River Basin Planning*

6. Benefits from dam and reservoir projects increase when they become regional development projects which integrate, for instance, power generation, irrigation, and municipal water supply, with catchment area management and rural development. Designing water projects in the context of overall river basin and regional development plans normally reduces the potential for unanticipated cumulative adverse environmental effects and intersectoral problems. The need for catchment area management and improved land use (e.g., discouraging settlement in flood-prone areas) should also be systematically considered.

### *Environmental Effects of Involuntary Resettlement*

7. The lands inundated by a dam typically are more productive than neighboring uplands, and are therefore more densely populated by people and livestock. Displacement of the lowland population to the uplands often endangers the environment, as more people and livestock have to survive on a reduced resource base. Demand for arable land, fuel, fodder, potable water, building materials, and other resources may increase dramatically, and the carrying capacity of the uplands may be quickly exceeded unless development assistance increases the productivity of the remaining resource base. The Bank's resettlement policy (OMS 2.33, to be reissued as OD 4.30, *Involuntary Resettlement*) emphasizes maintenance/restoration of the social and economic production systems and income levels of *both* the displaced population and

the host population among whom they are relocated.

### **Project Cycle**

#### *Environmental Reconnaissance*

8. During identification, an environmental reconnaissance (draft terms of reference [TOR] in Annex B3), by independent, recognized experts or firms--selected by the borrower and approved by the Bank--is essential to

- (a) ensure that potential environmental effects are identified,
- (b) ascertain the scope of further environmental studies and actions needed,
- (c) assess the ability of the borrower to undertake them, and
- (d) advise on the need for an environmental panel (para. 18).

Information collected would be documented and provided to the Bank and government agencies concerned, to ensure that environmental factors are fully considered in project design, including determination of the final dam site and height, and should comprise part of the baseline data against which subsequent changes can be measured. The Project Preparation Facility (PPF) (OMS 2.15, *Project Preparation Facility*, to be reissued as OD 8.00), may finance such reconnaissance.

#### *Environmental Assessment*

9. During preparation, the Bank should review the draft TOR for the environmental assessment<sup>3</sup> part of the feasibility study, the short list of consultants, and their technical proposals. The environmental assessment should be consistent with country legislation on procedures and

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3. A directive on Environmental Assessment is to be issued as OD 4.00, Annex A.

# Operational Directive

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requirements. Broad intersectoral cooperation should be ensured--such as with agricultural, fisheries, forestry, health, wildlife, tourism, municipal, and industrial agencies--both at policy and field levels. Biotic, cadastral, social, and cultural property surveys should be started early.

## *Appraisal*

10. The appraisal mission should include environmental specialists to assess the environmental analysis, the design of measures to minimize or mitigate adverse environmental impacts, and the capacity of the borrower's staff to implement them. The environmental panel, where required (para. 18), should be convened during project appraisal, and future activities of the panel reviewed. The Staff Appraisal Report should describe the environmental issues and their resolution, as well as the institutional arrangements.

## *Sector Investment Loans*

11. Sector investment operations (as distinguished from specific investment projects) in sectors that include major dam and reservoir projects should proceed only when the environmental capabilities of the sector are adequate, or provisions to establish adequate environmental protective measures have been agreed upon during appraisal.

## *Bidding Documents*

12. The Bank should ensure that bidding documents and contracts incorporate appropriate measures to protect the environment. (Annex B4 outlines the clauses to be included.)

## *Supervision*

13. The environmental monitoring system, dam construction contractors' performance, adequacy of the environmental measures, institutional arrangements, training and performance of the in-house environment unit (para. 17), and reports of the environmental panel should be reviewed with the

borrower during supervision, and any necessary corrective actions identified and agreed upon.

## *Completion and Post-Audit*

14. Completion reports should review environmental problems and progress. In addition, as some environmental effects become apparent only after a decade or more of operation, the Bank should encourage the borrower to contract an independent environmental post-audit a decade or so after impoundment.

## **Institutional Aspects**

### *Environmental Capacity of National and Sectoral Institutions*

15. Major dam and reservoir projects should be used to help build environmental capacity (analytical, regulatory, and enforcement) in institutions at the national and sectoral levels through training, consultancy, and policy dialogue, and to foster coverage of dams and reservoirs by environmental legislation.

### *Interagency Coordination*

16. Environmental benefits can be maximized and costs reduced by improved intersectoral planning. Potential environmental implications are often better anticipated by involving the agencies responsible for environment, health, tourism, social affairs, municipal and industrial water supply, agriculture, livestock, fisheries, and navigation--plus state and provincial authorities. Environmental agencies should be consulted in project planning and preparation to ensure that relevant line ministries and other decision-makers are made aware of potential environmental impacts and recommended mitigatory measures.

### *In-House Environmental Unit*

17. Each project involving large dams<sup>4</sup> or having significant environmental implications

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<sup>4</sup> As defined in para. 4(i) of OMS 3.80, *Safety of Dams*, to be reissued as OD 7.70.

## Operational Directive

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requires an in-house environmental unit with adequate budget and professional staffing strong in expertise relevant to the project (usually physical and biological science and sociology). It should normally be established within the implementing ministry/agency (such as that for irrigation or energy) or in a river basin authority, be located or well-represented at the project site, and work in conjunction with existing central agencies. Strengthening of any existing agency-wide unit may be better than creating a new one. The unit should be established as early as possible to help ensure that preproject baseline data are collected and environmental problems anticipated at an early stage. It should exist during project implementation plus an additional period to be agreed with the Bank. The unit should ensure that monitoring and evaluation anticipate environmental problems, and that mitigatory measures are implemented. Early and extensive training of unit staff is a priority.

### *Environmental Panel*

18. For projects involving large dams, or having major environmental implications, the borrower should normally engage an advisory panel of independent, internationally recognized, environmental specialists, the composition of which should be determined by the environmental reconnaissance (para. 8). However, in certain cases, the reconnaissance study may advise, based on the significance of the environmental issues and the borrower's (including consultants') capacity to deal with them, that the panel is not needed. The costs of the panel could be financed from the loan/credit. Its TOR, and the short lists of individual experts from which the panel is to be selected, should be acceptable to the Bank. The panel should advise the borrower periodically on environmental aspects of the project, including:

- (a) analysis of the findings of the environmental reconnaissance;
- (b) the TOR and findings of the environmental assessment,

- (c) environmental plans, procedures, budgets, and progress throughout the life of the project; and
- (d) the in-house environmental unit's staff, training, functions, and relations with the ministry of environment.

Depending on circumstances, panel reviews would normally be held once or twice a year during preparation and implementation, or when the in-house environmental unit requests. The advisory panel should continue to function after completion of the project for a few years (as agreed with the Bank), and could be convened on an ad hoc basis thereafter.

### *Consultation with Nongovernmental Organizations (NGOs) and Affected Groups*

19. Community organizations, research centers, environmental advocates, and other NGOs can often provide valuable perspectives on improving both project design and implementation (see OMS 5.30, *Collaboration with Nongovernmental Organizations*, to be issued as OD 14.70). To tap these perspectives, the Bank encourages consultations by project authorities (including consultants preparing the project) with appropriate NGOs, particularly local NGOs. Various mechanisms for consultation may be appropriate, including sponsored public hearings or national workshops. Bank staff, too, should consult with NGOs as appropriate, bearing in mind the capacity of NGOs to offer important perspectives on project design, and the need to protect the confidentiality of information shared between the Bank and the borrower (see AMS 1.10, *Directive on Disclosure of Information*). In addition, the Bank encourages consultation between project executing agencies and the population affected by the project, as part of the project design process (OMS 2.12, *Project Generation and Design*, to be reissued as OD 10.00, and OMS 2.20, *Project Appraisal*, to be reissued as OD 10.10). This includes tribal people (OMS 2.34, to be reissued as OD 4.40, *Tribal People*) and those who have to be resettled under

# Operational Directive

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the project (OMS 2.33, to be reissued as OD 4.30, *Involuntary Resettlement*). The Staff Appraisal

Report should describe and assess the consultations which took place.





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## Typical Environmental Effects of Dams and Reservoirs<sup>1</sup>

1. Land Losses  
Large tracts of agricultural lands, forests, or other wildlands may be inundated. Careful siting can minimize such losses (e.g., by selecting reservoirs with high Kwh-generated/ha land area inundated). The value of lost timber and other resources, and foregone use of inundated land should be estimated in the economic analysis.
2. Health  
Some water-related diseases (e.g., schistosomiasis, malaria, onchocerciasis and Japanese B encephalitis) may increase unless precautions or mitigatory measures are implemented. Vector control, environmental modifications, and education of residents may need to be incorporated into the project (see OPN 11.01, *Guidelines for the Selection and Use of Pesticides in Bank-Financed Projects and their Procurement When Financed by the Bank*, to be reissued as OD 4.00, Annex C, *Selection and Use of Pesticides*).
3. Plant and Animal Life  
Biotic surveys normally are essential, plant and animal extinction can be prevented or minimized by careful project siting. Loss of wildlife may be mitigated by including elsewhere in the country a wildlands management area equivalent to the inundated tract (OPN 11.02, *Wildlands Their Protection and Management in Economic Development*, to be reissued as OD 4.00, Annex D). Animal rescue, replenishment, and relocation can be useful. Canal and other crossing facilities are often essential.
4. Fish and Other Aquatic Life  
Fish migrations (if any) will be impaired even with passage facilities. Fish propagation in the reservoir can mitigate losses and produce more fish protein than before the project. Spawning areas, aquaculture, improved fishing methods, and marketing may need special attention. A reduced supply of nutrients downstream and to estuaries can impair fishery productivity. Interbasin transfers may threaten aquatic species by introducing new predators or competitors. A socioeconomic survey can determine the importance of fish to the society.
5. Water Weeds  
Proliferation of floating weeds (e.g., water hyacinth [*Eichhornia*] and water lettuce [*Pistia*]) can impair water quality and increase disease vectors and water loss (through evapo-transpiration). Clogging impairs navigation, recreation, fisheries, and irrigation. The potential to use weeds for compost, biogas, or fodder should be investigated.

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1. Issues relating to resettlement, tribal people, cultural property and dam safety are not discussed here as they are covered in other ODs (see footnote 1 to Annex B).

## Operational Directive

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6. Water Quality  
Suitability of water quality for drinking, irrigation, fisheries, or other uses--both within reservoirs and downstream--should be addressed. Issues include saline intrusions, water retention time (i.e., flow/volume), loss of flushing, increased nutrients in reservoir, pollution (e.g., agricultural leachates, pathogens, industrial effluents), raising or contamination of water table, and salinization.
7. Anaerobic Decomposition  
Inundated vegetation on the bottom of reservoirs decomposes, consuming large amounts of oxygen. If thermal stratification occurs, mixing of surface and bottom water is impeded, and the bottom water may become anaerobic. Anaerobic decomposition of organic material produces noxious gases toxic to aquatic life and harmful to machinery. If discharged by the dam, downstream fish could be killed. Multiple-level outlets in the dam can avoid the discharge of anaerobic water. Inexpensive models are available to predict thermal stratification.
8. Erosion  
Erosion upstream in the catchment area leads to sedimentation or land slips which can impair storage; catchment area management should be encouraged where appropriate. Increased erosivity of the riverbed and structures below the dam-- including deltaic and coastal changes--should be considered during preparation.
9. Downstream Hydrology  
Changes in downstream hydrology can impair ecosystems dependent on seasonal flooding, including areas that may be important for fisheries (e.g., flood plains, lagoons, marshes, mangroves) or for traditional flood-recession agriculture. Sometimes management of downstream water releases can minimize such damage by partially replicating natural flooding regimes.
10. Intact Rivers  
Hydroelectric and other developments should preferably be concentrated on the same rivers if hydrological risks and other circumstances permit, in order to preserve elsewhere a representative sample of rivers in the natural state. This should be considered part of the trade-offs.
11. Multiple Use  
Multiple use should be addressed through tourism, irrigation, fisheries, bird and other biotic sanctuaries, and recreation. Water flow regulation can convert seasonal rivers into perennial waterways, reduce flooding, and improve drinking and irrigation. Communal access should be perpetuated.

# Operational Directive

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## The Area of Influence of Dam and Reservoir Projects

The area of influence of dam and reservoir projects includes the following:

- (a) the watersheds contributing to the reservoir (or project area), and the area below the dam down to the estuary, coastal zone, and offshore;
- (b) all ancillary aspects of the project such as power transmission corridors, pipelines, canals, tunnels, relocation and access roads, borrow and disposal areas, and construction camps, as well as unplanned developments arising from the project (e.g., logging or shifting agriculture along access roads);
- (c) off-site areas required for resettlement or compensatory tracts,
- (d) the airshed, such as where airborne pollution (smoke, dust) may enter or leave the area of influence, and
- (e) migratory routes of humans, wildlife, or fish--particularly where they relate to public health, economics, or environmental conservation.



# Operational Directive

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## Sample Terms of Reference: Environmental Reconnaissance of Dam and Reservoir Projects

1. The objective of an environmental reconnaissance of a dam and reservoir project is to determine in a preliminary way the possible impact on the environment. The study should include, as a minimum, the following aspects:

- (a) The nature and extent of plant and animal life within the area of influence, and the impact on it of the construction, presence, or operation of the project. Special attention should be given to plants and animals that are ecologically unique, endangered, or economically or aesthetically desirable.
- (b) The scenic and aesthetic qualities of the area, including tourism values that may be created, enhanced, or injured.
- (c) The effects on the agricultural and forestry potential of riparian lands.
- (d) The potential for the influx of aquatic vegetation, its effects on the impoundment, and the purposes of the project; other biophysical changes (permanent or transient, but recurring) to be expected in the impoundment area and downstream.
- (e) The risks and effects on the pattern and distribution of diseases, disease-bearing vectors and nuisance organisms.
- (f) The potential for fishery and squatter settlement, and other unplanned land-use activities in the catchment area (especially those which might cause erosion and pollution); and plans for the protection and management of the catchment area.
- (g) The likely environmental impact of any resettlement due to the project.
- (h) The presence of any artifacts or sites of archaeological or historic significance, and the

plans for protecting or salvaging those declared valuable.

- (i) The possible effect on the multiple-use capabilities of the area, particularly with regard to any future resource-use options which might be foreclosed by virtue of the project's presence or operation.
- (j) The multiple-use possibilities afforded by the project, such as the establishment of commercial or sport fisheries, tourist facilities, and recreation.
- (k) The elevation above reservoir levels of any special features in the area to be inundated, such as cultural property, in order to explore the possibility of safeguarding these by adjusting such levels.

2. If the project is one of several that are planned or already exist on the river system, a general assessment of the combined impact is important.

3. Institutions responsible for environmental aspects should be evaluated, and recommendations made for any necessary strengthening.

4. The need for an environmental panel and the specific expertise required should be examined.

5. Upon completion of the reconnaissance, a full report of the findings should be prepared, including the nature, scope, costs, and timing of any additional studies required (e.g., studies extending beyond the original time estimate, such as two or more seasons of species monitoring). The nature, dimensions, and timing of any serious problems should be highlighted, along with recommendations, with priorities identified, as to how they can be prevented or mitigated. Likewise, opportunities for environmental or human ecological enhancement should be stressed, with recommendations for achieving their implementation.



# Operational Directive

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## Sample Clauses for Inclusion in the Bidding Documents related to the Construction of Dam and Reservoir Projects

1. Consistent with economy and efficiency in the execution of the project, the contractor must prevent, minimize, or mitigate environmental damage during all construction activities. In particular, the construction specifications should include the following conditions:

- (a) The natural landscape should be preserved to the extent possible by conducting operations in a manner that will prevent unnecessary destruction or scarring of the natural surroundings. Except where required for permanent works, quarries, borrow pits, staging and processing areas, dumps and camps, all trees, saplings, and shrubbery should be protected from unnecessary damage by contractor operations. After unavoidable damage, reseeded, replanting, or restoration are required promptly to prevent further damage (e.g., erosion), and to restore quasi-original conditions where appropriate.
- (b) The contractor's facilities, such as warehouses, labor camps, and storage areas, should be planned in advance to decide what the area will look like upon completion of construction. These facilities should be located so as to preserve the natural environment (such as trees and other vegetation) to the maximum extent possible. After project construction, camps and buildings should either serve as permanent residences and form future communities, if such use can be foreseen, or be torn down and the area restored to its quasi-original condition in order to avoid deterioration into shantytowns.
- (c) Temporary buildings, quarries, borrow areas, and borrow pits should be located, where possible, in areas to be flooded by the reservoir. Otherwise, borrow pits should be landscaped and planted according to an eco-

logical design to provide some substitute area for lost natural habitats.

- (d) The contractor's operations should be so performed as to prevent accidental spillage of contaminants, debris, or other pollutants, especially into streams or underground water sources. Such pollutants include untreated sewage and sanitary waste, tailings, petroleum products, chemicals, biocides, mineral salts, and thermal pollution. Wastewaters, including those from aggregate processing and concrete batching, must not enter streams without using settling ponds, gravel filters, or other processes, so as not to impair water quality or harm aquatic life.
- (e) The contractor should minimize air pollution emissions. Dust from the handling or transporting of aggregates, cement, pozzolana, etc., should be minimized by sprinkling or other methods. Materials, brush, or trees should only be burned when the owner permits, under favorable weather conditions.
- (f) The contractor should ensure proper disposal of waste materials and rubbish. Disposal of waste by burial should not contaminate groundwater supplies.

2. In major projects in sensitive areas, specific plans are needed to control erosion and sedimentation, prevent spills, etc.

3. The borrower's right to inspect compliance throughout construction should be specified in the contract.

4. The Bank's policy on involuntary resettlement (OMS 2.33, to be reissued as OD 4.30, *Involuntary Resettlement*) encourages both the borrower and contractor to give preference, consistent with other requirements, to training and employing persons affected by the project or displaced by the construction work.





# Manual Transmittal Memorandum

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October 3, 1991

## Operational Directive 4.01: Environmental Assessment

1. Attached for insertion in the new Operational Manual is OD 4.01. It incorporates the guidelines contained in OD 4.00, Annex A, dated October 31, 1989. Please retain that annex in the manual (see para. 4 below). This directive also incorporates the OPNSV instructions on the disclosure of information, contained in the following memoranda, which may now be discarded.

OPNSV Memorandum      *Environmental Assessments: Instructions to Staff on the Handling of the Borrower's Consultations with Affected Groups and Relevant Local NGOs, April 10, 1990*

OPNSV Memorandum      *Environmental Assessments: Instructions to Staff on the Release of Environmental Assessments to Executive Directors, November 21, 1990*

2. This directive provides guidance to staff on the Bank's policies and procedures for conducting environmental assessments (EAs) of proposed projects. Substantive changes from OD 4.00, Annex A, are as follows:

- (a) Global Environment Facility (GEF) projects, or GEF components of Bank projects, are subject to this directive (footnote 1).
- (b) The number of EA categories is reduced from four to three by dropping the D category. All projects are classified as A, B, or C depending on the nature and extent of environmental analysis needed (paras. 4 and 17; Annex E).
- (c) The borrower should normally engage advisory panels for highly risky and contentious projects with potentially serious and multidimensional environmental concerns (para. 13).
- (d) An outline of an environmental mitigation or management plan is in Annex C. Annex F provides a revised environmental data sheet for projects in the IBRD/IDA lending program. The data sheet for category A projects is included in a quarterly annex to the *Monthly Operational Summary of Bank and IDA Proposed Projects* (MOS).

3. The following procedures have been incorporated from the OPNSV memoranda referred to in para. 1:

- (a) In order for meaningful consultations to take place between the borrower and affected groups and local nongovernmental organizations (NGOs), the borrower should make available, at some public place to the groups consulted, the EA report and summaries of (i) the project description and objectives, (ii) the potentially adverse effects of the proposed project, and (iii) the conclusions of the EA report (para. 21).



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- (b) The Bank requests the borrower's advance permission to release the EA report to the executive directors (EDs) because the report is the borrower's property. On receipt of a copy of the EA report from the borrower, an English-language summary is made available to the EDs, and a copy of the report is deposited in the project file (para. 22).
- 4. The directive shall apply to all projects for which IEPs are issued after October 1, 1991. Projects for which IEPs have been issued before that date are subject to OD 4.00, Annex A, issued on October 31, 1989; for these projects, the new provisions should be applied where appropriate and feasible.
- 5. Questions on this directive should be referred to the Director, Environment Department.
- 6. Additional copies are available on a self-serve basis in H 4234.

Attachment



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## Operational Directive 4.01: Environmental Assessment

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## Environmental Assessment

### Introduction

1. This directive outlines Bank policy and procedures for the environmental assessment (EA) of Bank lending operations, and related types of environmental analysis.<sup>1</sup> EA is a flexible procedure, which should vary in breadth, depth, and type of analysis depending on the project. It may be performed at one point in time or in discrete stages. EA is carried out during project preparation, before appraisal, and is closely linked to the feasibility study. For the purpose of this directive, EA covers project-specific and other environmental impacts in the *area of influence of a project*.<sup>2</sup> EAs use the findings of country environmental studies and action plans that cover nationwide issues, the overall policy framework, national legislation, and institutional capabilities in the country.

### Purpose and Nature of EA

2. The purpose of EA is to improve decision making and to ensure that the project options under consideration are environmentally sound and sustainable.<sup>3</sup> All environmental consequences should be recognized early in the project cycle and taken into account in project selection, siting, planning, and design. EAs identify ways of

improving projects environmentally, by preventing, minimizing, mitigating, or compensating for adverse impacts. These steps help avoid costly remedial measures after the fact. By calling attention to environmental issues early, EAs (a) allow project designers, implementing agencies, and borrower and Bank staff to address environmental issues in a timely and cost-effective fashion; (b) reduce the need for project conditionality because appropriate steps can be taken in advance or incorporated into project design, or alternatives to the proposed project can be considered; and (c) help avoid costs and delays in implementation due to unanticipated environmental problems. EAs also provide a formal mechanism for interagency coordination on environmental issues and for addressing the concerns of affected groups and local nongovernmental organizations (NGOs). In addition, the EA process plays an important role in building environmental management capability in the country.

3. Like economic, financial, institutional, and engineering analyses, EA is part of project preparation and is, therefore, the borrower's responsibility. Close integration of EA with these aspects of project preparation ensures that (a) environmental considerations are given adequate weight in project selection, siting, and design decisions; and (b) EAs do not delay project processing.

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1. Unless the context otherwise requires, "EA" means the environmental assessment process required by this directive. "Bank" includes IDA; "loans" include credits; "operations" and "investments" include sector loans, rehabilitation loans, loans through financial intermediaries, and the investment components of hybrid loans. Global Environment Facility (GEF) projects, or GEF components of Bank projects, are subject to the provisions of this directive. IFC follows its own environmental review procedure. In addition, IFC ensures that its projects comply with all relevant Bank environmental policies and guidelines, adapted to its special needs. Bearing in mind its special circumstances, MIGA will ensure, to the extent possible, that the objectives of this directive are met in its operations.
  2. The World Bank, *Environmental Assessment Sourcebook*, Technical Paper No. 139 (Washington, D.C., 1991) (EA Sourcebook) provides guidance on the subjects covered in this directive. The EA Sourcebook should be used for guidance throughout the EA process. For the Bank's definition of "area of influence of a project," see para. 3 and Annex B2 of OD 4.00, Annex B, *Environmental Policy for Dam and Reservoir Projects* (to be reissued as OD 4.05). For a checklist of potential issues for an EA and related Bank policies, see Annex A.
  3. Guidance on sustainability is provided in OMS 2.36, *Environmental Aspects of Bank Work* (to be reissued as OD 4.00, *Environmental Policies*).

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## Types of Environmental Analysis

### *Project-Specific EAs*

4. Project-specific EAs or other analyses are used to examine specific investment projects (e.g., dams, factories, irrigation systems). The detail and sophistication of an analysis should be commensurate with the expected impacts. Project-specific EAs should normally cover (a) existing environmental *baseline* conditions; (b) potential environmental impacts, direct and indirect, including opportunities for environmental enhancement; (c) systematic environmental comparison of alternative investments, sites, technologies, and designs; (d) preventive, mitigatory, and compensatory measures, generally in the form of an environmental mitigation or management plan; (e) environmental management and training; and (f) environmental monitoring. To the extent possible, the following items are quantified: capital and recurrent costs, environmental staffing, training, monitoring requirements, and the benefits of proposed alternatives and mitigation measures. Annex A sets out a checklist of potential issues for an EA, and Annex B provides the outline of a project-specific EA report. Annex C describes the set of measures that should be included in an environmental mitigation or environmental management plan. Annex D outlines the Bank's internal procedures, Annex E provides illustrative lists of projects classified in categories A through C, and Annex F sets out the format for an environmental data sheet for projects in the IBRD/IDA lending program. The data sheet for each category A project is included in a quarterly annex to the *Monthly Operational Summary of Bank and IDA Proposed Projects (MOS)*.

### *Regional and Sectoral EAs*

5. Regional EAs may be used where a number of similar but significant development activities with potentially cumulative impacts are planned for a reasonably localized area. In such cases, regional EAs are generally more efficient than a series of project-specific EAs. They may identify issues that the latter might overlook (e.g., inter-

action among effluents or competition for natural resources). Regional EAs compare alternative development scenarios and recommend environmentally sustainable development and land use patterns and policies. Impacts may sometimes extend across national boundaries. However, regional EAs with an institutional focus might follow administrative boundaries. Regional EAs are particularly useful when they precede the first in a series of projects or development interventions in an undeveloped region, where a region is slated for major developments, where cumulative impacts are anticipated, or in regional planning or agro-ecological zoning.

6. Sectoral EAs are used for the design of sector investment programs. They are particularly suitable for reviewing (a) sector investment alternatives; (b) the effect of sector policy changes; (c) institutional capacities and requirements for environmental review, implementation, and monitoring at the sectoral level; and (d) the cumulative impacts of many relatively small, similar investments that do not merit individual project-specific EAs. Sectoral EAs should also have the objective of strengthening the environmental management capability of the sectoral or other relevant agencies. Sectoral EAs may overlap with regional EAs.

7. Though in some cases regional or sectoral EAs cover some of the requirements of project-specific EAs, the latter are still needed for major investments. Nevertheless, the regional or sectoral EAs will have identified relevant issues, collected much of the data, and, in general, greatly reduced the work needed in subsequent project-specific EAs.

### *Alternatives to EAs*

8. Many specific investment projects do not need a full EA. Typically, these projects are smaller, are not in environmentally sensitive areas, and present issues that are narrow in scope, well-defined, and well-understood. Alternative approaches may, therefore, be more effective in integrating environmental concerns into the borrower's planning process, and in focusing on



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the environmental work needed. Such alternative approaches<sup>4</sup> include, for example,

- (a) specific environmental design criteria and pollution standards, acceptable to the Bank, for small-scale industrial plants;
- (b) specific environmental design criteria and construction supervision programs for small-scale rural works projects; and
- (c) specific environmental siting criteria, construction standards, and inspection procedures for housing projects.

## *Sector and Financial Intermediary Lending*

9. For sector investment loans and loans through financial intermediaries, for which subproject details are not known at the time of project appraisal, the borrower may not be able to prepare an EA as part of project preparation. Further, such projects usually consist of many small investments, which seldom require full EAs. In such cases, the project implementing institutions need to screen proposed subprojects and carry out appropriate environmental analyses consistent with this directive, prior to subloan approval. To ensure that this can be done, the Bank should appraise and strengthen, where necessary, the implementing agency's environmental capabilities to (a) screen subprojects along the lines of this directive (see para. 17 and Annex E), (b) obtain the necessary expertise for EA preparation, (c) review EA reports, (d) implement mitigation plans, and

(e) monitor environmental conditions during project implementation.<sup>5</sup> The aim should be to help establish satisfactory environmental review systems in the appropriate agencies, rather than to focus only on those investments against which the Bank happens to disburse.

## *Emergency Recovery Projects*

10. Because emergency recovery projects need to be processed rapidly, and seek mainly to restore existing facilities, they would not normally require a full EA. However, the extent to which an emergency was precipitated or exacerbated by inappropriate environmental practices should be determined. Based on this finding, corrective measures should be built into either the emergency project or a future lending operation.<sup>6</sup>

## *Global Issues*

11. A number of agencies—inside and outside the United Nations (UN) system—carry out scientific investigations on global environmental issues (ozone depletion, global warming, sea level rise, ocean dumping, pollution of international waters, transport of hazardous wastes, biodiversity, etc.). While it keeps abreast of the findings of these agencies, the Bank is developing its own guidelines in these areas. The Bank also draws upon prevailing views in its own environmental, economic, sectoral, and investment policies and programs, with a view to minimizing possible adverse impacts on global environmental quality. The Bank encourages such issues to be considered in EAs where relevant and feasible.<sup>7</sup>

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- 4. In some cases, adherence to other existing directives is an acceptable alternative to an EA (e.g., OPN 11.01, *Guidelines for the Selection and Use of Pesticides in Bank-Financed Projects and their Procurement When Financed by the Bank*, to be reissued as OD 4.03, *Agricultural Pest Management*).
  - 5. The appraisal mission develops clear arrangements with the borrower for carrying out these functions during project implementation, indicating the sources of required expertise and the proper division of responsibilities among the ultimate borrower, the financial intermediary or sector agency, and the agencies responsible for environmental management and regulation. These arrangements ensure that subprojects that do not comply with accepted environmental standards are not financed under the project. In cases where subprojects are known prior to appraisal, they are subject to the normal procedures described in this directive. The EA Sourcebook provides further guidance on appraising the environmental aspects of sector and financial intermediary lending.
  - 6. See OD 8.50, *Emergency Recovery Assistance*.
  - 7. Guidance will be prepared on global environmental issues by the Environment Department (ENV) in cooperation with the Regional environment divisions (REDs).

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## Institutional Aspects

### *Strengthening Environmental Capabilities*

12. The ultimate success of EA depends upon the capability and understanding of environmental matters of the government agencies concerned. Therefore, as part of the EA process, it is necessary to identify relevant environmental agencies and their capability for carrying out required EA activities. Projects with potentially major impacts normally require the strengthening of several environmental functions (e.g., environmental monitoring, inspection, management of mitigatory measures, EA scientific and technical review, and cross-sectoral coordination). In addition, policy strengthening is often needed through the development of legal or regulatory measures (including incentives) that ensure adequate environmental performance standards. These functions may be located in one or more units and at one or more administrative levels, depending on the country and project.<sup>8</sup> Early focus on institutional involvement in the EA process (a) helps ensure that the executing agency's and central policy entity's knowledge and perspectives are taken into account, (b) provides on-the-job training for staff, and (c) provides continuity for implementing the EA's recommendations. In addition, to help develop EA capability in the country, the Bank encourages the use of local expertise and promotes EA training for local staff and consultants.<sup>9</sup>

### *Environmental Advisory Panels*

13. For major, highly risky, or contentious projects with serious and multi-dimensional environmental concerns, the borrower should normally engage an advisory panel of independent, internationally recognized, environmental specialists to advise on (a) the terms of reference (TORs) for

the EA, (b) key issues and methods for preparing the EA, (c) recommendations and findings of the EA, (d) implementation of the EA's recommendations, and (e) development of environmental management capacity in the implementing agency.<sup>10</sup>

## EA Procedures

14. Since project and country conditions, national legislation, and institutional experience vary among borrowers, both the borrower and the Bank must exercise judgment in using the EA process to design and implement projects that are both environmentally and economically sound, and that are consistent with the environmental laws, policies, and procedures of the borrower. The Environment Department (ENV), the Legal Department, and the Regional environment divisions (REDs) maintain information on these requirements.

### *EA Preparation*

15. Though EA preparation is the responsibility of the borrower, the Bank's task manager (TM) assists and monitors the EA process, with support from the RED.<sup>11</sup> The borrower and the Bank should agree as early as possible after issuance of the Initial Executive Project Summary (IEPS) on the terms of reference (TORs) for the EA, and on the EA procedures, schedule, and outline. This is because (a) EA preparation should form part of the overall feasibility study or preparation work for the project, so that the EA's findings can be directly integrated into project design; (b) some EAs require substantial time for preparation (see Annex D, paras. 6-7); and (c) completion of the EA report is a prerequisite for the departure of the appraisal mission. Major steps in the EA process are outlined in Annex D. The steps

8. The first level of environmental involvement is on-site; a second, at the level of the implementing or executing agency, such as a Department of Agriculture, or Health; and a third at a central policy level, such as an environmental agency or other central policy-making body that oversees and coordinates intersectoral aspects.

9. Guidance on institutional strengthening is in the EA Sourcebook.

10. For more detail on the selection and functions of the panel, see para. 18 of OD 4.00, Annex B, *Environmental Policy for Dam and Reservoir Projects* (to be reissued as OD 4.05).

11. See OD 9.00, *Processing of Investment Lending*, for the context of loan processing into which decisions on the environment category and the EA fit.

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include (a) screening (see para. 17 and Annex E), (b) taking decisions based on the IEPS, (c) notifying the Board through the MOS, (d) preparing TORs for the EA, (e) preparing the EA, (f) reviewing the EA and incorporating environmental measures into the project, (g) supervising the project, and (h) evaluating the project ex post.

16. Borrowers may request Bank assistance for financing EAs through a Project Preparation Facility<sup>12</sup> (PPF) advance, from the Technical Assistance Grant Program for the Environment, or from trust funds. When the EA is prepared by specialists separately from the overall feasibility study for the project, the specialists should liaise closely with the project preparation or feasibility teams. For projects with potentially major adverse environmental impacts, such as large dams or projects involving large-scale resettlement, the borrower should retain independent EA experts not affiliated with the project.

## *Environmental Screening*

17. The TM should screen projects/components at identification to determine the nature and extent of the environmental work required. As a result of the screening, the TM, with the concurrence of the RED, assigns the project to one of the following categories,<sup>13</sup> in accordance with Annex E:

Category A: A full EA is required.

Category B: Although a full EA is not required, environmental analysis is required.

Category C: No EA or environmental analysis is required.

## *Interagency Coordination*

18. Because environmental issues generally involve national, provincial, and local government agencies and cover a broad range of responsibilities (wildlife, health, water and land use, tourism, etc.), coordination among government agencies is crucial. Coordination is best achieved through interagency meetings convened by the proponent agency at key points, i.e., once the decision has been reached to carry out a full EA, and once the draft EA report has been completed. The meetings provide an opportunity to identify the issues, types of analysis required, sources of relevant expertise, responsibilities and schedule for the EA, mitigatory measures to be considered, and other recommendations.

## *Involvement of Affected Groups and Nongovernmental Organizations*

19. The Bank expects the borrower to take the views of affected groups and local NGOs<sup>14</sup> fully into account in project design and implementation, and in particular in the preparation of EAs. This process is important in order to understand both the nature and extent of any social or environmental impact and the acceptability of proposed mitigatory measures, particularly to affected groups. Consultations do not reduce the decision authority of the borrower, but are a valuable way to improve decision making, to obtain feedback on the EA process and draft report, and to increase community cooperation in implementing the recommendations of the EA.

20. Such consultations should occur at least at the following two stages of the EA process: (a) shortly after the EA category has been assigned, and (b) once a draft EA has been prepared.<sup>15</sup> In projects with major social

12. See OD 8.00, *Project Preparation Facility*.

13. See footnote 11.

14. For the Bank's overall approach to NGOs, see OD 14.70, *Involving Nongovernmental Organizations in Bank-Supported Activities*.

15. Further consultations are encouraged at other appropriate points during EA preparation, after EA finalization, and throughout project implementation. Updates and information feedback between meetings are best when they are systematic and routine. One approach that has been effectively used by many countries is to follow the first interagency meeting with an initial consultation session with affected groups and local NGOs.

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components, which require consultations pursuant to other Bank Operational Directives,<sup>16</sup> the consultations on social issues and on EA may be linked.

## *Disclosure of Information*

21. In order for meaningful consultations to take place between the borrower and affected groups and local NGOs, it is necessary that the borrower provide relevant information prior to consultations. The information should be provided in a timely manner and in a form that is meaningful for, and accessible to, the groups being consulted. Such information normally includes (a) for the initial consultation, a summary of the project description and objectives, and potential adverse effects of the proposed project; and (b) once the EA report has been prepared, a summary of its conclusions in a form and language meaningful to the groups being consulted. Any consultation should pay particular attention to those issues most likely to affect the people being consulted. In addition, the borrower should make the EA report available at some public place accessible to affected groups and local NGOs for their review and comment.

22. Bank policy is to request the borrower's advance permission to release the EA report to the executive directors (EDs) because the report is the borrower's property. When the need for an EA and the TORs for the EA are discussed with the borrower, the TM should seek the borrower's permission, in principle, for the release of the report to the EDs. Once the Bank has received a copy of the EA report from the borrower with the necessary permission for release, the country department (CD) should transmit the borrower's English-language summary of the EA to the Secretary's Department for distribution to the EDs. Further, because an important purpose of the EA process is informed decision making, the TM should deposit a copy of the EA report (without Bank endorsement) in the project file. If the borrower indicates at any time that it is not in a position to release such a report to the EDs, the Bank should not proceed with further work on the project, unless the Senior Vice President, Operations (OPNSV), decides otherwise on the recommendation of the Regional vice president concerned, and for objective reasons unrelated to the environmental soundness of the project.

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16. For example, OD 4.30, *Involuntary Resettlement*, and OD 4.20, *Indigenous Peoples*.

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## Checklist of Potential Issues for an EA

Where applicable, EAs should address the following issues, which are subject to the Bank policies and guidelines identified here:

- (a) *Agrochemicals*. The Bank promotes the use of integrated pest management (IPM) and the careful selection, application, and disposal of pesticides (see OPN 11.01, *Guidelines for the Selection and Use of Pesticides in Bank-Financed Projects and Their Procurement When Financed by the Bank*, to be reissued as OD 4.03, *Agricultural Pest Management*). Due to their impacts on surface and groundwater quality, the use of fertilizers must also be carefully assessed.
- (b) *Biological Diversity*. The Bank promotes conservation of endangered plant and animal species, critical habitats, and protected areas (see para. 9b of OMS 2.36, *Environmental Aspects of Bank Work*, to be reissued as OD 4.00, *Environmental Policies*, and OPN 11.02, *Wildlands: Their Protection and Management in Economic Development*, to be reissued as OD 4.04, *Wildlands*).
- (c) *Coastal and Marine Resources Management*. Guidelines are available from the Environment Department (ENV) on the planning and management of coastal marine resources, including coral reefs, mangroves, and wetlands.
- (d) *Cultural Properties*. OPN 11.03, *Management of Cultural Property in Bank-Financed Projects* (to be reissued as OD 4.25, *Cultural Property*), confirms the Bank's commitment to protect archaeological sites, historic monuments, and historic settlements.
- (e) *Dams and Reservoirs*. OD 4.00, Annex B, *Environmental Policy for Dam and Reservoir Projects* (to be reissued as OD 4.05), provides specific guidance for addressing environmental issues in the planning, implementation, and operation of dam and reservoir projects.
- (f) *Hazardous and Toxic Materials*. Guidelines are available from ENV on the safe manufacture, use, transport, storage, and disposal of hazardous and toxic materials.
- (g) *Indigenous Peoples*. OD 4.20, *Indigenous Peoples* (formerly OMS 2.34, *Tribal People in Bank-Financed Projects*), provides specific guidance for addressing the rights of indigenous peoples, including traditional land and water rights.
- (h) *Induced Development and Other Socio-cultural Aspects*. Secondary growth of settlements and infrastructure, often referred to as "induced development" or "boomtown" effects, can have major indirect environmental impacts, which relatively weak local governments may have difficulty addressing.
- (i) *Industrial Hazards*. All energy and industry projects should include a formal plan to prevent and manage industrial hazards (see Technica, Ltd., and World Bank, *Techniques of Assessing Industrial Hazards: A Manual*, Technical Paper No. 55, Washington, D.C., 1988).

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- (j) *International Treaties and Agreements on the Environment and Natural Resources*. The EA should review the status and application of such current and pending treaties and agreements, including their notification requirements. The Legal Department, which maintains a list of international treaties, could obtain the information required on applicable laws in individual countries.
- (k) *International Waterways*. OD 7.50, *Projects on International Waterways*, provides guidance. This OD exempts from notification requirements any rehabilitation projects that will not affect the quality or quantity of water flows.
- (l) *Involuntary Resettlement*. OD 4.30, *Involuntary Resettlement*, renders guidance.
- (m) *Land Settlement*. Due to the complex physical, biological, socioeconomic, and cultural impacts, land settlement should generally be carefully reviewed (see OD 4.31, *Land Settlement*, to be issued).
- (n) *Natural Hazards*. The EA should review whether the project may be affected by natural hazards (e.g., earthquakes, floods, volcanic activity) and should propose specific measures to address these concerns when appropriate (see OD 8.50, *Emergency Recovery Assistance*).
- (o) *Occupational Health and Safety*. All industry and energy projects, and projects in other sectors where relevant, should include formal plans to promote occupational health and safety (see World Bank, *Occupational Health and Safety Guidelines*, Washington, D.C., 1988).
- (p) *Ports and Harbors*. Guidelines are available from the Infrastructure and Urban Development Department on addressing common environmental concerns associated with port and harbor development (see World Bank, *Environmental Considerations for Port and Harbor Developments*, Technical Paper No. 126, Washington, D.C., 1990).
- (q) *Tropical Forests*. The Bank's "Forest Policy" paper of July 1991 should be followed. OPN 11.02, *Wildlands: Their Protection and Management in Economic Development* (to be reissued as OD 4.04, *Wildlands*), also addresses issues relating to tropical forests.
- (r) *Watersheds*. Bank policy promotes the protection and management of watersheds as an element of lending operations for dams, reservoirs, and irrigation systems (see para. 6 of OD 4.00, Annex B, *Environmental Policy for Dam and Reservoir Projects*, to be reissued as OD 4.05).
- (s) *Wetlands*. The Bank promotes conservation and management of wetlands (e.g., estuaries, lakes, mangroves, marshes, and swamps). This subject is covered by OPN 11.02 (see (t) below).
- (t) *Wildlands*. The Bank is committed to protect wildlands and provides for compensatory measures when lending results in adverse impacts (see OPN 11.02, *Wildlands: Their Protection and Management in Economic Development*, to be reissued as OD 4.04, *Wildlands*).

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## Outline of a Project-Specific EA Report

1. A full EA report should be concise and should focus on the significant environmental issues. The report's level of detail and sophistication should be commensurate with the potential impacts. The target audience should be project designers, implementing agencies, and borrower and Bank staff. The report submitted to the Bank should be prepared in English, French, or Spanish.
2. The EA report should include the following items:
  - (a) *Executive Summary.* Concise discussion, in English, of significant findings and recommended actions.
  - (b) *Policy, Legal, and Administrative Framework.* Discussion of the policy, legal, and administrative framework within which the EA is prepared. The environmental requirements of any cofinanciers should be explained.
  - (c) *Project description.* Concise description of the project's geographic, ecological, social, and temporal context, including any off-site investments that may be required by the project (e.g., dedicated pipelines, access roads, power plants, water supply, housing, and raw material and product storage facilities).
  - (d) *Baseline Data.* Assessment of the dimensions of the study area and description of relevant physical, biological, and socioeconomic conditions, including any changes anticipated before the project commences. Current and proposed development activities within the project area (but not directly connected to the project) should also be taken into account.
  - (e) *Environmental Impacts.* Identification and assessment of the positive and negative impacts likely to result from the proposed project. Mitigation measures, and any residual negative impacts that cannot be mitigated, should be identified. Opportunities for environmental enhancement should be explored. The extent and quality of available data, key data gaps, and uncertainties associated with predictions should be identified/estimated. Topics that do not require further attention should be specified.
  - (f) *Analysis of Alternatives.* Systematic comparison of the proposed investment design, site, technology, and operational alternatives in terms of their potential environmental impacts; capital and recurrent costs; suitability under local conditions; and institutional, training, and monitoring requirements. For each of the alternatives, the environmental costs and benefits should be quantified to the extent possible, and economic values should be attached where feasible. The basis for the selection of the alternative proposed for the project design must be stated.
  - (g) *Mitigation Plan.* Identification of feasible and cost-effective measures that may reduce potentially significant adverse environmental impacts to acceptable levels, and estimation of the potential environmental impacts; capital and recurrent costs; and institutional, training, and monitoring requirements of those measures. The plan (sometimes known as "action plan," or "environmental mitigation or management

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plan," outlined in Annex C) should provide details on proposed work programs and schedules. Such details help ensure that the proposed environmental actions are in phase with engineering and other project activities throughout implementation. The plan should consider compensatory measures if mitigation measures are not feasible or cost-effective.

- (h) *Environmental Management and Training.* Assessment of the existence, role, and capability of environmental units on-site, or at the agency and ministry level. Based on these findings, recommendations should be made concerning the establishment and/or expansion of such units, and the training of staff, to the point that EA recommendations can be implemented.
- (i) *Environmental Monitoring Plan.* Specification of the type of monitoring, who would do it, how much it would cost,

and what other inputs (e.g., training) are necessary.

- (j) *Appendices*

- (i) *List of EA Preparers*--individuals and organizations.
- (ii) *References*--written materials used in study preparation. This list is especially important given the large amount of unpublished documentation often used.
- (iii) *Record of Interagency/Forum/ Consultation Meetings*--including lists of both invitees and attendees. The record of consultations for obtaining the informed views of the affected people and local NGOs should be included. The record should specify any means other than consultations that were used to obtain the views of affected groups and local NGOs.



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## Environmental Mitigation or Environmental Management Plan

1. A project's mitigation or environmental management plan consists of the set of measures to be taken during implementation and operation to eliminate, offset, or reduce adverse environmental impacts to acceptable levels. Also included in the plan are the actions needed to implement them. Mitigation plans are essential elements of category A projects (see Annex E). Mitigation plans alone suffice for many category B projects. During the preparation of a mitigation plan, project sponsors and their EA design team (a) identify the set of responses to potentially adverse impacts, (b) determine requirements for ensuring that those responses are made effectively and in a timely manner, and (c) describe the means for meeting those requirements.

2. A mitigation or management plan should include the following items:

- (a) identification and summary of all the significant adverse environmental impacts that are anticipated;
- (b) description and technical details for each mitigation measure, including the type of impact to which it relates and the conditions under which it is required (e.g., continuously or in the event of contingencies), together with designs, equipment descriptions, and operating procedures, as appropriate;
- (c) institutional arrangements—the assignment of the various responsibilities for carrying out the mitigatory measures (e.g., responsibilities which involve operation, supervision, enforcement, monitoring of implementation, remedial action, financing, reporting, and staff training);

- (d) implementation schedule for measures that must be carried out as part of the project, showing phasing and coordination with overall project implementation plans;
- (e) monitoring and reporting procedures to (i) ensure early detection of conditions that necessitate particular mitigation measures, and (ii) provide information on the progress and results of mitigation; and
- (f) integration into the total project cost tables of the cost estimates and sources of funds for both the initial investment and the recurring expenses for implementing the mitigation plan.

3. To strengthen environmental management capability in the agencies responsible for implementation, most mitigation plans cover one or more of the additional topics identified below:

- (a) technical assistance programs,
- (b) staff development,
- (c) procurement of equipment and supplies, and
- (d) organizational changes.

4. The borrower's decision to proceed with a project, and the Bank's decision to support it, will be in part predicated on the expectation that the mitigation plan will be executed effectively. Consequently, it is important to integrate the plan into the project's overall planning, design, budget, and implementation. Such integration should be achieved by establishing the mitigation plan as a component of the project. This precaution ensures that the plan will receive funding and supervision along with the other investment components.

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5. Specific links should exist for (a) funding, (b) management and training (strengthening local capabilities), and (c) monitoring. The purpose of the first link is to ensure that the proposed actions are adequately financed. The second link helps embed in the overall management plan the training, technical assistance, staffing, and other institutional strengthening needed to implement

the mitigatory measures. The third link is necessary to provide a critical path for implementation and to enable the sponsors and the Bank to evaluate the success of mitigation as a part of project supervision and as a means for improving future projects. These linkages may be part of the conditionality in Loan Agreements or in the Minutes of Negotiations.

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## EA Procedures: Internal

### *Initial Executive Project Summary (IEPS)*

1. After consulting with the Regional environment division (RED), the task manager (TM) indicates in the Initial Executive Project Summary (IEPS) (a) the key environmental issues, (b) the project category (see Annex E) and the type of environmental work needed, and (c) a preliminary EA schedule. In exceptional cases, if it is anticipated that an EA cannot be available prior to appraisal, the IEPS should propose special procedures to address the situation. The IEPS meeting should confirm the type, timing, and issues of environmental analysis.

### *Monthly Operational Summary*

2. The TM ensures that the *Monthly Operational Summary of Bank and IDA Proposed Projects* (MOS), which is used to alert the executive directors to forthcoming projects, contains the EA category assigned to a project. He also prepares and updates as needed an environmental data sheet for all projects in the IBRD/IDA lending program (see Annex F). For category A projects, the environmental data sheet will be included in a quarterly annex to the MOS.

### *Preparation of Terms of Reference for the EA*

3. Following the IEPS meeting, the Bank discusses with the borrower the scope of the EA, and assists the borrower, as necessary, in preparing the terms of reference (TORs) for the EA. Normally, a field visit for this purpose is conducted by Bank environmental staff or environmental consultants. The Bank should ensure that the TORs provide for adequate interagency coordination and consultation with affected groups and local nongovernmental organizations (NGOs). For category A projects, it is advisable for Bank staff to attend scoping and EA review meetings.

4. To help ensure a full EA report, the borrower should be (a) provided with the "Outline of a Project-Specific EA Report" (see Annex B) at the time the TORs for the EA are reviewed by the Bank and (b) informed of the need to have the report submitted to the Bank written in English, French, or Spanish. The requirement in Annex B for an executive summary, to be prepared in English, should specifically be called to the borrower's attention.

### *EA Preparation*

5. The EA should form part of the overall feasibility study or project preparation, so that the EA's findings are directly integrated into project design. When the EA is prepared separately by specialists, the specialists should liaise closely with the project preparation or feasibility teams. For projects with potentially major adverse environmental impacts, such as large dams or projects involving large-scale resettlement, the borrower should retain independent EA experts not affiliated with the project. Borrowers may request Bank assistance for financing EAs through a Project Preparation Facility (PPF) advance, from the Technical Assistance Grant Program for the Environment, or from trust funds.

6. An EA for a major project typically takes 6-18 months to prepare and review. The EA report should be received by the Bank prior to the departure of the appraisal mission, and a summary should be circulated with the Final Executive Project Summary (FEPS)/white cover Staff Appraisal Report (SAR) to minimize the risk of project changes and delays at a later stage.

7. For some projects, a full year of baseline data is essential to capture seasonal effects of certain environmental phenomena, such as rainy and dry seasons or species migrations. In contrast, other effects (e.g., hydroclimatic variation) may require

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multiyear data. To avoid delay in critical project decisions in these cases, short-term monitoring should be used to provide conservative estimates of environmental impacts. In such instances, such short-term data can be a surrogate for annual data while longer-term data are being collected. Since special care in designing the baseline monitoring program is warranted, the borrower should be encouraged to discuss the matter with the Bank.

## *EA Review and Project Appraisal*

8. For category A projects, the borrower submits the EA report to the Bank prior to the departure of the Bank's appraisal mission. This report follows (to the extent relevant) the outline for project-specific EA reports provided in Annex B and includes a separate English summary. The TM, with the advice of the RED, assesses the EA, taking into account the TORs agreed upon with the borrower. In addition, in view of the need for the borrower to take the views of affected groups and local NGOs into account, the TM ascertains the nature of the consultations undertaken with such groups and assesses the extent to which their views have been considered.

9. The FEPS summarizes the EA's status and describes how major environmental issues have been resolved or are to be addressed, noting any proposed conditionality. Prior to the FEPS meeting, the RED reviews and comments on the EA and on the EA annex in the white cover SAR. If the RED is not satisfied with the EA, it may recommend to the country department that (a) the appraisal mission be postponed, (b) the mission be considered a preappraisal mission, or (c) certain issues be reexamined during the appraisal mission. The appraisal mission reviews both the procedural and substantive elements of the EA with the borrower, resolves any issues, assesses the adequacy of the institutions responsible for environmental management in light of the EA's findings, ensures that the mitigation plan is adequately budgeted, and determines if the EA's recommendations are properly addressed in project design and economic analysis.

## *Distribution to Executive Directors*

10. When an EA report is received from a borrower, the country department should ensure that the English-language summary is sent to the Adviser and Board Operations, Secretary's Department, for distribution to the executive directors, and that the full EA report is placed in the project file. The EA summary's transmittal memorandum, for signature by the country department director, should state that the EA summary, and the full report filed,

- (a) have been prepared by the borrower and have not been evaluated or endorsed by the Bank; and
- (b) are subject to review and possible change during the appraisal process.

11. The TM should also ensure that the next quarterly issue of the MOS, Annex B, contains an entry indicating the date on which the EA report was received. The receipt of the EA report should also be noted on the environmental data sheet (see Annex F).

## *Board Documents*

12. The findings of the EA process and the procedures used in its preparation are summarized in the text of the SAR and in the Memorandum and Recommendation of the President. A SAR annex summarizes the EA of category A projects more fully. The summary covers, *inter alia*, environmental baseline conditions; the alternatives considered; preventive, mitigatory, and compensatory actions; the capability of environmental units and measures to strengthen them; environmental monitoring arrangements; revisions to the EA required as a result of the appraisal; and the borrower's consultations with affected groups and NGOs. These factors provide the basis for the RED's formal environmental clearance, prior to the authorization of negotiations by the Regional vice president. The EA annex should also indicate if a revised EA report has been prepared and

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included in the project file. Measures critical to sound project implementation may require specific loan conditionality.

## *Supervision*

13. EA recommendations provide the basis for supervising the environmental aspects of the project during implementation. Compliance with environmental commitments, the status of mitigatory measures, and the findings of monitoring programs are part of borrower reporting requirements and project supervision. When major issues arise, special supervision missions with adequate environmental expertise are programmed and budgeted in advance, where possible.

## *Ex Post Evaluation*

14. The project completion report<sup>1</sup> submitted to the Operations Evaluation Department evaluates (a) environmental impacts, noting whether they were anticipated in the EA report; (b) the effectiveness of the mitigatory measures taken; and (c) institutional development and training.

## *Role of the Environment Department*

15. Responsibility for all projects, including their EAs, is vested in the Regions. The role of the Environment Department (ENV) in the EA process is to support the Operations complex throughout. This EA support focuses on training, dissemination of best practices, reviews, guidelines, and other operational support as requested. To enable it to fulfill this role, ENV should be kept systematically informed of key decisions at relevant stages of the EA process, such as screening, public participation, EA schedules, and EA reviews. The REDs share with ENV copies of EA reports that are submitted by borrowers to the Bank prior to appraisal. ENV should be consulted as needed in special cases. ENV is available, when deemed necessary, to discuss or assist with all aspects of the EA process at any stage. ENV will share with the other Regions the EAs, related materials, precedents, and experience originating in one Region. ENV will conduct post hoc EA reviews selectively with the REDs in order to ascertain best practice and the development of policies in this area.

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1. See the OPNSV memorandum *Guidelines for Preparing Project Completion Reports (PCRs)*, June 7, 1989, and OMS 3.58, *General Guidelines for Preparing Project Completion Reports*, which are to be combined and reissued as OD 13.55, *Project Completion Reports*.



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## Environmental Screening

### *Determination of EA Category*

1. The purpose of screening is to decide the nature and extent of the EA or environmental analysis to be carried out. The classification of each proposed project depends on the type, location, sensitivity, and scale of the proposed project, as well as the nature and magnitude of its potential impacts.<sup>1</sup> At identification and prior to the issuance of the Initial Executive Project Summary (IEPS), projects should be screened for environmental issues and assigned to one of three categories: A, B, or C.<sup>2</sup> The selection of the category should be based upon the expected environmental impacts. Best professional judgment is essential throughout this procedure.

Category A: A full EA is required.

Category B: Although a full EA is not required, environmental analysis is required.

Category C: No EA or environmental analysis is required.

2. The EA category should be assigned by the task manager (TM), with the concurrence of the Regional environment division (RED). An EA normally deals with the whole project, but it focuses most time and attention on the components with the potentially greatest negative impacts and their links with the rest of the project. Any project may contain environmentally benign components; however, in projects with

several components, those components with the most serious environmental issues should receive the principal focus. Projects are categorized according to the component with the potentially most serious adverse impact. Dual categories (e.g., A/C) should not be used. For instance, a relatively benign project with a single category A component is a category A project. The results of the screening should be reported in the *Monthly Operational Summary of Bank and IDA Proposed Projects* (MOS) and indicated on the environmental data sheet (see Annex F).

### *Revision of EA Categories*

3. The EA category assigned to the project as part of the screening is based on the best judgment and information available at that early stage. If the project is modified or new information becomes available to justify reclassification, the TM should reclassify a proposed project. The reclassification should be done with the concurrence of the RED. The new classification that appears in the MOS should be followed by "(R)" to indicate a revision. The reasons for any reclassification should be recorded on the environmental data sheet (see Annex F).

### *Illustrative Lists*

4. Bank and international experience shows that projects in certain sectors or of certain types are normally best classified as illustrated below.

- 
- "Location" refers to proximity to or encroachment on environmentally fragile areas, such as mangroves, wetlands, and rain forests. "Scale" needs to be judged by the task manager (TM) in the country context; if large, the project is likely to be a category A project. "Sensitivity" refers to issues such as impacts that are irreversible, affect vulnerable ethnic minorities, or involve involuntary resettlement.
  - Projects classified in category D before this directive was issued should be reclassified, where practicable, by the TM with the concurrence of the Regional environmental division. An environment project formerly classified as category D may fall into any of the three categories.

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These examples are only illustrative; they are by no means exhaustive.<sup>3</sup>

## *Category A Projects/Components*

5. A full EA is required if a project is likely to have significant adverse impacts that may be sensitive, irreversible, and diverse. The impacts are likely to be comprehensive, broad, sector-wide, or precedent-setting. Impacts generally result from a major component of the project and affect the area as a whole or an entire sector.

- (a) Dams and reservoirs;
- (b) Forestry production projects;
- (c) Industrial plants (large-scale) and industrial estates;
- (d) Irrigation, drainage, and flood control (large-scale);
- (e) Land clearance and leveling;
- (f) Mineral development (including oil and gas);
- (g) Port and harbor development;
- (h) Reclamation and new land development;
- (i) Resettlement and all projects with potentially major impacts on people;
- (j) River basin development;
- (k) Thermal and hydropower development; and
- (l) Manufacture, transportation, and use of pesticides or other hazardous and/or toxic materials.

## *Category B Projects/Components*

6. The project may have adverse environmental impacts that are less significant than category A impacts. Few if any of these impacts are irreversible. The impacts are not as sensitive,

numerous, major, or diverse as category A impacts; remedial measures can be more easily designed. Preparation of a mitigation plan (see Annex C) suffices for many category B projects. Few category B projects would have a separate environmental report; most may be discussed in a separate chapter of the project preparation or feasibility study.

- (a) Agro-industries (small-scale);
- (b) Electrical transmission;
- (c) Aquaculture and mariculture;
- (d) Irrigation and drainage (small-scale);
- (e) Renewable energy;
- (f) Rural electrification;
- (g) Tourism;
- (h) Rural water supply and sanitation;
- (i) Watershed projects (management or rehabilitation); and
- (j) Rehabilitation, maintenance, and upgrading projects (small-scale).

## *Category C Projects/Components*

7. An EA or environmental analysis is normally not required in this category because the project is unlikely to have adverse impacts. Professional judgment finds the project to have negligible, insignificant, or minimal environmental impacts.

- (a) Education,
- (b) Family planning,
- (c) Health,
- (d) Nutrition,
- (e) Institutional development,
- (f) Technical assistance, and
- (g) Most human resource projects.

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3. For example, highway and rural road projects and major urban water or sanitation projects, while normally category A, are not listed below because there are exceptions; hence they are not clear examples.



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## Environmental Data Sheet for Projects in the IBRD/IDA Lending Program

Country: \_\_\_\_\_  
Project Name: \_\_\_\_\_ Project ID No.: \_\_\_\_\_ Total Project Cost: \_\_\_\_\_  
Appraisal Date: \_\_\_\_\_  
Board Date: \_\_\_\_\_  
Managing Division: \_\_\_\_\_  
Lending Instruments: \_\_\_\_\_ Sector: \_\_\_\_\_  
Date (est.) for receipt of EA by Bank: \_\_\_\_\_ EA Category: A/B/C (circle one); date assigned: \_\_\_\_\_

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*Major Project Components:* (presents description of project components)

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*Major Environmental Issues:* (describes major environmental issues identified or suspected in project)

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*Other Environmental Issues:* (describes environmental issues of lesser scope associated with project)

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*Proposed Actions:* (describes actions proposed to mitigate environmental issues described above)

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*Justification/Rationale for Environmental Category:* (presents reasons for environmental category selected and explanation of any changes from initial classification)

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*Status of Category A Environmental Assessment:* (presents EA start-up date, EA first draft, and current status)

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*Remarks:* (gives status of any other environmental studies, lists local groups and local NGOs consulted, tells whether borrower has given permission to release EA, etc.)

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Signed by: \_\_\_\_\_  
Operations Division Chief

Signed by: \_\_\_\_\_  
Regional Environment Division Chief





## Environmental Action Plans

1. The Bank<sup>1</sup> encourages and supports the efforts of borrowing governments to prepare and implement an appropriate Environmental Action Plan (EAP)<sup>2</sup> and to revise it periodically as necessary. Although the Bank may provide advice, responsibility for preparing and implementing the EAP rests with the government, and the EAP is the country's plan.

2. An EAP describes a country's major environmental concerns, identifies the principal causes of problems, and formulates policies and actions to deal with the problems.<sup>3</sup> In addition, when environmental information is lacking, the EAP identifies priority environmental information needs and indicates how essential data and related information systems will be developed. The EAP provides the preparation work for integrating environmental considerations into a country's overall economic and social development strategy. The EAP is a living document that is expected to contribute to the continuing process by which the government develops a comprehensive national environmental policy and programs to implement the policy. This process is expected to form an integral part of overall national development policy and decision making.

3. The Bank draws on the EAP for environmental information and analysis to plan its assistance with appropriate attention to environmental considerations. The Bank encourages each government to integrate its EAP into sectoral and

national development plans. The Bank works with each government to ensure that information from the EAP (a) is integrated into Bank planning and country assistance documents, and (b) informs the development of program- and project-level details in a continuing process of environmental planning.

### Participation

4. The Bank encourages the government to secure support for the EAP and to help ensure its effective implementation by (a) using multidisciplinary teams from appropriate agencies within the government to assist with preparation, and (b) taking into account the views of interested parties (including local nongovernmental organizations [NGOs]<sup>4</sup>), obtained through means that induce broad public participation.

### Disclosure

5. While the EAP is being prepared, the Bank encourages the government to make drafts available to groups that will be affected by its implementation and to other interested groups, including NGOs. When the EAP is completed, the Bank encourages the government to issue it to aid agencies and the public. When the Bank has officially received an EAP and has obtained the government's consent, it makes the EAP available to interested parties through the Public Information Center.<sup>5</sup>

1. "Bank" includes IDA.

2. The term "EAP" may refer to a specific document formally designated as an EAP, or to a plan set forth in such comparable documents as a report of a task force, a conservation strategy, or an overall development strategy that treats environmental issues. National reports on the environment submitted by member countries for the United Nations Conference on Environment and Development (UNCED) (Rio de Janeiro, June 1992) are in principle similar to EAPs. If in scope and content a country's UNCED report is consistent with the requirements for an EAP, including those on broad public participation (see para. 4), the Bank may accept that report as an EAP.

3. For a description and contents of an EAP, see GP 4.02.

4. See OD 14.70, *Involving Nongovernmental Organizations in Bank-Supported Activities*.

5. See BP 17.50, *Disclosure of Operational Information*, and *The World Bank Policy on Disclosure of Information* (Washington, D.C.: World Bank, March 1994).

**Note:** OP, BP, and GP 4.02 together replace OD 4.02, *Environmental Action Plans*. Questions should be addressed to the Director, Environment Department.





## Environmental Action Plans

1. The Bank's<sup>1</sup> role in preparing and implementing an Environmental Action Plan (EAP) is primarily to provide advice and help arrange technical assistance, if requested to do so by the government. The degree of Bank involvement depends on the capacity of the government to design and manage the process. Within the Bank, the responsibility for assisting in and monitoring the preparation of an EAP rests primarily with the concerned country department (CD), supported by the Regional environment division (RED). Additional support may be requested from other Bank units with particular expertise, such as the sectoral vice presidencies and the Environment and Legal Departments.

### Bank Review

2. Bank staff review the draft EAP,<sup>2</sup> keeping in mind its usefulness in scope and content as a policy and investment planning document, and provide comments to the government. Bank staff also determine whether the EAP is supported and endorsed by the government agencies that need to approve it formally.

3. The country operations division (COD), the relevant sector operations divisions (SODs), and the RED review the completed EAP and provide to the government comments on technical issues and the main environmental concerns.

### EAP Monitoring

4. Bank staff periodically monitor and evaluate progress in implementing the EAP's action program, discuss their findings with the government, and identify and promote corrective

actions. Bank staff encourage and support the government's efforts to periodically update the EAP in light of new information and changing priorities. If the government so requests, Bank staff assist in identifying financial resources and expertise to update the EAP.

### Integration into Country Development Planning and Bank Work

5. As part of regular country assistance management, Bank staff identify potential gaps in country capability for EAP preparation, monitoring, and updating. The CD estimates when the entire EAP, or portions of it, will need to be monitored, reviewed, and updated for inclusion in the Bank's Country Assistance Strategy. The appropriate COD and SODs ensure that the Bank's country economic and sector work, Country Economic Memoranda, Country Assistance Strategy documents, and Policy Framework Papers integrate and properly reflect the findings of the EAP and identify areas in which environmental questions remain. Bank staff may also need to integrate EAP information into the Staff Appraisal Report and Memorandum and Recommendation of the President/President's Report for investment and adjustment lending operations.

6. The RED reviews the appropriate Bank documents to ensure that environmental actions identified and recommended in the EAP have been adequately taken into account.

7. Bank staff promote coordination among the efforts of the various aid agencies participating in the EAP process.

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1. "Bank" includes IDA.

2. Bank staff review the document whether it is a single document or a compilation of several reports or working papers.

**Note:** OP, BP, and GP 4.02 together replace OD 4.02, *Environmental Action Plans*. Questions should be addressed to the Director, Environment Department.



**Status Reports and Release of the EAP**

8. The CD informs the executive directors of the status of EAP preparation and implementation through a section in the Country Brief and, for active IDA-eligible borrowers, through the IDA Annual Report to the Board. The CD reports the Bank's receipt of an EAP in the next issue of the Bank's *Report to the Executive Directors on Bank*

*and IDA Operations.* When the government permits, the CD makes copies of the EAP available to the executive directors on request. Once the Bank has officially received the EAP and has obtained the government's consent, the CD sends a copy of the EAP to the Public Information Center, through which interested parties may obtain it.



## Environmental Action Plans

1. An Environmental Action Plan (EAP) describes a country's major environmental concerns, sets out the principal causes of problems, and formulates policies and concrete actions to deal with the problems. The EAP describes and establishes priorities among several areas of environmental concern: (a) environmental issues; (b) plans for specific environment-related legal, policy, and institutional change; and (c) types of environmentally sustaining investment to be undertaken. It also describes the financial and technical assistance the country needs to address priority environmental problems. Each country's EAP is as detailed and action-oriented as feasible and is updated and revised as conditions change.

2. Each country designs the content and format of its EAP. The reports vary according to the country's size, range of environmental problems, and economic complexity, and the government's capability to respond to environmental issues. The reports also vary according to the actual process of preparing an EAP. Smaller countries may find it feasible to prepare a comprehensive and formal EAP covering all sectors, while larger countries may find it useful to focus separately on several high-priority sectors.

3. The Bank's<sup>1</sup> contribution to formal environmental planning varies. To encourage awareness

of and commitment to the central role of the government, no Bank document should be entitled "Environmental Action Plan" in a context that implies that the Bank's document is the country's EAP. Any Bank document supporting environmental planning should explicitly state that it is a contribution—made jointly with other agencies, to the extent possible—to the preparation, adoption, and implementation of the country's EAP.

### Funding and Aid Coordination

4. The Bank recognizes that for the government to prepare and periodically review and update an EAP, funds additional to the amounts normally budgeted may often be required. Staff should be mindful that mobilizing funds requires considerable lead time, a problem that is compounded in the Bank and in borrower countries by a lack of human and financial resources to cover the broad range of specialties frequently required for EAP preparation, review, and updating. Furthermore, coordination of the aid agencies participating in the process may itself require additional staff time and travel. Information on external funding for country work is available from the Official Cofinancing and Trust Funds Group, Cofinancing and Financial Advisory Services.<sup>2</sup>

1. "Bank" includes IDA, and "loans" includes credits.

2. See also the *Consultant Trust Fund Handbook* (Washington, D.C.: World Bank, 1991), and OD 14.40, *Trust Funds and Reimbursable Programs*.

**Note:** OP, BP, and GP 4.02 together replace OD 4.02, *Environmental Action Plans*. Questions should be addressed to the Director, Environment Department.



### Description and Contents of an Environmental Action Plan

#### *Definition and Objectives*

5. An Environmental Action Plan (EAP) analyzes a country's environmental issues in a comprehensive, multisectoral framework. It sets forth a long-term strategy for maintaining the country's natural environment, the health and safety of its population, and its cultural heritage as economic development occurs. In proposing practical measures to forestall or remedy environmental problems, the analysis considers cross-sectoral links that affect renewable and nonrenewable resources and human activity. Although the term EAP often refers to a specific document formally designated as such, many other approaches (e.g., the findings and recommendations of task forces set up to deal with important national or regional problems) can achieve the same objective of setting forth a long-term national environmental policy and investment strategy based on comprehensive environmental analysis. The documentation of an initial EAP contributes to the larger and long-term process of environmental planning that will require reformulation over time through revised EAPs or other documentation.

6. The EAP examines the quality of the environment; biodiversity; and the use of natural resources, including air, land, water, forest, minerals, and wildlife. It assesses how the economic and institutional issues associated with the management of these resources are affecting development and human health and well-being. On the basis of this analysis, the EAP report sets forth priorities and related policy recommendations in the following areas: (a) government and public awareness of environmental issues; (b) a national strategy for environmental protection; (c) specific legislative actions, programs, and

investment projects to address priority problems; (d) an information system for monitoring the state of the environment; (e) the management of natural resources, particularly endangered species and habitats; (f) the reversal of environmental degradation; and (g) protection of the public from environmental pollution and hazards.

#### *Preparation and Release*

7. It is important that the country's EAP be prepared by a multidisciplinary team comprising specialists in a wide range of areas: agriculture, forestry, marine and coastal zone management, public health, sanitary and environmental engineering, sociology and anthropology, urban management, water resources, wildlife, law, economics, finance, and other fields required for analyzing environmental problems and proposing remedies. Preparation of the EAP also takes into account the views of interested parties obtained through adequate consultative mechanisms (including public discussion of early EAP drafts) that ensure broad public input. The team that prepares the EAP identifies procedures required to obtain formal clearance and release from the relevant government agencies. The government then officially provides the EAP to the Bank, aid agencies, local governments, and other appropriate audiences (e.g., nongovernmental organizations [NGOs]).

#### *Contents*

8. Depending on each country's approach, EAPs may vary widely in their coverage. An extensive treatment of probable topics appears in the *Environmental Assessment Sourcebook*.<sup>3</sup> The Sourcebook discusses general and sector-specific situations and analyzes recurring difficult issues that may require special attention.

3. *Environmental Assessment Sourcebook*, Technical Paper No. 139 (Washington, D.C.: World Bank, 1991).





A comprehensive EAP normally covers a broad range of topics similar to those listed below. The weight accorded to each item covered depends on local circumstances.

- (a) *A summary of the country's overall environmental situation relative to its development strategy.* The EAP identifies the policies and legislation that provide the current framework for addressing environmental issues.
- (b) *An analysis of major cross-sectoral issues (e.g., demography, public health and safety, cultural and natural heritage) and socioeconomic factors important to the environment and resource use.* Basic information required for the cross-sectoral analysis includes the following:
  - (i) **Demography:** Information on the rate of growth and composition of population; percentage of population dependent on agriculture, forestry, and other resource-related industries; and the growth, migration patterns, and characteristics of urban and rural populations.
  - (ii) **Public health and safety:** Data on the threats of pollution; deficiencies of basic infrastructure and of standards and regulatory measures; risks of occupation of hazard-prone land and of extreme events (e.g., floods, storms, earthquakes); transport, storage, use, and disposal of hazardous materials; widespread industrial hazards; and road safety.
  - (iii) **Cultural and natural heritage:** Data on environmental or human-induced risks to the preservation of specific major sites, structures, and remains of archeological, historical, cultural, religious, or aesthetic value; identification of natural resources of particular importance for biological, ecological, medical, or touristic value.
- (iv) **Socioeconomic factors:** The location and occupation of indigenous peoples; identification of high-risk groups, key groups of resource users, and patterns of social organization at the grass roots; resettlement; land tenure systems; traditional farming and grazing practices; and access to and use of forests, water, wildlife, lands, basic infrastructure, and so forth.
- (c) *An analysis of the legal and institutional framework.* The discussion of legal and institutional factors for dealing with the priority problems listed in para. 4(b) addresses key strengths and weaknesses in such areas as (i) the government's regulatory and administrative framework, (ii) the government's commitment to environmental conservation, (iii) the government's enforcement capability, (iv) the training and experience of civil servants, (v) the availability of technical specialists and of education and training opportunities within the country, (vi) the competence and range of activities of national NGOs, and (vii) the level of environmental awareness by private business (including foreign investors) and the general public.
- (d) *Analysis of major development activity, and trends in economic growth, resource use, and conservation.* This analysis covers major sectors—agriculture, forestry, industry, transportation, energy, housing, infrastructure, education, health and social services, mining, parks, and



tourism—with special reference to the environment in all cases. The analysis also identifies specific constraints on future economic growth, for example (i) shortages of arable land and water; (ii) limitations in numbers of skilled personnel; (iii) reductions in human capital caused by environment-related disease; (iv) restrictions on land and water use caused by pollution; (v) degradation and depletion of coastal zones, forests, soils, energy, and other natural resources; and (vi) the effects of urbanization and population growth.

- (e) *Analysis of key environmental and natural resource issues that threaten public health, social welfare, biological diversity, and sustainable development.* For each issue, such causal factors as the following are analyzed: (i) population pressure; (ii) improper farming or waste disposal methods; (iii) forced and voluntary resettlement; (iv) improper management of land, water, and other resources; (v) price distortions or other market failures; (vi) technical insufficiencies; (vii) inadequate information, education, and training; and (viii) failure to have or enforce pollution control measures. The relative importance of each issue is determined in terms of its impact on sustainable development, based on quantitative analysis wherever possible. The groups facing the highest risk from, or most affected by, pollution and resource degradation are identified.
- (f) *Identification of environmental information needs.* The EAP indicates the basic information required for the analysis of cross-sectoral problems and solutions and recommends specific types of data to be systematically gathered, maintained, updated, analyzed, and

disseminated. The data encompass a wide variety of information from many fields: legal and fiscal cadastral systems; environmental indicators (e.g., population density and health status, pollution levels, or land-use patterns); geographic indicators (including topographic detail and resource-related data, such as soil fertility, distribution of wetlands and rangelands, and rainfall patterns); and the location of key areas (e.g., urban, industrial, environmentally fragile, or hazardous areas). The data, which have a wide range of applications—from food security and preparedness for responding to natural disasters to erosion control and the monitoring of endangered species—are essential to efficient natural resource management. The data are generated by a broad spectrum of techniques, ranging from door-to-door surveys to satellite imagery. The availability of data, difficulty of access and compilation, frequency of updating, and cost of compilation and maintenance are all important concerns for the EAP.

- (g) *Strategy and recommendations for specific actions (macroeconomic, sectoral, project investment) for dealing with each of the issues identified.* Specific recommendations may be required for legislation and other regulatory measures on management of land and other natural resources; economic policies that affect incentives for the private sector; pollution control policies and administration; population and migration policies; pertinent urban, rural, regional, or city-specific strategies; and sectoral investment priorities.
- (h) *Recommendation of an overall strategy.* This statement indicates how environmental policy and investment



strategies will affect the priority issues defined in the rest of the EAP and in the country's overall development plans. The strategy recommendations are closely integrated with the specific recommendations for environmental protection and improvement. They also complement the recommendations for resource management that the government believes will put the country on a path of sustainable development.

- (i) *A work plan and implementation budget.* The EAP indicates the specific steps,

timetable, and financial arrangements for carrying out recommended actions, with detail for each action proportionate to its priority; for medium- to long-term actions, detailed planning is a part of the periodic EAP updating process. The EAP also identifies a number of programs and projects for Bank and other donor financing that will support these actions.

- (j) *Summary of EAP preparation.* The summary describes how the EAP was prepared, explains its parameters, and lists contributions and participants.





## Agricultural Pest Management

### I. Issues in Pesticide Use

1. Because pesticides are handled by large numbers of people with different levels of skill, stored for varying lengths of time, and purposely released into the environment, and because they have potential to create substantial environmental and health problems, they are a significant issue for society. Misused pesticides can cause severe illness or death, contamination of soil and water, harm to livestock and wildlife, and reduction or elimination of pests' natural enemies in the field. Furthermore, use of the wrong pesticides, or the wrong dosage, can lead to potentially dangerous residues in foods. Given the rapidly changing nature of practice and legislation in this field, it is strongly recommended that expert advice be sought if any uncertainty exists.

#### Toxicity

##### *Acute Mammalian Toxicity*

2. Many chemical pesticides are toxic to humans and animals when absorbed by ingestion, through the skin, or by inhalation. Some are corrosive, explosive, or irritating to the skin; others contain hazardous inert ingredients or contaminants.

3. Acute toxicity of pesticides is measured in terms of LD50 (a statistical estimate of the dose, in milligrams of the material per kilogram of body weight, that will kill 50 percent of a group of test animals). Both oral and dermal LD50s are used, since many pesticides are absorbed almost as readily through the skin as by ingestion. (Toxicity through inhalation is also sometimes a hazard, but the measurement and evaluation of this property are more complex.)

4. The World Health Organization (WHO) periodically revises and reissues *The WHO Recommended Classification of Pesticides by Hazard and Guidelines to Classification*. The 1992-93 edition lists active ingredients of pesticides (plus synonyms), classified as follows:

- (a) *Class IA, Extremely Hazardous* (oral LD50=5 mg/kg or below for solids, 20 mg/kg or below for liquids; dermal LD50=10 mg/kg or below for solids, 40 mg/kg or below for liquids);
- (b) *Class IB, Highly Hazardous* (oral LD50=5-50 for solids, 20-200 for liquids; dermal LD50=10-100 for solids, 40-400 for liquids);
- (c) *Class II, Moderately Hazardous* (oral LD50=50-500 for solids, 200-2,000 for liquids; dermal LD50=100-1000 for solids, 400-4,000 for liquids);
- (d) *Class III, Slightly Hazardous* (oral LD50 over 500 for solids, over 2,000 for liquids; dermal LD50 over 1,000 for solids, over 4,000 for liquids); and
- (e) *Class IV, Unlikely to Present Acute Hazard in Normal Use*.

5. The appearance of a given pesticide in WHO Class IA or IB should trigger closer evaluation. However, the WHO classification is for *technical products* (i.e., active ingredients, or a.i.), whereas most pesticides reach the user as *formulated products*, in which the active ingredient is diluted with



carriers, emulsifiers, and so forth. It is the classification of the formulated product that is the relevant factor. If the acute toxicity of a given formulation has not been reported, it can be estimated using the following formula:

LDSO of formulated product =

$$\frac{(\text{LD50 of a.i.}) \times 100}{\% \text{ of a.i. in formulated product}}$$

#### *Chronic Health Effects*

6. For some products, routine occupational exposure causes adverse chronic health effects, or these products may accumulate in body fats following incidental exposure to pesticides in air, water, soil, and food. Chronic and incidental exposures raise the possibility of carcinogenic, teratogenic, mutagenic, and reproductive effects.

#### *Environmental Persistence*

7. Some products (mainly organochlorine pesticides such as DDT) have long-term effects on wildlife and aquatic organisms because of their persistence, mobility, solubility in lipids, or concentration in food chains. Experiments and field experience have shown that even very low levels of exposure to such products can have serious toxic effects on fish and birds. Through erosion and runoff from soil applications, drift from spray and dust formulations, and volatilization, such products find their way into rivers, lakes, marshes, and other habitats for wildlife and aquatic organisms.

#### *Toxicity to Nontarget Organisms*

8. Toxicity to nontarget organisms is an important concern, particularly where important economic or biological resources (e.g., commercial or subsistence fisheries, honeybees, endangered species, natural forests, or orchards) may be at risk. The possible impact of insecticides on

animals is well known; however, herbicide drift is of equal concern because it can damage or destroy susceptible crops or natural vegetation in nontarget areas. In addition, pesticides vary in relation to their impact on beneficial insects, spiders, and other organisms; and pesticides with a broader range of toxicity are more likely to lead to pest resurgence and the development of secondary pest species. The potential hazards are greatest where pesticide use is likely to impinge upon important nontarget species (e.g., where irrigation drainage enters important water bodies, or in areas adjacent to nature reserves).

#### **Hazards Related to Pesticide Use**

9. In addition to the toxic characteristics of the materials themselves, the hazards associated with pesticide use depend on how the pesticides are applied. Proper application involves selecting the right application methods (based on the cropping system, target pests, the environmental setting, and prospective users) and using well-designed equipment in good working order. The most common application methods are spraying with liquid formulations and dusting with powders. Common spray equipment is either carried by hand or backpack or mounted on a tractor or aircraft. Various low-volume and ultra-low-volume (LV and ULV) methods have been developed that greatly reduce the total amount of spray liquid applied per hectare. Other pesticide delivery systems include seed dressings, baits, granules or liquid drenches applied to the soil, vaporization (outdoor fogging or indoor fumigation), and controlled-release formulations.

10. Liquid pesticides are commonly sold as concentrates to be diluted before or while loading the product into the sprayer. Mixing and loading are usually the most hazardous steps in pesticide handling. Furthermore, inaccurate dilution can reduce pesticide effectiveness or can increase residues and accelerate the development of pesticide resistance. To minimize the risk of handling



particularly hazardous pesticides, it may be advisable to purchase products at working strength (requiring no dilution) and use closed loading systems or integrated container/nozzle systems, which completely bypass the loading step.

11. Fumigation of stored products, using toxic materials at high vapor pressures, is hazardous because of the difficulty of handling and containing toxic gases and the danger of toxic residues on food. Fumigation has become common even at the farm level because of the availability of aluminum phosphide and magnesium phosphide tablets, which are relatively easy to use—exposure to moisture in the air triggers release of toxic hydrogen phosphide gas. To carry out the procedure safely, however, requires special equipment and training, an air-tight storage container, and a post-treatment period during which people have to be protected from exposure to the vapors. Therefore, this option can present a serious hazard if users are untrained and poorly equipped.

12. Low-concentration granular, seed dressing, and bait formulations generally present the lowest level of hazard to the users and thus are particularly appropriate for small-scale farmers unfamiliar with pesticide use. They also cause minimal environmental contamination and, for the most part, minimal adverse effects on nontarget organisms. However, they may be harmful to domestic animals and wildlife, particularly granivorous birds, and to humans who may eat the treated material.

13. In spray applications, the size of spray droplets produced is critical. Droplets that are too small drift away, and those that are too large run off the plant onto the ground. In either case, waste and environmental contamination result. Conventional hydraulic backpack sprayers, though widely available and easy to use and maintain,

produce a wide range of droplet sizes and are relatively inefficient. LV and ULV methods have gained popularity because they reduce labor costs by eliminating the need to carry large volumes of water, and they allow large areas to be sprayed rapidly. However, LV and ULV methods are more sensitive to errors in dosage calibration, and they often use more concentrated pesticides, which can increase hazards to the operator (although the elimination of the mixing step is a benefit).

14. Spraying or dusting from aircraft is convenient for covering large areas quickly, but the blanket coverage and extensive spray drift can lead to environmental contamination, impact on nontarget organisms, and human exposure. A further source of hazard is the fact that aerial application is often carried out by contractors who are paid by the volume sprayed, a practice that can provide an incentive for carelessness and haste. For these reasons, aerial spraying is used only when absolutely necessary.

15. One of the most common causes of pesticide intoxication is poorly functioning or leaking equipment. Farmers often continue to use old equipment because they cannot afford to replace it. Also, spare parts and knowledgeable technicians are often hard to find.

16. Many pesticides are readily absorbed through the skin and can be used safely only if the operator wears protective clothing. However, using protective clothing improperly can be more hazardous than using none at all. For example, clothing that is not washed and becomes saturated with pesticides through repeated use, or rubber gloves or boots that are contaminated on the inside, can greatly increase pesticide absorption through the skin. Proper hygiene—regular washing of both the skin and protective clothing (separately from household laundry)—is a critical element of safe pesticide handling.



### Registration

17. Many countries have legislation regulating the importation, production, and sale of pesticides and the ways in which they can be used. Under such legislation, individual pesticides (usually specific commercial products) may be refused registration, banned (have existing registration withdrawn), or restricted to use by certified or licensed operators or with safety equipment. Individual pesticides are normally registered for specified uses (specific crops, soil treatment, protection of structures, etc.) and specified practices (such as application methods, dosage levels, and preharvest intervals). Pesticides that may be used only for limited purposes or under exceptional circumstances are sometimes called "severely restricted," although there is no clear consensus about the meaning of this term. Governments also set limits (called tolerances—usually expressed as parts per million or milligrams per kilogram) on the levels of pesticide residues permitted on, or in, agricultural commodities (domestic or imported) after harvest or processing. Registered use practices are established in part on the basis of the residue levels.

18. Restricting the use of a given pesticide to specified crops is important, because different crops absorb and metabolize pesticides differently and have different residue levels. Furthermore, residue tolerances vary depending on the way crops are used or processed. The tolerances set by prospective importing countries are an important concern in the case of export crops. Where no tolerance has been set for a given pesticide/commodity combination, it is generally assumed to be zero. Information on tolerances set by different countries is available from the countries' agricultural or trade agencies, various published compendia, and pesticide manufacturers. The Bank's Sectoral Library has a representative listing on microfiche (AIDPEST DATABASE). Private industries that purchase and process agricultural commodities may have their own

residue requirements. These guidelines, which are usually based on consumer pressure, may be more restrictive than the national legislation.

19. In 1985, the Food and Agriculture Organization (FAO) adopted an "International Code of Conduct on the Distribution and Use of Pesticides" (updated in 1991), which represents a global consensus on minimum acceptable standards. In 1989, an amendment on "Prior Informed Consent" (PIC) was adopted. The amendment specifies that certain hazardous pesticides may not be exported unless the government of the importing country agrees to the import after receiving from the exporting country full information concerning the regulatory status of that pesticide in the country of export. A similar PIC resolution (relating to toxic chemicals in general) was adopted by the Governing Council of the United Nations Environment Programme (UNEP) in May 1989. Both resolutions are intended to apply to pesticides (or chemicals) that have been "banned or severely restricted" for environmental or health reasons in five or more countries. The list of products to which the PIC will apply is currently being developed, and issues such as the precise definition of these terms and whether certain other hazardous, but less regulated, pesticides should be included in the PIC scheme have not been resolved. When the internationally accepted PIC list has been developed, it will be used as an indicator that there is significant concern over the hazards presented by the materials included in it. The PIC concept ought to be incorporated or reflected in the domestic law of the importing countries.

### Nonchemical Pest Control Methods

20. Several kinds of pest control pose little or no hazard to humans and nontarget plants and animals. Biological control agents include arthropod predators and parasites; microbial pathogens such as *Bacillus thuringiensis* (B.t.); and vertebrates—





for example, sheep and goats in orchards and ducks in paddies to control weeds, and frogs or birds to control insects. Pheromones may be used to attract and trap insects or to confuse them and interrupt their reproductive cycles. An effective way to reduce populations of insects of which the females mate only once is to release large numbers of sterile males: few of the females will produce offspring.

21. One effective instrument for controlling insect damage in stored products is an inert atmosphere that is low in oxygen and high in carbon dioxide

(CO<sub>2</sub>). This environment can be created passively through hermetic sealing (the inert atmosphere develops in a few days) or actively by pumping in CO<sub>2</sub>. It can be created in a warehouse or, on a smaller scale, in air-tight plastic silos and cubes, which are available commercially. Heat and radiation treatments are also effective methods for large-scale operations, but they are not practical at the farm level. On a more basic level, an extract from the leaves or seeds of the *neem* tree (*Azadirachta indica*), which has long been used in India to protect stored grains, is a low-cost, low-toxicity option for on-farm storage.





## II. Principles of Integrated Pest Management

1. Integrated Pest Management (IPM) has been defined as “the farmer’s best mix of control tactics,” taking into account yields, profits, and safety.<sup>1</sup> IPM is based on these fundamental principles:

- (a) Relying as much as possible on non-chemical measures to keep pest populations low. The focus is on plant breeding and on cultural practices aimed at keeping the crop healthy and resistant or tolerant to attack. These practices also aim at making the field and the crop inhospitable to the pest species and hospitable to their natural enemies. Non-indigenous pathogens, predators, or parasites may also be introduced, provided appropriate environmental screening is carried out in advance.
- (b) Managing pests, rather than trying to eradicate them. Ideally, control action is taken only when field monitoring (*scouting*) shows that a pest population has reached a level that is likely to cause significant economic damage.<sup>2</sup> This level (often called the *economic threshold level*, or ETL) is determined through crop-loss assessment research that takes into account a variety of factors, including the value of the crop, the amount of damage it can tolerate at each growth stage without significant effect on yield, and the cost of crop protection

measures. Use of thresholds and scouting minimizes the frequency of pesticide application.

- (c) Selecting and applying pesticides (when they have to be used) in a way that minimizes adverse effects on beneficial organisms, humans, and the environment.

2. IPM does not necessarily involve sophisticated information gathering and decision making. The IPM approach can be introduced at any level of agricultural development. For example, improvement of basic crop management practices, such as planting times and crop spacing, can often be effective in reducing pest attack.<sup>3</sup> IPM is a dynamic process. A useful beginning can be made with relatively limited specialized information or management input. Later, additional information, technologies, and mechanisms can be developed to enhance the effectiveness of the system.

### *Pest Management Plan*

3. The essence of the IPM approach is a pest management plan that anticipates the development of pest populations and provides agronomic practices and control measures to reduce their density and impact. An IPM plan aims for efficiency and long-term sustainability by (a) relying on the manipulation of ecological factors and (b) keeping expenditures on pest control measures in line with the benefits such measures produce in terms of

1. See P. E. Kenmore, K. L. Heong, and C. A. J. Puter, “Political, Social and Perceptual Aspects of Integrated Pest Management Programs” in B. S. Lee, W. H. Loke, and K. L. Heong (eds.), *Proceedings of the Seminar on Integrated Pest Management in Malaysia* (Kuala Lumpur, Malaysia: Malaysian Plant Protection Society, 1984), pp. 47-66.
2. In some cases, the decision to initiate control action may be based on other factors, such as weather conditions favorable to the explosive growth of a perennially damaging pest or disease.
3. For a review of relatively basic approaches to IPM, see A. Kiss and F. Meermans, *Integrated Pest Management and African Agriculture*, World Bank Technical Paper No. 142 (Washington, D.C.: World Bank, 1991).



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increased profit (related to crop yield, quality, and value). The plan is based on an understanding of the interactions among the elements of the local agro-ecosystem—in particular, the relative impacts of different pests on crop yields and the effects of different beneficial organisms and the abiotic environment on pest populations. Such information leads to the development of ETLs and other decision criteria for control actions. An IPM plan addresses practical as well as technical elements. It must be technically and financially feasible from the farmer's viewpoint, and it must take into account the total farming system rather than only the crops targeted for pest control.<sup>4</sup>

4. Specifically, the pest management plan addresses the following:

- (a) the context of the crops and farming system and significant pest problems that are likely;
- (b) the proposed approach for managing each of the key pests, emphasizing nonchemical methods;
- (c) measures (e.g., applied research) for developing IPM alternatives for control of pests, where such measures are not currently available;
- (d) measures (e.g., pest scouting systems) to ensure that pesticides are used only when they are necessary and cost-effective;
- (e) proposed institutional strengthening (e.g., establishment of diagnostic services staff and farmer training);
- (f) institutional, economic, and policy measures to facilitate and encourage adoption of IPM methods;

- (g) provisions to ensure availability of materials and equipment to implement recommended pest management measures;
- (h) provisions to continue development and implementation of IPM measures beyond the end of the project; and
- (i) the required elements of a pesticide management plan (if pesticide use is included in the pest management program).

5. It may be most effective and practical to develop the pest management plan in two phases: (a) an initial reconnaissance to identify the main pest problems and the ecological, agricultural, economic, and institutional context and to define broad parameters; and (b) the development of specific operational plans to address the pest problems identified. The first phase is carried out as part of project preparation and is evaluated at appraisal. The second phase requires considerably more time; it may best be carried out as a component of the project itself.

6. The comprehensive pest management plan, which is based on on-site evaluations of local conditions, is developed by crop protection specialists with experience in IPM. In many cases, external consultants are needed to assist local experts in this process.

### *Research*

7. Implementation of the IPM approach is often constrained by a lack of information or a shortage of tested alternative pest control methods. Crop protection research has often focused more on testing the efficacy of pesticides than on finding alternatives. Therefore, supporting IPM-related

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4. Many crops and weeds serve as alternative hosts for pest species, as well as refuges for natural enemies. Furthermore, the presence of livestock in the farming system may influence the appropriateness of pest management measures.



research to develop appropriate technologies is a fundamental first step in improving pest management practices in the field. A pest management research program should include the following:

- (a) basic studies of the agro-ecosystem, including identification, biology, and life cycles of crops, pests, and beneficial organisms, and interactions among them;
- (b) development and improvement of pest-resistant crop varieties;
- (c) development of cultural practices aimed at reducing the populations or impact of pests (e.g., crop rotations, intercropping, timing of planting and irrigation, crop hygiene, land preparation, crop establishment, plant spacing);
- (d) development of biological control methods, such as the release of indigenous or introduced natural enemies and the use of microbial pesticides, pheromones, and repellents;
- (e) determination of the actual impacts of different pests at various population levels on crop yield and quality (leading to the development of ETLs) and associated pest scouting methods that should be practical for individual farmers or scouting teams;
- (f) identification of pesticides and techniques of pesticide use that have minimal impact on beneficial organisms, human health, and the environment; and
- (g) investigation of traditional pest management practices of local farmers, because such practices often have a sound biological basis (although they are sometimes based on misperceptions about the

relative importance of highly visible pests or may no longer be effective because of changed conditions).

8. Research carried out with the participation of the intended beneficiaries is more likely to yield technologies that are (a) practical under local field and socioeconomic conditions, and (b) adopted by the intended users. Integrating farmers in planning, implementation, and testing is, therefore, essential. The agricultural extension service may provide a useful link between farmers and researchers for these field trials.

9. Pest control research must generally be carried out on a large scale to avoid the effects of pesticide drift or movement of pests from nearby fields. To gain the cooperation of farmers who have come to rely on chemical control, it may be necessary to provide financial guarantees against yield losses due to pests (although steps must then be taken to ensure that crop husbandry is not neglected, or yields underreported, to exploit this guarantee).

10. Research on pesticides is part of IPM research; however, it must not only investigate the short-term effectiveness of different products in reducing pest populations but also include (a) impacts of pesticides on natural enemies and other nontarget organisms, (b) the persistence of pesticides in the environment and on the crop, and (c) pesticide exposure and toxic effects (acute and chronic) on people, wildlife, and ground and surface water.

11. Project support for IPM research can include (a) technical assistance to help develop and evaluate pest management plans or research programs in specific areas, (b) training fellowships for researchers and technicians, (c) improvement of research facilities, (d) grants for specific research projects, and (e) institutional strengthening.



### *Training and Extension*

12. IPM does not lend itself to the “technology package” approach to extension, that is, the development of highly specific inputs and instructions to be applied by farmers with little need for individual decision making. IPM is not an input or a technology per se; rather, it is an approach and a set of skills that must be applied to the situation at hand. Thus the task of both researchers and extension workers is not to dispense instructions but rather to motivate and educate farmers to adopt IPM. Motivation comes from understanding the importance of careful pesticide use, both from the immediate financial standpoint of maintaining a positive benefit-cost ratio and from the broader standpoint of ecological sustainability, health, and environmental protection. Education means gaining the skills necessary to monitor the interactions among crops, pests, and natural enemies and to select and implement the control measures developed by researchers.
13. The IPM approach should be the central focus of education and training in crop protection at all levels, including agricultural schools and colleges, the training of extension workers, and the messages relayed to farmers. Because this approach is rarely covered adequately in general agricultural curricula, special workshops, short courses, and training materials should be developed and provided by IPM specialists familiar with local conditions.
14. Identification and scouting of pests are especially critical to successful IPM and usually require specific training for crop protection agents and farmers. The role of natural enemies in controlling pest populations must be emphasized. Training in identification of beneficial species is important because farmers often do not recognize them and, as a result, are not willing to reduce or modify pesticide use to preserve beneficial species.
15. In many cases, farmers’ primary sources of information and advice on pest management and pesticide use are pesticide distributors and sales staff who, while often quite knowledgeable, represent a special interest. In the worst case, farmers may purchase pesticides from commercial middlemen who have little or no real knowledge of the technical aspects of safety or use. In addition, farmers who have limited experience with pesticides often do not distinguish among them (believing that any product is good for any pest in any crop) or fail to recognize the importance of using the correct application method and dose. Extension workers should be prepared to advise farmers on the proper handling and use of pesticides (including maintenance and calibration of spraying equipment) and on the hazards of pesticide misuse to crops and to the health of people and livestock (from direct exposure during use and from contamination of drinking water and crops). However, to avoid conflicts of interest, extension services should not receive income from selling pesticides.
16. Training at all levels should therefore include a thorough understanding of pesticides: effects and limitations, associated health and environmental hazards, and requirements for safe and effective use and handling. Regular refresher workshops, short courses, and field days are important to maintain the awareness and skill levels of extension workers and farmers and to keep them in step with new technology. In addition to conventional extension channels, information about the hazards of pesticides should be disseminated through a variety of methods and media—for example, radio, television, cinema, illustrated pamphlets, comic books—to circumvent illiteracy.
17. Appropriately tailored training, information, and educational materials relating to IPM and pesticides should also be given to the following groups:



- (a) shopkeepers, vendors, and farmer groups or cooperatives involved in the sale or distribution of pesticides, to ensure that they (i) understand the toxic nature of the pesticides they are dispensing (ideally, pesticide retailers should be licensed, with appropriate training as a prerequisite), and (ii) can advise their customers about the toxicity of pesticides and about proper hygiene practices and safe disposal of pesticide residues, containers, and material used during application;
  - (b) doctors, community health clinics, and women's groups (particularly education about the symptoms and treatment of pesticide poisoning);
  - (c) staff of credit institutions, so that they understand the economic advantages of IPM and do not set inappropriate requirements for pesticide use as a prerequisite for lending to farmers; and
  - (d) schoolchildren in rural areas.
- (b) Separation of decision making and financial responsibility. For example, if pest control is directed or implemented by a government agency or an agricultural company on behalf of the farmers, who are charged for the service, the pest control service may regard its task as reducing or eradicating pest populations with little concern for the cost. Meanwhile the farmers, who would be concerned about cost, may lack the information or means to influence the process.
  - (c) Legislation, regulations, or credit conditions that require prophylactic pesticide treatments or eradication of specific pests.

19. It may be useful to carry out sectoral studies to assess existing costs and returns from pest control (including the cost of any subsidies) to encourage the adoption of policies that support IPM. An initial phase of fieldwork is often required for collecting the necessary data.

20. Driven largely by public health, environmental, and economic concerns, most countries have (or are developing) some form of legislation for control of pesticide import and use. Removing certain pesticides from the market because of their effects on human health and the environment may stimulate the development and adoption of IPM alternatives. The promulgation of appropriate legislation is not a panacea for dealing with a country's concerns, however, and may often take a long time; in addition, some current legislation has proved to be too cumbersome to implement, necessitating law reform. To be effective, specific legislation on pesticides must take into account the capabilities for handling and managing pesticides in the country concerned. Legislation on pesticides requires technical knowledge, consultation with the various interests, and resolution of conflicting positions. To encourage

#### *Policy, Legal, and Institutional Framework*

18. While research, extension, education, and input supply channels can provide the tools necessary for rational and cost-effective pest management, farmers must also have an incentive to apply such measures. A few countries have officially adopted IPM as national policy and have put in place regulatory and economic measures to support it. More commonly, however, existing policies and incentive structures are deleterious to IPM. The following are examples:

- (a) Subsidies (artificially low pesticide prices, free or subsidized application) provided by governments or donor agencies. Often the low prices are incentives for the excessive use of pesticides.



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the introduction of new and less harmful pesticides, legislation should establish a pesticide registration process that is streamlined and accessible and that does not impose heavy costs. The Food and Agriculture Organization (FAO) and the international pesticide industry trade association (GIFAP<sup>5</sup>) provide technical assistance and organize meetings and seminars to help governments develop or refine pesticide legislation that is consistent across regions and countries.

21. Even where appropriate pesticide registration schemes and legislation exist, countries often need support for strengthening the institutions responsible for evaluating registration applications, developing and enforcing regulations, controlling pesticide quality, monitoring environmental exposure, identifying and treating pesticide poisonings (particularly in rural clinics) or diagnosing pest problems, and improving pesticide application technology. External support may provide training and technical assistance, establish or rehabilitate laboratories or other facilities, and help structure an effective multisectoral body for reviewing and registering pesticides.

### *Monitoring, Evaluation, and Supervision*

22. Monitoring and evaluating progress on the development and implementation of IPM programs is difficult because (a) the scientific base may take a long time to develop, and (b) farmers may not immediately adopt the technology offered. Therefore, progress must often be measured not so much in specific results as in the process. For example, the appropriate types of research should be ongoing, with adequate staffing and support; training programs should have the proper orientation; and an effective program should exist for testing research recommendations at the field level and disseminating promising results to farmers. It is also important to track developments in policies (e.g., the removal of pesticide subsidies),

infrastructure, safety of pesticide use, and human exposure and environmental contamination. When an IPM program is introduced in an area where pesticide use has been high, a reduction in pesticide application within a few years is generally a good indicator of successful implementation.

23. A system of pest population monitoring should be established at the outset of the program, either using scouting teams or training farmers to scout their own fields. The link between scouting reports and the decision to take control measures should be clear, as should the mechanisms for evaluating the economic costs and benefits of pest control operations.

24. Information on pest management practices and their impacts should be gathered regularly and used to improve research, extension, and training programs. This work may require the development or strengthening of technical or institutional capacity. A number of international, and often national, nongovernmental organizations have a strong interest in pest management and pesticide issues and can serve as valuable collaborators for collecting field information on the availability and use of different pesticides and for monitoring farmers' adoption of IPM recommendations.

### *Specific Applications*

25. Within the basic principles of IPM, approaches may vary depending on the crops or pests involved. For example, while routine, preventive application of pesticides is rarely appropriate for controlling insect pests, it may be an important element in controlling some diseases and weeds. Similarly, appropriate biological control agents may be selected from a wide variety of organisms. The level of control necessary may vary considerably, particularly for fruit and vegetable crops, for which cosmetic damage may significantly decrease the market value.

5. Groupement International des Associations Nationales de Fabricants de Produits Agrochimiques.





26. *Forest Pest Management.* In plantations and forests, pests are not usually controlled artificially except when outbreaks threaten significant economic damage. Thus, use of ETLs is standard practice. In some cases, pest population monitoring systems that use attractant pheromones or other methods are effective for spotting incipient outbreaks.

27. Other IPM practices that should be applied in forest pest management are

- (a) genetic resistance: that is, using pest-resistant cultivars, where available, and avoiding large monocultures of a single species or genetic variety that is inherently susceptible to epidemics;
- (b) cultural control: that is, the removal of diseased and dead trees that serve as breeding sites for pests;
- (c) biological control as the first line of defense (biological control is particularly effective in more stable ecosystems, such as forests); and

- (d) prudent pesticide selection: that is, choosing pesticides (when they have to be used to control outbreaks) and application methods that present minimum risk to the environment or human health. Of particular interest are insect growth regulators and microbial agents (e.g., *Bacillus thuringiensis*, or B.t.) that are now widely used as alternatives to conventional chemical pesticides.

28. *Stored Product Pest Control.* Stored product pests (including molds) cause considerable losses in the quality and quantity of agricultural products worldwide. In developing countries, the problem is often exacerbated by climate and lack of appropriate storage facilities at both national and on-farm levels. In an IPM approach, the first line of action is to prevent buildup of pest populations by careful preparation of products (e.g., thorough drying) before storing and by use of good storage facilities. When pest control is necessary, several approaches are available: conventional chemical products, including careful treatment with diluted pesticides and fumigation with toxic materials, or treatments such as *neem* or inert atmosphere.





### III. Guidelines for the Selection and Use of Pesticides

1. Use of pesticides may be one component of an agricultural pest management strategy. Responsible treatment of pesticides requires continuing attention during project preparation, appraisal, and supervision to ensure safe and appropriate pesticide use and handling.

2. This section outlines the basic principles of pesticide selection, handling, use, and monitoring to minimize environmental and health hazards. It also outlines the treatment of pesticides in environmental assessment. However, these guidelines give only the general framework and basic principles to be followed; specialized knowledge is always required to select appropriate pesticides and to identify requirements for safeguarding human health and the environment under specific conditions. Staff should call upon the Regional environment division (RED), the Agriculture Department (AGR), and the Environment Department (ENV) for advice and assistance. Staff should also use pest management specialists to assist in appraisal and supervision as needed.

#### Pesticide Selection

##### General Principles

3. Pesticides vary greatly in their degree of danger to humans and the environment, and control of pesticide use and handling in the field can be difficult. Therefore, the critical first step is selection of appropriate pesticides. Pesticides for which special precautions are necessary should not be used if the requirements are unlikely to be met.

4. Many factors must be considered in pesticide selection: toxicity, persistence, user experience, local regulatory capabilities, type of formulation, proposed use, and available alternatives. Furthermore, new information continually becomes available, and it may be necessary to reassess the hazards of particular products. Thus the development of any general list of disapproved pesticides

is operationally impractical. Instead, it is advisable to develop for each situation an approved list of pesticides, mutually agreed by the Bank and the borrower and consistent with these guidelines.

5. The decision on whether to approve financing for a given pesticide takes into account both the type and degree of hazard (under local conditions) and the availability of alternatives. For example, carbon tetrachloride, most products containing arsenic, and products containing methyl or phenyl mercury, lead, thallium, or cadmium are not financed under any circumstances. These substances have largely been replaced by safer substitutes. However, certain other pesticides with undesirable toxic or environmental properties (e.g., most organochlorine products and seed dressings containing methoxy mercury) are still widely used and may be hard to replace in a given case. As a general rule, they should not be financed; however, they may be considered for a limited time when there is a clear plan for replacing them with suitable alternatives in accordance with national legislation. The large number of pesticide products on the market makes it impossible to provide specific guidance on individual products here. For information and advice on pesticide selection for specific projects, staff should contact the RED or ENV.

6. The main criteria for judging the types of pesticides that should be restricted or disallowed under Bank loans are

- (a) toxicity: acute mammalian toxicity, chronic health effects, environmental persistence, and toxicity to nontarget organisms (Part I describes the problems associated with each of these areas); and
- (b) registration status in the borrowing country and in countries with the technical capability to evaluate the long-term health and environmental impacts of pesticides.



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## Toxicity

7. *Acute Mammalian Toxicity.* As a general indicator, formulated products that fall into WHO Classes IA and IB and the more toxic range of Class II (described in Part I) should be avoided (a) if they are likely to be used by, or are accessible to, small-scale farmers or others who may lack the training, equipment, and facilities to handle and store them properly; and (b) in countries where there are no restrictions on their distribution or use. In Bank projects they are generally accepted only for use by large-scale operations in which they will be handled and used by trained crews under direct supervision and stored securely to prevent diversion to private use. In-depth project appraisal and supervision are required to ensure that training, facilities, and supervision are adequate. Handlers should be regularly monitored (blood and/or urine tests) for signs of overexposure to pesticides. If the local capability for making reliable assessments of human exposure is inadequate, provision should be made in the project to strengthen it or to collect and send samples outside for analysis.

8. For general use, the concentration of the active ingredient should be low enough to put the formulated product at least into WHO Class II. However, while the WHO classification is a good initial indicator, some pesticide products present a greater hazard than might be supposed from their ranking. For example, materials that are corrosive, explosive, or irritating to the skin require special handling precautions. In some cases, such materials should be regarded as Extremely Hazardous, even if they are not in Class IA or IB.

9. Hazardous "inert" ingredients (solvents, emulsifiers, stabilizers, etc.) present another, less well documented problem. The U.S. Environmental Protection Agency's Office of Pesticide Programs has lists of inert ingredients according to their acceptability for use in pesticide

formulations. Some pesticides (e.g., 2,4,5-T, malathion, carbaryl) are also likely to contain hazardous contaminants if not properly manufactured. This problem should be addressed through procurement specifications and quality control.

10. *Chronic Health Effects.* Many of the products that are known to cause chronic health effects are no longer registered for use in any country in the Organization for Economic Cooperation and Development (OECD); others are still registered in only a few countries, or only for restricted uses. While registration in one or more OECD countries is not, by itself, a criterion for a product's acceptability in Bank projects, lack of such registration is a good indicator that further inquiry is needed to determine whether a problem exists. However, information in this area is always growing, and some widely used pesticides currently under investigation may be found to have unacceptable chronic health effects.

11. *Environmental Persistence and Toxicity to Nontarget Organisms.* Some products are inappropriate for general agricultural use because of their long-term impacts on wildlife and aquatic organisms. The most familiar example is DDT, which should not be used in agriculture, although it may be permitted for nonbroadcast application in disease vector control (see OPN 11.01 (b), *Guidelines for Use, Selection, and Specifications of Pesticides in Public Health Programs*). Other products may be toxic to nontarget organisms such as endangered species, fish, honeybees, beneficial insects, susceptible crops, or natural vegetation.

## Registration Status

12. If a pesticide regulatory authority and a registration scheme exist, products must be registered before they actually enter a country (see Part I, paras. 17-19). Pesticides that are registered in the country of proposed use are eligible for procurement under Bank financing. However, national



## Good Practices

registration should not be a mandatory criterion for a product to be eligible for inclusion in a bid for procurement, and registration should remain open to all intending bidders. Products must normally pass tests demonstrating their suitability for the specific use envisaged before they are registered. Completion of these tests takes time (typically one or two cropping seasons). It is therefore important that, to allow for necessary testing, the need for specific active ingredients be assessed as early as possible during project preparation.

13. Problems may arise if active ingredients or formulations are required for specific purposes for which no products have been registered in the country. Such situations must be treated on a case-by-case basis. Generally, for such cases, pesticides should be considered only if their use for the intended (or similar) purpose has been reviewed by the FAO/WHO Joint Meeting on Pesticide Residues (JMPR) and an acceptable daily intake and maximum residue levels have been subsequently recommended to the Codex Committee on Pesticide Residues. However, many products have not yet undergone JMPR evaluation because they do not meet the criteria: wide use in sufficient volume, toxicological concern, and potential for significant residues in food crops important in world trade. Such products may be considered acceptable if they are registered for similar use in a country where conditions are similar and where there are adequate facilities to evaluate their effectiveness, toxicity, and long-term effects. In all such cases procurement should not be initiated without specific prior approval from the RED.

### Pesticide Handling and Use

14. In addition to the toxic characteristics of the materials themselves, the hazards associated with pesticide use depend on how the pesticides are handled. Precautions to minimize environmental contamination and excess human exposure are

needed at all stages, from manufacture, packaging and labeling, transportation, and storage to actual use and final disposal of unused pesticides and contaminated containers. The key elements are the use of suitable packaging materials, physical isolation of pesticides from consumable products and from children and animals, appropriate and well-maintained application equipment, disposal methods and facilities that prevent leakage into the environment, and, above all, provision of adequate information to people who are properly educated to use it.

15. The FAO publication *International Code of Conduct on the Distribution and Use of Pesticides* (Rome, 1991) provides internationally accepted general standards on labeling, packaging, storage and disposal, and pesticide management.

### Packaging and Labeling

16. Specifications for pesticide procurement should give packaging requirements. The FAO's *Guidelines for the Packaging and Storage of Pesticides* (Rome, 1985) provides standards for packaging types and materials for different types of pesticide formulations. Key elements include using only (a) new or soundly reconditioned packages with designs and materials that can withstand anticipated levels of handling (repeated loading and unloading) and climatic conditions (humidity, temperature, etc.), and (b) linings and closures that resist corrosion and do not react with the contents. The FAO guidelines on packaging and storage should be used as minimum standards; additional specifications may be required for certain types of pesticides or local conditions (e.g., light-colored drums to reduce deterioration due to heat from the sun). Domestic laws that set more stringent standards than the FAO guidelines must be adhered to.

17. Procurement documents must also specify labeling that follows the principles provided in *Guidelines on Good Labeling Practice for*



*Pesticides* (Rome: FAO, 1985). These guidelines indicate the types of information that should be on a label (e.g., identification and concentrations of all active ingredients; manufacturer; batch number and date of expiration; description of intended uses, application methods, and dosage rates; other directions for use; hazards; and safety precautions, including internationally and locally recognized warning symbols). The label should be written in the local language. Use of pictograms to assist illiterate users can be helpful, but it is impossible to identify universally understandable pictograms; pictograms must be developed locally, with extensive field testing. The FAO guidelines on labeling also address the physical characteristics of labels to ensure that they stay attached to the package and remain readable after extended handling and storage.

18. While pesticides may be appropriately packaged and labeled when they enter the country, intermediaries in developing countries often purchase the products in bulk and then repackage them. Often the repackaged pesticides go into inadequate containers with little or no labeling. To discourage this dangerous practice, pesticides intended for use by small-scale farmers should be procured and distributed in single-dose packages or small containers whenever possible. Repackaging of active ingredients or products that fall into WHO Class IA, IB, or II should be permitted only in properly licensed and inspected facilities that meet acceptable safety standards. Preferably these products are handled under the control of the bulk supplier, who is fully responsible for the suitability of the new package, including label and use instructions, the quality of the repackaged product, and the safety of the repackaging process. Repackaging of WHO Class III or IV products may be carried out by cooperatives or farmer groups if they are given training and appropriate repackaging equipment and materials and are approved by the authorities. Class IV products are unlikely to present an acute hazard in

normal use, but adequate care should be taken when large quantities are being repackaged. The FAO guidelines on labeling and packaging still apply in this case.

#### *Transportation, Storage, and Disposal of Pesticides and Pesticide Containers*

19. Packaging and labeling are relatively easy to regulate (except for informally repackaged products) compared with transportation, storage, use, and disposal, which are generally dispersed activities involving large numbers of people all the way down to the end users. Guidelines for good practice are available, but implementation and enforcement depend on local conditions and institutional capabilities. The important first step is to have legislation that specifies requirements, responsibilities, and noncompliance penalties for pesticide distributors, retailers, and users (including employers of agricultural laborers). This step must be accompanied by a regulatory and enforcement mechanism, which may include licensing or certification procedures for pesticide trading and spot inspections at all levels of pesticide handling. Relevant FAO guidelines include *Guidelines for the Packaging and Storage of Pesticides* (Rome, 1985) and *Guidelines for the Disposal of Waste Pesticide and Pesticide Containers on the Farm* (Rome, 1985).

20. Many countries have problems with stocks of obsolete pesticides, which are often very hazardous materials stored under conditions that present a serious public hazard. Requests for technical and financial assistance to dispose of these stocks are becoming more and more common. Appropriate disposal depends on the type and condition of the material on hand. Options include (a) reformulation and use, (b) repackaging, (c) movement to a less hazardous site, (d) burial in an appropriately designed and monitored landfill, (e) breakdown using microorganisms (bioremediation), (f) return to the country of origin for



disposal or destruction (usually through high-temperature incineration), or (g) destruction on site.

21. Any program for the disposal of pesticide stocks must begin with an on-site assessment by qualified professionals who can identify the toxic materials present, evaluate the level of hazard and urgency, and propose alternative plans to reduce or eliminate the problem. The "no action" option must be carefully evaluated along with proposed action alternatives, since in some cases a proposed solution that presents some environmental risks may still be preferable to the existing situation. Technical assistance for such assessments is available from specialist organizations, such as the World Environment Center in New York (which draws upon experts from the public and private sectors); the pesticide industry (manufacturers of the products in question, or GIFAP, the international pesticide industry trade association); national environmental agencies such as the U.S. Environmental Protection Agency; and private consultants and firms.

22. Key points for reducing hazards in the pesticide handling chain include

- (a) transportation and storage of pesticides separate from (i) food/feedstuffs; (ii) items, such as clothing, that come into close contact with people; (iii) substances that are flammable, explosive, chemically reactive, or otherwise likely to increase the risk of accidents;<sup>1</sup>
- (b) adequate pesticide storage areas that are locked, sheltered, ventilated, supervised, and free of spills or leaking containers; are not subject to flooding; and are equipped with drainage outfalls with evaporation ponds to eliminate contamination of water supplies;

(c) procedures and facilities at pesticide storage sites, and at points of individual use, for disposal of excess pesticides and empty or damaged containers; and

(d) safeguards and exposure monitoring for workers involved in formulation, repackaging, and disposal of pesticides.

23. Where substantial quantities of highly toxic pesticide materials are stored, their presence may require a "major hazard assessment." The Environment Department should be consulted for details on this procedure.

#### *Pesticide Application*

24. Effective and safe pest management requires that pesticides be applied properly. This process involves selecting the right application methods (based on the cropping system, target pests, the environmental setting, and prospective users) and using well-designed equipment in good working order.

25. *Aerial Application.* Pesticides to be applied aerially should be selected with the knowledge that surrounding areas are likely to receive drift. Spraying operations should be closely supervised to ensure good performance and minimize hazards. For example, spraying should be done only when weather conditions are suitable. Local populations should be notified ahead of time to stay out of the fields during spraying and for an appropriate period thereafter. Flagmen *should not be used* in the fields to guide the planes because they are vulnerable to excessive pesticide exposure.

26. *Granular Formulations.* Low-concentration granular formulations generally present the lowest level of hazard to the users but may be harmful to

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1. This category may include some fertilizers.



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domestic animals, wildlife, and humans if they are accidentally ingested. Exposure can be minimized by including brightly colored dyes in the formulations and using closed baiting stations (e.g., for rodenticides).

**27. Spray Applications.** Low-volume (LV) and ultra-low-volume (ULV) methods of spray application can be very efficient, but they are sensitive to errors in dosage calibration and can be hazardous to inexperienced operators because they use concentrated pesticides. Thus, when LV and ULV methods are introduced, training programs must be provided to ensure that the methods are used safely and effectively. Electrostatic ULV sprayers can reduce the problems of spray drift and runoff, and those that use integrated container or nozzle systems also reduce problems of calibration and user exposure; however, few pesticide products are available for such sprayers, and they give poor coverage in dense crops.

**28. Equipment.** Any procurement or distribution of pesticide equipment should include a good supply of spare parts, and retailers should receive training to provide equipment maintenance and repair services. Tenders for procurement of pesticide equipment should set high quality standards (recommended specifications and evaluations of commercially available equipment may be obtained from specialized independent research facilities).

**29. Protective Clothing.** Many pesticides are readily absorbed through the skin and can be used safely only if operators wear protective clothing. Requirements for protective clothing are ordinarily indicated on the pesticide label. Depending on the level of hazard, protective clothing may range from long-sleeved shirts, long pants, and enclosed shoes to rubber gloves and goggles or fully enclosed gas masks. Although several companies are producing lines of lightweight protective clothing, it is unrealistic to expect operators

working in very hot climates to wear extensive protection for any length of time. Pesticide selection should take this fact into account.

### Training and Public Education

**30. Education** is the key to improved pesticide use and safety. It is a highly desirable component of any program that increases the accessibility or use of pesticides, particularly if relatively high-hazard pesticides are being justified on the basis that they will be used only by skilled operators rather than being generally available to farmers. Training programs must cover safety aspects thoroughly, including the danger of pesticide absorption through the skin and lungs, short- and long-term effects of intoxication, and hazards of environmental contamination. Demonstrating the elements of safe pesticide handling is not sufficient. The dangers of misuse must be presented in a forceful and personal fashion to make an impression and have a lasting impact on individual behavior. Training should also include the importance of optimizing pesticide use through integrated pest management (see Part II). Many organizations worldwide, including university groups and nongovernmental organizations (NGOs), have developed good, comprehensive training programs and materials adapted to local languages and illiterate populations, in particular in relation to public health programs. As an after-sales service, the supplier should provide training, particularly in the use of pesticides or equipment with special handling requirements. This requirement may be included in the tender specifications.

**31. In addition to training for actual users and operators, it is helpful to provide (a) short courses for extensionists and pesticide retailers, (b) mass media or other public education campaigns on pesticide safety, (c) special programs of instruction for women and schoolchildren on pesticide safety in the home, (d) training for clinicians and health technicians in diagnosing and treating pesticide**





poisonings, and (e) seminars or technical assistance for government officials in pesticide legislation or regulation.

### Monitoring and Evaluation

32. Monitoring and evaluating pesticide impacts on human health and the environment is difficult but important, particularly if (a) pesticides with long environmental persistence or significant acute or chronic health risks are involved, or (b) environmental resources of special concern (e.g., important aquifers or fish nurseries) are believed to be threatened with contamination. It is important to begin by establishing baseline data for comparison. If this is not possible, an alternative is to identify a comparable site or group as similar as possible in all other respects to the exposed area or population. Monitoring activities may include

- (a) monitoring the occupational exposure of field workers or those involved in formulation or packaging;
- (b) sampling for specific pesticide residues in groundwater under, or in surface water downstream from, irrigation schemes;
- (c) sampling and determination of pesticide residues on food or feed crops or in livestock;
- (d) assessing public exposure to pesticides through residues in foods or water; and
- (e) assessing the impact on such nontarget organisms as beneficial insects, fish and other aquatic life, wildlife, and crop and noncrop plants (through herbicide drift).

33. Design of a monitoring and evaluation program must ensure that the necessary capability

exists for collecting and analyzing samples systematically and reliably. Samples collected in the field must be treated properly to retain their integrity (e.g., some samples must be kept frozen or out of the sunlight). Sample analysis can be simple or complex, depending on the physical and chemical nature of the sample and of the pesticides involved and whether the sample is suspected to contain only a few or many different types of residues. The laboratory equipment needed for analysis of some types of pesticides is expensive, sophisticated, and difficult to operate and maintain. In many cases, sending samples to commercial laboratories for analysis is more efficient and accurate than maintaining the full range of analytical capabilities locally. For products for which analysis kits are available commercially, the "enzyme-linked immuno-sorbent assay" (ELISA) method is an accurate, low-cost, and easily implemented method for screening large numbers of samples.

34. A monitoring program must also be clearly linked to operational decision making. This link should include

- (a) clearly specified reporting responsibilities;
- (b) established standards against which the data generated will be evaluated;
- (c) a plan for corrective action to be taken if the monitoring results indicate a problem; and
- (d) a specified budget and source of funds to meet the recurrent costs of conducting field sampling, maintaining analytical equipment, purchasing consumable supplies, and maintaining staff skills.



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### Environmental Assessment

35. OD 4.01, *Environmental Assessment*, identifies the use of pesticides as one of the potential issues to be addressed in an environmental assessment (EA). Even if no Bank financing for pesticides is involved, lending for agricultural development might stimulate pesticide use. Agricultural development programs may also be used to improve existing practices of pesticide use. As the EA directive describes, the initial screening of an agricultural project at the identification stage determines whether an examination of pest management aspects is needed. Where substantial quantities of highly toxic pesticide materials are stored, their presence may require a "major hazard assessment."

36. An EA looks at the potential environmental impacts of a project and proposes measures (a mitigation plan) to avoid, reduce, or compensate for negative consequences. Environmental impacts associated with agricultural pest management generally relate to the use of pesticides. Thus, an EA evaluates (a) the conditions of pesticide use and regulation with respect to protection of human health and the environment, and (b) the proposed practices of pest management. Depending on the types of issues identified, the EA provides a mitigation plan, which ordinarily falls into one of three broad categories: pesticide screening, a pesticide management plan, or a pest management plan.

### Pesticide Screening

37. Pesticide screening represents the minimum type of mitigation plan and is appropriate when

- (a) the financing proposed for pesticide procurement (directly or through a credit scheme) represents only a minor project component;

- (b) the project will not introduce pesticide use into an area for the first time or greatly increase the level of use;

- (c) no specific pesticide-related environmental or health concerns were identified at the Initial Executive Project Summary stage; and

- (d) products that are particularly hazardous will not be financed.

38. For pesticide screening, an authorized list of pesticide products approved for financing is developed, along with a description of mechanisms to ensure that only these products will be procured using Bank funds. To develop this list, it is necessary to identify the proposed end users of the pesticides, the crops and target pests involved, and the application methods proposed. Products may be rejected for financing on the basis of environmental or health hazards that are unacceptable, given the likely conditions of use. Then the Bank makes every effort to help identify suitable alternative control methods or pesticides. The positive list should be open to modification by agreement between the Bank and the borrower so as to take into account new information or requirements that may emerge during the life of the loan.

39. The borrower should also give assurances that the guidelines for pesticide packaging and labeling, transport, and disposal, outlined above, will be followed. Additional Bank attention to such aspects as opportunities to promote IPM alternatives or to improve pesticide handling conditions should be encouraged, but the investment of significant staff time or resources to examine these issues thoroughly may not be justifiable for a small component with limited impact.



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### *Pesticide Management Plan*

40. More detailed attention to pest management practices and pesticide handling is needed for projects in which

- (a) the pesticide financing proposed represents a large component;
- (b) the procurement of relatively hazardous pesticides is proposed; or
- (c) there are specific environmental or health concerns (e.g., proximity of the project area to protected areas or important aquatic resources).

41. In such cases, the EA proposes a pesticide management plan that addresses

- (a) who would use the pesticides (e.g., requirements are different for projects involving smallholders and those involving supervised plantation operations);
- (b) proposed pesticides to be procured (or commercially available in the area, in the case of projects providing credit for purchasing agricultural inputs);
- (c) mechanisms for limiting access to hazardous pesticides to authorized users, when the use of such products is proposed;
- (d) proposed application methods;
- (e) provisions for appropriate transport, storage, handling, and disposal (including

provision of protective clothing and application equipment);

- (f) potential end users' knowledge of and competence in safe handling of pesticides, and proposed training to improve them as needed;
- (g) mechanisms for monitoring and reporting environmental and health impacts of pesticide use (including designation of responsible authorities and management systems to use data generated); and
- (h) mechanisms for developing and promoting the use of nonchemical alternatives and an IPM approach.

42. The plan should explain how these aspects are, or will be made, consistent with Bank policy as described in OD 4.03, *Agricultural Pest Management*. In some cases the borrowing country may have adequate legislation and effective regulation of importation, distribution, and use of pesticides (determined by an evaluation by the Bank's RED and Legal Department). In other cases, it may be necessary to include project components for training, extension, provision of equipment or facilities, and so forth, to correct shortcomings. Particularly in the case of large-scale financing of pesticides (i.e., financing that represents a significant portion of the country's pesticide imports), measures for strengthening pesticide legislation and regulation at the national level are also considered.





#### IV. Selected Publications and Reference Sources

##### Bank Materials

Asia Technical Department. *Agrochemical Usage in Asia Region*. Prepared by G.J. Jackson, June 1992.

A looseleaf set of notes prepared to give Bank staff a ready source of information about pesticides and their use in the Asia region. It is particularly intended to help staff identify potential problems on which they might seek further advice.

Latin America Technical Department. *Agrochemical Usage in Latin America*. Prepared by G.J. Jackson (forthcoming).

Kiss, A., and F. Meerman. *Integrated Pest Management and African Agriculture*, World Bank Technical Paper No. 142. Washington, D.C.: World Bank, 1991.

Asia Technical Department. *Agricultural Technology and Environmental Safety: Integrated Pest Management and Pesticide Regulation in Developing Asia*. Prepared by U.-C. Wiebers (forthcoming).

##### Other Publications

Association de coordination technique agricole. *Index Phytosanitaire: Produits Insecticides, Fongicides, Herbicides*. ACTA: Paris, updated periodically.

Davies, J.D., and V.H. Freed. *An Agrochemical Approach to Pesticide Management: Some Health and Environmental Considerations*. Miami: Department of Epidemiology, University of Miami School of Medicine, 1981.

Food and Agriculture Organization. *Guidelines for the Disposal of Waste Pesticide and Pesticide Containers on the Farm*. Rome: FAO, 1985.

Food and Agriculture Organization. *Guidelines for the Packaging and Storage of Pesticides*. Rome: FAO, 1985.

Food and Agriculture Organization. *Guidelines on the Good Labelling Practice for Pesticides*. Rome: FAO, 1985.

Food and Agriculture Organization. *International Code of Conduct on the Distribution and Use of Pesticides*. Rome: FAO, 1991.



- Kenmore, P.E., K.L. Heong, and C.A.J. Putter. *Political, Social and Perceptual Aspects of Integrated Pest Management Programs in Integrated Pest Management in Malaysia*, edited by B.S. Lee, W.H. Loke, and K.L. Heong. Kuala Lumpur: MAPPS, 1984.
- Mayer, F.L., and M.R. Ellersieck. *Manual of Acute Toxicity: Interpretation and Data Base for 410 Chemicals and 66 Species of Freshwater Animals*. Washington, D.C.: U.S. Department of the Interior, Fish and Wildlife Service, 1986.
- Meister Publishing Co. *Farm Chemicals Handbook*. Willoughby, Ohio: Meister, updated annually.
- Pimentel, D. *Ecological Effects of Pesticides on Non-target Species*. Washington, D.C.: Executive Office of the President, Office of Science and Technology, 1971.
- Smith, G.J. *Pesticide Use and Toxicology in Relation to Wildlife: Organophosphorus and Carbamate Compounds*. Washington, D.C.: U.S. Department of the Interior, Fish and Wildlife Service, 1987.
- Thomson, W.T. *Agricultural Chemicals: Book I (Insecticides, Acaracides, and Ovicides); Book II (Herbicides); Book III (Fumigants, Growth Regulators, Repellents, and Rodenticides); Book IV (Fungicides)*. Fresno, CA: Thomson Publications, 1976-77.
- World Health Organization. *The WHO Recommended Classification of Pesticides by Hazard and Guidelines to Classification, 1992-93*. Geneva: Pesticide Development and Safe Use Unit, World Health Organization, 1992.
- Worthing, C.R., and R.J. Hance. *The Pesticide Manual: A World Compendium*. 9th ed. Surrey, U.K.: British Crop Production Council, 1991.

#### Reference Sources

U.S. Environmental Protection Agency, Office of Pesticides Programs. Phone: (703) 557-7090; Insecticides Branch: Phone 557-2200.

Every pesticide product registered in the U.S. has an assigned Product Manager at EPA, who can provide the latest information on the current U.S. regulatory position and the reasons behind it. Written Fact Sheets and Registration Standards are available for selected materials.

FAO Plant Production and Protection Division  
Via delle Terme di Caracalla  
00100 Rome, Italy  
Phone: (39-6) 57873551

INFOTERRA (UNEP's international environmental information system). U.S. contact person: Ms. Barbara Roth. Phone: (202) 260-8710.

International Registry of Potentially Toxic Substances (IRPTC). U.S. contact person: Ms. Susan Hazen. Phone: (202) 260-3442.



**Natural Resources Institute**

Central Avenue  
Chatham Maritime, Kent  
ME4 4TB, England  
Phone: (44) 634-993393 or 880088

Scientific Unit of the U.K. Overseas Development Administration. Includes a Pest Management Division and Sections on Insect Physiology and Behavior; Insect Chemistry; Pest Toxicology; Pesticide Management; Field Ecology; Biogeography and Radar Entomology; Pathology and Weed Science; Pest Systems Monitoring. Offers computerized bibliographic database with information on pesticide toxicity, persistence, and residues; environmental fate of pesticides; ecological impacts. Also provides publications, training courses, and consultants.

**Centre de Coopération Internationale en Recherche Agronomique pour le Développement (CIRAC)**

Service Protection des Végétaux  
BP 7309  
34083 Montpellier Cedex  
France  
Phone: (33-67) 615800  
Fax: (33-67) 615988

**Commonwealth Agricultural Bureau (CAB) International**

Farnham House  
Farnham Royal  
Slough SL2 3BN  
England  
Phone: (44-0218) 2281

Information services include Pesticide Manual of the British Crop Protection Council. Scientific services include Institutes of Entomology, Mycology, Parasitology, and Biological Control providing pest identification services, training.

**Consortium for International Crop Protection**

Dr. Edward H. Glass, Executive Director  
Department of Entomology  
NYSAES  
P.O. Box 462  
Geneva, New York 14456  
Phone: (315) 787-2337  
(Above information effective mid-December 1991.)

Consortium of U.S. universities offering training courses, publications, and consultants in all areas of pest management. Prime contractor for U.S. Agency for International Development.



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### International Plant Protection Center

Oregon State University  
Corvallis, OR 97331  
Phone: (503) 737-3541

Specializes in weed control.

### International Pesticide Application Research Centre

Silwood Park  
Ascot, Berks, SL5 7P4  
England  
Phone: (44) 344-294234  
Fax: (44) 344-294450

Undertakes research on all aspects of pesticide application and designs, and tests related equipment. Also organizes annual short courses.

### GIFAP: Groupement International des Associations Nationales de Fabricants de Produits Agrochimiques (International Group of National Associations of Manufacturers of Agrochemical Products).

International trade association whose members are national agrochemical associations of more than 30 industrialized and developing countries. Useful source for technical information and publications on pesticide specifications, handling, formulation, disposal, marketing, etc., as well as liaison with major manufacturers on issues concerning responsible pesticide management.

Numerous commercial consulting firms can provide information on pest management options or use and impacts of specific pesticides. Contact Regional Environment Divisions or ESD Environment or Agriculture Department for further information.

Pesticide product manufacturers (listed in the *Farm Chemicals Handbook*) are very useful sources for information on uses, application rates and methods, formulations available, crop registrations/tolerances, etc.

Pesticide Action Network. PAN is a network of international NGOs involved with pesticide issues and is a good source of information on prevailing issues and public concerns regarding health and environmental impacts of pesticides. Contact PAN Regional Coordinator at any of the Regional Centers:

Pesticide Education and Action Project  
P.O. Box 610  
San Francisco, CA 94101  
Telephone: (415) 771-7327

(Antoine Sendana)  
Environmental Liaison Centre International  
P.O. Box 72461  
Nairobi, Kenya

(Abou Thiam)  
ENDA  
B.P. 3370  
Dakar, Senegal

(Sarojini Rengam)  
IOCU Regional Office for Asia and the Pacific  
P.O. Box 1045  
Penang, Malaysia





(Pilar de Sevilla/Mercedes Bollanos)  
Fundacion Natura  
P.O. Box 253  
Quito, Ecuador

(Bert Lokhorst)  
PAN-Europe  
Damrak 83-1  
1012 LN  
Amsterdam, The Netherlands





## Natural Habitats

1 The conservation of natural habitats,<sup>1</sup> like other measures that protect and enhance the environment, is essential for long-term sustainable development. The Bank<sup>2</sup> therefore supports the protection, maintenance, and rehabilitation of natural habitats and their functions in its economic and sector work, project financing, and policy dialogue. The Bank supports, and expects borrowers to apply, a precautionary approach to natural resource management to ensure opportunities for environmentally sustainable development.

### Economic and Sector Work

2. The Bank's economic and sector work includes identification of (a) natural habitat issues and special needs for natural habitat conservation, including the degree of threat to identified natural habitats (particularly critical natural habitats); and (b) measures for protecting such areas in the context of the country's development strategy. As appropriate, Country Assistance Strategies and projects incorporate findings from such economic and sector work.

### Project Design and Implementation

3. The Bank promotes and supports natural habitat conservation and improved land use by

financing projects designed to integrate into national and regional development the conservation of natural habitats and the maintenance of ecological functions. Furthermore, the Bank promotes the rehabilitation of degraded natural habitats.

4. The Bank does not support projects that, in the Bank's opinion, involve the significant conversion or degradation<sup>3</sup> of critical natural habitats.

5. Wherever feasible, Bank-financed projects are sited on lands already converted (excluding any lands that in the Bank's opinion were converted in anticipation of the project). The Bank does not support projects involving the significant conversion of natural habitats unless there are no feasible alternatives for the project and its siting, and comprehensive analysis demonstrates that overall benefits from the project substantially outweigh the environmental costs. If the environmental assessment<sup>4</sup> indicates that a project would significantly convert or degrade natural habitats, the project includes mitigation measures acceptable to the Bank. Such mitigation measures include, as appropriate, minimizing habitat loss (e.g., strategic habitat retention and post-development restoration) and establishing and maintaining an ecologically similar protected area.

1. See definitions in Annex A.

2. "Bank" includes IBRD and IDA, and "loans" includes credits, grants, and guarantees. This policy also covers GEF-funded projects. Adjustment loans are not covered by this policy but are subject to the general policies set out in OP 4.00, *Environmental Aspects of Bank Work* (forthcoming).

3. For definitions, see Annex A.

4. See OD 4.01, *Environmental Assessment*, to be reissued as OP/BP 4.01

**Note:** OP, BP, and GP 4.04 are a conversion of OPN 11.02, *Wildlands*, to the OP/BP/GP format. Please discard OPN 11.02. These statements apply to all projects for which a Project Information Document is first approved by the country department director on or after October 15, 1995. The policy set out in OP 4.04 applies to any project financed by the Bank, whether or not the Bank is financing the project component that affects natural habitats. In case of doubt, any determination of what is acceptable to the Bank under this policy is made by the Regional vice president in consultation with the Environment, Legal, and Operations Policy departments. Questions should be addressed to the Director, Environment Department.



The Bank accepts other forms of mitigation measures only when they are technically justified.

6. In deciding whether to support a project with potential adverse impacts on a natural habitat, the Bank takes into account the borrower's ability to implement the appropriate conservation and mitigation measures. If there are potential institutional capacity problems, the project includes components that develop the capacity of national and local institutions for effective environmental planning and management. The mitigation measures specified for the project may be used to enhance the practical field capacity of national and local institutions.

7. In projects with natural habitat components, project preparation, appraisal, and supervision arrangements include appropriate environmental expertise to ensure adequate design and implementation of mitigation measures.

8. This policy applies to subprojects under sectoral loans or loans to financial intermediaries.<sup>5</sup> Regional Environment Divisions (REDs) oversee compliance with this requirement.

### Policy Dialogue

9. The Bank encourages borrowers to incorporate into their development and environmental strategies analyses of any major natural habitat issues, including identification of important natural habitat sites, the ecological functions they perform, the degree of threat to the sites, priorities for conservation, and associated recurrent-funding and capacity-building needs.

10. The Bank expects the borrower to take into account the views, roles, and rights of groups, including local nongovernmental organizations and local communities,<sup>6</sup> affected by Bank-financed projects involving natural habitats, and to involve such people in planning, designing, implementing, monitoring, and evaluating such projects. Involvement may include identifying appropriate conservation measures, managing protected areas and other natural habitats, and monitoring and evaluating specific projects. The Bank encourages governments to provide such people with appropriate information and incentives to protect natural habitats.

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5. See OD 4.01, *Environmental Assessment*, to be reissued as OP/BP 4.01.

6. See OD 4.20, *Indigenous Peoples*, when local communities include indigenous peoples.



# Operational Policies

## Definitions

1. The following definitions apply in OP, BP, and GP 4.04:

- (a) *Natural habitats*<sup>1</sup> are land and water areas where (i) the ecosystems' biological communities are formed largely by native plant and animal species, and (ii) human activity has not essentially modified the area's primary ecological functions.

All natural habitats have important biological, social, economic, and existence value. Important natural habitats may occur in tropical humid, dry, and cloud forests; temperate and boreal forests; mediterranean-type shrublands; natural arid and semi-arid lands; mangrove swamps, coastal marshes, and other wetlands; estuaries; seagrass beds; coral reefs; freshwater lakes and rivers; alpine and subalpine environments, including herbfields, grasslands, and paramos; and tropical and temperate grasslands.

- (b) *Critical natural habitats* are

- (i) existing protected areas and areas officially proposed by governments

as protected areas (e.g., reserves that meet the criteria of the World Conservation Union [IUCN] classifications<sup>2</sup>), areas initially recognized as protected by traditional local communities (e.g., sacred groves), and sites that maintain conditions vital for the viability of these protected areas (as determined by the environmental assessment process<sup>3</sup>); or

- (ii) sites identified on supplementary lists prepared by the Bank or an authoritative source determined by the Regional Environment Division. Such sites may include areas recognized by traditional local communities (e.g., sacred groves); areas with known high suitability for biodiversity conservation; and sites that are critical for rare, vulnerable, migratory, or endangered species.<sup>4</sup> Listings are based on systematic evaluations of such factors as species richness; the degree of endemism, rarity, and vulnerability of componentspecies; representativeness; and integrity of ecosystem processes.

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1. It should be noted that much biodiversity is contained outside natural habitats and is therefore not the subject of this policy (for example as part of agricultural landscapes). This issue will be dealt with in the *Natural Habitats and Ecosystem Management Handbook* (forthcoming).
  2. As indicated in *Guidelines for Protected Area Management Categories* (Gland, Switzerland, and Cambridge, UK: IUCN, 1994), and the *United Nations List of National Parks and Protected Areas* (Gland, Switzerland, and Cambridge, UK: IUCN, 1994), or by a similar list acceptable to the Bank, published by another competent organization. IUCN categories are as follows: I—Strict Nature Reserve/Wilderness Area: protected area managed for science or wilderness protection; II—National Park: protected area managed mainly for ecosystem protection and recreation; III—Natural Monument: protected area managed mainly for conservation of specific natural features; IV—Habitat/Species Management Area: protected area managed mainly for conservation through management intervention; V—Protected Landscape/Seascape: protected area managed mainly for landscape/seascape conservation and recreation; and VI—Managed Resource Protected Area: protected area managed mainly for the sustainable use of natural ecosystems.
  3. See OP/BP 4.01, *Environmental Assessment* (forthcoming).
  4. Rare, vulnerable, and endangered as defined in the IUCN Red List of Threatened Animals or identified by Regional Environmental Divisions on the basis of national and regional studies.



## Operational Policies

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- (c) *Significant conversion* is the elimination or severe diminution of the integrity of a critical or other natural habitat caused by a major, long-term change in land or water use. Significant conversion may include, for example, land clearing; replacement of natural vegetation (e.g., by crops or tree plantations); permanent flooding (e.g., by a reservoir); drainage, dredging, filling, or channelization of wetlands; or surface mining. In both terrestrial and aquatic ecosystems, conversion of natural habitats can occur as the result of severe pollution. Conversion can result directly from the action of a project or through an indirect mechanism (e.g., through induced settlement along a road).
- (d) *Degradation* is modification of a critical or other natural habitat that substantially reduces the habitat's ability to maintain viable populations of its native species.
- (e) *Appropriate conservation and mitigation measures* remove or reduce adverse impacts on natural habitats or their functions, keeping such impacts within socially defined limits of acceptable environmental change. Specific measures depend on the ecological characteristics of the given site. They may include full site protection through project redesign; strategic habitat retention; restricted conversion or modification; reintroduction of species; mitigation measures to minimize the ecological damage; postdevelopment restoration works; restoration of degraded habitats; and establishment and maintenance of an ecologically similar protected area of suitable size and contiguity. Such measures should always include provision for monitoring and evaluation to provide feedback on conservation outcomes and to provide guidance for developing or refining appropriate corrective actions.



## Natural Habitats

### Project Processing

#### *Project Preparation*

1. Early in the preparation of a project proposed for Bank<sup>1</sup> financing, the project task manager (TM) consults with the Regional Environmental Division (RED) and, as necessary, with the Environment Department (ENV) and the Legal Department (LEG) to identify natural habitat issues likely to arise in the project.
2. If, as part of the environmental assessment process, environmental screening indicates the potential for significant conversion or degradation of critical or other natural habitats, the project is classified as Category A; projects otherwise involving natural habitats are classified as Category A or B, depending on the degree of their ecological impacts.<sup>2</sup>
3. Exceptions pursuant to OP 4.04, para. 5, are made only after consultation with the RED, ENV, and LEG and approval by the Regional vice president.
4. Natural habitat components of a project are linked as appropriate to the schedule of implementation for the project. The costs of conservation of any compensatory natural habitats are included in the project's financing. Mechanisms to ensure adequate recurrent cost financing are incorporated into project design.

### *Documentation*

5. The TM identifies any natural habitat issues (including any significant conversion or degradation that would take place under the project, as well as any exceptions proposed under OP 4.04, para. 5) in the initial Project Information Document (PID) and in the early versions of the Environmental Data Sheet.<sup>3</sup> Updated PIDs reflect changes in the natural habitat issues. The Staff Appraisal Report and the Memorandum and Recommendation of the President indicate the types and estimated areas (in hectares) of affected natural habitats; the significance of the potential impacts; the project's consistency with national and regional land use and environmental planning initiatives, conservation strategies, and legislation; the mitigation measures planned; and any exceptions proposed under OP 4.04, para. 5.
6. The Implementation Completion Report<sup>4</sup> assesses the extent to which the project achieved its environmental objectives, including natural habitat conservation.

### **Regional and Sectoral EA Reports**

7. Bank staff identify relevant natural habitat issues for regional and sectoral environmental assessment (EA) reports. Such reports indicate the present location of natural habitats in the region or sector involved, analyze the ecological

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1. "Bank" includes IBRD and IDA; and "loans" includes credits, grants, and guarantees.
  2. See OD 4.01, *Environmental Assessment*, to be reissued as OP/BP 4.01.
  3. See OD 4.01, *Environmental Assessment*, to be reissued as OP/BP 4.01.
  4. See OP/BP/GP 13.55, *Implementation Completion Reporting*.

**Note:** OP, BP, and GP 4.04 are a conversion of OPN 11.02, *Wildlands*, to the OP/BP/GP format. Please discard OPN 11.02. These statements apply to all projects for which a Project Information Document is first approved by the country department director on or after October 15, 1995. Questions should be addressed to the Director, Environment Department.



functions and relative importance of such natural habitats, and describe the associated management issues. These analyses are used in subsequent project-specific environmental screening and other EA work.

**Role of Bank Staff**

8. REDs coordinate the preparation and use of any supplementary critical natural habitat lists and

assist with project preparation (including EA) and supervision when requested. ENV guides TMs, country departments, and REDs in implementing OP 4.04 by disseminating best practices and providing training, reviews, advice, and operational support (including supervision).





## Natural Habitats

1. For a country to achieve sustainable development, environmental protection must constitute an integral part of the development process. Environmental protection requires that all governments apply, according to their capacities, a precautionary approach. In particular, where there are threats of serious or irreversible damage, the lack of full scientific certainty should not be used as a reason for postponing cost-effective measures to prevent environmental degradation.

2. The conversion of natural habitats to more intensive land and water uses may meet important development objectives. At the same time, natural habitats maintained in their natural state often contribute significantly to sustainable economic development, particularly in the longer term. Conversion is rapidly decreasing the extent of natural habitats in many of the Bank's member countries. The Bank therefore pursues a judicious approach to conserving the world's important remaining natural habitats and developing some natural habitats to more intensive, shorter-term human uses.

3. There is no one strategy that ensures natural habitat conservation. Rather there is a continuum of measures that may be applied according to the economic, cultural, and biological values of a particular area. Where sites are identified as of greatest importance—for example, critical natural habitats—well-managed protected areas may be the

most practical way to conserve biological diversity and the ecological processes that define and maintain it.<sup>1</sup>

4. Nonetheless, many natural habitats, including those that are determined to be critical natural habitats, can never be fully protected in strictly protected areas (e.g., the highest level World Conservation Union [IUCN] category). This is particularly true of wetlands and marine areas. At best, such protected areas can contain only a representative sample. Therefore, to ensure conservation over the longer term, natural habitats must also be protected in settled landscapes. Because land uses meeting other objectives place competing demands on natural habitats, Bank-supported development projects must include measures to minimize deleterious effects on natural habitats while maximizing important benefits to people. This goal requires sound planning and capability to manage within the carrying capacities of the affected natural habitats.<sup>2</sup>

### Justification

5. Natural habitats have environmental, scientific, social, economic, and cultural<sup>3</sup> value wherever they occur. They may perform one or more functions: for example, conserving biodiversity and providing environmental services or products.

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1. It should be noted, however, that there is also a range of management regimes for protected areas. For example, the World Conservation Union (IUCN) has set out six categories of "protected area," which encompass a range of human intervention (see OP 4.04, Annex A, footnote 2).
  2. Much of the methodology and means for managing natural resources will be described in the forthcoming *Natural Habitats and Ecosystem Management Handbook*.
  3. Another aspect—habitats' role in the life of indigenous peoples—is treated in OD 4.20, *Indigenous Peoples*.

**Note:** OP, BP, and GP 4.04 are a conversion of OPN 11.02, *Wildlands*, to the OP/BP/GP format. Please discard OPN 11.02. These statements apply to all projects for which a Project Information Document is first approved by the country department director on or after October 15, 1995. Questions should be addressed to the Director, Environment Department.



### *Biological Diversity*

6. Many organisms face extinction because their natural habitats are rapidly disappearing. Appropriate natural habitat management can help arrest the rate of extinction, protect reservoir populations, and help replenish surrounding degraded or abandoned areas. In addition to the scientific, aesthetic, and ethical reasons to avoid the extinction of species, conserving biological diversity is crucial to development. Species that are now underused, undervalued, or even undiscovered may have major economic benefits and, therefore, may present valuable development opportunities.

### *Environmental Services and Products*

7. Many natural habitats provide important environmental services such as improving water availability for irrigated agriculture, industry, or human consumption; reducing sedimentation of reservoirs, harbors, and irrigation works; minimizing floods, landslides, coastal erosion, and droughts; improving water quality; filtering excess nutrients; and providing essential natural habitat for economically important aquatic species. Although such environmental services are important to humans and thus economically valuable, they are often undervalued and overlooked. Maintaining such environmental services is almost always much less expensive than replacing them with remedial measures after natural habitat conversion. Natural habitats' environmental services should be systematically evaluated; to the extent feasible, any economic value of such services should be quantified as part of the cost-benefit analysis of projects.

8. Natural habitats can also provide important environmental products, including fish and other wildlife, wild foods, forest products, or grazing lands.

### **Legal Status of Natural Habitats**

9. The legal framework and terminology for natural habitats, or subunits of natural habitats, may vary by country, depending on local practice, traditional usage, and other factors. National

legislation in most countries includes some definitions for protected natural habitats—for example, national parks, reserves, or other protected areas. Some areas may be protected for the environmental services associated with the provision of water or energy—for example, water sources or critical watersheds. Some natural habitats may contain important cultural or archaeological sites with a special legal or customary status (e.g., sacred groves).

10. Common designations for protected areas are indicated in several documents: the Convention Concerning the Protection of the World Cultural and Natural Heritage (Paris, 1972); the Convention for the Protection of Wetlands of International Importance Especially as Waterfowl Habitats (Ramsar, 1971); the UNESCO Biosphere Program; and the Regional Seas Programs. The Convention on Biological Diversity (June 1992) also recognizes the importance of sites designated as biodiversity sites and undertakes to provide international support for such sites. Numerous regional and bilateral conventions (e.g., the Western Hemisphere Treaty, the African Convention on the Conservation of Nature and Natural Resources, and the ASEAN Agreement on Nature and Natural Resources) also may provide mechanisms for recognizing the international or regional importance of national sites.

11. A detailed listing of protected areas according to a common classification can be found in the *1993 United Nations List of National Parks and Protected Areas* (Gland, Switzerland, and Cambridge, UK: IUCN, 1994). Modifications to the IUCN categories are detailed in *Guidelines for Protected Area Management Categories* (Gland, Switzerland, and Cambridge, UK: IUCN, 1994). These modifications illustrate the trend toward managing protected areas mainly for the sustainable use of natural ecosystems (Category VI).

### **The Bank's Involvement**

#### *Existing Record*

12. The Bank has financed many projects with significant natural habitat management components.



Most such components have involved establishing or strengthening protected areas (including national parks, nature reserves, and wildlife sanctuaries), or managing natural resources (including forest reserves that are managed primarily for their watershed or biological values, rather than for wood harvest). Other natural habitat components of Bank-financed projects have involved management of wildlife and human use—for example, antipoaching measures, management of water flows from reservoirs, maintenance of wildlife habitat, and relocation of certain species. At times, the location or design of projects has been changed to avoid modification of natural habitats.

#### *Lessons Learned*

13. *“On the Ground” Management.* If management is to be effective, natural habitat management objectives have to be translated into specific measures and activities such as staffing and training, boundary demarcation, provision of necessary infrastructure and equipment, development of a scientifically sound management plan, and establishment of a policy environment that supports the natural habitat conservation objectives and recognizes the rights and roles of local communities in resource management. In addition, funds for implementing these measures and building public support have to be budgeted and sustained.

14. *Appropriate Design.* The multiple objectives of natural habitat management are best achieved through measures that are carefully designed early in the project cycle. For example, a natural habitat cannot conserve biological diversity, evolutionary processes, and environmental services if it is too small. Besides size, the specific location, shape, and connection to other habitat blocks can be important factors in determining the viability of a particular natural habitat. For each natural habitat, appropriate design features are best determined by conservation specialists working in multidisciplinary teams in close cooperation with people and local nongovernmental organizations (NGOs) affected by the Bank-financed project involving natural habitats. Such a team might

include, for example, an ecologist, a conservation biologist, a protected area planner, a rural sociologist, an anthropologist, a lawyer, and a resource economist.

15. Within forestry and agricultural projects there are many ways to minimize natural habitat loss, maximize opportunities for wildlife, and rehabilitate natural habitats. Such measures should be incorporated early in the project cycle.

16. *Adequate Financing and Government Commitment.* Like any project component, successful protection of natural habitats depends on adequate financing, including recurrent cost financing. By helping to identify counterpart financing, or by providing the financing itself, the Bank can help ensure the availability of the sums necessary to establish and initially maintain natural habitats. To foster government commitment, Bank staff should establish a dialogue with the government about the importance of conservation, the benefits of the protected area (watershed protection, tourism, etc.), and the need to include people and local NGOs affected by a Bank-financed project involving natural habitats in planning, designing, and implementing both the project and natural conservation systems. The dialogue should include discussions about practical mechanisms to identify, establish, and manage protected areas in partnership with local communities. The dialogue should also emphasize that other complementary and parallel activities contribute to the protection of natural habitats and success of protected areas, for example, (a) development investments in the vicinity of the protected area that provide an alternative to further encroachment by villagers or farmers and their livestock; (b) development of innovative legal and regulatory frameworks that promote community-based conservation of natural resources; (c) coherent national and sectoral planning and policies that promote natural habitat conservation; (d) integration of development activities within a regional focus that recognizes protected-area management as a legitimate and important resource use and one of the various development to take place; and (e) improved management of



productive areas, such as forests and pastures, not only for their commodity outputs but also for the maintenance of biodiversity.

*Assessing Borrower Commitment and Implementation Capability*

17. In deciding whether to support a project with potential adverse impacts on natural habitats, the Bank takes into account the borrower's commitment to natural habitat conservation in the context of sustainable development. This commitment is reflected in such measures as

- (a) adopting and implementing policies and establishing an appropriate legal and institutional framework to ensure the conservation and sustainable use of existing natural habitats;
- (b) adopting a comprehensive and environmentally sound natural habitat conservation plan<sup>4</sup> that (i) contains a clear definition of critical areas; (ii) establishes protected areas and sustainable and conservation-oriented management regimes for all natural resources to maintain biodiversity and environmental services; and (iii) sets out the roles and rights of the government, the private sector, and local people (especially indigenous people);
- (c) undertaking environmental assessment and designing environmental mitigation measures for any projects involving conversion of natural habitats;
- (d) developing and strengthening the institutional capacity to implement and enforce the above commitments; and

- (e) monitoring conservation outcomes and taking corrective actions as necessary to meet conservation goals.

18. In assessing the borrower's ability to implement appropriate conservation measures, the Bank considers such factors as institutional capacity (in areas such as monitoring, enforcement, and research) to implement site-specific measures; adequate controls over adjacent areas that may otherwise generate activities in conflict with the protection of natural habitat; and public support. Projects may include such capacity-building components as strengthening responsible institutions; developing policy and regulations; providing training and public education; undertaking research; and modifying land use in adjacent areas to ensure that these uses are compatible with those of the project site.

**Projects Involving Natural Habitat Issues**

19. The following types of projects often involve natural habitat issues:

- (a) agriculture, fisheries, and livestock projects involving land clearing, wetland elimination,<sup>5</sup> natural habitat inundation for irrigation storage reservoirs, large-scale water diversion, watershed protection for irrigation, and displacement of wildlife by fences or domestic livestock;
- (b) forestry projects that meet the conditions for Bank involvement defined in OP 4.36, *Forestry*, but nevertheless may involve clear-felling or other forms of intensive forest harvesting or conversion of natural habitats (e.g., natural grasslands) to establish planted forests;

4. Various documents can be used to meet this requirement (e.g., a Biodiversity Action Plan prepared under the Convention on Biological Diversity [UNEP, 1992]).

5. Wetlands—ponds, marshes, swamps, flood plain forests, estuaries, and mangroves—can be eliminated inadvertently (through water diversions upstream) or deliberately (through drainage, diking, or filling).



- (c) transportation projects involving construction of highways, rural roads, railways, airports, or canals that penetrate natural habitats and open them to colonization and immigration; channelization of rivers for fluvial navigation; and dredging and filling of coastal wetlands for ports projects;
- (d) power projects that (i) involve hydroelectric development that inundates natural habitats, alterations in rivers because of dams or water diversions, watershed protection for enhanced power output, and construction of power transmission corridors through undisturbed natural habitat areas; or (ii) depend on fossil fuels from which airborne pollution (including acid rain) can destroy forests;
- (e) industry projects;
- (f) tourism projects that involve significant infrastructure development, particularly in coastal natural habitats (e.g., lagoon areas important for coral reefs and sea grass beds, and sandy beaches important for turtle nesting sites), or more intensive use of natural habitats than can be sustained; and
- (g) urban development (e.g., drainage of wetlands with impacts on coastal habitats).





## Water Resources Management

1. Bank<sup>1</sup> involvement in water resources management entails support for providing potable water, sanitation facilities, flood control, and water for productive activities in a manner that is economically viable, environmentally sustainable, and socially equitable.
  2. The Bank assists borrowers in the following priority areas:
    - (a) Developing a comprehensive framework for designing water resource investments, policies, and institutions. Within this framework, when the borrower develops and allocates water resources, it considers cross-sectoral impacts in a regional setting (e.g., a river basin).
    - (b) Adopting pricing and incentive policies that achieve cost recovery, water conservation, and better allocation of water resources.
    - (c) Decentralizing water service delivery, involving users in planning and managing water projects, and encouraging stakeholders to contribute to policy formulation. The Bank recognizes that a variety of organizations—private firms, financially autonomous entities, and community organizations—may contribute to decentralizing water delivery functions. Thus it supports projects that introduce different forms of decentralized management, focusing on the division of responsibilities among the public and private entities involved.
    - (d) Restoring and preserving aquatic ecosystems and guarding against overexploitation of groundwater resources, giving priority to the provision of adequate water and sanitation services for the poor.
    - (e) Avoiding the waterlogging and salinity problems associated with irrigation investments by (i) monitoring water tables and implementing drainage networks where necessary, and (ii) adopting best management practices to control water pollution.
    - (f) Establishing strong legal and regulatory frameworks to ensure that social concerns are met, environmental resources are protected, and monopoly pricing is prevented. The Bank requires legislation or other appropriate arrangements to establish effective coordination and allocation procedures for interstate water resources.
- These issues are discussed in the project documents.
3. Individual water lending operations are explicitly linked to the country's priorities for reform and investment and to the Bank's program of support.
  4. If inadequate progress by borrowers in these priority areas leads to serious resource misuse and hampers the viability of water-related investments, Bank lending is limited to operations that provide potable water for poor households or conserve water and protect its quality without additionally drawing on a country's water resources.

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1. "Bank" includes IDA, and "loans" includes credits.

**Note:** This document is based on *Water Resources Management: A World Bank Policy Paper* (Washington, D.C.: World Bank, 1993). It complements OD 4.01, *Environmental Assessment*; OD 4.02, *Environmental Action Plans*; OD 4.20, *Indigenous Peoples*; OD 4.30, *Involuntary Resettlement*; OD 7.50, *Projects on International Waterways*, and OD 14.70, *Involving Nongovernmental Organizations in Bank-Supported Activities*. It also draws on OMS 2.22, *Financial Performance Covenants for Revenue-Earning Entities*, and OMS 3.72, *Energy, Water Supply and Sanitation and Telecommunications*. Questions should be addressed to the Director, Agriculture and Natural Resources.







## Pest Management

1. In assisting borrowers to manage pests that affect either agriculture or public health, the Bank<sup>1</sup> supports a strategy that promotes the use of biological or environmental control methods. In Bank-financed projects, pest management is carried out by the borrower in the context of the project's environmental assessment.<sup>2</sup>

2. In appraising a project that will involve pest management, the Bank assesses the capacity of the country's regulatory framework and institutions to promote and support safe, effective, and environmentally sound pest management. As necessary, the Bank and the borrower incorporate in the project components to strengthen such capacity.

### Agricultural Pest Management<sup>3</sup>

3. The Bank uses various means to assess pest management in the country and support integrated pest management (IPM)<sup>4</sup> and safe agricultural pesticide use: economic and sector work, sectoral or project-specific environmental assessments, participatory IPM assessments, and adjustment or

investment projects and components aimed specifically at supporting the adoption and use of IPM.

4. In Bank-financed agriculture operations, pest populations are normally controlled through IPM approaches, such as biological control, cultural practices, and the development and use of crop varieties that are resistant or tolerant to the pest. The Bank may finance the purchase of pesticides when their use is justified under an IPM approach.

### Pest Management in Public Health

5. In Bank-financed public health projects, the Bank supports controlling pests primarily through environmental methods. Where environmental methods alone are not effective, the Bank may finance the use of pesticides for control of disease vectors.

### Criteria for Pesticide Selection and Use

6. The procurement of any pesticide in a Bank-financed project is contingent on an assessment of the nature and degree of associated risks, taking

1 "Bank" includes IDA, and "loans" includes credits.

2 See OP/BP 4.01, *Environmental Assessment* (forthcoming). The screening process takes account of the fact that several well-established pesticides have already been subjected to environmental impact analysis and are considered environmentally safe. When a project involves the use of such pesticides, additional environmental impact analysis or mitigation measures may not be necessary.

3 OP 4.09 applies to all Bank lending in the agriculture sector, whether or not the loan finances pesticides. Even if Bank lending for pesticides is not involved, an agricultural development project may lead to substantially increased pesticide use and subsequent environmental problems.

4 IPM refers to a mix of pest control practices that seeks to avoid the excessive use of chemicals. It involves (a) managing pests (keeping them below economically damaging levels) rather than seeking to eradicate them; (b) relying, to the extent possible, on nonchemical measures to keep pest populations low; and (c) selecting and applying pesticides, when they have to be used, in a way that minimizes adverse effects on beneficial organisms, humans, and the environment.

Note: OP 4.09 replaces OD 4.03, *Agricultural Pest Management*, and OPN 11.01(b), *Guidelines for the Use, Selection, and Specification of Pesticides in Public Health Programs*. Guidance for implementing this policy is in the *Environmental Assessment Sourcebook* (World Bank: Washington, D.C., 1991). Questions regarding agricultural pest management may be addressed to the Director, Agriculture and Natural Resources Department. Questions regarding pesticide use in public health projects may be directed to the Director, Human Development Department.



into account the proposed use and the intended users.<sup>5</sup> With respect to the classification of pesticides and their specific formulations, the Bank refers to the World Health Organization's *Recommended Classification of Pesticides by Hazard and Guidelines to Classification* (Geneva: WHO, 1994-95).<sup>6</sup> The following criteria apply to the selection and use of pesticides in Bank-financed projects:

- (a) They must have negligible adverse human health effects.
- (b) They must be shown to be effective against the target species.
- (c) They must have minimal effect on nontarget species and the natural environment. The methods, timing, and frequency of pesticide application are aimed to minimize damage to natural enemies. Pesticides used

in public health programs must be demonstrated to be safe for inhabitants and domestic animals in the treated areas, as well as for personnel applying them.

- (d) Their use must take into account the need to prevent the development of resistance in pests.

7 The Bank requires that any pesticides it finances be manufactured, packaged, labeled, handled, stored, disposed of, and applied according to standards acceptable to the Bank.<sup>7</sup> The Bank does not finance formulated products that fall in WHO classes IA and IB, or formulations of products in Class II, if (i) the country lacks restrictions on their distribution and use; or (ii) they are likely to be used by, or be accessible to, lay personnel, farmers, or others without training, equipment, and facilities to handle, apply, and store these products properly.

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- 5. This assessment is made in the context of the project's environmental assessment and is recorded in the project documents. The project documents also include (in the text or in an annex) a list of pesticide products authorized for procurement under the project, or an indication of when and how this list will be developed and agreed on. This authorized list is included by reference in legal documents relating to the project, with provisions for adding or deleting materials.
  - 6. Copies of the classification, which is updated annually, are available in the Sectoral Library. A Standard Bidding Document for Procurement of Pesticides is available from OPRPR.
  - 7. The FAO's *Guidelines for Packaging and Storage of Pesticides* (Rome, 1985), *Guidelines on Good Labelling Practice for Pesticides* (Rome, 1985), and *Guidelines for the Disposal of Waste Pesticide and Pesticide Containers on the Farm* (Rome, 1985) are used as minimum standards.

# Operational Directive

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## Operational Directive 4.20: Indigenous Peoples

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# Operational Directive

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## Indigenous Peoples

### Introduction

1. This directive describes Bank<sup>1</sup> policies and processing procedures for projects that affect indigenous peoples. It sets out basic definitions, policy objectives, guidelines for the design and implementation of project provisions or components for indigenous peoples, and processing and documentation requirements.

2. The directive provides policy guidance to (a) ensure that indigenous people benefit from development projects, and (b) avoid or mitigate potentially adverse effects on indigenous people caused by Bank-assisted activities. Special action is required where Bank investments affect indigenous peoples, tribes, ethnic minorities, or other groups whose social and economic status restricts their capacity to assert their interests and rights in land and other productive resources.

### Definitions

3. The terms "indigenous peoples," "indigenous ethnic minorities," "tribal groups," and "scheduled tribes" describe social groups with a social and cultural identity distinct from the dominant society that makes them vulnerable to being disadvantaged in the development process. For the purposes of this directive, "indigenous peoples" is the term that will be used to refer to these groups.

4. Within their national constitutions, statutes, and relevant legislation, many of the Bank's borrower countries include specific definitional clauses and legal frameworks that provide a preliminary basis for identifying indigenous peoples.

5. Because of the varied and changing contexts in which indigenous peoples are found, no single definition can capture their diversity. Indigenous people are commonly among the poorest segments of a population. They engage in economic activities that range from shifting agriculture in or near forests to wage labor or even small-scale market-oriented activities. Indigenous peoples can be identified in particular geographical areas by the presence in varying degrees of the following characteristics:

- (a) a close attachment to ancestral territories and to the natural resources in these areas;
- (b) self-identification and identification by others as members of a distinct cultural group;
- (c) an indigenous language, often different from the national language;
- (d) presence of customary social and political institutions; and
- (e) primarily subsistence-oriented production.

Task managers (TMs) must exercise judgment in determining the populations to which this directive applies and should make use of specialized anthropological and sociological experts throughout the project cycle.

### Objective and Policy

6. The Bank's broad objective towards indigenous people, as for all the people in its member

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1. "Bank" includes IDA, and "loans" include credits.

# Operational Directive

countries, is to ensure that the development process fosters full respect for their dignity, human rights, and cultural uniqueness. More specifically, the objective at the center of this directive is to ensure that indigenous peoples do not suffer adverse effects during the development process, particularly from Bank-financed projects, and that they receive culturally compatible social and economic benefits.

7. How to approach indigenous peoples affected by development projects is a controversial issue. Debate is often phrased as a choice between two opposed positions. One pole is to insulate indigenous populations whose cultural and economic practices make it difficult for them to deal with powerful outside groups. The advantages of this approach are the special protections that are provided and the preservation of cultural distinctiveness; the costs are the benefits foregone from development programs. The other pole argues that indigenous people must be acculturated to dominant society values and economic activities so that they can participate in national development. Here the benefits can include improved social and economic opportunities, but the cost is often the gradual loss of cultural differences.

8. The Bank's policy is that the strategy for addressing the issues pertaining to indigenous peoples must be based on the *informed participation* of the indigenous people themselves. Thus, identifying local preferences through direct consultation, incorporation of indigenous knowledge into project approaches, and appropriate early use of experienced specialists are core activities for any project that affects indigenous peoples and their rights to natural and economic resources.

9. Cases will occur, especially when dealing with the most isolated groups, where adverse impacts are unavoidable and adequate mitigation plans have not been developed. In such situations, the Bank will not appraise projects until suitable plans are developed by the borrower

and reviewed by the Bank. In other cases, indigenous people may wish to be and can be incorporated into the development process. In sum, a full range of positive actions by the borrower must ensure that indigenous people benefit from development investments.

## Bank Role

10. The Bank addresses issues on indigenous peoples through (a) country economic and sector work, (b) technical assistance, and (c) investment project components or provisions. Issues concerning indigenous peoples can arise in a variety of sectors that concern the Bank; those involving, for example, agriculture, road construction, forestry, hydropower, mining, tourism, education, and the environment should be carefully screened.<sup>2</sup> Issues related to indigenous peoples are commonly identified through the environmental assessment or social impact assessment processes, and appropriate measures should be taken under environmental mitigation actions (see OD 4.01, *Environmental Assessment*, to be issued).

11. *Country Economic and Sector Work.* Country departments should maintain information on trends in government policies and institutions that deal with indigenous peoples. Issues concerning indigenous peoples should be addressed explicitly in sector and subsector work and brought into the Bank-country dialogue. National development policy frameworks and institutions for indigenous peoples often need to be strengthened in order to create a stronger basis for designing and processing projects with components dealing with indigenous peoples.

12. *Technical Assistance.* Technical assistance to develop the borrower's abilities to address issues on indigenous peoples can be provided by the Bank. Technical assistance is normally given within the context of project preparation, but technical assistance may also be needed to strengthen the relevant government institutions or

2. Displacement of indigenous people can be particularly damaging, and special efforts should be made to avoid it. See OD 4.30, *Involuntary Resettlement*, for additional policy guidance on resettlement issues involving indigenous people.

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to support development initiatives taken by indigenous people themselves.

13. *Investment Projects.* For an investment project that affects indigenous peoples, the borrower should prepare an indigenous peoples development plan that is consistent with the Bank's policy. Any project that affects indigenous peoples is expected to include components or provisions that incorporate such a plan. When the bulk of the direct project beneficiaries are indigenous people, the Bank's concerns would be addressed by the project itself and the provisions of this OD would thus apply to the project in its entirety.

## Indigenous Peoples Development Plan<sup>3</sup>

### Prerequisites

14. Prerequisites of a successful development plan for indigenous peoples are as follows:

- (a) The key step in project design is the preparation of a culturally appropriate development plan based on full consideration of the options preferred by the indigenous people affected by the project.
- (b) Studies should make all efforts to *avert adverse trends* likely to be induced by the project and develop the means to avoid or mitigate harm.<sup>4</sup>
- (c) The institutions responsible for government interaction with indigenous peoples should possess the social, technical, and legal skills needed for carrying out the proposed development activities. Implementation arrangements should be kept simple. They should normally involve appropriate existing

institutions, local organizations, and nongovernmental organizations (NGOs) with expertise in matters relating to indigenous peoples.

- (d) Local patterns of social organization, religious beliefs, and resource use should be taken into account in the plan's design.
- (e) Development activities should support production systems that are well adapted to the needs and environment of indigenous peoples, and should help production systems under stress to attain sustainable levels.
- (f) The plan should avoid creating or aggravating the dependency of indigenous people on project entities. Planning should encourage early handover of project management to local people. As needed, the plan should include general education and training in management skills for indigenous people from the onset of the project.
- (g) Successful planning for indigenous peoples frequently requires long lead times, as well as arrangements for extended follow-up. Remote or neglected areas where little previous experience is available often require additional research and pilot programs to fine-tune development proposals.
- (h) Where effective programs are already functioning, Bank support can take the form of incremental funding to strengthen them rather than the development of entirely new programs.

3. Regionally specific technical guidelines for preparing indigenous peoples components, and case studies of best practices, are available from the Regional environment divisions (REDs).  
 4. For guidance on indigenous peoples and environmental assessment procedures, see OD 4.01, *Environmental Assessment*, and Chapter 7 of World Bank, *Environmental Assessment Sourcebook*, Technical Paper No. 139 (Washington, D.C., 1991).

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15. The development plan should be prepared in tandem with the preparation of the main investment. In many cases, proper protection of the rights of indigenous people will require the implementation of special project components that may lie outside the primary project's objectives. These components can include activities related to health and nutrition, productive infrastructure, linguistic and cultural preservation, entitlement to natural resources, and education. The project component for indigenous peoples development should include the following elements, as needed:

- (a) *Legal Framework.* The plan should contain an assessment of (i) the legal status of the groups covered by this OD, as reflected in the country's constitution, legislation, and subsidiary legislation (regulations, administrative orders, etc.); and (ii) the ability of such groups to obtain access to and effectively use the legal system to defend their rights. Particular attention should be given to the rights of indigenous peoples to use and develop the lands that they occupy, to be protected against illegal intruders, and to have access to natural resources (such as forests, wildlife, and water) vital to their subsistence and reproduction.
- (b) *Baseline Data.* Baseline data should include (i) accurate, up-to-date maps and aerial photographs of the area of project influence and the areas inhabited by indigenous peoples; (ii) analysis of the social structure and income sources of the population; (iii) inventories of the resources that indigenous people use and technical data on their production systems; and (iv) the relationship of indigenous peoples to other local and national groups. It is particularly

important that baseline studies capture the full range of production and marketing activities in which indigenous people are engaged. Site visits by qualified social and technical experts should verify and update secondary sources.

- (c) *Land Tenure.* When local legislation needs strengthening, the Bank should offer to advise and assist the borrower in establishing legal recognition of the customary or traditional land tenure systems of indigenous peoples. Where the traditional lands of indigenous peoples have been brought by law into the domain of the state and where it is inappropriate to convert traditional rights into those of legal ownership, alternative arrangements should be implemented to grant long-term, renewable rights of custodianship and use to indigenous peoples. These steps should be taken before the initiation of other planning steps that may be contingent on recognized land titles.
- (d) *Strategy for Local Participation.* Mechanisms should be devised and maintained for participation by indigenous people in decision making throughout project planning, implementation, and evaluation. Many of the larger groups of indigenous people have their own representative organizations that provide effective channels for communicating local preferences. Traditional leaders occupy pivotal positions for mobilizing people and should be brought into the planning process, with due concern for ensuring genuine representation of the indigenous population.<sup>5</sup> No foolproof methods exist, however, to guarantee full local-level participation. Sociological and technical advice provided through the Regional environment divisions (REDs) is often

5. See also "Community Involvement and the Role of Nongovernmental Organizations in Environmental Assessment" in World Bank, *Environmental Sourcebook*, Technical Paper No. 139 (Washington, D.C., 1991).



# Operational Directive

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needed to develop mechanisms appropriate for the project area.

- (e) *Technical Identification of Development or Mitigation Activities.* Technical proposals should proceed from on-site research by qualified professionals acceptable to the Bank. Detailed descriptions should be prepared and appraised for such proposed services as education, training, health, credit, and legal assistance. Technical descriptions should be included for the planned investments in productive infrastructure. Plans that draw upon indigenous knowledge are often more successful than those introducing entirely new principles and institutions. For example, the potential contribution of traditional health providers should be considered in planning delivery systems for health care.
- (f) *Institutional Capacity.* The government institutions assigned responsibility for indigenous peoples are often weak. Assessing the track record, capabilities, and needs of those institutions is a fundamental requirement. Organizational issues that need to be addressed through Bank assistance are the (i) availability of funds for investments and field operations; (ii) adequacy of experienced professional staff; (iii) ability of indigenous peoples' own organizations, local administration authorities, and local NGOs to interact with specialized government institutions; (iv) ability of the executing agency to mobilize other agencies involved in the plan's implementation; and (v) adequacy of field presence.
- (g) *Implementation Schedule.* Components should include an implementation schedule with benchmarks by which progress

can be measured at appropriate intervals. Pilot programs are often needed to provide planning information for phasing the project component for indigenous peoples with the main investment. The plan should pursue the long-term sustainability of project activities subsequent to completion of disbursement.

- (h) *Monitoring and Evaluation.*<sup>6</sup> Independent monitoring capacities are usually needed when the institutions responsible for indigenous populations have weak management histories. Monitoring by representatives of indigenous peoples' own organizations can be an efficient way for the project management to absorb the perspectives of indigenous beneficiaries and is encouraged by the Bank. Monitoring units should be staffed by experienced social science professionals, and reporting formats and schedules appropriate to the project's needs should be established. Monitoring and evaluation reports should be reviewed jointly by the senior management of the implementing agency and by the Bank. The evaluation reports should be made available to the public.
- (i) *Cost Estimates and Financing Plan.* The plan should include detailed cost estimates for planned activities and investments. The estimates should be broken down into unit costs by project year and linked to a financing plan. Such programs as revolving credit funds that provide indigenous people with investment pools should indicate their accounting procedures and mechanisms for financial transfer and replenishment. It is usually helpful to have as high a share as possible of direct financial participation by the Bank in project

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6. See OD 10.70, *Project Monitoring and Evaluation*.

# Operational Directive

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components dealing with indigenous peoples.

## Project Processing and Documentation

### *Identification*

16. During project identification, the borrower should be informed of the Bank's policy for indigenous peoples. The approximate number of potentially affected people and their location should be determined and shown on maps of the project area. The legal status of any affected groups should also be discussed. TMs should ascertain the relevant government agencies, and their policies, procedures, programs, and plans for indigenous peoples affected by the proposed project (see paras. 11 and 15(a)). TMs should also initiate anthropological studies necessary to identify local needs and preferences (see para. 15(b)). TMs, in consultation with the REDs, should signal indigenous peoples issues and the overall project strategy in the Initial Executive Project Summary (IEPS).

### *Preparation*

17. If it is agreed in the IEPS meeting that special action is needed, the indigenous peoples development plan or project component should be developed during project preparation. As necessary, the Bank should assist the borrower in preparing terms of reference and should provide specialized technical assistance (see para. 12). Early involvement of anthropologists and local NGOs with expertise in matters related to indigenous peoples is a useful way to identify mechanisms for effective participation and local development opportunities. In a project that involves the land rights of indigenous peoples, the Bank should work with the borrower to clarify the steps needed for putting land tenure on a regular footing as early as possible, since land disputes frequently lead to delays in executing measures

that are contingent on proper land titles (see para. 15(c)).

### *Appraisal*

18. The plan for the development component for indigenous peoples should be submitted to the Bank along with the project's overall feasibility report, prior to project appraisal. Appraisal should assess the adequacy of the plan, the suitability of policies and legal frameworks, the capabilities of the agencies charged with implementing the plan, and the adequacy of the allocated technical, financial, and social resources. Appraisal teams should be satisfied that indigenous people have participated meaningfully in the development of the plan as described in para. 14(a) (also see para. 15(d)). It is particularly important to appraise proposals for regularizing land access and use.

### *Implementation and Supervision*

19. Supervision planning should make provisions for including the appropriate anthropological, legal, and technical skills in Bank supervision missions during project implementation (see para. 15(g) and (h), and OD 13.05, *Project Supervision*). Site visits by TMs and specialists are essential. Midterm and final evaluations should assess progress and recommend corrective actions when necessary.

### *Documentation*

20. The borrower's commitments for implementing the indigenous peoples development plan should be reflected in the loan documents; legal provisions should provide Bank staff with clear benchmarks that can be monitored during supervision. The Staff Appraisal Report and the Memorandum and Recommendation of the President should summarize the plan or project provisions.

# Manual Transmittal Memorandum

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June 29, 1990

## Operational Directive 430: Involuntary Resettlement

1. Please insert OD 430, *Involuntary Resettlement*, in the new Operational Manual. The previous guidelines were contained in OMS 233, *Social Issues Associated with Involuntary Resettlement in Bank-Financed Projects*, and OPN 10.08, *Operations Issues in the Treatment of Involuntary Resettlement in Bank-Financed Projects*. Both may now be discarded. More detailed information is in *Involuntary Resettlement in Development Projects*, World Bank Technical Paper No. 80 (Washington, D.C.: The World Bank, 1988), and in *Involuntary Resettlement in Bank Assisted Projects, An Introduction to Legal Issues* (Washington, D.C.: The World Bank, 1988).
2. The directive broadens the treatment of resettlement issues beyond hydropower and irrigation projects to all types of investment operations. It emphasizes the need for
  - (a) minimizing involuntary resettlement (para. 3(a));
  - (b) providing people displaced by a project with the means to improve, or at least restore, their former living standards, earning capacity, and production levels (para. 3(b));
  - (c) involving both resettlers and hosts in resettlement activities (paras. 3(c)-(d) and 7-10);
  - (d) a time-bound resettlement plan (paras. 4-5 and 30); and
  - (e) valuation and compensation principles for land and other assets affected by the project (para. 14-16).
3. Questions on this directive should be referred to the Rural Sociology Adviser, Agriculture and Rural Development Department.
4. Additional copies are available on a self-serve basis in H 4234.

### Attachment:



# Operational Directive

## Operational Directive 430: Involuntary Resettlement

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## Involuntary Resettlement

### Introduction

1. This directive describes Bank<sup>1</sup> policy and procedures on involuntary resettlement, as well as the conditions that borrowers are expected to meet in operations involving involuntary resettlement.<sup>2</sup> Planning and financing resettlement components or free-standing projects are an integral part of preparation for projects that cause involuntary displacement. Any operation that involves land acquisition or is screened as a Category A or B project for environmental assessment purposes<sup>3</sup> should be reviewed for potential resettlement requirements early in the project cycle (para. 20).

2. Development projects that displace people involuntarily<sup>4</sup> generally give rise to severe economic, social, and environmental problems: production systems are dismantled; productive assets and income sources are lost; people are relocated to environments where their productive skills may be less applicable and the competition for resources greater; community structures and social networks are weakened; kin groups are dispersed; and cultural identity, traditional authority, and the potential for mutual help are diminished. Involuntary resettlement may cause severe long-term hardship, impoverishment, and environmental damage unless appropriate measures are carefully planned and carried out.<sup>5</sup>

### Policy Objectives

3. The objective of the Bank's resettlement policy is to ensure that the population displaced

by a project receives benefits from it. Involuntary resettlement is an integral part of project design and should be dealt with from the earliest stages of project preparation (para. 28), taking into account the following policy considerations:

- (a) Involuntary resettlement should be avoided or minimized where feasible, exploring all viable alternative project designs. For example, realignment of roads or reductions in dam height may significantly reduce resettlement needs.
- (b) Where displacement is unavoidable, resettlement plans should be developed. All involuntary resettlement should be conceived and executed as development programs, with resettlers provided sufficient investment resources and opportunities to share in project benefits. Displaced persons should be (i) compensated for their losses at full replacement cost prior to the actual move; (ii) assisted with the move and supported during the transition period in the resettlement site; and (iii) assisted in their efforts to improve their former living standards, income earning capacity, and production levels, or at least to restore them. Particular attention should be paid to the needs of the poorest groups to be resettled.
- (c) Community participation in planning and implementing resettlement should be encouraged. Appropriate patterns of social organization should be estab-

1. "Bank" includes IDA, and "loans" includes credits.

2. See also *Involuntary Resettlement in Development Projects*, World Bank Technical Paper No. 80 (Washington, D.C.: The World Bank, 1988).

3. OD 4.00, Annex A, *Environmental Assessment*, para. 28.

4. Such projects may include construction or establishment of (a) dams, (b) new towns or ports, (c) housing and urban infrastructure, (d) mines, (e) large industrial plants, (f) railways or highways, (g) irrigation canals, and (h) national parks or protected areas. Refugees from natural disasters, war, or civil strife are also involuntary resettlers, but they are not discussed in this directive (see OD 8.50, *Emergency Recovery Assistance*).

5. OD 4.00, Annex A, *Environmental Assessment*, para. 2, and Annex A3.

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lished, and existing social and cultural institutions of resettlers and their hosts<sup>6</sup> should be supported and used to the greatest extent possible.

- (d) Resettlers should be integrated socially and economically into host communities so that adverse impacts on host communities are minimized. The best way of achieving this integration is for resettlement to be planned in areas benefiting from the project and through consultation with the future hosts.
- (e) Land, housing, infrastructure, and other compensation should be provided to the adversely affected population, indigenous groups,<sup>7</sup> ethnic minorities, and pastoralists who may have usufruct or customary rights to the land or other resources taken for the project. The absence of legal title to land by such groups should not be a bar to compensation.

## Resettlement Planning

4. Where large-scale<sup>8</sup> population displacement is unavoidable, a detailed resettlement plan, timetable, and budget are required. Resettlement plans should be built around a development strategy and package aimed at improving or at least restoring the economic base for those relocated. Experience indicates that cash compensation alone is normally inadequate. Voluntary settlement may form part of a resettlement plan, provided measures to address the special circumstances of involuntary resettlers are included. Preference should be given to land-based resettlement strategies for people displaced from agricultural settings. If suitable land is unavailable, nonland-based strategies built around opportunities for employment or self-employment may be used.

## Plan Content

5. The content and level of detail of resettlement plans, which will vary with circumstances, especially the magnitude of resettlement, should normally include a statement of objectives and policies, an executive summary, and provision for the following:

- (a) organizational responsibilities (para. 6);
- (b) community participation and integration with host populations (paras. 7-10);
- (c) socioeconomic survey (para. 11);
- (d) legal framework (para. 12);
- (e) alternative sites and selection (para. 13);
- (f) valuation of and compensation for lost assets (paras. 14-16);
- (g) land tenure, acquisition, and transfer (para. 17);
- (h) access to training, employment, and credit (para. 18);
- (i) shelter, infrastructure, and social services (para. 19);
- (j) environmental protection and management (para. 20); and
- (k) implementation schedule, monitoring, and evaluation (paras. 21-22).

Cost estimates should be prepared for these activities, and they should be budgeted and scheduled in coordination with the physical works of the main investment project.

6. Host communities receiving resettlers.

7. See OMS 2.34, *Tribal People in Bank-Financed Projects*, to be revised as OD 4.40, *Tribal People*.

8. Where only a few people (e.g., about 100-300 individuals) are to be relocated, appropriate compensation for assets, logistical support for moving, and a relocation grant may be the only requirements. However, the principles on which compensation is to be based are the same as for larger groups.



*Organizational Responsibilities*

6. The responsibility for resettlement rests with the borrower. The organizational framework for managing resettlement must be developed during preparation and adequate resources provided to the responsible institutions. The organization responsible for resettlement should be strengthened when entities executing infrastructure or other sector-specific projects lack the experience and outlook needed to design and implement resettlement. One alternative is to create a special resettlement unit within the project entity; this can facilitate the involvement of other line agencies. Another alternative is to entrust resettlement to the regional or town administration that knows the population and area, can mobilize local expertise, speaks the resettlers' language, and will ultimately be responsible for the integration of resettlers into the host population and area. There also may be considerable scope for involving nongovernmental organizations (NGOs) in planning, implementing, and monitoring resettlement.

*Community Participation and Integration with Host Population*

7. Most displaced people prefer to move as part of a preexisting community, neighborhood, or kinship group. The acceptability of a resettlement plan can be increased and the disruption caused by resettlement can be cushioned by moving people in groups, reducing dispersion, and retaining access to cultural property<sup>10</sup> (temples, pilgrimage centers, etc.), if necessary, through the relocation of the property.

8. The involvement of involuntary resettlers and hosts in planning prior to the move is critical. Initial resistance to the idea of involuntary resettlement is to be expected. To obtain cooperation, the involvement of involuntary resettlers and hosts in planning prior to the move is critical. Initial resistance to the idea of involuntary resettlement is to be expected. To obtain cooperation,

host and resettlers need to be systematically informed and consulted during preparation of the resettlement plan about their options and rights. They should also be able to choose from a number of acceptable resettlement alternatives. These steps can be taken directly or through formal and informal leaders and representatives. Experience has shown that local NGOs can often provide valuable assistance and ensure viable community participation. Moreover, institution-alized arrangements, such as regular meetings between project officials and communities, should be provided for resettlers and hosts to communicate their concerns about the resettlement program to project staff throughout planning and implementation.<sup>11</sup> Particular attention must be given to ensure that such vulnerable groups as indigenous people, ethnic minorities, the landless, and women are represented adequately in such arrangements.

9. The plan should address and mitigate resettlement's impact on host populations. Host communities and local governments should be informed and consulted. Any payment due the hosts for land or other assets provided to resettlers should be promptly rendered. Conflicts between hosts and resettlers may develop as increased demands are placed on land, water, forests, services, etc., or if the resettlers are provided services and housing superior to that of the hosts. Conditions and services in host communities should improve, or at least not deteriorate. Providing improved education, water, health, and production services to both groups fosters a better social climate for their integration. In the long run, the extra investment will help prevent conflicts and secure the project's aims.

10. Successful resettlement requires a timely transfer of responsibility from settlement agencies

9. See OD 14.70, *Involving Nongovernmental Organizations in Bank-Supported Activities*. See OD 11.113, *Management of Cultural Property in Bank-Financed Projects*, to be released as OD 4.50, *Cultural Property*.  
10. Dispute of varying kinds may arise in the process of implementation of the agreed resettlement plan. These conflicts could take the form of appeals related to the compensation payable to affected persons, conflicts between the displaced persons and the host population, appeals to the agency charged with the implementation of the resettlement plan, or appeals to various tribunals, etc. It is therefore important to devise procedures for conflict resolution for all resettlement plans. Such schemes should, as far as possible, take into account existing procedures for settling disputes in the country or area concerned.

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### Alternative Sites and Selection

13. The identification of several possible relocation sites and the demarcation of selected sites is a critical step for both rural and urban resettlement. For land-based resettlement, the new site's productive potential and locational advantages should be at least equivalent to those of the old site. The Bank encourages "land for land" approaches, providing replacement land at least equivalent to the lost land. For rural set-

tlement, irrigation, land reclamation, tree crop development, intensification of production, and other innovations often can provide adequate production potential on limited amounts of land to resettle agriculturalists, even in countries with high population densities. In selecting sites, attention must be paid to the availability of sources of off-farm income (fishing, gathering forest products, seasonal wage employment) to complement farm income. For urban resettlers, the new site should ensure comparable access to employment, infrastructure, services, and production opportunities. For both rural and urban

resettlement, the borrower needs to (a) develop institutional and technical arrangements for identifying and preparing relocation sites, e.g., pooling together small plots, wasteland reclamation, land leveling, and terracing; (b) draw up timetables and budgets for site preparation and transfer; (c) make legal arrangements for transferring titles to resettlers; and (d) consider, when

feasible, resettlement in areas to prevent land speculation. Though the Bank does not normally disburse against land acquisition, it can finance land improvement to accommodate resettlers.

14. Valuation of lost assets should be made at least by (a) paying special attention to the adequacy of the legal arrangements concerning land title, registration, and site occupation procedures; (c) land titling and registration procedures; and (d) laws and regulations relating to the timing of payment; (b) the legal and administrative procedures applicable, including the special process and the normal time-frame for such procedures; and (e) the valuation methodology and the nature of compensation associated with it.

12. A clear understanding of the legal issues involved in resettlement is needed to design a feasible resettlement plan. An analysis should be made to determine the nature of the legal framework for the resettlement envisaged, including the scope of the power of eminent domain, (a) the nature of compensation associated with it, both in terms of the valuation methodology and the timing of payment; (b) the legal and administrative procedures applicable, including the special process and the normal time-frame for such procedures; (c) land titling and registration procedures; and (d) laws and regulations relating to the timing of payment; (e) the valuation methodology and the nature of compensation associated with it.

11. Resettlement plans should be based on recent information about the scale and impact of resettlement on the displaced population. In addition to describing standard household characteristics, socioeconomic surveys should describe the magnitude of displacement; (b) information on the full resource base of the affected population, including income derived from informal sector and nonfarm activities, and from common property; (c) the extent to which groups will experience total or partial loss of assets; (d) public infrastructure and social services that will be affected; (e) formal and informal institutions (such as community organizations, ritual groups, etc.) that can assist with designing and implementing the resettlement program; and (f) attitudes on resettlement options. Socioeconomic surveys, recording the names of affected families, should be conducted as early as possible to prevent inflows of population ineligible for compensation.

### Legal Framework

12. A clear understanding of the legal issues involved in resettlement is needed to design a feasible resettlement plan. An analysis should be made to determine the nature of the legal framework for the resettlement envisaged, including the scope of the power of eminent domain, (a) the nature of compensation associated with it, both in terms of the valuation methodology and the timing of payment; (b) the legal and administrative procedures applicable, including the special process and the normal time-frame for such procedures; (c) land titling and registration procedures; and (d) laws and regulations relating to the timing of payment; (e) the valuation methodology and the nature of compensation associated with it.

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assets but are no longer economically viable should be entitled to full resettlement; and (d) developing mechanisms to prevent illegal encroachers and squatters, including an influx of non-residents entering to take advantage of such benefits, from participating in the compensation arrangements, by an early recording of the numbers and names of the affected populations entitled to compensation/rehabilitation.

15. Some types of loss, such as access to (a) public services; (b) customers and suppliers; and (c) fishing, grazing, or forest areas, cannot easily be evaluated or compensated for in monetary terms. Attempts must therefore be made to establish access to equivalent and culturally acceptable resources and earning opportunities.

16. Vulnerable groups at particular risk are indigenous people, the landless and semilandless, and households headed by females who, though displaced, may not be protected through national land compensation legislation. The resettlement plan must include land allocation or culturally acceptable alternative income-earning strategies to protect the livelihood of these people.

## *Land Tenure, Acquisition, and Transfer*

17. Resettlement plans should review the main land tenure and transfer systems, including common property and non-title-based usufruct systems governed by locally recognized land allocation mechanisms. The objective is to treat customary and formal rights as equally as possible in devising compensation rules and procedures. The plan should address the issues raised by the different tenure systems found in a project area, including (a) the compensation eligibility of land-dependent populations; (b) the valuation procedures applicable to different tenure types; and (c) the grievance procedures available for disputes over land acquisition. Plans should contain provisions for conducting land surveys

and regularizing land tenure in the earliest stages of project development. Planning should also anticipate the approximate time needed to acquire and transfer land.

## *Access to Training, Employment, and Credit*

18. Normally, general economic growth cannot be relied upon to protect the welfare of the project-affected population. Thus, alternative employment strategies are needed for nonagricultural displaced people, or where the land that can be made available is not sufficient to accommodate all the displaced farmers. The resettlement plan should, where feasible, exploit new economic activities made possible by the main investment requiring the displacement. Vocational training, employment counseling, transportation to jobs, employment in the main investment project or in resettlement activities, establishment of industries, incentives for firms to locate in the area, credit and extension for small businesses or reservoir aquaculture, and preference in public sector employment should all be considered where appropriate.

## *Shelter, Infrastructure, and Social Services*

19. To ensure the economic and social viability of the relocated communities, adequate resources should be allocated to provide shelter, infrastructure (e.g., water supply, feeder roads), and social services (e.g., schools, health care centers).<sup>12</sup> Site development, engineering, and architectural designs should be prepared for shelter, infrastructure, and social services. Since community or self-built houses are often better accepted and more tailored to the resettlers' needs than contractor-built housing, provision of a building site with suitable infrastructure, model plans, building materials, technical assistance, and "construction allowances" (for income foregone while resettlers build their houses) is an option communities should be offered. Planning for shelter, infrastructure, and services should take into account population growth.

12. Health care services, particularly for pregnant women, infants, and the elderly, may be important during and after relocation to prevent increases in morbidity and mortality due to malnutrition, the stress of being uprooted, and the usually increased risk of water-borne diseases.

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## Environmental Protection and Management

20. The screening process for an environmental assessment (EA) normally classifies projects involving involuntary resettlement as Category A.<sup>13</sup> The EA of the main investment requiring the resettlement should thus cover the potential environmental impacts of the resettlement. The resettlement plan must be developed in coordination with the EA and define the boundaries of the relocation area, and calculate incremental population density per land unit. In agricultural projects (involving, for example, relocation to the catchment surrounding a reservoir, or to a downstream command area), if the incoming resettled population is large in relation to the host population, such environmental issues as deterioration, overgrazing, soil erosion, sanitation, and pollution are likely to become serious and plans should either include appropriate mitigating measures, including zoning of areas, or else should allow for alternative sites to be selected. Urban resettlement raises other density-related issues (e.g., transportation capacity, access to potable water, sanitation systems, health facilities, etc.). Constructive environmental management, provided through the EA's mitigation plan,<sup>14</sup> may provide good opportunities and benefits to resettlers and host populations alike (e.g., project-financed compensatory afforestation not only replaces the forests submerged by reservoirs but also offers gainful employment). If the likely consequences on the environment are unacceptable, alternative and/or additional relocation sites must be found.

## Implementation Schedule, Monitoring and Evaluation

21. The timing of resettlement should be coordinated with the implementation of the main investment component of the project requiring the resettlement. All resettlement plans should

include an implementation schedule for each activity covering initial baseline and preparation, actual relocation, and post-relocation economic and social activities. The plan should include a target date when the expected benefits to resettlers and hosts would be achieved.

22. Arrangements for monitoring implementation of resettlement and evaluating its impact should be developed by the borrower during project preparation and used during supervision.<sup>15</sup> Monitoring provides both a warning system for project managers and a channel for the resettlers to make known their needs and their reactions to resettlement execution. Monitoring and evaluation units should be adequately funded and staffed by specialists in resettlement. In-house monitoring by the implementing agency may need to be supplemented by independent monitors to ensure complete and objective information. Annual and mid-term reviews are desirable for large-scale resettlement. The borrower should be required to continue impact evaluation for a reasonable period after all resettlement and related development activities have been completed. The borrower should also be required to inform the Bank about the findings.

## Bank Role and Project Options

23. The Bank supports borrowers' efforts through (a) assistance in designing and assessing resettlement policy, strategies, laws, regulations, and specific plans; (b) financing technical assistance to strengthen the capacity of agencies responsible for resettlement; and (c) direct financing of the investment costs of resettlement. The Bank may sometimes finance resettlement even though it has not financed the main investment that made displacement and resettlement necessary (para. 26).

24. The task manager (TM) should inform the borrower of the Bank's resettlement policy.

13. See OD 400, Annex A, Environmental Assessment and Action B, Environmental Assessment: Policy for Dam and Reservoir Projects. The environmental implications of involuntary resettlement will be further discussed under para 61, "Special Issues in Environmental Assessment," in Environmental Assessment Sourcebook (Washington, D.C.: The World Bank, to be issued).

14. See OD 1070, Project Monitoring and Evaluation.

# Operational Directive

Starting early in the project cycle, the TM with the support of Bank operational, research, and legal staff should assess government policies, experiences, institutions, and the legal framework covering resettlement. In particular, the TM needs to ensure that involuntary resettlement is avoided or minimized, that laws and regulations concerning displaced people provide compensation sufficient to replace all lost assets, and that displaced persons are assisted to improve, or at least restore, their former living standards, income earning capacity, and production levels.

25. The adequacy of the resettlement plan should be reviewed by appropriate social, technical, and legal experts. Resettlement specialists should visit the possible resettlement sites and review their suitability. In the case of large-scale relocation, such experts should be included in independent technical or environmental review boards.<sup>16</sup>

26. Bank financing of resettlement can be provided as follows: (a) As a component of the main investment project causing displacement and requiring resettlement. (b) If large enough, as a free-standing resettlement project with appropriate cross-conditionality, processed and implemented in parallel with the investment project that causes the displacement. The latter approach may better focus country and Bank attention on the effective resolution of resettlement issues. (c) As a sector investment loan.<sup>17</sup> Where the specific resettlement needs of each subproject are not known in advance, the borrower would need to agree to resettlement policies, planning principles, institutional arrangements, and design criteria that meet Bank policy and requirements as a condition of the loan. An estimate should be provided of total population to be displaced and overall resettlement costs, as well as an evaluation of proposed resettlement sites. Subprojects in sector investment loans

should be screened by the implementing agency to ensure consistency with this directive, and approved individually by the Bank. For countries with a series of operations requiring resettlement, efforts to improve the policy, institutional, and legal framework for resettlement should form part of the Bank's ongoing country and sector dialogue with the government. These efforts should be appropriately reflected in economic and sector work and in country strategy papers and briefs.

## Processing and Documentation

27. The Regional Vice President (RVP) should be kept informed of major resettlement issues, and his guidance sought where necessary. The Regional Environment Division (RED), the Legal Department (LEG), and settlement specialists in Sector Policy and Research (PRS) should be consulted or included as necessary in peer reviews on involuntary resettlement issues throughout the project cycle.

## Identification

28. The possibility of involuntary resettlement should be determined as early as possible and described in all project documents. The TM should (a) briefly summarize in the Initial Executive Project Summary (Initial EPS)<sup>18</sup> the magnitude, strategy, and timing of the resettlement; (b) inform borrowers of the Bank's resettlement policy; (c) review past borrower experience with similar operations; (d) invite agencies responsible for resettlement to discuss their policies, plans, and institutional, consultative, and legal arrangements for resettlement; and (e) where appropriate, ensure that technical assistance is provided early to borrowers. Such assistance should include the use of project preparation facility (PPF) resources<sup>19</sup> for planning resettlement and building institutional capacity.

16. See OD 4.00, Annex B, *Environmental Policy for Dam and Reservoir Projects*.

17. See OD 1.00, *Bank Goals and Instruments*, and OD 8.20, *Sector Investment and Maintenance Loans*, both to be issued.

18. See Circular Op 87/03, *Procedures for Processing Investment Loans and Credits*, filed as OMS 2.00, to be revised as OD 9.00, *Processing and Documentation for Investment Lending*.

19. See OMS 2.15, *Project Preparation Facility*, to be revised as OD 8.00, *Project Preparation Facility and Special Project Preparation Facility*.

# Operational Directive

## Preparation

29. During project preparation, the feasibility of resettlement must be established, a strategy agreed upon, the resettlement plan drafted, and budget estimates prepared.<sup>20</sup> The full costs of resettlement should be identified and included in the total cost of the main investment project, regardless of financing source. The costs of resettlement should also be treated as a charge against the economic benefits of the investment project that causes the relocation. Any net benefit to resettlers (as compared to the "without project" circumstances) should be added to the benefit stream of the main investment. While the resettlement component or free-standing project need not be economically viable on its own, it should be the least-cost approach consistent with the policies laid out above.

## Appraisal and Negotiation

30. Submission to the Bank of a time-bound resettlement plan and budget that conforms to Bank policy is a condition of appraisal for projects involving resettlement, except for sector investment loans as discussed in para. 26. All final EPRs should confirm that this requirement has been met. The appraisal mission should ascertain (a) the extent that involuntary resettlement and human hardship will be minimized and whether borrowers can manage the process; (b) the adequacy of the plan, including the timetable and budget for resettlement and compensation; (c) the soundness of the economic and financial analysis; (d) the availability and adequacy of sites and funding for all resettlement activities; (e) the feasibility of the implementation arrangements; and (f) the extent of involvement

of beneficiaries. At negotiations, the borrower and the Bank should agree on the resettlement plan. The resettlement plan and the borrower's obligation to carry it out should be reflected in the legal documents. Other necessary resettlement-related actions must be covenanted. The Staff Appraisal Report and the Memorandum and Recommendation of the President should summarize the plan and state that it meets Bank policy requirements.

## Implementation and Supervision

31. Resettlement components should be supervised throughout implementation.<sup>21</sup> Supervision that is sporadic or left until late in implementation invariably jeopardizes the success of resettlement. Bank supervision missions should be staffed with the requisite social, economic, and technical expertise. Annual reviews of large-scale resettlement and in-depth Bank reviews of mid-term progress are highly desirable. These reviews should be planned from the outset to allow the Bank and the borrower to make necessary adjustments in project implementation. Complete recovery from resettlement can be protracted and can often make it necessary to continue Bank supervision until well after populations have been relocated, sometimes even after a project has been closed.

## Ex Post Evaluation

32. The project completion report<sup>22</sup> submitted to the Operations Evaluation Department should evaluate resettlement and its impact on the standards of living of the resettlers and the host population.

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20. Detailed guidelines for preparing and appraising resettlement plans are provided in *Involuntary Resettlement in Development Projects*, World Bank Technical Paper No. 84, Annex 1 (Washington, D.C.: The World Bank, 1988). For Korea case studies and guidelines for economic and financial analysis are provided in Annex 2.
21. See OD 13.02, *Project Supervision*, particularly para. 44-47.
22. See the OPNSV memorandum, *Guidelines for Preparing Project Completion Reports*, June 7, 1989, and OMS 3.58, *General Guidelines for Preparing Project Completion Reports*, which are to be circulated and reviewed as OD 13.55, *Project Completion Reports*.

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This document was prepared for the guidance of staff of the World Bank and is not necessarily a complete treatment of the subjects covered.

## Forestry

1. Bank<sup>1</sup> involvement in the forestry sector aims to reduce deforestation, enhance the environmental contribution of forested areas, promote afforestation, reduce poverty, and encourage economic development. In pursuit of these objectives, the Bank applies the following policies:
- (a) The Bank does not finance commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest.<sup>2</sup> In borrowing countries where logging is being done in such forests, the Bank seeks the government's commitment to move toward sustainable management of those forests, as described in para. 1(d) below, and to retain as much effective forest cover as possible. Where the government has made this commitment, the Bank may finance improvements in the planning, monitoring, and field control of forestry operations to maximize the capability of responsible agencies to carry out the sustainable management of the resource.
  - (b) The Bank uses a sectorwide approach to forestry and conservation work in order to address policy and institutional issues and to integrate forestry and forest conservation projects with initiatives in other sectors and with macroeconomic objectives.
  - (c) The Bank involves the private sector and local people in forestry and conservation management or in alternative income-generating activities. The Bank requires borrowers to identify and consult the interest groups involved in a particular forest area.
  - (d) The Bank's lending operations in the forest sector are conditional on government commitment to undertake sustainable management and conservation-oriented forestry. Such a commitment (which may be reflected in specific conditionalities; see Good Practices 4.36 for examples) requires a client country to
    - (i) adopt policies and a legal and institutional framework to
      - (a) ensure conservation and sustainable management of existing forests, and
      - (b) promote active participation of local people and the private sector in the long-term sustainable management of natural forests (see paras. 19-20 of OD 4.01, *Environmental Assessment*);
    - (ii) adopt a comprehensive and environmentally sound forestry conser-

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- 1. "Bank" includes IDA, and "loans" includes credits.
  - 2. Definitions are given in Annex A.

**Note:** This document is based on *The Forest Sector: A World Bank Policy Paper*, 7/18/91, and also complements the following Bank guidelines: OD 4.01, *Environmental Assessment*; OD 4.20, *Indigenous Peoples*; OD 4.30, *Involuntary Resettlement*; and OMS 2.36, *Environmental Aspects of Bank Work*. Staff should also consult OD 14.70, *Involving Nongovernmental Organizations in Bank-Supported Activities*; OPN 11.02, *Wildlands*; and OPN 11.03, *Management of Cultural Property in Bank-Financed Projects*. Questions may be addressed to the Director, Agriculture and Rural Development Department.

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*These policies were prepared for the guidance of World Bank staff. They are not necessarily a complete treatment of the subjects covered. Additional copies of this document are available on a self-service basis in the Institutional Information Services Center (IISC), to E 1200.*







- vation and development plan that clearly defines the roles and rights of the government, the private sector, and local people (including forest dwellers) (see OD 4.20, *Indigenous Peoples*);
- (iii) undertake social, economic, and environmental assessments of forests being considered for commercial use;
  - (iv) set aside adequate compensatory preservation forests to protect and conserve biological diversity and environmental services and to safeguard the interests of forest dwellers, specifically their rights of access to and use of designated forest areas; and
  - (v) establish institutional capacity to implement and enforce these commitments.
- (c) The Bank distinguishes investment projects that are exclusively environmentally protective (e.g., management of protected areas or reforestation of degraded watersheds) or supportive of small farmers (e.g., farm and community forestry) from all other forestry operations. Projects in this limited group may be appraised on the basis of their own social, economic, and environmental merits. However, they may be pursued only where broad sectoral reforms are in hand, or where remaining forest cover in the client country is so limited that preserving it in its entirety is the agreed course of action.
- (d) In forest areas of high ecological value, the Bank finances only preservation and light, nonextractive use of forest resources. In areas where retaining the natural forest cover and the associated soil, water, biological diversity, and carbon sequestration values is the object, the Bank may finance controlled sustained-yield forest management. The Bank finances plantations only on non-forested areas (including previously planted areas) or on heavily degraded forestland.
2. The Bank does not finance projects that contravene applicable international environmental agreements.





# Operational Policies

## Definitions

1. The following definitions apply in this statement:

- (a) *Primary forest* is defined as relatively intact forest that has been essentially unmodified by human activity for the previous 60 to 80 years.
- (b) *Tropical moist forest* is generally defined as forest in areas that receive not less than 100 mm of rain in any month for two out of three years and have an annual mean temperature of 24°C or higher. Also included in this category, however, are some forests (especially in Africa) where dry periods are longer but high cloud cover causes reduced evapotranspiration.
- (c) *Carbon sequestration* refers to the process whereby forested areas retain a revolving but stable store of organic carbon in their biomass. Clearing, burning, or otherwise substantially altering the forest increases the net release into the atmosphere of carbon-based gases that contribute to the greenhouse effect.
- (d) The term *local people* describes the broad group of people living in or near a forest, with some significant level of dependence upon it. The term includes forest dwellers, indigenous forest-adjacent populations, and recent immigrants.
- (e) *Sustainable management* of natural forests means controlled utilization of the resource to produce wood and nonwood benefits into perpetuity, with the basic objectives of long-term maintenance of forest cover and appropriate reservation of areas for biodiversity protection and other ecological purposes.
- (f) A *natural forest* is an area in which the cover has evolved naturally so as to provide significant economic and/or ecological benefits, or one that is sufficiently advanced in regeneration and recovery from disturbance as to be judged in near-natural condition.





## Forestry

### Introduction

1. This statement gives guidelines<sup>1</sup> for implementing the Bank's operational policy on the forest sector.
2. Bank<sup>2</sup> lending in the forest sector emphasizes the development of forest resources to provide for a sustainable stream of direct or indirect benefits to alleviate poverty, advance the status of women, and enhance community income and environmental protection. Bank forest sector policy now recognizes that, in most cases, progress across this range of objectives requires a program approach to the sector, rather than a discrete project approach. Ongoing investments and existing forest policies, often developed piecemeal, tend to involve excessive public intervention in the sector. A program approach requires a consistent sector policy that builds on favorable macroeconomic policies, promotes links between the forest sector program and project design, and recognizes the relationships among forest, people, and culture. The program approach therefore requires (a) sufficient Bank involvement in the forest sector to allow a dialogue on sector strategy and policy reform; (b) strong linkages between the forest sector program and project design and the broader macroeconomic dialogue; and (c) involvement of a wide range of government agencies and interested parties outside of government to ensure broad consensus on reform priorities.

### Country Economic and Sector Work

3. It is essential to the sectorwide strategy for forestry development that country economic and sector work (CESW) be as highly developed as possible prior to the start of major lending in the sector. Alternatively, when resource constraints are severe, CESW may be carried out during the early stages of project identification and preparation. In such cases, special efforts are required to ensure that analysis of sector issues is not lost among project design concerns. Bank staff should obtain explicit recognition of the joint policy reform and investment preparation effort from government, and especially from their counterparts in coordinating agencies outside the forest sector (e.g., ministry of finance, planning commission).

### Economic Work

4. The Bank's country economic work (especially the country economic memorandum) assesses the macroeconomic policies likely to affect the forest sector. The forest sector policies advocated during project preparation will grow out of those put forward in the country economic memorandum, the national Environmental Action Plan, and the Consultative Group process<sup>3</sup> (where Consultative Groups are an appropriate mechanism), and as structural or sector adjustment inputs.<sup>4</sup>

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1. These guidelines are based on OP 4.36. Both OP 4.36 and GP 4.36 are based on *The Forest Sector: A World Bank Policy Paper* (Washington, D.C.: The World Bank, 1991).
  2. "Bank" includes IDA, and "loans" includes credits.
  3. See OD 14.30, *Aid Coordination Groups*.
  4. Specific coordination problems may arise when forestry is a responsibility of state governments within a federation. It may be necessary to broaden the scope of the policy dialogue to encompass participation at both state and national levels.



5. CESW gives special attention to the macro-economic policies that are likely to affect resource use and the environment. In this category are policies governing

- (a) administered resource pricing, in which the government influences the flow of resources by using nonmarket interventions to promote domestic processing or similar objectives;
- (b) revenue sharing among different levels of government and among public and private sectors and local communities;
- (c) criteria used to identify and appraise public investments in agriculture and infrastructure that affect the management of forestland;
- (d) institutional budgets and funding procedures, and the general incentives for rent seeking in the economy;
- (e) general trade and industry, especially policies that determine which exportable natural resources are to be processed domestically;
- (f) energy, especially the potential for fuelwood substitution and for improving efficiency of energy use where non-sustainable fuelwood gathering is a serious problem; and
- (g) the incentive framework for channeling investment resources to the most efficient users of funds, especially the private sector, including small farms, communities, tribes, and women's groups.

#### **Sector Work**

6. Forest sector lending requires a strong sector work basis. Sector work in advance of detailed

project design helps integrate forest sector aims and objectives with wider economic and environmental concerns. The sectoral topics covered vary from one country to another. The policy areas that may need to be investigated include the following:

- (a) *Resource Pricing and Methods of Sale.* Measures related to the recovery of economic rent and to revenue collection mechanisms can be incentives to observe environmental and management prescriptions—for example, (a) using performance bonds rather than difficult-to-enforce penalty clauses; (b) using resource assessment rather than extracted volume measurement to encourage efficiency in operations; and (c) incorporating in the concession agreement requirements to finance specified nature conservation and community involvement activities. Sector work should aim to quantify the effect of prices on rates and on levels of forest use, the distributional impacts of price changes, and the effect of pricing mechanisms on public and private sector risk bearing.
- (b) *Forest Industry Policies.* Policies of state intervention to stimulate the development of industry based on forest resources or to increase value added in the forest sector should be assessed. Quotas, tariffs, and overvalued foreign exchange rates on forest product imports can artificially increase private financial returns on forest exploitation, establishing incentives to exploit forest resources more than is economically efficient or physically sustainable. Conversely, log export bans and taxes can reduce the private financial value of forestry activities below their economic value, leading to inefficiencies in log use and reduced investment in forestry. Where appropriate, alternative



policies to encourage the growth of efficient and competitive value-added operations and to achieve equity objectives should be presented.

- (c) *Forest Resource Information.* Sector work should assess the government's database, procedures for managing and analyzing data, inventory programs, and the adequacy of public access to information, including data on forest product prices. Recent studies emphasize the economic importance, particularly to the poor, of nontimber forest products (e.g., nuts, fruits, and medicinal plants), but information on these products is rarely available or analyzed. The Bank encourages governments to develop resource monitoring systems (including natural resource accounting).
- (d) *Human Resource Development.* Sector work should assess (i) the availability of skills in both government and the private sector, and (ii) the adequacy of personnel policies (including staff rotation systems and opportunities for specialization), compensation and field allowances, and the systems for delivering training to farmers and forest workers.
- (e) *Research.* Sector work should assess the forestry research program, focusing especially on the balance of research between and among various areas—natural and man-made forests, forest management and forest products (including non-traditional forest products), social and economic aspects, and ecological and technical areas. The Bank encourages the development of international research links with member institutions of the Consultative Group on International Agricultural Research, the International Union

of Forestry Research Organizations, and national forestry research systems.

- (f) *Resource Mobilization.* Sector work should assess the adequacy and efficiency of funding mechanisms for public and private forestry operations, including credit arrangements and earmarking of forestry revenues. Such mechanisms should ensure the availability of funds for regeneration, forest protection, and investment in other sectors of the economy.
- (g) *Participation and Role of Private Sector.* Sector work should examine the division of responsibility among the different levels of government, parastatals, local communities, and the private sector. It should consider the scope for devolving responsibility for land management and directly productive investment to local communities and private firms while focusing government efforts on regulations and technical assistance.
- (h) *Environmental Framework.* Sector work should examine the legal and institutional basis for ensuring environmentally sustainable development of the forest sector. The government should have in place adequate provisions for conserving protected areas and critical watersheds and for establishing environmental guidelines and monitoring procedures.

#### Project Processing

7. No special procedures are required for the processing of forestry projects. However, forestry projects, especially those pursuing broad program objectives, present special analytic issues that need to be taken into consideration throughout the project cycle. Normally, although the



## Good Practices

borrower "owns" the reform program and is responsible for preparation and implementation, the Bank needs to supply guidance and support for communication among government agencies and nongovernmental organizations (NGOs).

### *Identification and Preparation*

8. As has been indicated, Bank projects normally evolve from a program of CESW and an agreed reform agenda. In the absence of completed CESW, the identification process should provide for assessment of the fundamental policy issues facing the sector. Projects should aim to enhance environmentally sustainable development while taking into account limits on absorptive capacity and management control.

9. The Bank may consider financing a broad range of investment activities in or related to the forest sector. Several possible areas for investment are described below.

10. *Preservation and Management of Intact Forest Areas.* The Bank may support initiatives to expand forest areas allocated as parks and reserves and to institute effective management and enforcement in new and existing areas. The Bank stresses approaches to management of protected areas that consider the welfare of forest-dwelling people and incorporate local people into protection, benefit sharing, and planning.

11. In tropical moist forests, the Bank adopts, and encourages governments to adopt, a precautionary policy toward use. The Bank emphasizes support to programs that involve institutional development, forest protection measures, and nonforest income-generating projects that aim primarily to preserve tropical moist forests. The Bank makes special efforts to support economic development in poor, densely populated areas around such forests or in forest encroachers' areas of origin. The Bank also supports ameliorating environmental damage in temperate and boreal forests,

directing its investments toward programs to rehabilitate and reforest degraded forestland and to reduce industrial pollution and conserve energy.

12. *Resource Expansion and Management Intensification.* The Bank may finance projects to create additional forest resources or to expand and intensify the management of areas suitable for sustainable production of forest products. The Bank promotes rural people's participation in tree planting and conservation of indigenous woodlands.

13. The key to increasing forest investment is a balance among economic incentives, security of tenure, motivation, and technical assistance. The Bank directs special efforts toward agroforestry technologies that can improve soil fertility, conserve soil moisture, and increase crop and livestock yields. It may encourage cash crop tree farming in rural areas where such farming does not impair local people's access to essential fuelwood and fodder supplies. The Bank emphasizes developing market intelligence and marketing systems for cash crop tree farming and for assisting small-scale wood-using enterprises in rural areas. To reduce pressure on the existing forest resource base, the Bank may support the establishment of plantations outside areas of intact forest, where such activity is socially, environmentally, and economically acceptable. The primary target areas for new planting are potentially productive degraded forests, wastelands, forest fallows, shrublands, and abandoned farmlands. The interests of communities that depend on such areas must be considered in setting target areas.

14. *Institutional Reform and Strengthening.* The Bank recognizes the critical need to restructure forestry institutions, improve training and equipment, and introduce greater accountability and higher performance standards into the public sector. It may support the use of private sector contractors and consultants as auditors and monitors, and more rigorous intersectoral oversight by





ministries of agriculture, environment, planning, finance, and so forth.

**15. Forestry Research and Development.** The Bank may support forestry research and technology development, both as project components and as free-standing projects. Provision for dissemination of results and for technology transfer should be made during preparation.

**16. Improved Processing and Demand Reduction.** The Bank may support direct interventions to encourage conservation and the use of more efficient technologies, including research and training to improve the fuel efficiency of household stoves. In addition, the Bank may support research and investment in new technologies to reduce industrial demand for wood and to better match industrial demand with available resources—for example, retooling and upgrading to permit processing plants to use small logs and wood residues.

**17. Resource Assessment.** The Bank may support forest resource assessments through surveys, inventories, and mapping. Emphasis should be given to the application of Geographic Information Systems and other recent advances in information technology for project planning, monitoring, and evaluation.

#### *Environmental Assessment*

18. Bank staff ensure that the borrower conducts an environmental assessment (see OD 4.01, *Environmental Assessment*).

#### *Appraisal*

19. During appraisal the Bank ensures the overall viability of the proposed project. In particular, appraisal of forestry projects needs to focus on five areas: economic and policy framework, institutional arrangements, technology, environmental protection, and local participation.

**20. Economic and Policy Framework.** Appraisal should ensure that the project is consistent with the policy reform priorities identified through CESW and that adequate provisions are made for marketing (particularly by the rural poor) and procurement. In particular, the Bank must ensure that procedures for land acquisition and forestland designation reduce inappropriate clearing for agriculture and that pressures from grazing and other uses are taken into account. The Bank should ensure that the borrower is committed to a policy of sustained resource management through the application of scientific forest management systems.

**21. Institutional Arrangements.** Appraisal establishes that all policy initiatives have an identified legal and regulatory basis; that agencies have the capability to fund, review, and monitor—and enforce compliance with—the planned initiatives; and that interagency responsibilities and coordinating mechanisms are established. The Bank ensures that the roles of the public and private sectors in project implementation are clearly defined.

**22. Technology to Increase Productivity.** Projects should employ high-quality technology appropriate to local conditions and comparable to best practice in other agricultural subsectors such as tree crops. The Bank seeks to ensure that technological improvements introduced by projects are disseminated throughout the sector.

**23. Environmental Protection.** Environmental guidelines for forest management should provide for adequate attention to soil and moisture conservation; protection of watersheds, streams, and waterways; maintenance of adequate areas to conserve biodiversity; species mix in plantations; and pest and fire control.

**24. Local Participation.** Local communities and NGOs should participate in project design, and the project's legal and financial mechanisms should be



adequate to secure their participation in the project. The Bank considers proposed staffing patterns to ensure that field staff have appropriate skills and training to work effectively with local people. For example, since women are usually

the main collectors of fuelwood and forest products, especially for domestic use, women may be especially effective as extension workers and as workers in such activities as nursery management and seedling distribution.



## Projects on International Waterways

### Applicability of Policy

1. The Bank's<sup>1</sup> operational policy covers the following types of international waterways:

- (a) any river, canal, lake, or similar body of water that forms a boundary between, or any river or body of surface water that flows through, two or more states, whether Bank members or not;
- (b) any tributary or other body of surface water that is a component of any waterway described in (a) above; and
- (c) any bay, gulf, strait, or channel bounded by two or more states or, if within one state, recognized as a necessary channel of communication between the open sea and other states—and any river flowing into such waters.

2. The policy applies to the following types of projects:

- (a) hydroelectric, irrigation, flood control, navigation, drainage, water and sewerage, industrial, and similar projects that involve the use or potential pollution of international waterways as described in para. 1 above; and
- (b) detailed design and engineering studies of projects under para. 2(a) above, including those to be carried out by

the Bank as executing agency or in any other capacity.

### Agreements/Arrangements

3. Projects on international waterways may affect relations between the Bank and its borrowers<sup>2</sup> and between states (whether members of the Bank or not). The Bank recognizes that the cooperation and goodwill of riparians is essential for the efficient utilization and protection of the waterway. Therefore, it attaches great importance to riparians' making appropriate agreements or arrangements for these purposes for the entire waterway or any part thereof. The Bank stands ready to assist riparians in achieving this end. In cases where differences remain unresolved between the state proposing the project (beneficiary state) and the other riparians, prior to financing the project the Bank normally urges the beneficiary state to offer to negotiate in good faith with the other riparians to reach appropriate agreements or arrangements.

### Notification

4. The Bank ensures that the international aspects of a project on an international waterway are dealt with at the earliest possible opportunity. If such a project is proposed, the Bank requires the beneficiary state, if it has not already done so, formally to notify the other riparians of the proposed project and its Project Details (see BP 7.50, para. 3). If the prospective borrower indicates to the Bank that it does not wish to give notification,

1 "Bank" includes IDA, and "loans" includes credits.

2 "Borrower" refers to the member country in whose territory the project is carried out, whether the country is the borrower or the guarantor.

Note: OP, BP, and GP 7.50 together replace OD 7.50, *Projects on International Waterways*, and OD 7.50.01, *Maps for Projects on International Waterways*. They also draw on the *Operational Memoranda Revisions in Operational Instructions*, 11/26/91, and *Revisions in Operational Instructions*, 1/7/93. Questions may be addressed to the International Law Adviser, LEGOP.



normally the Bank itself does so. If the borrower also objects to the Bank's doing so, the Bank discontinues processing of the project. The executive directors concerned are informed of these developments and any further steps taken.

5. The Bank ascertains whether the riparians have entered into agreements or arrangements or have established any institutional framework for the waterway concerned. In the latter case, the Bank ascertains the scope of the institution's activities and functions and the status of its involvement in the proposed project, bearing in mind the possible need for notifying the institution.

6. Following notification, if the other riparians raise objections to the proposed project, the Bank in appropriate cases may appoint one or more independent experts to examine the issues in accordance with BP 7.50, paras. 8-12. Should the Bank decide to proceed with the project despite the objections of the other riparians, the Bank informs them of its decision.

#### **Exceptions to Notification Requirement**

7. The following exceptions are allowed to the Bank's requirement that the other riparian states be notified of the proposed project:

- (a) For any ongoing schemes, projects involving additions or alterations that require rehabilitation, construction, or other changes that in the judgment of the Bank
  - (i) will not adversely change the quality or quantity of water flows to the other riparians; and
  - (ii) will not be adversely affected by the other riparians' possible water use.

This exception applies only to minor additions or alterations to the ongoing

scheme; it does not cover works and activities that would exceed the original scheme, change its nature, or so alter or expand its scope and extent as to make it appear a new or different scheme. In case of doubt regarding the extent to which a project meets the criteria of this exception, the executive directors representing the riparians concerned are informed and given at least two months to reply. Even if projects meet the criteria of this exception, the Bank tries to secure compliance with the requirements of any agreement or arrangement between the riparians.

- (b) Water resource surveys and feasibility studies on or involving international waterways. However, the state proposing such activities includes in the terms of reference for the activities an examination of any potential riparian issues.
- (c) Any project that relates to a tributary of an international waterway where the tributary runs exclusively in one state and the state is the lowest downstream riparian, unless there is concern that the project could cause appreciable harm to other states.

#### **Presentation of Loans to the Executive Directors**

8. For every project on an international waterway, the Staff Appraisal Report (SAR) and Memorandum and Recommendation of the President (MOP) deal with the international aspects of the project, and state that Bank staff have considered these aspects and are satisfied that

- (a) the issues involved are covered by an appropriate agreement or arrangement between the beneficiary state and the other riparians; or



- (b) the other riparians have given a positive response to the beneficiary state or Bank, in the form of consent, no objection, support to the project, or confirmation that the project will not harm their interests; or
- (c) in all other cases, in the assessment of Bank staff, the project will not cause appreciable harm to the other riparians, and will not be appreciably harmed by the other riparians' possible water use. The MOP also contains in an annex the salient features of any objection and, where applicable, the report and conclusions of the independent experts.

### Maps

9. Documentation for a project on an international waterway includes a map that clearly

indicates the waterway and the location of the project's components. This requirement applies to the SAR, the MOP, the Project Information Document (PID), and any internal memoranda that deal with the riparian issues associated with the project. Maps are provided for projects on international waterways even when notification to riparians is not required by the provisions of OP 7.50. Maps are prepared and cleared in accordance with Administrative Manual Statement 7.10, *Cartographic Services*, and its annexes.

10. However, the inclusion of maps in the cited documents, except internal memoranda, is subject to any general instruction or decision of the Regional vice president, taken in consultation with the Senior Vice President and General Counsel, to omit maps of the beneficiary state in entirety or in part.





## Projects on International Waterways

1. A potential international water rights issue is assessed as early as possible in identification<sup>1</sup> and described in all project documents starting with the Project Information Document (PID). The cover memorandum for the preappraisal package including the PID is prepared in collaboration with the Legal Department (LEG) to convey all relevant information on international aspects of the project; the memorandum is addressed to the vice president of the Region processing the project (RVP) and copied to the Senior Vice President and General Counsel (LEGVP). Throughout the project cycle, the country department (CD) director, in consultation with LEG, keeps the managing director concerned (MD) abreast of international aspects of the project and related events, through the RVP.

### Notification

2. As early as possible during identification, the Bank<sup>2</sup> advises the state proposing the project on an international waterway (beneficiary state) that, if it has not already done so, it should formally notify the other riparians of the proposed project, including the Project Details (see para. 3). However, if the prospective borrower<sup>3</sup> indicates to the Bank that it does not wish to give notification, normally the Bank itself does so. If the beneficiary state also objects to the Bank's doing so, the Bank discontinues processing of the project. The executive directors concerned (EDs) are informed of these developments and any further steps taken.

3. The notification contains, to the extent available, sufficient technical specifications, information, and other data (Project Details) to enable the other riparians to determine as accurately as possible whether the proposed project has potential for causing appreciable harm through water deprivation or pollution or otherwise. Bank staff should be satisfied that the Project Details are adequate for making such a determination. If adequate Project Details are not available at the time of notification, they are made available to the other riparians as soon as possible after the notification. If, in exceptional circumstances, the Region proposes to go ahead with project appraisal before Project Details are available, the CD director, via a memorandum prepared in consultation with LEG and copied to the LEGVP, notifies the RVP of all relevant facts on international aspects and asks approval to proceed. In making this decision, the RVP seeks the advice of the MD.

4. The other riparians are allowed a reasonable period, normally not exceeding six months from the dispatch of the Project Details, to respond to the beneficiary state or Bank.

### Responses/Objections

5. After giving notice, if the beneficiary state or Bank receives a positive response from the other riparians (in the form of consent, no objection, support to the project, or confirmation that the project will not harm their interests), or if

1. See BP 10.00, *Investment Lending: Identification to Board Presentation*, step 1.
2. "Bank" includes IDA, and "loans" includes credits.
3. "Borrower" refers to the member country in whose territory the project is carried out, whether the country is the borrower or the guarantor.

**Note:** OP, BP, and GP 7.50 together replace OD 7.50, *Projects on International Waterways*, and OD 7.50.01, *Maps for Projects on International Waterways*. They also draw on the *Operational Memoranda Revisions in Operational Instructions*, 11/26/91, and *Revisions in Operational Instructions*, 1/7/93. Questions may be addressed to the International Law Adviser, LEGOP.



the other riparians have not responded within the stipulated time, the CD director, in consultation with LEG and other departments concerned, addresses a memorandum to the RVP. The memorandum reports all relevant facts, including staff assessment of whether the project would (a) cause appreciable harm to the interests of the other riparians, or (b) be appreciably harmed by the other riparians' possible water use. The memorandum asks approval for further action. In making this decision, the RVP seeks the advice of the MD.

6. If the other riparians object to the proposed project, the CD director, in collaboration with LEG and other departments concerned, sends a memorandum on the objections to the RVP and copies it to the LEGVP. The memorandum addresses

- (a) the nature of the riparian issues;
- (b) the Bank staff's assessment of the objections raised, including the reasons for them and any available supporting data;
- (c) the staff's assessment of whether the proposed project will cause appreciable harm to the interests of the other riparians, or be appreciably harmed by the other riparians' possible water use;
- (d) the question of whether the circumstances of the case require that the Bank, before taking any further action, urge the parties to resolve the issues through amicable means such as consultations, negotiations, and good offices (which will normally be resorted to when the other riparians' objections are substantiated); and
- (e) the question of whether the objections are of such a nature that it is advisable to obtain an additional opinion from independent experts in accordance with paras. 8-12.

7. The RVP seeks the advice of the MD and the LEGVP, and decides whether and how to proceed. Based on these consultations, the RVP may ask the Loan Committee to consider the matter. The CD director then acts upon either the Loan Committee's instructions, which are issued by the chairman, or the RVP's instructions, and reports the outcome in a memorandum prepared in collaboration with LEG and other departments concerned. The memorandum, sent to the RVP and copied to the LEGVP, includes recommendations for processing the project further.

#### **Seeking the Opinion of Independent Experts**

8. If independent expert opinion is needed before further processing of the project (see OP 7.50, para. 6), the RVP requests the Vice President, Environmentally Sustainable Development (ESDVP) to initiate the process. The Office of the ESDVP maintains a record of such requests.

9. The ESDVP, in consultation with the RVP and LEG, selects one or more independent experts from a roster maintained by ESDVP (see para. 12). The experts selected may not be nationals of any of the riparians of the waterways in question, and also may not have any other conflicts of interest in the matter. The experts are engaged and their terms of reference prepared jointly by the offices of the ESDVP and the RVP. The latter finances the costs associated with engaging the experts. The experts are provided with the background information and assistance needed to complete their work efficiently.

10. The experts' terms of reference require that they examine the Project Details. If they deem it necessary to verify the Project Details or take any related action, the Bank makes its best efforts to assist. The experts meet on an ad hoc basis until they submit their report to the ESDVP and the RVP. The ESDVP or RVP may ask them to explain or clarify any aspect of their report.

11. The experts have no decision-making role in the project's processing. Their technical





opinion is submitted for the Bank's purposes only, and does not in any way determine the rights and obligations of the riparians. Their conclusions are reviewed by the RVP and ESDVP, in consultation with the LEGVP.

12. The ESDVP maintains, in consultation with the RVPs and LEG, the roster of highly qualified independent experts, which consists of 10 names and is updated at the beginning of each fiscal year.





## Projects on International Waterways

1. When changes occur in international boundaries, some surface waters that formerly were national in character become international waterways, requiring increased vigilance in identifying riparian issues. Regional staff assigned to handle any project covered in OP 7.50, para. 2—whether financed by the Bank, the Global Environment Facility, or any trust fund—should immediately check whether the surface waters involved are of international character. When in doubt, Regional staff should check with the lawyer concerned in the Legal Department (LEG).
2. Often, state authorities advised by Bank staff to notify other riparians in accordance with OP 7.50 have questioned aspects of and sought the reasons for the Bank's riparian policy. In responding, staff should seek the assistance of the Legal Adviser, International Law Issues (Operations), who should join in discussions with the state authorities.
3. Every effort should be made to allow the notified riparians six months to respond to the notification. A lesser period is advisable only in cases of emergency.
4. Upon being notified that a riparian may seek additional information or clarification, staff should make every effort to provide it and allow a reasonable period for study and response.
5. When the Office of the Vice President, Environmentally Sustainable Development (ESDVP) updates the roster of independent experts each fiscal year (see BP 7.50, paras. 8-12), the roster is communicated to the Senior Vice President and General Counsel (LEGVP).

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**Note:** OP, BP, and GP 7.50 together replace OD 7.50, *Projects on International Waterways*, and OD 7.50.01, *Maps for Projects on International Waterways*. They also draw on the Operational Memoranda *Revisions in Operational Instructions*, 11/26/91, and *Revisions in Operational Instructions*, 1/7/93. Questions may be addressed to the International Law Adviser, LEGOP.



# Manual Transmittal Memorandum

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December 21, 1992

## Operational Directive 8.60: Adjustment Lending Policy

1. Attached for insertion in the new Operational Manual is OD 8.60, *Adjustment Lending Policy*. The directive draws on reviews of adjustment operations by the Operations Evaluation Department, various country studies of economic policies and their outcomes; the three Bank reports on adjustment lending reviewed by the Board in 1988, 1990, and 1992; and the Bankwide operational experience accumulated in the Regions since the initiating Board papers of 1980.<sup>1</sup> The directive should be read in conjunction with OD 9.10, *Processing and Documentation for Adjustment Lending*, which will be issued shortly. These two directives replace Circular Op 87/06, *Guidelines for Preparing and Processing Adjustment Loans and Credits*.

2. This directive describes the Bank's general policy on adjustment lending. It stresses the need to conduct a comprehensive review of the country's economic policies and programs and of the Bank's overall assistance strategy when designing particular operations. An updated country strategy paper or note should normally be prepared before new adjustment loans are appraised, and the Letters of Development or Sectoral Policy should reflect a clear understanding with the government on the overall stabilization and structural reform program. The directive also reiterates the basic requirements for adjustment lending in terms of the balance-of-payments rationale, the adequacy of funding for the adjustment program as a whole, borrower "ownership," and other considerations such as the structure of conditionality. It notes that adjustment lending is usually not the most appropriate instrument for supporting reforms in the social and infrastructure sectors. The need for close collaboration at all stages with country institutions, the IMF, and other donors is also emphasized. Finally, the directive provides an overview of the policy objectives in many of the areas in which reforms are supported through adjustment lending; in particular, it stresses the need for fiscal analysis of proposed policies and programs

3. Questions on this directive may be addressed to the Director, Development Policy Group

4. Additional copies of this directive are available on a self-serve basis in the Institutional Information Services Center (IISC), in E 3200.

### Attachment

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1. *Lending for Structural Adjustment*, R80-17, IDA/R80-22, February 5, 1980, *Structural Adjustment Lending*, R80-122, IDA/R80-83, May 9, 1980; *Structural Adjustment Lending: A First Review of Experience*, OED, September 24, 1986, *Report on Adjustment Lending*, R88-199, August 8, 1988; *Report on Adjustment Lending: Policies for the Recovery of Growth*, R90-51, March 26, 1990, *The Third Report on Adjustment Lending: Private and Public Resources for Growth*, R92-47, March 24, 1992, and *World Bank Structural and Sectoral Adjustment Operations: The Second OED Overview*, OED, June 30, 1992.



# Operational Directive

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## Operational Directive 8.60: Adjustment Lending Policy

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## Adjustment Lending Policy

### Introduction

1. This directive provides an overview of the nature of adjustment programs typically supported by Bank operations and highlights the preconditions for designing them.<sup>1</sup>

2. These broad and indicative guidelines do not detract from the need for each adjustment operation to be tailored to the situation prevailing in the recipient country. The design of adjustment programs is based on economic and sector work by Bank staff, by the government, and by others such as the International Monetary Fund (IMF or Fund) and regional development banks. To ensure that a program addresses the right issues with the right priorities, is sufficiently comprehensive, and has adequate support, the Bank, the borrower, and other donors and lenders need to agree on the proper diagnosis of the economic problems, on the sequence of the measures to be taken, and on the overall financing plan.

### Adjustment Programs

3. Adjustment lending is rapidly disbursing and policy-based lending. It was introduced in 1979, in the aftermath of the second oil shock, to provide temporary balance-of-payments financing to member countries while stabilization and adjustment measures took effect. Adjustment lending grew in importance with the onset of the debt crisis, increases in real interest rates, further deterioration in the terms of trade for most developing countries, and recessions and slow growth in the industrial countries. Although at first, adjustment programs were expected to be short-lived (three to five years), they have often taken longer because of the need for structural

reforms to correct deep-seated weaknesses in development strategies.

4. The range of adjustment programs supported by adjustment lending forms a continuum from a comprehensive set of macroeconomic and institutional reforms to a relatively limited set of sector-specific policy actions. The broadest policy packages are typically supported by structural adjustment loans and credits (SALs). These and the more narrowly focused sector adjustment loans and credits (SECALs) constitute the bulk of the Bank's adjustment lending. There are also rehabilitation import operations, which are intended to support preliminary steps toward broader policy reforms, and debt and debt service reduction operations. Another instrument is the hybrid operation, which combines a traditional investment operation with a quick-disbursing, policy-based component.<sup>2</sup>

### *Structural Adjustment and Stabilization: Interdependence and Sequencing*

5. *Stabilization.* Stabilization, structural adjustment, and growth go hand in hand. Usually the country initiating an adjustment program supported by the Bank—and typically also by the IMF—faces pressing macroeconomic problems manifested as large and unsustainable fiscal and balance-of-payment deficits and as inflation. Stabilization measures aimed at restoring macroeconomic balance focus on bringing the level of demand and its composition (tradable relative to nontradable goods) in line with the level of output and external financing. In most cases a reduction in the fiscal deficit and a real devaluation are required to restore and maintain internal and external balance. Success with stabilization usually requires a sustainable mixture of cuts in

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1. "Bank" includes IDA, and "loans" includes credits.

2. See OD 1.00, Annex A, *Bank Lending Instruments*, for a more detailed discussion of the different types of adjustment lending

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government spending, reductions in public enterprise losses, tightening of domestic credit, and increases in tax revenues. Central bank losses that result from the provision of credit subsidies to particular sectors, often through the exchange rate or the banking system, are frequently an important source of inflationary pressure that need to be eliminated immediately.

6. *Structural Adjustment.* Adjustment programs supported by the Bank seek to achieve structural changes to enhance allocative efficiency, growth, and sustainable reductions in poverty. Structural reforms focus on putting in place more appropriate incentives (by deregulating the domestic goods markets, liberalizing the trade regime, removing the constraints on factor employment and mobility, and removing obstacles to saving and investment) and on strengthening institutions (e.g., the government's capacity to implement policies) and regulatory frameworks (e.g., the framework for private sector development).

7. *Interdependence and Sequencing.* Stabilization and structural adjustment are interdependent. In countries with acute macroeconomic problems, most structural reforms are unlikely to be sustainable until after sufficient progress has been made in reducing the macroeconomic imbalances and in achieving reasonable macro stability. A sound and stable macroeconomic framework is indispensable to structural reforms, whether economywide or sectoral in nature. The reverse is also true in many cases: for example, substantial reforms of public enterprises (including privatization), reductions in subsidies, and improvements in tax administration may be preconditions to the success of stabilization. This interdependence means that adjustment programs need to be designed carefully to ensure that the critical complementarities are taken into account.

8. A central issue is the sequencing and speed of reforms. When there are many distortions, the benefits of reforms are case-specific and depend on initial conditions and interrelations across markets. The design of adjustment programs is,

therefore, based on extensive economic work on the country and on an assessment of the political and social opportunities for reform. Some lessons from experience are as follows: (a) priority should be given to those structural reforms that are important for both stabilization and improvements in the efficiency of resource allocation; (b) reforms are best initiated with substantial reductions in the largest or costliest distortions; and (c) it is important to identify complementarities among different elements of the reform package. For example, the potential gains from trade liberalization can be largely unrealized in countries where private initiative is severely curtailed by regulatory practices or where there are major impediments to factor mobility. Similarly, reforms of public enterprises may need to be accompanied by changes in labor market regulations to allow quick reabsorption of redundant labor in other activities. In economies with restrictive trade regimes, widespread price controls, and domestic practices that constrain competitiveness, reform of the goods and factor markets should precede or accompany reform of the financial markets.

9. The appropriate speed of reforms is also a country-specific matter. In countries with large macroeconomic imbalances, a comprehensive and immediate stabilization package may be the only realistic and credible stabilization option. Whenever possible, structural reforms should be carried out quickly so that a reallocation of resources can take place at the right prices sooner rather than later. This practice will give more time for the supply responses to work out. Reforms also have a cumulative momentum that should be exploited. But the speed and size of reforms must take account of implementation capacity and the social and political conditions in the country. There can be significant economic costs to speedy reforms—for example, bankruptcy of potentially viable firms because of imperfections in the capital market. Gradual introduction of structural reforms may in certain cases be preferable to an attempt to remove all major distortions extremely rapidly, in some cases, a gradual approach can

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also help the commitment to reform become better rooted in the country.

10. Even when the overall adjustment program can be implemented only gradually, speedy implementation may be crucial for some of the program components. For example, a principal lesson of the experience with trade liberalization is that the process is most likely to succeed when it begins with a complete replacement of quantitative restrictions with tariffs and an associated preannounced schedule of tariff reductions (see paras. 22-25). While such a large initial change may encounter resistance, the difficulties are likely to be even greater with a gradual approach; a gradual process may lack credibility and may, therefore, fail to elicit a strong response.

### *Poverty Reduction*

11. Sustained reduction of poverty is the overarching objective of the Bank's country assistance strategies. Thus poverty reduction is a basic motivation that potentially affects all reforms. A collaborative approach should be used to prepare poverty assessments as the basis for defining poverty reduction strategies. Poverty profiles are a key element of such assessments; if necessary, the Bank should assist borrowers to improve the quality and reliability of their poverty data.<sup>3</sup>

12. Adjustment operations should be consistent with and supportive of overall poverty reduction strategies. Country circumstances determine when individual operations should focus specifically on poverty reduction by addressing policy problems that bear heavily on the poor, supporting a reorientation of public expenditures toward social services for the poor, or supporting safety-net protection for the most vulnerable. While it is not necessary for each adjustment operation to contain such specific poverty-reduction measures, the Bank's country assistance program as a whole, including sector and project

lending, should support the government's efforts to reduce poverty and mitigate the social costs of adjustment. Country assistance strategy statements in the appropriate President's Reports focus on these issues. In addition, the President's Report for each adjustment operation includes at least a summary statement of the social impact of the policy reforms being supported by the Bank.

### *Environment*

13. Analysis of adjustment programs also considers the implications for the environment, since sound environmental management is a key objective of the Bank's assistance to countries. To help prepare appropriate assistance programs, Bank staff should review the environmental policies and practices in the country. The design of adjustment programs should take into account the findings and recommendations of such reviews and identify the linkages between the various reforms in the adjustment program and the environment.<sup>4</sup>

14. Interactions and linkages between adjustment programs and environmental concerns can arise in many ways—for example, from changes in patterns and levels of public expenditures. If the constituencies that support environmental measures are weak, environmental expenditures may be cut disproportionately relative to other high-priority expenditures. Positive or negative linkages may also arise from relative price shifts—changes in the pattern of taxes, trade duties, real wages, exchange rates, and so on. For example, there are usually strong positive linkages between energy conservation and reforms in energy pricing. On the other hand, trade liberalization may encourage deforestation or overfishing in some cases. Where such negative linkages exist, the answer is not to delay stabilization or the adjustment program, but rather to devise specific measures, such as sensible forestry and fishing laws, to counteract the possible negative effects.

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<sup>3</sup> See OD 4 15, *Poverty*, for a more detailed discussion of poverty and adjustment lending.

<sup>4</sup> See OD 4 02, *Environmental Action Plans*

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## Selected Areas of Policy Reform

15. This section highlights several types of policy reforms that are often supported as components of SALs and SECALs. The discussion is selective and does not include all areas of reform supported by adjustment operations.

### *Public Finances*

16. As discussed earlier, reductions in broadly defined public sector deficits are often the crucial component of stabilization programs. How deficits are financed and the extent to which they are monetized or lead to crowding out of the private sector are central issues for both stabilization and structural adjustment. Even when stabilization is not the primary issue, the level and pattern of public expenditure and income are major determinants of (a) the efficiency with which resources are allocated in the economy, (b) the rate of economic growth, and (c) the rate of reduction in poverty. Adjustment programs receiving Bank support should therefore include redirection of public expenditures to increase their productivity and social utility, as well as reforms of the tax structure and administration to phase out major distortions. Frequent reforms of social security systems and of subsidies on basic goods are also important components of adjustment programs.

17. Public provision of goods and services with large benefits to society, such as primary education and basic health care, needs to be analyzed to see how efficiently resources are being utilized and who the main beneficiaries are. Explicit conditionality may be appropriate to enhance the effectiveness and poverty orientation of social expenditures, and to sustain their levels. Similarly, adequate provisions for operations and maintenance and, where appropriate, new investments in essential economic infrastructure need to be made to enhance private sector productivity and stimulate private investment and economic growth. Despite the difficult and unpopular choices involved, efforts should be

made to reduce the public sector wage bill in countries with overextended bureaucracies. All opportunities to increase resources for development and to decrease unproductive expenditures should be explored.

18. Most structural adjustment programs contain tax reform measures to raise revenues and to reduce distortions in economic incentives and the resulting inefficiencies and inequities in the allocation of resources. Tax reforms that broaden the tax base while reducing marginal rates can increase public revenue in a reasonably nondistorting, equitable, and sustainable manner.

19. In some cases the reform process involves new taxes, such as a value-added tax (VAT). In principle, the VAT is usually the best instrument for developing countries that wish to reform their general taxes on goods and services. Replacing cascading turnover and manufacturers' sales taxes by a VAT (with appropriate exemptions to protect the poor) can increase revenue, reduce reliance on foreign trade taxes, and substantially reduce economic distortions. However, it is often not feasible to introduce VATs because of implementation problems, especially in low-income countries with large informal sectors or weak administrative capacity.

20. Reform of tax structures is more effective when it is accompanied by improvements in tax administration. The Bank has supported many administrative reforms of the tax system, particularly the streamlining of customs administration procedures and the improvement of tax collections through a pay-as-you-earn system and self-assessment.

21. Adjustment programs need to be based on an analysis of the expenditures and revenues of the broad public sector, including the central government, state and local governments, and public enterprises. In designing policy reforms, it is important to judge their net fiscal effects by examining the fiscal impacts of the various elements of the reform packages that the Bank

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supports. The Bank encourages improvements in the quality and coverage of data on public expenditures. Building up national capacity for data collection and analysis in this and other areas, such as poverty, is a long-term process that may not lend itself to conditionality under a single adjustment operation; however, the need for adequate information in these areas should be clearly reflected in the Bank's medium-term country assistance strategies.

## *Trade Policy*

22. Trade policy reforms are a cornerstone of the Bank's adjustment lending. Many countries that undertake adjustment programs have highly distorted trade regimes, a result of both unsound macroeconomic policies and development strategies that stress import substitution. Because of this, trade liberalization is a major objective in stabilization-cum-adjustment policies supported by the Bank and the Fund. Trade liberalization typically aims to reduce tariffs to between 5 and 20 percent, a goal that many developing countries have attained through Bank-supported programs.

23. Import policy reform typically begins by replacing nontariff barriers with transparent and revenue-increasing tariffs; this reform is sometimes accompanied by eliminating tariff exemptions to enhance revenues. Thereafter tariffs are reduced in stages, preferably preannounced, and restructured to increase uniformity. The process can, nonetheless, be quite uneven, with liberalization of external and internal trade in basic food products often being a very sensitive area. Privatizing trade and abolishing state marketing boards or other forms of state trading monopolies typically form a difficult but necessary component of trade reforms. Replacing general food subsidies by subsidy programs targeted at the poorest groups, and using variable tariffs to moderate international price fluctuations

for one or two basic goods, are measures that are frequently recommended to moderate the costs of trade reforms.

24. Tariff reductions diminish but do not fully eliminate the bias against exports that results from both the higher costs of protected inputs used in exports and the overvaluation of the exchange rate implicit in differential protection of imports. Supplementary export incentives are also recommended—for example, reducing or eliminating export taxes and quantitative restrictions and introducing temporary admission regimes, duty drawback schemes, and export processing zones. The reforms should be systemic rather than ad hoc. For example, while the establishment of export processing zones is useful in some cases, it is seldom a good substitute for across-the-board liberalization of import tariffs.

25. The liberalization of highly distorted trade regimes needs to be accompanied by real devaluations and disinflationary fiscal and monetary policies. To be fully effective, trade reforms also need to be accompanied by other measures, such as reforms of domestic taxes and removal of price controls and regulations that impede competition and efficiency. Care should be taken to ensure that conditionality on trade reform is consistent with any international agreements to which the country concerned may be a party.<sup>5</sup>

## *Financial Sector Policies*

26. The Bank emphasizes the need to include in overall adjustment programs reforms of the financial sector, which has a central role in the allocation of resources and the mobilization of private savings and investment. Financial sector adjustment operations commonly include some combination of the following reforms: interest rate liberalization; removal of barriers to competition within the financial sector; phasing-out of or

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<sup>5</sup> When a possible conflict is identified, the Chief, International Trade Division, International Economics Department, and the Legal Department, International Law Adviser, should be consulted.

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reductions in directed credit programs; improvements in legal, regulatory, accounting, and supervisory systems; strengthening of the monetary control capacities of the central bank; removal of discriminatory or distortionary taxation of the financial sector; and development of financial restructuring programs in cases of systemic financial distress. Financial sector adjustment operations are frequently complemented by free-standing technical assistance, investment, and financial intermediary operations to ensure effective responses to the reform measures being introduced.<sup>6</sup>

27. The level and structure of interest rates and the means by which interest rates are determined have an important impact on resource mobilization and allocation throughout the country. Market mechanisms for the determination of interest rates promote competition between institutions and minimize intermediation costs and the opportunities for economic rents and corruption. Even where interest rates do not play a significant allocative role, market-based or market-approximating interest rates can help mobilize financial savings and facilitate monetary control. The speed with which a country moves toward full market determination of interest rates depends on macroeconomic conditions, real sector distortions, competitiveness of the financial system, and the adequacy of the legal and regulatory framework.

28. Financial sector development requires that savers and investors have confidence in the quality of financial assets. Therefore, the existence and enforcement of clear and uniform accounting, audit, and disclosure standards and the development of a transparent and effective legal framework are critical. Improvements in prudential regulations and supervisory capacity help ensure that financial institutions maintain reasonable performance standards and retain public confidence.

29. Finally, financial sector adjustment programs should take into consideration the quality and efficiency of existing institutions and the range of financial instruments available. Weak institutions may need to be financially restructured and recapitalized, and their management strengthened.

### *Public Enterprise Policies and Privatization*

30. A common theme running through the various reform programs typically supported by the Bank is the development of a competitive private sector. A satisfactory framework for private sector development requires removing the impediments to the free flow of labor and capital across sectors and activities within the economy through such measures as the removal of entry/exit barriers, investment and capacity licensing, restrictions on foreign private investments, and controls on financial and labor markets. A fundamental reassessment of the role of the public sector is also required, especially in countries where this sector has become greatly overextended into activities that can be better carried out by the private sector. Contractions and structural changes in the public sector have become a central component of adjustment programs supported by the Bank.

31. Reform of public enterprises is often needed to (a) reduce or eliminate the large budgetary subsidies such enterprises receive, and (b) remove the allocative inefficiencies such enterprises introduce through uneconomic pricing and investment policies, excessive employment, and weak management. The best remedy is privatization within a competitive environment. However, immediate divestiture on a large scale is often not feasible, especially in low-income countries. In such cases, continued public ownership may be warranted for a transitional period, particularly for enterprises operating in noncompetitive markets. Reform measures should then aim both at improving the efficiency and profitability of

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6 See OD 8.30, *Financial Sector Operations*

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individual public enterprises and at laying the policy and regulatory foundations of future privatization. In particular, the removal of barriers to entry and exit is crucial to the emergence of a competitive private sector. The design of adjustment programs should be based on an analysis of the various options in this area, including retention of the enterprises in the public sector, closure, and privatization of management without ownership changes.

## *Sectoral Adjustments*

32. Sector adjustment operations are important complements to adjustment operations that are focused on economywide policies. A wide variety of sectoral concerns may be addressed. For example, among the reforms typically supported through agriculture sector adjustment operations are deregulation of prices and interest rates, improvements in or privatization of marketing, reductions in input and output subsidies, reductions in export restrictions and taxes, and reallocations of public expenditures within the sector. Similarly, energy sector adjustment operations frequently focus on sectorwide investment planning and funding issues, energy pricing, and restructuring or privatization of public enterprises and utilities. Support for reforms in the industrial and manufacturing sector is often combined with support for trade and exchange rate reforms; among issues typically addressed are those relating to price and wage rigidities, entry and exit of firms, environment for foreign private investments, and technological progress.

33. Sectoral and macroeconomic reforms are closely interdependent. This interdependence arises, for example, when most of the products produced or consumed in a sector are internationally traded, as is often the case in agriculture and manufacturing. Real exchange rate depreciations, therefore, involve expansions in production and trade in such sectors. Expenditure-switching policies do not work well if such factors as price regulations or the policies of marketing parastatals prevent higher incentives for

exports and for (efficient) import substitution from being fully transmitted to domestic producers and consumers. In such cases the adjustment process relies more on expenditure-reducing policies and tends to involve greater hardships, especially for low-income populations.

34. Just as the effectiveness of macroeconomic policy reforms is likely to be mitigated by sectoral inefficiencies and rigidities, sectoral reforms are unlikely to succeed on their own without corresponding reforms of macroeconomic policies. Segmented sectoral approaches, such as the use of directed credit, tax expenditures, preferential funding arrangements, or tariff exemptions, are likely to be costly in terms of national income. It is important to avoid ad hoc measures that are inconsistent with measures in related sectors or with macroeconomic policies. Sectoral policy recommendations on pricing, taxation, and subsidies sometimes conflict with the corresponding economywide policy recommendations. The need for coherence and consistency also exists in other areas, such as institutional structures and planning and evaluation systems for expenditure allocations.

35. The Bank emphasizes reforms in such areas as education, nutrition, health and family planning, and social safety nets. The issues typically addressed include the availability and quality of public services; their efficiency and cost-effectiveness; pricing, cost recovery, and other distribution policies; scope for private sector participation; and the targeting of benefits to low-income and other vulnerable groups. Public services in the social sectors are particularly vulnerable to changes in the fiscal situation, but the design of social policies also depends on macroeconomic incentive policies. For example, shifts in the internal terms of trade for or against agriculture tend to change both geographic and occupational patterns of poverty incidence.

36. Many of the necessary sectoral reforms take too long to be effectively supported by adjustment operations, especially when institutional reforms

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and skill upgrading are involved. A sequence of adjustment operations may in principle serve to sustain focus on the required measures, but this is not a practicable approach in many cases. Time-slice sector operations, sector investment operations, and free-standing technical assistance operations are likely to be more appropriate instruments for supporting medium-term policy reforms. Adjustment lending is, therefore, seldom used in the social and infrastructure sectors, where institutional reforms tend to dominate the policy agendas.

## Requirements for Adjustment Lending

### *Prerequisites*

37. Whether adjustment lending is appropriate in a country is determined in the context of an evaluation of the country's economic situation and prospects, its commitment to reform, the adequacy of the financing plan, and the Bank's overall assistance strategy. The main vehicle for this is the Country Strategy Paper (CSP), discussed in OD 2.10. When there have been important changes in a country's situation since the last CSP, a new strategy paper or note should be prepared and discussed before new adjustment loans are appraised.

38. Before the Bank supports a borrower's adjustment program, it analyzes the country's economic problems and policy options and conducts extensive discussions with the government concerned, other principal donors, and the Fund. The design of a suitable adjustment program is a collaborative process, but the initiative and the leadership must come from the government. Adjustment programs require strong political commitment, and the government concerned needs to generate broad-based support if the program is to be sustainable.

39. The strongest influences on borrower "ownership" are political stability, support (or at least lack of opposition) from the principal constituencies affected by adjustment programs, and the

attitudes of government officials and technicians toward the various reforms. It should be an explicit objective of country dialogues, economic and sector work, and technical assistance to examine the relevant policy constraints and encourage a lead role for the country officials and others involved in the design of adjustment programs. Adjustment lending is not advisable when the political commitment to adjustment is weak or highly uncertain. While there are no general rules for ascertaining the strength of ownership, experience suggests that a simple indicator is the capacity and willingness of country authorities to prepare acceptable Letters of Development Policy.

40. The set of policy measures to be supported by an adjustment operation has to be evaluated as a part of an overall program. A clear understanding with the government on the overall stabilization and structural programs is a prerequisite for putting the conditions for tranche releases in the proper context. In particular, there must be a clear understanding on what will constitute satisfactory macroeconomic policies in the medium term. The Letter of Development Policy (in the case of SALs) and the Letter of Sector Policy (in the case of SECALs), and the corresponding policy matrices, spell out the macroeconomic targets to be monitored so as to avoid misunderstandings.

41. The adjustment program must be adequately funded. When adjustment efforts are underfunded, the resulting depressed levels of imports, investment, and output are likely to render the program politically and socially unsustainable. If underfunding is likely, the Bank, in coordination with the Fund and others, should make additional efforts to mobilize other sources of financing and to ensure that the burden and risks of financing are spread appropriately among the major donors.

42. The most general economic rationale for adjustment lending is that it smooths the transitional costs of structural reforms. Without external financing, the dislocation and temporary disruptions associated with adjustment lead to



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lower living standards or lower levels of investment and future growth. In helping to mitigate these costs, external borrowing contributes to the social and political sustainability of reform programs.

43. An alternative to external borrowing is the use of foreign exchange reserves, a practice that would also smooth out the transitional costs of structural adjustments. To use foreign exchange reserves, however, a country needs to have reserves in excess of the normal requirements. Too low a level of reserves will adversely affect the internal and external credibility of the adjustment program. External borrowing to generate additional resources should also be compared with domestic financing—higher taxation, borrowing, or lower public expenditures.

44. When external borrowing by a country is justified, the rationale for extending quick-disbursing loans (in the presence of a reform program judged to bring adequate benefits to the country) can be generally defined in terms of actual or anticipated current account deficits. Future deficits may be a necessary consequence of the adjustment policies being implemented. In principle, this rationale covers cases in which policy reforms entail significant negative effects on the government budget, such as recapitalization of the domestic banking system in the framework of financial sector reforms, or costs connected with the restructuring or privatization of public enterprises, or additional social sector expenditures involved in creating or expanding social safety nets. Foreign borrowing (and the use of foreign reserves) may, in principle, be a justifiable policy in such cases if domestic financing is more costly. However, it is seldom possible in practice to establish the case for foreign borrowing when most of the expenditures to be financed are made in local currency. Adjustment loans are, therefore, not normally extended for supporting programs that can be financed with domestic resources.

## *Bank-Fund Collaboration and Aid Coordination*

45. The overall adjustment program in a country is typically much broader than the parts that the Bank can support through a few adjustment operations. It is important to ensure that the overall program is adequately funded through support by other donors, particularly the Fund, which has primary responsibility for supporting stabilization policies. Bank staff need to collaborate closely with IMF staff<sup>7</sup> and with the staff of other institutions, such as the IFC and the regional banks, which are important providers of funds and policy advice.

46. Adjustment lending is not normally undertaken unless an appropriate Fund arrangement is in place. If there is no Fund arrangement, Bank staff should ascertain, before making their own assessment, whether the Fund has any major outstanding concerns about the adequacy of the country's macroeconomic policies. In some cases this may entail the Fund's consulting with the country authorities. The Bank also takes into account the Fund's assessment of macropolicies before it authorizes tranche releases.

## *Conditionality*

47. Conditionality in the areas focused upon in the loan should be related to the key policy and institutional reforms being supported. The Loan Agreement should avoid conditions that are not necessary for attaining the key program objectives. The Letter of Development or Sector Policy may be used to elaborate upon and explain some of the conditionality, particularly the conditionality on satisfactory macroeconomic performance.

48. Conditionality should refer to reforms that are within the competence of the borrower to bring about, and not to economic performance as outcome of policy changes. If circumstances beyond the control of the borrower make

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7. See *Bank-Fund Collaboration in Assisting Member Countries*, R89-45, March 31, 1989.

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compliance with a condition unreasonable, Bank staff should propose appropriate amendments or waivers on the basis of midcourse reviews before tranche releases. Such midcourse adjustments are normally expected to apply only to macro-economic conditionality.

49. There is no fixed rule regarding the number of tranches an adjustment operation should have. While the majority of operations are structured around two tranches, both single-tranche and three-tranche operations are also common. Three tranches are appropriate when the actions being supported by the operations are expected to require a longer time frame; for example, preparing parastatals for sale to the private sector may require several preparatory steps after a loan becomes effective. To provide incentives for the satisfactory completion of the reform program, the corresponding disbursements may be "back-loaded" (i.e., the bulk of the funds assigned to later tranches).

50. Single tranches may be considered when the borrower is able to complete the relevant reforms prior to loan effectiveness. Full recognition should be given to specific actions, identified and agreed upon during loan preparation and negotiations, that are taken before Board presentation. Such actions must be of the same nature as the specific actions that normally serve as tranche release conditions. The use of single tranching may foster the political acceptability of the reforms in the borrowing country. Also, a series of single-tranched operations may be preferable to one multiple-tranched operation when a new course of reforms is being tested.

51. The appropriate number of conditions and their distribution by tranche vary considerably from case to case, depending on the nature of the reform program being supported. For example, the greater the number of policy areas included in an operation, and the greater the number of tranches, the greater will be the appropriate

number of conditions. A priori limits on the number of conditions are undesirable because they tend to restrict the types of reforms that can be supported. However, other things being equal, staff should be as economical as possible in deciding on the number of conditions.

## *Disbursements*

52. All structural adjustment and rehabilitation import operations, and some sector adjustment operations, finance general imports except for those on a negative list. Where imported inputs for a specific sector are essential to the adjustment operation for that sector, the Bank may link the use of loan funds to a broad positive list. Care should be exercised in such cases to avoid restrictive lists so as not to jeopardize the quick-disbursing nature of the operation.<sup>8</sup>

## *Size of Individual Adjustment Loans*

53. There is no simple rule for determining the size of an individual adjustment loan. The costs of adjustment policies to be supported by a loan may sometimes be a helpful indicator of the appropriate size, but in general such costs are hard to measure with precision. Judgments about the size of an adjustment loan for balance-of-payments support are ordinarily based on a combination of factors, including (a) the expected balance-of-payments gap corresponding to the policy reform scenario; (b) the size of the lending program and the possibilities for burden sharing with other donors and lenders; (c) the strength of the reforms being supported; (d) the country's need for and ability to absorb traditional investment loans; (e) the country's creditworthiness, which will reflect, inter alia, the track record of macroeconomic management and the medium-term prospects; and (f) for IDA borrowers, the country's relative claim on the available concessional resources.

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8 See OD 12.00, *Disbursements*.

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## *Limits on Share of Adjustment Lending*

54. Since the opportunities for effective use of adjustment lending and the constraints on project lending vary greatly from country to country and time to time, it is undesirable to set any limit on adjustment lending as a share of the total for any one country during any particular period. However, adjustment lending, because of its fast-disbursing character, carries additional risks to IBRD compared to investment loans, which disburse more gradually. In cases in which IBRD exposure is close to the Bank's exposure guidelines, the front-loading of disbursements may reduce the Bank's ability to undertake additional lending or provide support to unanticipated external shocks. At the same time, however, the

combination of stabilization and structural adjustment may improve a country's creditworthiness and, thereby, help contain the risks to the Bank. Accordingly, the appropriate mix between adjustment and investment lending and the phasing of quick-disbursing assistance need to be carefully considered and should be analyzed in the context of the CSP. There are no individual country limits for the share of adjustment lending within the overall lending program. However, adjustment lending should not normally exceed 25 percent of Bank or IDA lending, aggregated over the Bank as a whole and averaged over a three-year period, and should not under any circumstances exceed 30 percent for IDA.



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## Operational Directive 9.01: Procedures for Investment Operations under the Global Environment Facility

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## Procedures for Investment Operations under the Global Environment Facility

### Introduction

1. This directive describes the steps additional to standard Bank<sup>1</sup> investment lending procedures<sup>2</sup> required to process Global Environment Facility (GEF) operations. Other than the exceptions identified and described in this directive, GEF operational procedures follow standard Bank procedures for investment lending, including those for environmental assessments.<sup>3</sup> GEF governance arrangements create the need for these exceptions to standard procedures.
2. GEF Participants—both developed and developing countries—are the parties contributing funds for activities envisaged under the Global Environment Facility. They have designated the Bank,<sup>4</sup> the United Nations Development Programme (UNDP), and the United Nations Environment Programme (UNEP) as implementing agencies for the GEF. Funding by Participants for implementation of the GEF is channeled through the Global Environment Trust Fund (GET), established and administered by the Bank.<sup>5</sup> Each of the implementing agencies has assumed specific roles, and they have agreed to cooperate closely in every aspect of GEF implementation. The Bank undertakes investment projects and administers the GEF. UNDP will administer a GEF Preinvestment Studies Facility to be funded by grants from the GET for preinvestment studies and preparatory work, which will normally be executed by the Bank. UNEP has established a Scientific and Technical Advisory Panel to provide advice on generic scientific and technical issues arising from GEF implementation and to prepare guidelines on criteria and priorities for project selection (see para. 27(b)).
3. GEF project ideas may be generated by governments, the Bank, UNDP, UNEP, and regional banks, as well as by nongovernmental organizations and the private sector. These ideas may be included in approved work programs only after they have (a) been formally proposed by governments, (b) passed a project-specific technical review (see paras. 9-10), (c) been declared eligible for GEF funding by the GEF Implementation Committee,<sup>6</sup> and (d) been reviewed without objection by GEF Participants at semiannual meetings presided over by the GEF Chairman.<sup>7</sup> The GEF project can be appraised only after it is

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1. "Bank" includes IDA, and "loans" includes credits.
  2. See OD 9.00, *Processing of Investment Lending*.
  3. See OD 4.01, *Environmental Assessments*.
  4. The Bank participates in the Montreal Protocol Interim Fund within the framework of the GEF and is responsible for investment operations financed under the Interim Multilateral Fund of the Montreal Protocol. For guidelines for the processing of Montreal Protocol Fund investment operations, see OD 9.02, *Procedures for Investment Operations Financed by the Interim Multilateral Fund of the Montreal Protocol* (forthcoming). The guidelines for Montreal Protocol operations are similar in many respects to those set forth here for GEF investment operations.
  5. Resolution of the Executive Directors No. 91-5, March 14, 1991. However, GEF Participants may also contribute to the GET—the core fund—and/or to GEF cofinancing under arrangements agreed individually with the Bank.
  6. The GEF Implementation Committee ensures interagency coordination of GEF implementation between the semiannual meetings of Participants. The committee is composed of the managers with GEF responsibilities in UNDP, UNEP, and the Bank.
  7. The GEF Chairman is appointed by the President.

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included in the work program; GEF components that are not in the work program cannot be associated with Bank-financed projects.<sup>8</sup> GEF operations implemented by the Bank are approved by Bank management. The Bank's Board approves the projects to be financed by the Bank and takes note of the GEF component.

4. Normally, GEF projects are investment operations and are expected to be components of Bank-financed projects in related fields; on an exceptional basis, however, they can be free-standing investment operations. Free-standing operations are limited in size to US\$10 million.<sup>9</sup> This directive describes exceptions to standard Bank procedures for both cases.

5. GEF Participants who enter into cofinancing arrangements with the GEF come to separate understandings with the Bank. These understandings usually entail rights to (a) identify and propose GEF projects, subject to all eligibility, review, and clearance arrangements applying to GEF-funded projects; or (b) cofinance projects in the GEF work program and participate under arrangements agreed with the task manager (TM) in project preparation, appraisal, and negotiations. Understandings with Participants on arrangements to utilize their GEF cofinancing are available from the office of the GEF Operations Coordinator. Procedures for collaboration between regional banks and the Bank in implementing the GEF are under preparation and will be agreed with those banks.

## Execution of UNDP GEF Projects by the Bank

6. Although the need is not normally envisaged, in exceptional circumstances<sup>10</sup> the Bank may

execute UNDP GEF technical assistance projects. In such circumstances, clearance by the Regional vice president (RVP) is required under standard procedures.<sup>11</sup> The Bank's costs are met from the GEF administrative budget; the Bank does not charge UNDP fees for executing agency services. This policy applies equally to Bank execution of UNDP-administered preinvestment studies financed by the GET.

## Processing of GEF Projects as Components of Bank-Financed Projects

### *The Processing Cycle*

7. *Identification.* Governments<sup>12</sup> may forward project ideas to the Bank and/or the UNDP resident representatives. However, GEF project ideas may arise and be transmitted to the sector operations divisions (SODs) through other routes. Explicit support from the government is required before any project is submitted by the GEF Chairman for review by GEF Participants. The Regional environment division (RED) chiefs should serve as clearing agents for GEF project ideas emanating from the United Nations (UN) system and should pass on the ideas to departmental GEF coordinators. When country departments receive requests directly from governments or other sources, they inform the REDs.

8. *Executive Project Summary.* There is a separate Executive Project Summary (EPS) for the GEF component of a Bank-financed project; the GEF-EPS and the EPS for the Bank-financed project are normally prepared and processed together (for the format of the GEF-EPS, see Annex A). The Initial EPS (IEPS) for the associated Bank-financed project notes the existence of a GEF component and a separate GEF-IEPS and refers to

8. However, procedures outlined in paras. 14-16 and 20-21 apply when, in exceptional circumstances, the associated Bank-financed project has already been presented to the Board before the GEF component is reviewed by Participants as part of the GEF work program.

9. Grants for GEF operations are denominated in SDRs.

10. See OMS 4.30, *The World Bank and the United Nations Development Programme*.

11. *Ibid.*

12. Regarding other sources of project ideas, see para. 3.



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the technical review arrangements proposed for the GEF-IEPS.

9. *IEPS Review.* To ensure quality, an independent technical review of the GEF-IEPS is required. The GEF Operations Coordinator participates in IEPS review meetings. This technical review supplements the reviews required by OD 9.00, *Processing of Investment Lending*. The technical review, which concerns only the GEF components of the project, normally takes place at the same time as the review of the IEPS for the associated Bank-financed project. Once prepared, a GEF-IEPS is submitted by the TM, through the SOD chief,<sup>13</sup> to the RED chief. The RED chief assembles a technical review panel comprising Bank technical adviser(s) and outside specialist(s) (see para. 27(b)) selected by the TM in consultation with the RED and SOD chiefs; the TM and the GEF Operations Coordinator; and, when international treaties and conventions apply, a representative of the Legal Department. At least one of the outside specialists must come from rosters prepared by the Scientific and Technical Advisory Panel administered by UNEP (rosters are available from the Bank's GEF Operations Coordinator). The RED chief submits the GEF-IEPS to the technical review panel and provides UNDP and UNEP with a copy of the IEPS for comment, although these agencies have no clearance or veto powers on GEF investment projects.

10. The technical review panel, chaired by the RED chief or a designee, meets to review the GEF-IEPS. Within 5 working days after the technical review panel meeting, the Bank technical adviser on the panel provides to the RED chief a written opinion based on the comments of the panel members, UNDP, and UNEP. Within 10 working days after the technical review

panel meeting, the RED chief submits the technical panel's opinion to the SOD chief. The opinion indicates (a) whether there is a need for preinvestment studies; (b) whether the GET should make preparatory resources available for further project processing; and (c) what revisions the IEPS will need before the project is presented to the GEF Implementation Committee. The GEF-IEPS technical review phase is carried out on behalf of the country departments, which remain responsible for all processing and line management decisions. If a country department director asks the RED to manage a project, the GEF Operations Coordinator plays the role of the RED chief in the technical review process and transmits the technical opinion to the RED chief. Following the technical review panel meeting, the GEF-IEPS is modified in accordance with the recommendations made in the technical opinion and forwarded to the GEF Implementation Committee. The GEF Implementation Committee approves the inclusion of the project in a work program for GEF Participants' review.

11. *GET Project Preparation Support.* Preinvestment studies under the GET may be financed through the GEF preinvestment facility (PRIF) or the GEF Project Preparation Advances (PPA). Both are funded from the GET. (See Annex B [forthcoming] for further information about the PRIF and Annex C for further information about the GEF-PPA). To be eligible for financing from the PRIF or PPA, projects must have passed stages (a), (b), and (c) in para. 3. In the case of the PRIF, the Bank may serve as executing agency for UNDP under the arrangements that apply to Bank execution of UNDP GEF technical assistance projects, defined in para. 6. The GEF-PPA and the PRIF differ substantively in only two respects: execution options and funding caps.

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13. While in most cases GEF operations are undertaken by SODs, country operations and technical department divisions may also be responsible for processing such projects. If so, their line managers are required to fulfill the roles for SOD chiefs described in this directive, although the sponsoring SOD or country operations division chief is still involved.

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PPA grants are capped at SDR 1 million and are executed by governments. PRIF grants are normally executed by the Bank and, by agreement with the implementing agencies, are capped at \$2.5 million.

12. *Preparation.* UNDP may exercise the option to participate in Bank-led GEF missions for preparing (and appraising) related technical assistance and training components. UNEP may participate in such missions to offer the required specialized technical and scientific advice. In either case, the Bank's TM appoints mission members (as is usual for Bank-financed investment projects), and the SOD chief issues their terms of reference. Each Bank TM and each UNDP and UNEP manager explicitly agrees that if inputs satisfactory to the Bank are not ready by the specified dates, the TM has the right to make other arrangements for the required preparation activities.

13. *FEPS Review.* The GEF-EPS evolves from an IEPS to a Final EPS (FEPS) stage. The GEF component is described in the Staff Appraisal Report (SAR) for the Bank-financed project. Standard procedures described in OD 9.00, *Processing of Investment Lending*, apply. The office of the GEF Operations Coordinator participates in the FEPS review.

14. *Appraisal.* Appraisal procedures are described in OD 9.00, *Processing of Investment Lending*. Normally, appraisal of GEF components takes place simultaneously with appraisal of the other components in the proposed Bank-financed project. In exceptional circumstances, when association with the Bank-financed project is required for effective implementation of its GEF component, appraisal of the GEF component may occur after Board presentation for the Bank-financed project.

15. The GEF component is described in the Staff Appraisal Report (SAR) for the Bank-financed project, and the description in the SAR is similar to that of any other project component. The SAR

for the associated Bank-financed project also includes proposed GEF cofinancing in the financing plan. When the GEF component is to be appraised after Board presentation, documentation on the GEF component in the SAR should be as complete as possible, incorporating all relevant facts known at that stage of processing. The documentation includes annexes summarizing the criteria used in GEF component selection and justifies linking the GEF component with the Bank-financed project.

16. Instead of an SAR, GEF components (and free-standing projects) have a GEF Memorandum and Recommendation of the Director of the Country Department concerned (MOD). A white cover draft should normally be available at the GEF-FEPS stage. The MOD encompasses (a) a statement on the government's policies for the environment (drawing, in particular, on the government's Environmental Action Plan or other documents and indicating any environmental policy measures to be undertaken by the government in the context of the GEF operation); (b) a full description of the project; and (c) the technical and other annexes used in the SAR for the Bank-financed project. The MOD uses annexes, as appropriate, for expanded description of special technical, policy, or other features of project design, or of the special resources or global environment improvements that the project focuses on. (For the format of the MOD, see Annex D.)

17. *Yellow Cover Review Meeting.* When appraisal of the Bank-financed project and appraisal of the GEF component are synchronous (see para. 14), the TM issues the MOD with other standard project documents as the basis for the yellow cover review meeting. The cover memorandum notes (as required in OD 9.00, *Processing of Investment Lending*) the changes made in all documents. The GEF Operations Coordinator participates in the yellow cover review meeting. Within 10 working days after the issuance of the yellow cover SAR and the MOD, the lawyer

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issues the legal documents for the GEF component of the Bank-financed project. These legal documents are simple standard instruments that specify grant amounts<sup>14</sup> and contain the minimum required conditionality. The documents are subject to clearance as outlined in OD 14.40, *Trust Funds and Reimbursable Programs*, with respect to trust funds for which the recipient is the executing agency. If appraisal of the GEF component occurs later than that of the associated Bank-financed project, a separate meeting to review the GEF yellow cover documents may be required.

18. *Negotiations.* If processing schedules for the GEF component and the associated Bank-financed project differ, separate negotiations are necessary. Normally, however, negotiations for both occur at the same time. Substantive policy-related conditionality is attached to the associated Bank-financed project and included in appropriate provisions in the Bank's legal documents. However, conditionality may be associated directly with the GEF project, if it is required for successful implementation of the GEF component. Further, if successful GEF project implementation depends on the implementation of the associated Bank-financed project, cross-effectiveness provisions may be included in the GEF legal documents. Because funding of the GET is in the form of cofinancing, the usual cross-default clauses are used in accordance with existing Bank practices for investment operations. At negotiations, Bank staff seek the GET grant recipient's formal approval to provide public access to the MOD.

19. *Minutes of Negotiations.* These minutes refer to the outcome of negotiations of the GEF component of the project. They also reflect the GET grant recipient's agreement to allowing public access to the MOD. The minutes are copied to the GEF Operations Coordinator.

20. *Project Approval.* If negotiations are successful, the TM drafts the Notice of Status of Negotiations and assembles the following documentation:

- (a) the Notice of Status of Negotiations;
- (b) the MOD;
- (c) the legal documents;
- (d) a memorandum from the office of the GEF Operations Coordinator to the country department director indicating that the proposed project is consistent with the project endorsed by the GEF Participants, and confirmed by the GEF Chairman, as part of the GEF work program for investment operations; and
- (e) a transmittal memorandum seeking the approval of the Regional vice president (RVP) for the GEF component.

The country department director transmits these documents to the RVP. The RVP signs the transmittal memorandum and returns it to the country department director, authorizing the country department director to sign the GEF legal documents after the associated Bank-financed project has been approved by the Board. The TM sends a copy of the notice approved by the RVP to the GEF Operations Coordinator's office, which serves as the repository for all documents on GEF investment operations. The MOD in its complete form is attached as an annex to the Memorandum and Recommendation of the President (MOP) of the associated Bank-financed project. The MOP indicates that the RVP has approved the GEF component, subject to the Board's approval of the Bank-financed project. The GEF-MOD, attached for reference only to the MOP, is printed with a

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14. SDR equivalents of U.S. dollar amounts are established by the Loan Department on the same basis as for IDA credits.

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light blue cover and distributed to the executive directors by the Secretary's Department.

21. If the appraisal of the GEF component takes place after the Bank-financed project is presented to the Board, the MOD is circulated by the Secretary's Department for information to the executive directors whose countries are Participants. The GEF Operations Coordinator's office circulates the MOD to the home offices of GEF Participants separately. However, if the GEF component was not in the GEF work program at the time of Board presentation of the Bank-financed project, (a) the Board is requested to approve, on a no-objection basis, the modification of the Bank-financed project to incorporate the GEF component; (b) the MOD for the GEF component is attached to the request to the Board for reference; and (c) the MOD is sent by the country department director to the RVP for approval. The RVP's approval of the GEF component is subject to Board approval of the amendment to the Bank-financed project. Once the Board has approved the associated Bank-financed project, or the amendment to include a GEF component in such a project, the GEF Operations Coordinator's office circulates the GEF MOD to the representatives of GEF Participants in their home offices. The GEF Operations Coordinator makes the MOD available to the public.

22. *Signing.* The GEF legal document is normally signed when the Bank loan is signed. The country department director, or the authorized alternate, signs the legal documents for the GEF component, and the lawyer ensures that the Trust Funds Administrator, the disbursement officer, and the GEF Operations Coordinator receive copies of the signed legal documents.

23. *Press Release for GEF Project.* The Information and Public Affairs Division (EXTIP) prepares the press release after consulting with the TM and the GEF Operations Coordinator. EXTIP determines jointly with the SOD chief when to issue the press release.

24. *Procurement.* GEF procurement is governed by *Guidelines: Procurement under IBRD Loans and IDA Credits* (Washington, D.C.: World Bank, 1985) and by the procedures outlined in OD 11.00, *Procurement*; OD 11.01, *Country Procurement Assessment Reports*; OD 11.02, *Procurement Arrangements for Investment Operations*; OD 11.04, *Review of Procurement Documentation and Decisions for Lending Operations*. The use of consultants is governed by *Guidelines: Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency* (Washington, D.C.: World Bank, 1981) and by the procedures outlined in OD 11.10, *Use of Consultants*.

25. *Disbursements.* GEF disbursements are governed by procedures outlined in OD 12.20, *Special Accounts*; OMS 3.30, *Disbursement*; and Circular Op 6/80, *Statements of Expenditure: Interim Guidelines*.

## Processing of Free-Standing GEF Projects

26. The same investment lending procedures that apply to GEF components apply to free-standing GEF projects, except for external approval requirements. By agreement with the Participants, a free-standing GEF operation should not exceed US\$10 million; no such limit is applied to a GEF component of a Bank-financed project. Bank management is authorized, by agreement with the Participants, to approve free-standing projects up to US\$5 million under the same arrangements as GEF components, once participants have reviewed the projects without objection. For a project between US\$5 million and US\$10 million, Participants specifically review the most recent EPS at their semiannual meeting. Following this special review, Bank management is authorized to approve funding for such projects. Once negotiations are completed and the RVP has approved the free-standing GEF project on the basis of the transmittal memorandum from the country department director (see para. 20), the MOD is circulated by the Secretary's Department

# Operational Directive

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to the executive directors whose countries are Participants. In addition, the office of the GEF Operations Coordinator circulates the MOD to GEF Participants in their home offices. In respect to all other processing steps, a free-standing GEF project should be processed in the same manner as a GEF component (see paras. 7-25).

## Additional Assignments

27. The following tasks are additional to the assignments defined in OD 9.00, *Processing of Investment Lending*:

- (a) *Regional Environment Division.* The RED is responsible for coordinating the technical review of GEF projects to ensure that they represent the best available use of GEF resources for the fulfillment of GEF objectives, taking into account (i) the objectives and design and eligibility criteria for GEF operations provided in the founding agreement for the GEF,<sup>15</sup> and (ii) Scientific and Technical Advisory Panel guidelines for project selection and priorities that are issued and revised periodically.<sup>16</sup> TMs are responsible for all project-specific UNDP and UNEP contacts. Because of extensive collaboration with UNDP and UNEP in identifying and screening GEF projects, the RED chief is normally the Regional contact for UNDP and UNEP regional officers on GEF Regional

portfolio management issues. Apart from the GEF technical review, the role of REDs in reviewing GEF components or free-standing projects is an integral part of their standard responsibility for reviewing and clearing the treatment of environmental issues in investment operations.

- (b) *Environment Department.* The ENV Director is responsible for preparing a roster of technical advisers (see the discussion on peer reviewers in OD 9.00, *Processing of Investment Lending*). The UNEP's Scientific and Technical Advisory Panel prepares and maintains for the Bank's technical review panels a roster of outside advisers who are internationally renowned (see paras. 2 and 9). At least one of the outside specialists on the project-specific technical review panels must be drawn from the roster of UNEP's Scientific and Technical Advisory Panel. To ensure that Regional staff have access to the roster, the GEF Administrator, ENV, ensures that the Chairman of UNEP's Scientific and Technical Advisory Panel submits the roster to the GEF Chairman for circulation within the Bank. The GEF Operations Coordinator in ENV has specific responsibilities for facilitating the processing of GEF operations (see paras. 5, 9, 10, 13, 17, 20-23, and 26).

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15. "Establishment of the Global Environment Facility" (Washington, D.C.: World Bank, February 1991).

16. "Criteria for Eligibility and Priorities for Selection of Global Environment Facility Projects," Scientific and Technical Advisory Panel, November 1991.



# Operational Directive

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## Procedures for Global Environmental Facility Investment Operations

### Guidelines for Executive Project Summary

1. The Global Environment Facility (GEF) Executive Project Summary (EPS)<sup>1</sup> is a key decision-making document for management. It begins as the Initial EPS (IEPS) when the project idea is formulated and becomes more specific over the project cycle. The Final EPS (FEPS) serves as the basis for the Regional vice president (RVP) to approve the appraisal mission. The FEPS subsequently serves as the basis for the Memorandum and Recommendation of the Director of the Country Department concerned (MOD). The EPS in all its stages—from IEPS to FEPS—is limited to three to six pages and features the sections enumerated below.

2. *Introductory Section.* In tabular form, identifies the country and project, the associated Bank-financed project (if applicable), the borrower, beneficiary, and financing plan, and the tentative dates for appraisal and Board presentation.

3. *Country or Sector Background.* Identifies GEF eligibility in terms of a per capita GDP at or below \$4,000 in 1989, and provides the exact figure. Indicates the importance of (a) the targeted biodiversity resource, (b) the technology or technique for abating global warming, (c) the reduction of pollution in international waters, or

(d) the measures for protecting the ozone layer. Indicates the sectoral context of the proposed intervention and identifies the global importance and replicability of the technology and/or technique the project seeks to demonstrate. Discusses the country environmental strategy and the policy framework for environmental management. Specifically mentions the existence of an environmental action plan (EAP) or the progress being made toward the preparation of the EAP or a substantially equivalent national policy framework, and the agenda and timetable for proposed environmental policy reform. Also discusses the institutional arrangements for environmental management (including any arrangements for institutional strengthening proposed or under implementation) and any issues they raise.

4. *Project Objectives.* Summarizes project goals, placing the project objectives in the wider context of the GEF's scientific objectives.

5. *Project Description.* Briefly describes the project and designates the GEF project type (Type 1, 2, or 3).<sup>2</sup> Lists the major components, their shares of total project costs, and the policy and institutional reforms being supported to ensure effective project implementation. Indicates

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1. In this annex, "EPS," "IEPS," and "FEPS" refer to "GEF-EPS," "GEF-IEPS," and "GEF-FEPS"; "project" refers to either a free-standing GEF project or a GEF component of a Bank-financed project.
  2. Type 1: The project is economically viable in terms of the benefits and costs to the country itself. This type of project is not generally eligible for GEF financing unless Participants agree that a compelling case has been made that the operation in question will not proceed without GEF involvement, despite the attractive rate of return.  
Type 2: The investment, under which substantial global environmental benefits would be realized, would not be justified in a country context if the implementing country had to bear the full costs. However, if part of the costs can be offset by concessional assistance from the GEF, the overall project can be made attractive to the implementing country. The project is eligible for GEF funding if it meets the required cost-effectiveness criteria.  
Type 3: The investment is justified in a country context, but the country would need to incur an increase in costs to bring about additional global benefits. The increase in costs required to accommodate global concerns, if it is within the cost-effectiveness guidelines, is eligible for GEF funding.  
See "Establishment of the Global Environment Facility" (Washington, D.C.: World Bank, February 1991) p. 5.

# Operational Directive

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provisions made for baseline assessments, monitoring and evaluation, and institutional and human resource development. Describes (a) the form of innovation being sponsored by the project, (b) what is innovative about the technology and/or technique to be applied, (c) the context in which the innovation is applied, and (d) whether the innovation effectively integrates existing knowledge and approaches in meeting project objectives.

**6. Project Financing.** Summarizes the external and domestic financing arrangements for the project, highlighting complex cofinancing arrangements.

**7. Project Implementation.** Summarizes the plans for project implementation, including project management arrangements, the names and responsibilities of participating agencies, and, if applicable, lending arrangements. Example: For biodiversity projects, indicates (a) the role of local communities, indigenous peoples, and local and international nongovernmental organizations (NGOs); and (b) strengthening of government institutional arrangements and administrative capacity to implement the project.

**8. Project Sustainability.** Indicates how the project design contributes to the institutional and financial sustainability of the project. Examples: For biodiversity projects, indicates the policy- and project-supported measures to meet the recurrent costs of the institutions responsible for protecting the targeted biodiversity during and beyond the project's life. For projects that support energy production and marine waste collection and disposal facilities in ports, indicates how tariffs or disposal fees and revenues from the sale of recycled wastes contribute to cost recovery.

**9. Lessons from Previous Bank or IDA Involvement.** Summarizes the lessons learned from ongoing and completed operations and from the relevant Project Completion Reports (PCRs) and special studies prepared by Sector and Operations Policy, the Operations Evaluation Department,

and other Bank units that review lessons learned by the Bank or others in designing and supervising projects with similar objectives. Indicates explicitly how the proposed project reflects those lessons.

**10. Rationale for GEF Funding.** Explains the unique and catalytic function of the GEF's support for the project. Indicates the contributions of the project to the GEF's scientific objectives and identifies how the project addresses project priorities and meets the scientific and technical selection criteria of the United Nations Environment Programme's (UNEP's) Scientific and Technical Advisory Panel. Also indicates how the project meets GEF's general design criteria of (a) demonstration value and replicability outside the host country, (b) contribution to institutional capacity and human resource development, and (c) understanding of the baseline conditions of the resource and the provisions for monitoring and evaluating the project's impact. Indicates the contribution of the project to sectoral policy objectives, institutional development, and other goals that would not be achieved without GEF involvement.

**11. Issues and Actions.** Discusses outstanding project issues and how they are to be handled. Indicates target ranges for, and the timing of, proposed conditionality that is designed to ensure effective implementation of the GEF project. Discusses the adequacy of the project's management capacity, cost recovery arrangements, tariffs, and financial covenants. Example: For biodiversity operations, addresses measures required to demarcate or legally designate protected areas and to make satisfactory institutional and financial arrangements for their sustained protection. Indicates proposed exceptions to procurement or cost-sharing guidelines and describes requirements for incorporating cofinanciers' arrangements for implementing the project's financing plan.

**12. Environmental Aspects.** Indicates the environmental category assigned to the GEF project.



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Where relevant, because of the environmental category assigned, summarizes (a) major environmental and natural resource management issues; (b) preparation status or conclusions of the environmental assessment; (c) required actions, such as consultation with affected groups and NGOs; and (d) how major issues are to be addressed or how they have been resolved.

**13. *Project Benefits.*** Summarizes the main project benefits. Where applicable, expresses these benefits in quantitative terms and shows, where feasible, the expected rate of return of the project with and without the benefit of GEF financing. For projects that mitigate global warming or the pollution of international waters, uses such quantitative measures of project performance as unit costs of avoiding atmospheric carbon emissions and the costs of collecting and disposing of marine pollutants. When benefits cannot be quantified, provides other appropriate quantified measures of performance to establish the project's beneficial impact consistent with GEF scientific objectives. Summarizes institution-building features and other intangible benefits.

**14. *Risks.*** Summarizes relevant project risks, including (a) project-specific issues, such as the institutional capacity of the project-implementing agency and its commitment to enforcing enabling legislation for biodiversity protection; and (b) broader issues, such as a conflict between incentives at the macroeconomic level and those required at the project level (e.g., distortions in energy pricing reducing returns on project investment). Summarizes the results of any sensitivity analysis and indicates key variables influencing project success. Cites appropriate design features that help address project risks.

**15. *Staff Review Arrangements.*** Lists the names of the task manager, the division chief, the country department director, and the peer reviewers. Also identifies the economic, scientific, and technical review functions fulfilled by the nontechnical peer reviewers for the GEF project and by GEF technical advisors and outside specialists as part of the technical review process.



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## Sample Letter of Agreement for a Project Preparation Advance from the Global Environment Trust Fund

[Date]

[Authorized Government Official]  
[Name of Country]  
[Address]

Re: Advance for Preparation of  
[Name] Project  
GET-PPA [Number]<sup>1</sup>

Dear Sir/Madam:

I am writing on behalf of the International Bank for Reconstruction and Development acting as Trustee of the Global Environment Trust Fund (GET) (the Trustee) to indicate the Trustee's agreement to grant to the [name of country] (the Recipient) an Advance in an amount not exceeding Special Drawing Rights [SDR amount] (the Advance). The purpose of the Advance is to finance certain expenditures required for the preparation of a project [brief outline of project], for the carrying out of which the Recipient [has requested] [intends to request] the financial assistance of the Global Environment Trust Fund.

The Advance is granted for the purposes and on the terms and conditions set forth in the Attachments I-III hereto, and the Recipient represents, by confirming its agreement hereunder, that it is authorized to contract and withdraw the Advance for the said purposes and on the said terms and conditions.

The grant of the Advance does not constitute or imply any commitment on the part of the Trustee, the International Bank for Reconstruction and Development in its own capacity or the International Development Association, to assist in financing the project for the preparation of which the Advance is granted.

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1. The GET-PPA number is provided by the Trust Funds Administrator (see para. 3, Annex C of this directive).

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Please confirm your agreement with the foregoing, on behalf of [the country], by signing, dating, and returning to us the enclosed copy of this letter. This agreement will become effective on the date of countersignature.

Very truly yours,

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**  
acting as Trustee of the  
Global Environment Trust Fund

By \_\_\_\_\_

[Name]  
Country Director  
[Name] Region

AGREED:

[Name of Country]

By \_\_\_\_\_

Authorized Representative

Date \_\_\_\_\_

Attachments

# Operational Directive

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## Sample Attachment I to Letter of Agreement: Purposes, Terms, and Conditions of Advance

1. The activities required to complete the preparation of the project for which the Advance is granted are as follows:

*[Brief description of project preparation activities required and method of carrying them out.]*

2. Expenditures to be financed with the Advance are

*[List expenditures by category, the amounts to be allocated for each category, and percentage rate of disbursement.]*

3. The Recipient shall carry out the project preparation activities outlined above with due diligence and efficiency; promptly provide the funds, facilities, services, and other resources required for the purpose; furnish to the Trustee all information covering such activities and the use of the proceeds of the Advance as the Trustee shall reasonably request; and from time to time exchange views with the Trustee's representatives on the progress and results of such activities.

4. To facilitate the carrying out of the said project preparation activities, the Recipient may open an account (the Special Account) in [currency] in [name of the bank] according to the terms and conditions set forth in Attachment II. The depository bank of the Special Account shall confirm in a form acceptable to the Trustee that the funds in the Special Account will be segregated as a special deposit for the specific purposes for which the Advance is granted and that the funds are not subject to claims of setoff, seizure, or attachment.

5. Consultants (experts) acceptable to the Trustee [shall be employed] [have been employed] by the Recipient on terms and conditions satisfactory to the Trustee for [project preparation activities for which consultants' or experts' services are required]. The consultants (experts) [shall be] [have been] selected in accordance with principles and procedures satisfactory to the Trustee and on the basis of *Guidelines: Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency* (Washington, D.C.: World Bank, 1981). No substitution of such consultants (experts) or modification of the terms and conditions of their employment shall be made except with the prior approval of the Trustee. [Procurement of goods and works, if any, should be carried out in accordance with *Guidelines: Procurement under IBRD Loans and IDA Credits* (Washington, D.C.: World Bank, 1985).] [This paragraph should specify the procurement procedures to be followed.]

6. Withdrawal, use, and refunding of the Advance shall be made in accordance with the Financial Provisions Applicable to Advances for Project Preparation (the Financial Provisions) set forth in Attachment III.

7. The date [month/day/year]<sup>a</sup> is hereby specified for the purposes of paragraph 10 of the Financial Provisions (Attachment III). No withdrawals of the Advance shall be made after that date, and any amount of the Advance then remaining unwithdrawn shall be canceled, unless the Trustee establishes a later date for the purposes of paragraph 10.

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<sup>a</sup> This date shall be two years from the date of signature of the Trustee's (Bank's) letter to the Recipient.

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8. Withdrawal applications for the Advance shall be signed on behalf of the Recipient by [*authorized Government official*] or any person designated in writing by said [*authorized Government official*]. Authenticated specimen signatures of the designated persons shall be provided with the first application.

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## Sample Attachment II to Letter of Agreement: Special Deposit Account

1. For the purposes of this Attachment,
  - (a) the term "categories" means categories of items to be financed out of the proceeds of the Advance as set forth in paragraph 2 of Attachment I;
  - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the project preparation activities to be financed out of the proceeds of the Advance; and
  - (c) the term "Authorized Allocation" means an amount equivalent to [amount in \_\_\_\_\_] to be withdrawn from the Advance and deposited in the Special Deposit Account (the Special Account) pursuant to paragraph 3 (a) of this Attachment.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Attachment.
3. After the Trustee has received satisfactory evidence that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Trustee a request or requests for a deposit or deposits that do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests the Trustee shall, on behalf of the Recipient, deposit in the Special Account such amount out of the proceeds of the Advance as requested by the Recipient.
  - (b) For replenishment of the Special Account, the Recipient shall furnish to the Trustee requests for deposits into the Special Account at such intervals as the Trustee shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Trustee the documents and other evidence required pursuant to paragraph 4 of this Attachment for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Trustee shall, on behalf of the Recipient, deposit into the Special Account out of the Proceeds of the Advance such amount as is requested by the Recipient and shown by said documents and other evidence to have been made out of the Special Account for eligible expenditures.
4. For each payment made by the Recipient out of the Special Account, the Recipient shall (at such time as the Trustee shall reasonably request) furnish to the Trustee such documents and other evidence showing that such payment was made exclusively for eligible expenditures.
5. Notwithstanding the provisions of paragraph 3 of this Attachment, the Trustee shall not be required to make further deposits into the Special Account
  - (a) if at any time the Trustee determines that all further withdrawals of the Advance should be made directly by the Recipient; or

# Operational Directive

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- (b) once the total unwithdrawn amount of the Advance equals the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal of the Advance proceeds remaining unwithdrawn shall follow such procedures as the Trustee shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Trustee shall have been satisfied that all such amount remaining on deposit in the Special Account as of the date of such notice shall be utilized in making payments for eligible expenditures.

6. (a) If the Trustee determines at any time that any payment out of the Special Account was
- (i) made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Attachment, or
  - (ii) not justified by the evidence furnished to the Trustee;
- then the Recipient shall, promptly upon notice from the Trustee,
- (i) provide such additional evidence as the Trustee may request, or
  - (ii) deposit into the Special Account (or, if the Trustee shall so request, refund to the Trustee) an amount equal to the amount of such payment or the portion thereof not so eligible or justified.

Unless the Trustee shall otherwise agree, no further deposit by the Trustee into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

- (b) If the Trustee determines at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Trustee, refund to the Trustee such outstanding amount.
- (c) The Recipient may, upon notice to the Trustee, refund to the Trustee all or any portion of the funds on deposit in the Special Account.
- (d) Refunds to the Trustee made pursuant to paragraphs 6 (a), (b), and (c) of this Attachment shall be added to the unwithdrawn amount of the Advance.



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**Sample Attachment III to Letter of Agreement:  
Financial Provisions Applicable to Advances from the  
Global Environment Trust Fund for Project Preparation**

1. In these Provisions, the term "Trustee" means the International Bank for Reconstruction and Development acting as Trustee of the Global Environment Trust Fund.
2. The Trustee shall disburse funds to or on the order of the Recipient (a member country eligible to receive grants from the GET) from a Project Preparation Advance (the Advance) to meet expenditures specified in the agreement letter for the Advance. The Recipient should submit a written application for withdrawal in the form specified by the Trustee. The application is (a) signed by an authorized representative of the Recipient, and (b) accompanied by evidence of the expenditures made or, if the Trustee shall so agree, to be made.
3. The Advance shall be made in Special Drawing Rights (SDRs) as valued by the International Monetary Fund in accordance with its Articles of Agreement. The amounts of the Advance shall be disbursed in various currencies equivalent to the SDR amount required to meet an expenditure to be financed by the Advance.
4. Withdrawals shall be made only for expenditures for services supplied from, or goods produced in, countries eligible under *Guidelines: Procurement under IBRD Loans and IDA Credits* (Washington, D.C.: World Bank, 1985).
5. The amount of the Advance disbursed carries no interest or other charges and is made available on a nonreimbursable basis.
6. The Trustee may, by notice to the Recipient, suspend at any time further withdrawals of the Advance if (a) funds withdrawn have not been used for the purpose agreed between the Recipient and the Trustee, or (b) the preparation activities are not carried out in accordance with the standards or methods agreed between the Recipient and the Trustee.
7. At any time after withdrawals of the Advance have been suspended pursuant to these provisions, the Trustee may, by notice to the Recipient, cancel any amount of the Advance remaining unwithdrawn.
8. If the funds withdrawn have not been used for the purpose agreed between the Recipient and the Trustee, then upon suspension as provided in paragraph 6 above, the Recipient shall, promptly upon written notice from the Trustee, refund to the Trustee an amount equal to the amount so used or any portion thereof specified by the Trustee.
9. The Trustee may cancel the Advance in full by written notice to the Recipient if within 90 days after the date of the countersignature of the Trustee's letter granting the Advance the Recipient has not, in the opinion of the Trustee, started any of the preparation activities for which the Advance was granted.
10. No application for withdrawals will be accepted by the Trustee two years from the date of the signature by the Trustee of the letter granting the Advance to the Recipient. The unwithdrawn amount of the Advance will then be canceled by the Trustee.



# Operational Directive

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## Global Environment Facility Investment Operations

### Guidelines for the Memorandum and Recommendation of the Director

#### Introduction

1. The Memorandum and Recommendation of the Director of the Country Department concerned (MOD) provides the basis for the Regional vice president (RVP) to make decisions on the proposed Global Environment Facility (GEF) investment operation. The MOD comprises a text, three schedules,<sup>1</sup> and, when locational information is needed, a map. Since a Staff Appraisal Report (SAR) is not required, technical annexes provide adequate detail on special technical, policy, or other features of project design, and descriptions of the special resources or global environmental improvements that are the focus of the project.<sup>2</sup>

#### Cover

2. The cover format of the MOD is as follows:

Document of  
THE WORLD BANK  
FOR OFFICIAL USE ONLY

CONFIDENTIAL  
Report No.  
(Note: No "P" before Number)

GLOBAL ENVIRONMENT FACILITY  
MEMORANDUM AND RECOMMENDATION  
OF THE DIRECTOR  
[COUNTRY DEPARTMENT]  
OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
TO THE  
REGIONAL VICE PRESIDENT  
ON A PROPOSED GRANT  
FROM THE GLOBAL ENVIRONMENT TRUST FUND  
IN THE AMOUNT EQUIVALENT TO SDR. \_\_\_ MILLION (US\$ \_\_\_ MILLION)  
TO  
[BENEFICIARY/COUNTRY]  
FOR A  
[NAME OF PROJECT]  
[DATE]

[Name] Division  
Country Department [Number]  
[Name] Region

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1. These schedules are (a) estimated project costs and financing plan, (b) procurement and disbursement methods, and (c) timetable of key project processing events.
2. See OD 8.40, Annex A, *Technical Annex to the Memorandum and Recommendation of the President for Technical Assistance Projects*, and Annex A1, *Schedule I: Key Project Activities*.
3. Date approved by the country department director.

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3. The inside front cover page of the MOD summarizes currency equivalents, weights and measures, abbreviations and acronyms, and the fiscal year of the borrower and project entities. It uses presentational conventions as detailed in the Bank's *Communications and Style Guide*. A Grant and Project Summary (see Annex D1) precedes the MOD text.

## Text

### *Heading*

4. The text of the MOD begins on a new page following the Grant and Project Summary. It starts with the following standard heading:

MEMORANDUM AND RECOMMENDATION OF THE DIRECTOR  
[NAME] DEPARTMENT [NUMBER]  
TO THE REGIONAL VICE PRESIDENT

### *Introductory Paragraph*

5. The introductory paragraph has a standard form:

I submit for your approval the following memorandum and recommendation on a proposed GET grant to [Beneficiary/Country] for SDR\_\_\_\_, the equivalent of US\$\_\_\_\_ million, to help finance a project for [purpose].

When the Global Environment Trust Fund (GET) is financing a project in association with one or more major cofinanciers, they are named and the amounts and terms of their financing are indicated.

### *Main Text—The Project*

6. The main text provides sufficient information to give an adequate understanding of and justification for the project. The discussion is self-contained. The general format and subjects discussed in the main text are similar to the format and sections in the Executive Project Summary (EPS), from which the MOD evolves. Each section normally has one or two paragraphs covering the subjects discussed below. Depending on the individual project, some subjects require little or no discussion; others may warrant longer treatment.

7. *Country/Sector Background.* The MOD succinctly puts the operation into the country context and identifies the established or emerging environmental policy and the regulatory and institutional framework. It indicates the relationship between the GEF component and its associated Bank-financed project. It indicates the linkage between the national environment and the activity that is supported by the GEF for the improvement of the global environment, focusing in particular on the environmental dimension of the sector that the project addresses. It describes the environmental policy framework, the key policy issues, and the government's strategy for addressing the issues. It mentions the existence of environmental action plans (EAPs) or substantially equivalent reports on the national policy framework and gives the agenda and timetable for proposed environmental policy reform. It discusses key long-term goals for environmental management, priority environmental policy reforms to achieve such goals, and major constraints that impede

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progress, also highlighting the specific measures the government has undertaken and the progress it has made in addressing these constraints. It indicates what remains to be done.

8. The MOD briefly describes the main environmental policy and management institutions specifically relevant to the project, outlining their strengths and weaknesses (management, staffing, finance, planning, coordination, efficiency of service delivery). It summarizes government strategies for developing these institutions and for addressing problems. For projects with a focus on decentralized implementation, the MOD outlines the regulatory framework in which the institutions operate. Example: For biodiversity projects, the MOD assesses the adequacy of the legislation and regulations to demarcate and enforce implementation of management plans for protected areas.

9. *Project Objectives.* This section summarizes project goals, placing the project objectives in the wider context of the GEF's scientific objectives.

10. *Project Description.* This section briefly describes the project and designates the GEF project type (Type 1, 2, or 3).<sup>4</sup> It lists the major components, their shares of total project costs, and the policy and institutional reforms being supported to ensure effective project implementation. This paragraph indicates provisions made for baseline assessments, monitoring and evaluation, and institutional and human resource development. The paragraph addresses the form of innovation being sponsored by the project, indicating what is innovative about the technology and/or technique to be applied. The section also describes the context in which the innovation is applied, including whether the innovation effectively integrates existing knowledge and approaches in meeting project objectives.

11. *Project Implementation.* This section summarizes the plans for project implementation, including project management arrangements, the names and responsibilities of participating agencies, and, if applicable, lending arrangements. Example: For biodiversity projects, the MOD indicates the role of (a) local communities, indigenous peoples, and local and international nongovernmental organizations (NGOs), and (b) the strengthening of government institutional arrangements and administrative capacity to implement the project.

12. *Project Sustainability.* This section indicates how the project design contributes to the institutional and financial sustainability of the project. Examples: For biodiversity projects, the MOD indicates the policy- and project-supported measures to meet the recurrent costs of the institutions responsible for protecting targeted biodiversity during and beyond the project's life. For energy production and marine waste collection and disposal facilities in ports, the MOD indicates how tariffs or disposal fees and revenues from the sale of recycled wastes contribute to cost recovery.

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4. Type 1: The project is economically viable in terms of the benefits and costs to the country itself. This type of project is not generally eligible for GEF financing unless Participants agree that a compelling case has been made that the operation in question will not proceed without GEF involvement, despite the attractive rate of return.

Type 2: The investment, under which substantial global environmental benefits would be realized, would not be justified in a country context if the implementing country had to bear the full costs. However, if part of the costs can be offset by concessional assistance from the GEF, the overall project can be made attractive to the implementing country. The project is eligible for GEF funding if it meets the required cost-effectiveness criteria.

Type 3: The investment is justified in a country context, but the country would need to incur an increase in costs to bring about additional global benefits. The increase in costs required to accommodate global concerns, if it is within the cost-effectiveness guidelines, is eligible for GEF funding.

See "Establishment of the Global Environment Facility" (Washington, D.C.: World Bank, February 1991) p. 5.

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13. *Lessons from Previous Bank/IDA Involvement.* This section summarizes the lessons learned from ongoing and completed operations and from relevant Project Completion Reports (PCRs) and special studies prepared by Sector and Operations Policy, the Operations Evaluation Department, and other Bank units that review lessons learned by the Bank or others in designing and supervising projects with similar objectives. It indicates explicitly how the proposed project design reflects those lessons.

14. *Rationale for GEF Funding.* This section explains the unique and catalytic function of the GEF's support for the project. It indicates the contributions of the project to the GEF's scientific objectives and identifies how the project meets the scientific and technical selection criteria and project priorities of the United Nations Environment Programme's (UNEP's) Scientific and Technical Advisory Panel. It also indicates how the project meets the general GEF design criteria of (a) demonstration value and replicability outside the host country, (b) contribution to institutional capacity and human resource development, and (c) understanding of baseline conditions of the resource and provisions for monitoring and evaluating the project's impact. The section indicates the contribution of the project to sectoral policy objectives, institutional development, and other goals that would not be achieved without GEF involvement.

15. *Agreed Actions.* The MOD summarizes agreements reached with the government and the ultimate beneficiary on specific actions and relates them to key issues identified earlier. It indicates timing. It lists only those agreements that are reflected in covenants and conditionality in the legal documents. The MOD uses language consistent with the language in the Legal Agreements. It does not discuss conditionality on such routine matters as reporting requirements, unless they are unique or require special consideration.

16. *Environmental Aspects.* The MOD briefly discusses the project's environmental impact and how environmental and natural resource management issues associated with the operation have been resolved. If an environmental assessment has been prepared, the MOD briefly describes (a) the main findings of the environmental assessment, (b) the consultation process with affected groups and local NGOs, and (c) feedback to these groups and NGOs on the findings of the assessment.

17. *Project Benefits.* This section summarizes the main project benefits, expressing them in quantitative terms, if possible, and showing, where feasible, the expected rate of return of the project with and without the benefit of GEF financing. For projects that mitigate global warming or pollution in international waters, quantitative measures of project performance should include the unit costs of avoiding atmospheric carbon emissions and the costs of collecting and disposing of marine pollutants. Where benefits cannot be quantified, the paragraph provides other appropriate quantified measures of performance to establish the project's beneficial impact consistent with GEF scientific objectives. It summarizes institution-building features and other intangible benefits.

18. *Risks.* This section summarizes relevant project risks, including (a) project-specific issues, such as the institutional capacity of the project-implementing agency and its commitment to enforcing enabling legislation for biodiversity protection; and (b) broader issues, such as the conflict between incentives at the macro-economic level and those required at the project level. The section summarizes the results of any sensitivity analysis and indicates key variables influencing project success. It cites appropriate design features that help address project risks.

# Operational Directive

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19. *Recommendation.* The MOD uses the following standard form:

I am satisfied that the proposed grant would comply with the provisions of Resolution No. IBRD 91-5 of the Executive Directors relating to the establishment of the Global Environment Facility and recommend that the Regional Vice President, *[Name of Region]*, approve it.

[SIGNATURE]

(The Country Department Director's signature appears at the end of the text, as follows:)

---

Director  
*[Department]*

## Attachments

Washington, D.C.  
*[Same date as on the cover page]*

## Attachments

## Annexes

20. *Schedule A.* This presentation summarizes in tabular form the estimated project costs and financing plan. It is identical in format to the tables on the project costs and financing plan in a Bank SAR's "Loan and Project Summary"; there is no specific GEF-SAR, only the MOD.

21. *Schedule B.* This schedule provides tables on procurement methods and disbursements. The table on procurement methods is prepared in line with the presentational conventions discussed in OD 11.02, *Procurement Arrangements for Investment Operations*. It is identical in format to the procurement table presented in the text of a Bank SAR. A disbursements table details the disbursement categories, the grant amount allocated to each category, and the percentage of expenditures to be financed from the grant under each category. It is identical with Schedule I in the Grant Agreement. A second section presents estimated grant disbursements by the Bank's fiscal year and cumulatively. Schedule B is identical to the table on estimated disbursements in a Bank SAR's "Loan and Project Summary."

22. *Schedule C.* This schedule presents a timetable of the project's key processing events. It indicates (a) time taken to prepare the project, showing the calendar period from start to completion of project preparation; (b) names of staff who prepared the project; (c) first Bank or IDA mission; (d) appraisal mission departure; (e) date of negotiations; (f) planned date of effectiveness; (g) a summary supervision plan including technical expertise required, proposed frequency of missions, and reporting arrangements for monitoring and evaluating project implementation performance; and (h) list of relevant PCRs and Project Performance Audit Reports.

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## Operational Directive

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*Map*

23. The MOD includes a map when needed. The Cartography Section of the Printing and Graphics Division advises on the appropriate map(s) to be included and turnaround times required for production. A final check is always made to ensure that the following statement is printed on any map showing the borders of a country:

This map has been prepared by the World Bank's staff exclusively for the convenience of the readers and for the internal use of the World Bank Group. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank Group, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.



# Operational Directive

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## Guidelines for Preparing the "Grant and Project Summary" for the MOD

[COUNTRY]  
[NAME] PROJECT  
GRANT AND PROJECT SUMMARY

|                                 |  |
|---------------------------------|--|
| <b>Recipient:</b>               | Name.  |
| <b>Cofinancier:</b>             | When applicable.   |
| <b>Beneficiary(ies):</b>        | When the beneficiary is different from the recipient, this summary provides the name of the organization(s) principally responsible for using the grant proceeds. When there is no separate beneficiary organization, the words "not applicable" are used. |
| <b>Amount:</b>                  | SDRs (US\$ equivalent).  |
| <b>Terms:</b>                   | Grant.   |
| <b>Relending Terms:</b>         | When applicable, the summary gives the terms of the principal implementing organization. <sup>1</sup>  |
| <b>Financing Plan:</b>          | A table shows the contribution of the GET Grant, the government, and, where applicable, other domestic sources and external cofinanciers to the financing of foreign, local, and total costs.  |
| <b>Economic Rate of Return:</b> | Not applicable.  |
| <b>Map:</b>                     | Map number.  |

- 
1. The terms under which the government or other recipient passes on the proceeds of a grant are given here. The terms applied at other relending steps, including the terms to the ultimate subborrower, are given in the text.

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*This directive was prepared for the guidance of staff of the World Bank and is not necessarily a complete statement of the subject covered.*





## Economic Evaluation of Investment Operations

1. The Bank<sup>1</sup> evaluates investment projects to ensure that they promote the development goals of the borrower country. For every investment project, Bank staff conduct economic analysis to determine whether the project creates more net benefits to the economy than other mutually exclusive options for the use of the resources in question.<sup>2</sup>

### Criterion for Acceptability

2. The basic criterion for a project's acceptability involves the discounted expected present value of its benefits, net of costs. Both benefits and costs are defined as incremental compared to the situation without the project. To be acceptable on economic grounds, a project must meet two conditions: (a) the expected present value of the project's net benefits must not be negative; and (b) the expected present value of the project's net benefits must be higher than or equal to the expected net present value of mutually exclusive project alternatives.<sup>3</sup>

### Alternatives

3. Consideration of alternatives is one of the most important features of proper project analysis throughout the project cycle. To ensure that the project maximizes expected net present value, subject to financial, institutional, and other constraints, the Bank and the borrower explore alternative, mutually exclusive, designs. The project design is compared with other designs involving differences in such important aspects as choice of beneficiaries, types of outputs and services, production technology, location, starting date, and sequencing of components. The project is also compared with the alternative of not doing it at all.

### Nonmonetary Benefits

4. If the project is expected to generate benefits that cannot be measured in monetary terms, the analysis (a) clearly defines and justifies the project objectives,

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1. "Bank" includes IDA, and "loans" includes credits.
  2. All flows are measured in terms of opportunity costs and benefits, using "shadow prices," and after adjustments for inflation.
  3. Although it has long been the Bank's policy to calculate the expected net present value, standard practice has been to calculate the expected internal rate of economic return, that is, the rate of discount that results in a zero expected net present value for the project. The expected rate of return is not fully satisfactory (e.g., when comparing mutually exclusive project alternatives); however, it is widely understood and may continue to be used for the purpose of presenting the results of analysis.

**Note:** OP 10.04 replaces the version dated April 1994. Please retain the April 1994 BP 10.04. OP and BP 10.04 are complemented by OP/BP 10.00, *Investment Lending: Identification to Board Presentation*, and, in the printed Table of Contents and the online "Entire Table of Contents" to the Operational Manual, by the documents listed as Other Existing Instructions adjacent to OPs/BPs 10.01, *Technical Criteria*; 10.02, *Financial Analysis and Management*; 10.05, *Institutional Criteria*; and 10.06, *Sociological Criteria* (all to be issued). A handbook on the methodology for project economic evaluation will be issued as GP 10.04. OP and BP 10.04 replace the Operational Memorandum *Treatment of Environmental Externalities in the Evaluation of Investment Projects*, 10/4/93, and draw on the following documents (which will be replaced by GP 10.04): OMS 2.20, *Project Appraisal*; OMS 2.21, *Economic Analysis of Projects*; OPN 2.01, *Investment Criteria in Economic Analysis of Projects*; OPN 2.02, *Risk and Sensitivity Analysis in the Economic Analysis of Projects*; OPN 2.04, *Economic Analysis of Projects with Foreign Participation*; OPN 2.05, *Foreign Exchange Effects and Project Justification*; OPN 2.06, *Use of the Investment Premium and Distribution Weights in Project Analysis*; OPN 2.07, *Reporting and Monitoring Poverty Alleviation Work in the Bank*; and OPN 2.09, *Presentation of Project Justification and Economic Analysis in Staff Appraisal Reports*. Questions may be addressed to the Economic Advisers, Operations Policy Group, OPR.



# Operational Policies

reviewing broader sectoral or economywide programs to ensure that the objectives have been appropriately chosen, and (b) shows that the project represents the least-cost way of attaining the stated objectives.

## Sustainability

5. To obtain a reasonable assurance that the project's benefits will materialize as expected and will be sustained throughout the life of the project, the Bank assesses the robustness of the project with respect to economic, financial, institutional, and environmental risks. Bank staff check, among other things, (a) whether the legal and institutional framework either is in place or will be developed during implementation to ensure that the project functions as designed, and (b) whether critical private and institutional stakeholders have or will have the incentives to implement the project successfully. Assessing sustainability includes evaluating the project's financial impact on the implementing/sponsoring institution and estimating the direct effect on public finances of the project's capital outlays and recurrent costs.

## Risk

6. The economic analysis of projects is necessarily based on uncertain future events and inexact data and, therefore, inevitably involves probability judgments. Accordingly, the Bank's economic evaluation considers the sources, magnitude, and effects of the risks associated with the project by taking into account the possible range in the values of the basic variables and assessing the robustness of the project's outcome with respect to changes in these values. The analysis estimates the switching

values of key variables (i.e., the value that each variable must assume to reduce the net present value of the project to zero) and the sensitivity of the project's net present value to changes in those variables (e.g., delays in implementation, cost overruns, and other variables that can be controlled to some extent). The main purpose of this analysis is to identify the scope for improving project design, increase the project's expected value, and reduce the risk of failure.

## Poverty

7. The economic analysis examines the project's consistency with the Bank's poverty reduction strategy.<sup>4</sup> If the project is to be included in the Program of Targeted Interventions, the analysis considers mechanisms for targeting the poor.

## Externalities

8. A project may have domestic, cross-border, or global externalities.<sup>5</sup> A large proportion of such externalities are environmental. The economic evaluation of Bank-financed projects takes into account any domestic and cross-border externalities. A project's global externalities—normally identified in the Bank's sector work or in the environmental assessment process—are considered in the economic analysis when (a) payments related to the project are made under an international agreement, or (b) projects or project components are financed by the Global Environment Facility.<sup>6</sup> Otherwise, global externalities are fully assessed (to the extent tools are available) as part of the environment assessment process<sup>7</sup> and taken into account in project design and selection.<sup>8</sup>

4. See OD 4.15, *Poverty Reduction*.

5. "Cross-border externalities" are effects on neighboring countries (e.g., effects produced by the construction of a dam on a river). "Global externalities" affect the entire world (i.e., emissions of greenhouse gases or ozone-depleting substances, pollution of international waters, or impacts on biodiversity).

6. See OD 9.01, *Procedures for Investment Operations under the Global Environment Facility* (to be reissued as OP/BP 10.20).

7. See OD 4.01, *Environmental Assessment*, to be reissued as OP/BP 4.01.

8. The Bank's Environment Department provides guidance on analyzing, ranking, and physically quantifying environmental externalities—whether domestic, cross-border, or global—and on taking them into account in project design and selection.



## Economic Evaluation of Investment Operations

1. Proposals for Bank<sup>1</sup> investment projects are grounded in the sectoral priorities established through economic and sector work (ESW). The economic evaluation of projects integrates financial, institutional, technical, sociological, and environmental considerations.<sup>2</sup>

2. The same basic approach to evaluation is used throughout the project cycle for identification, appraisal, implementation, completion and performance audit reporting, and impact evaluation. Before appraisal, "back-of-the-envelope" calculations may suffice, but during appraisal and afterwards, a full evaluation is necessary. Analyses are transparent and replicable. During implementation, evaluation tracks key project-related variables that experience has shown are correlated with successful outcomes.

### Project Cycle

#### *Identification and Preparation*

3. The task manager (TM)<sup>3</sup> ensures that the project is anchored in the Country Assistance Strategy and that the rationale for the Bank's involvement is clearly spelled out.<sup>4</sup> The TM also ensures that the project team takes account of existing ESW in assessing whether the policy, incentives, and institutional framework are conducive to making the project sustainable. The TM makes a preliminary estimate of the project's expected net present value and risks. These assessments are made as early as possible in the project cycle and are recorded in the project documentation.

1. "Bank" includes IDA, and "loans" includes credits.
2. Good Practices (GP) 10.04 (forthcoming) will provide detailed guidance on methodology for carrying out economic evaluation.
3. This statement gives the TM responsibility for the economic evaluation, but the actual tasks may be assigned to another member of the project team.
4. See OP/BP 10.00, *Investment Lending: Identification to Board Presentation*.

**Note:** A handbook on the methodology for project economic evaluation will be issued as GP 10.04. OP and BP 10.04 are complemented by OP/BP 10.00, *Investment Lending: Identification to Board Presentation*, and, in the printed Table of Contents and the online "Entire Table of Contents" to the Operational Manual, by the documents listed as Other Existing Instructions adjacent to OPs/BPs 10.01, *Technical Criteria*; 10.02, *Financial Analysis and Management*; 10.05, *Institutional Criteria*; and 10.06, *Sociological Criteria* (all to be issued). OP and BP 10.04 replace the Operational Memorandum *Treatment of Environmental Externalities in the Evaluation of Investment Projects*, 10/4/93, and draw on the following documents (which will be replaced by GP 10.04): OMS 2.20, *Project Appraisal*; OMS 2.21, *Economic Analysis of Projects*; OPN 2.01, *Investment Criteria in Economic Analysis of Projects*; OPN 2.02, *Risk and Sensitivity Analysis in the Economic Analysis of Projects*; OPN 2.04, *Economic Analysis of Projects with Foreign Participation*; OPN 2.05, *Foreign Exchange Effects and Project Justification*; OPN 2.06, *Use of the Investment Premium and Distribution Weights in Project Analysis*; OPN 2.07, *Reporting and Monitoring Poverty Alleviation Work in the Bank*; and OPN 2.09, *Presentation of Project Justification and Economic Analysis in Staff Appraisal Reports*. Questions may be addressed to the Economic Advisers, Operations Policy Group, OPR.

*Appraisal*

## 4. The Staff Appraisal Report (SAR)

- (a) provides a clear definition of the project's economic objectives;
- (b) examines the incentives that will make the project function as planned;
- (c) considers environment- and poverty-related factors<sup>5</sup> and establishes the criteria for monitoring the project's performance during implementation; and
- (d) fully documents the assumptions, methodology, and results of the project's financial and economic evaluation, risk analysis, and fiscal impact assessment. Specifically, the SAR (i) shows the yearly flows of benefits and costs, consistent with the project's expected disbursement profile; (ii) documents the prices used for the financial and economic evaluations, the country parameters used for the economic analysis, the net present value of the project, and the switching values; (iii) identifies the project's main

risks and gives the results of the sensitivity analysis; and (iv) examines the project's financial impact (the impact of its capital outlays and recurrent costs and benefits) on the sponsoring institution and on public finances. Assumptions are anchored in experience; the SAR explains any deviations from experience.

**Responsibilities**

5. The Regional vice presidents (RVPs) are responsible for the quality of the economic evaluation in individual operations in their respective Regions. The RVPs ensure that the Regions apply consistently the Bank's methodology for economic evaluation and risk analysis. In approving operations, the RVPs hold the country department directors accountable for the quality of the economic evaluation. The lead economists ensure that their departments apply consistently the Bank's methodology for economic evaluation and risk analysis. The Central Vice Presidencies select the methodology for economic and risk analysis, design training programs, and disseminate best practice. They also advise TMs on poverty and environmental considerations.

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5. See OD 4.01, *Environmental Assessment*, and OD 4.15, *Poverty Reduction*.

# Operational Directive

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## Operational Directive 14:70: Involving Nongovernmental Organizations in Bank-Supported Activities

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# Operational Directive

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## Involving Nongovernmental Organizations in Bank-Supported Activities

### Introduction

1. This directive sets out a framework for involving nongovernmental organizations (NGOs) in Bank<sup>1</sup>-supported activities. It provides staff with guidance on working with NGOs, bearing in mind their potential contribution to sustainable development and poverty reduction, as well as the need to consult with relevant member governments and to proceed in conformity with their policies towards NGOs

### Definition and Classification of NGOs

2. The diversity of NGOs strains any simple definition or classification. NGOs include a wide variety of groups and institutions that are entirely or largely independent of government, and characterized primarily by humanitarian or cooperative, rather than commercial, objectives. The terminology varies: for example, in the United States they may be called "private voluntary organizations," and most African NGOs prefer to be called "voluntary development organizations." Although organizations such as universities or research institutes may be nongovernmental, this directive refers principally to private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development.

3. In pursuit of the Bank's development, environment, and poverty alleviation objectives, staff increasingly come into contact with a wide range of NGOs. Production-related NGOs include water users' societies, pastoral associations, consumer and credit cooperatives, farm equipment lease associations, and tree-grower associations. Charitable and religious associations may be involved in shelter for the homeless, food distribution, family planning, and mobilization of funds

for development. NGOs heighten awareness and influence policy concerning environmental degradation (OMS 2.36, *Environmental Aspects of Bank Work*, to be reissued as OD 4.00, *Environmental Policies*), involuntary resettlement (OMS 2.33, *Social Issues Associated with Involuntary Resettlement in Bank-Financed Projects*, and OPN 10.08, *Operations Issues in the Treatment of Involuntary Resettlement in Bank-Financed Projects*, which will be combined and reissued as OD 4.30, *Involuntary Resettlement*) and tribal people (OMS 2.34, *Tribal People in Bank-Financed Projects*, to be reissued as OD 4.40, *Tribal People*). NGOs usually play a critical role after a major disaster, such as an earthquake, because of their local knowledge, flexibility of operations, action-oriented staff, and effectiveness in enlisting local volunteers and mobilizing funds for disaster relief and reconstruction (OPN 10.07, *Guidelines for Bank Participation in Reconstruction Projects after Disasters*, to be reissued as OD 8.50, *Emergency Recovery Assistance*). While most NGOs with which the Bank works are implementation organizations, some NGOs focus primarily on the advocacy of specific changes in policies or approaches to development.

4. Local NGOs are often served at the provincial or national levels by apex federations and other support organizations which can improve local NGO effectiveness (for example through information sharing and coordination) and act as intermediaries between small NGOs and large funding institutions (e.g., by appraising the institutional capabilities of local NGOs or, in some cases, serving as funding channels). National NGOs, in turn, often join international and regional associations (of voluntary development agencies, cooperatives, trade unions, environmental organizations, religious groups, etc.)

5. Bank-supported activities most often involve the following types of NGOs:

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<sup>1</sup> "Bank" includes IDA, and "loans" include credits

## Operational Directive

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- (a) NGOs (based in both developing and developed countries) that have demonstrated professional expertise and managerial capabilities in a particular area related to Bank lending, such as environment, rural development, food security, women in development, small-scale enterprises, appropriate technology, low-cost housing, education, vocational or management training, family planning, health, nutrition, or community organization;
- (b) NGOs (based in developed countries) that have demonstrated specialized experience in developing countries in managing foreign assistance—from both private and public sources—intended to promote development at the local community level.

### Strengths and Weaknesses of NGOs

6. The main strengths many NGOs can bring to Bank-supported operations are their ability to

- (a) *reach poor communities and remote areas* with few basic resources or little infrastructure, and where government services are limited or ineffective;
- (b) *promote local participation* in designing and implementing public programs by building self-confidence and strengthening organizational capability among low-income people;<sup>2</sup>
- (c) *operate at low cost* by using appropriate technologies, streamlined services, and minimal overheads; and
- (d) *identify local needs, build upon existing resources, and transfer technologies developed elsewhere*. Some approaches and ideas now prevalent

among official development agencies began as NGO innovations.

7. On the other hand, some NGOs' ability to contribute to Bank-financed operations are constrained by a number of factors:

- (a) *Limited replicability* of many NGO-sponsored activities that are too small and localized to have important regional or national impact. In attempting to scale up their operations with public sector support, some NGOs may lose their innovative quality, and become top-down, nonparticipatory, and dependent on external and governmental support;
- (b) *Limited self-sustainability*. Like many government programs, many NGO-sponsored projects are not designed with sufficient concern for how activities will be sustained;
- (c) *Limited managerial and technical capacity*. Even some professionally staffed NGOs are poorly managed, have only rudimentary accounting systems, and sometimes initiate infrastructure projects with inadequate technical analysis;
- (d) *Lack of broad programming context*. Although experience varies by region and sector, NGO development projects often are implemented individually, outside the framework of a broader programming strategy for a region or sector, and with little regard even to other NGOs' activities. Coordination has been recognized as a constraint affecting the NGO community itself as much as the public sector or the donor community (OD 14.30, *Aid Coordination Groups*); and

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<sup>2</sup> OED reviews have shown that strong beneficiary organizations improve the prospect of project success by increasing sensitivity to poor people, adapting to the local culture and environment, responding flexibly to changing conditions, and building local commitment to operation and maintenance.

# Operational Directive

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- (e) *Politicization.* Some NGOs combine development concerns with political or religious objectives that limit the extent to which the Bank can work with them while safeguarding its primary relationship with its member governments.

## Ways of Involving NGOs in Bank-Supported Activities

8. Although the Bank does not lend directly to them, NGOs can play a role in selected Bank-supported activities in various ways, in conformity with the relevant government's policies towards NGOs:

- (a) *Analysis of development issues.* Bank staff and governments can learn from NGO assessments of official development programs, especially regarding the concerns of low-income groups. There may be a role for NGOs in adjustment programs, especially concerning the social dimensions of adjustment; where the government and the Bank agree that such a role is appropriate, NGOs should be consulted at an early stage. Country economic and sector work on poverty-related issues could also benefit from NGOs' views, particularly those of local NGOs;
- (b) *Project identification.* NGOs can be sources of information on intended beneficiaries and technological and institutional innovation (OMS 2.12, *Project Generation and Design*, to be reissued as OD 10.00, *Project Generation and Preparation*). Small NGO programs sometimes become the model for a larger Bank-financed project. NGO staff may also provide consulting expertise for Bank missions;

- (c) *Project design.* NGOs may serve as consultants or sources of information for the Bank, government, or local communities during project preparation. In such cases, involvement at an early stage could be helpful;

- (d) *Project financing.* Some international NGOs may cofinance a project or, more likely, finance activities complementary to a Bank-financed project (OMS 1.24, *Co-Financing*, to be reissued as OD 14.20);

- (e) *Project implementation.* An NGO may be (i) a contractor or manager engaged by the government and financed from the loan proceeds or through trust funds (OMS 4.40, *Trust Funds*, to be reissued as OD 14.40), (ii) a financial intermediary or a supplier of technical knowledge to local beneficiaries, (iii) an adviser either assisting local beneficiaries to apply for project resources (e.g., credit) or organizing local communities to make use of project facilities, (iv) an independent partner implementing activities complementary to a Bank-financed project, (v) the recipient of a government grant or loan funds,<sup>3</sup> or (vi) the beneficiary of an NGO funding mechanism established by the project; and

- (f) *Monitoring and evaluation.* NGOs may assist the government, a project entity, or the Bank in monitoring project progress or evaluating results.

9. Because NGOs find it difficult to fund their involvement during the relatively long planning process required for Bank operations, the Bank sometimes makes small grants to NGOs from its administrative budget, for example for

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<sup>3</sup> On-lending is more likely for industrial development and finance projects, shelter schemes, and agricultural credit programs. grants are more typical in the education, population, health, and nutrition sectors. Serviced land has also been provided under urban projects for an NGO's community or religious activities, or in population and human resource development projects for the provision of NGO services.

studies or meetings related to Bank operations. The Special Project Preparation Facility<sup>4</sup> can be used to launch innovative NGO-related activities in Africa. The Bank provides grant funding to strengthen African NGOs dealing with population issues. Grant funding to facilitate NGO involvement in a Bank-financed project can also be sought from an international NGO or from another official development agency (chiefly bilateral agencies and the European Economic Community). A few bilaterals (notably the Canadian International Development Agency) and multilaterals (mainly the United Nations Children's Fund [UNICEF] and the United Nations Development Programme [UNDP]) provide grants directly to developing country NGOs and NGO associations.

### Guidelines for Involving NGOs in Bank-Supported Activities

10. Staff are encouraged whenever appropriate to involve NGOs, particularly local NGOs, in Bank-supported activities along the lines set out in para. 8, bearing in mind the strengths and weaknesses of NGOs (paras. 6-7). However, because of the Bank's relationship to its member governments, staff must operate in the framework of the relevant government's policies regarding NGOs. Given the potential benefit from selective NGO involvement in development activities, staff should encourage constructive working relationships among governments, donors, and NGOs. The Bank may provide advice to interested governments on approaches and policies for encouraging the development of indigenous NGOs as effective development agents. Successful replication of NGO-supported local initiatives may be possible only in a political environment that allows NGOs to flourish and multiply.

11. Staff should be responsive, and encourage governments to be responsive, to NGOs that

request information or raise questions about Bank-supported activities, subject to the restrictions set out in Administrative Manual Statement 1.10, *Directive on Disclosure of Information*, including preserving the confidentiality of privileged information and the dialogue between the Bank and the government. If NGOs give the Bank information, the extent of confidentiality should be agreed in advance.

12. A Bank-supported project may well finance NGO-managed programs; however, too much official funding can destroy an NGO's grass roots character, and the administrative costs of funding small NGO projects are sometimes disproportionate to activity costs. Staff should be sensitive to the NGOs' need to ensure that their special status is not compromised as a result of official funding. Staff could also seek to reduce administrative costs for governments and the Bank by working, whenever possible, with NGO organizations and groupings, especially of local NGOs.

13. Any major collaboration with individual NGOs may need to be accompanied by management assistance, for example to improve monitoring and accounting.

### Procurement and Disbursement

14. NGO participation in project execution as contractors or suppliers should meet the criteria set out in the Bank's *Guidelines for Procurement under IBRD Loans and IDA Credits* and in OD 11.00, *Procurement*. However as NGO contracts are usually small and involve community participation, international competitive bidding and limited international bidding are normally not feasible, and even open competitive procurement is not always feasible. Shopping or direct contracting is often the most appropriate method of procurement. Direct contracting may be justified where an NGO is the only entity capable of carrying out an activity

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<sup>4</sup> Guidelines on the use of the Special Project Preparation Facility are in (a) the Board paper, *Special Budget Supplement for the Sub-Saharan Africa Action Program*, R84-313, November 20, 1984, (b) the SVPOP memorandum, *Special Project Preparation Facility for Sub-Saharan Africa—Procedures for Implementation*, January 8, 1985, (c) the Board paper, *Special Project Preparation Facility (SPPF)—Proposal to Extend the Facility*, R87-161, June 24, 1987, and (d) the SVPOP memorandum, *Special Project Preparation Facility (SPPF). Approval by the Board*, July 16, 1987.

# Operational Directive

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(e.g., maintenance of feeder roads in remote areas, or the transfer of a particular technology). Contracts with NGOs may need to reflect the fact that NGOs differ from commercial contractors: the contract might therefore stipulate, for example, that NGOs should involve the community in planning and implementation. Similarly, special measures may be required to ensure that NGOs have sufficient liquidity to carry out the contract.

15. When NGOs act as consultants financed through a Bank loan or Bank-executed UNDP project, they should be engaged following the *Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency*, OMS 2.18, *The Development of Local Capabilities and the Use of Local Consultants*, and OMS 2.50, *Services of Consulting Firms for Bank Group Projects and UNDP Studies*.<sup>5</sup> Several Part I countries' consultant trust funds include provisions that would allow their use to hire developing country NGO consultants.

16. When an NGO acts on behalf of a borrower or implementing agency, the standard accounting and audit requirements apply. Statements of Expenditure (SOEs) prepared and certified by the NGO normally constitute acceptable documentation for disbursement purposes, subject to the Bank's specific agreement. An independent audit should be carried out (see Circular Op 6/80, *Statements of Expenditure: Interim Guidelines*, filed with OMS 3.30, to be reissued as OD 12.30, *Statements of Expenditure*).

## References in Bank Documents

17. When NGOs are likely to be involved, the Executive Project Summary should indicate their role, and the Project Brief and Staff Appraisal Report should, if appropriate, discuss relevant NGOs and their relation to the project, and

describe agreements reached with the government and NGOs regarding NGO involvement in projects that directly affect large groups of low-income people. These would often include (a) agriculture, population, health, and nutrition projects; (b) low-income housing and urban upgrading projects; (c) education and training projects; (d) some structural and sectoral adjustment operations; and (e) projects that involve resettlement or retrenchment. Economic and sector reports could include an analysis of NGO activities, particularly when they focus on poverty reduction

## Responsibilities

18. Country departments (especially country officers and resident representatives) should make a concerted effort to collect information about NGOs in their respective countries, including government attitudes toward NGO activities, and incorporate relevant information about and from NGOs into their work. While relying on various inventories and non-Bank sources of information about NGOs, the sector operations divisions are also encouraged to develop knowledge of important NGOs by sector and make their own capability assessments. Where appropriate, staff may organize periodic meetings with NGOs. Staff should, however, keep the borrower government appropriately informed of their contacts with NGOs, and proceed in conformity with that government's policies towards NGOs.

19. Sectoral departments in Policy, Planning and Research (PPR) are responsible for maintaining relationships with NGOs that are active on operational aspects of policy in their areas. The External Affairs Department is responsible for cooperation with NGOs in development education and for public information work with NGOs with a serious interest in international development issues.

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<sup>5</sup> These OMSs are to be combined and reissued as OD 11.10 *Use of Consultants*

## Operational Directive

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20. The International Economic Relations Division of the Strategic Planning and Review Department (SPRIE) is responsible for developing and coordinating the Bank's overall relationships with NGOs subject to guidance provided by senior management and the Board, and keeping the relevant country director informed. SPRIE

acts as the Bank's secretariat for the Bank-NGO Committee, which is a formal forum and focal point for the Bank's discussions with NGOs. SPRIE also fosters new initiatives, backstops other departments in their work with NGOs, and provides information to operational staff on individual NGOs.

# Manual Transmittal Memorandum

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August 28, 1989

## Operational Directive 14.70: Involving Nongovernmental Organizations in Bank-Supported Activities

1. Attached for insertion in your new Operational Manual is OD 14.70. It is a revision of OMS 5.30, *Collaboration with Nongovernmental Organizations*, which may now be discarded from the old manual. The directive does not incorporate any changes in policy, but it sets out more clearly the need to proceed in conformity with the relevant government's policies towards nongovernmental organizations.
2. Questions on this directive should be referred to the Chief, International Economic Relations Division, Strategic Planning and Review Department.
3. Additional copies are available on a self-service basis in H 4234.

Attachment







## Disclosure of Operational Information

1. This statement sets out the procedures for the implementation of policies specified in the Bank's<sup>1</sup> *Directive on Disclosure of Information* (Washington, D.C.: World Bank and International Finance Corporation, 1993, forthcoming)<sup>2</sup> (Disclosure Directive), with respect to Project Information Documents, Staff Appraisal Reports, gray cover country economic and sector work reports, sectoral policy papers, and environment-related documents.

2. The Bank's policy on disclosure of information applies also to the disclosure of documents prepared for projects financed or cofinanced from trust funds under the Global Environment Facility (GEF), including Montreal Protocol projects financed through the Ozone Projects Trust Fund. Specific procedures are set out in BP 17.50, Annex A.

### Project Information Document

3. In tandem with the Initial Executive Project Summary (IEPS) for an investment operation or the Initiating Memorandum (IM) for an adjustment operation, Bank staff prepare the Project Information Document (PID), a brief (two-page) factual summary of the main elements of the evolving project. The PID clearly indicates that its contents are subject to change and that the components described may not necessarily be included in the final project.<sup>3</sup> Once the PID is reviewed and approved at the country department level with the

IEPS or draft IM,<sup>4</sup> a copy is sent to the Public Information Center (PIC), through which interested parties may obtain Bank documents.<sup>5</sup>

4. As an investment project develops, Bank staff update the PID<sup>6</sup> and send the update to the PIC, through which interested parties may obtain it. For all operations, the PID is updated before the Bank's formal project appraisal; for operations in which major changes are made after appraisal, a final revision of the PID is prepared following appraisal.

5. If an interested party requests additional technical information about a project under preparation, the country department (CD) director releases factual technical documents, or portions of such documents, after consulting with the government to identify any sections that involve confidential material or that could compromise relations between the government and the Bank.

### Staff Appraisal Reports

6. Each Invitation to Negotiate includes a statement that it is the Bank's policy to release the Staff Appraisal Report (SAR) after the Board approves the project. The Invitation to Negotiate also requests that the prospective borrower's negotiating team be prepared to indicate, during negotiations, any section of the SAR that is confidential or sensitive, or that could adversely affect relations between the Bank and the government.<sup>7</sup>

1. "Bank" includes IDA, and "loans" includes credits.

2. Also available as AMS 1.10, *Directive on Disclosure of Information* (forthcoming).

3. See GP 17.50 for sample PIDs.

4. For these procedures, see OD 9.00, *Processing of Investment Lending*, and Circular Op 87/06, *Guidelines for Preparing and Processing Adjustment Loans and Credits*.

5. The PIC deals only with requests for specific documents, not blanket requests for information. The PIC is described further in Annex B.

6. See GP 17.50 for a sample updated PID for an investment project.

7. Annex C contains sample language.

**Note:** This statement supersedes the Operational Memorandum *New Directive on Disclosure of Information* (9/1/93), which may be discarded. Questions may be addressed to the Senior Manager, Operations Policy Group, OPR.

*These procedures were prepared for the guidance of World Bank staff. They are not necessarily a complete treatment of the subjects covered. Additional copies of this document are available on a self-serve basis in the Institutional Information Services Center (IISC), in E 3200.*



The Bank and the prospective borrower discuss these sections during negotiations. Following negotiations, Bank staff take into account the government's comments in preparing the final SAR. They incorporate into the Memorandum and Recommendation of the President any information removed from the SAR that may be of interest to the Board in its decision-making process. In exceptional cases, if extensive issues of confidentiality arise, the option of restricting the release of an appraisal report may be justified on a project-specific basis by the CD director concerned; the Regional vice president (RVP) and the Operations Policy Department (OPR) are informed. The cover of such a report carries a note indicating that release is restricted.

7. After Board approval, a copy of the SAR is transmitted, as part of the normal distribution, to the PIC, through which interested parties may obtain it. If any substantial changes to a project that is being implemented are approved by the Board,<sup>8</sup> Bank staff prepare and transmit to the PIC a summary document (typically two pages long) that explains the changes.

#### Gray Cover Country Economic and Sector Work Reports

8. Before Bank staff conduct the final review of each green cover country economic and sector work (CESW) report<sup>9</sup> with the government concerned, they advise the government that the Bank's policy is to make gray cover CESW reports available at the PIC, through which interested parties may obtain them. They also ask the government to identify all confidential information in the CESW report.<sup>10</sup> Bank staff then review the issues raised by the government and modify the report as appropriate. Any deletions or changes

in information or analysis that may be of interest to the executive directors are presented in a covering note to the gray cover report. In exceptional cases, if extensive issues of confidentiality arise, exceptions to the policy of releasing reports may be authorized on a case-by-case basis by the CD director responsible; the RVP and OPR are informed. The cover of such a report carries a note indicating that release is restricted.

9. A copy of the gray cover CESW report is transmitted, as part of the normal distribution, to the PIC, through which interested parties may obtain it.

#### Sectoral Policy Papers

10. In preparing sectoral policy papers, Bank staff may consult with, and make drafts available to, interested individuals and groups outside the Bank. When a Board seminar is scheduled to discuss a draft policy paper, the executive directors may make the draft available to outside interested parties for review and comment. However, the final paper submitted to the executive directors for approval may not be released.<sup>11</sup> Sectoral policy papers approved by the Board are transmitted by the originating unit to the PIC, through which interested parties may obtain them.

#### Environment-Related Documents

##### *Environmental Data Sheets*

11. The environmental data sheets prepared as quarterly updates in the *Monthly Operational Summary* for all projects in the IBRD/IDA lending program are transmitted to the PIC, through which interested parties may obtain them.

8. See OD 13.05, *Project Supervision*, para. 34.

9. These reports include Country Economic Memoranda, country sector reports, country reports (such as poverty and private sector assessments), and public expenditure reports.

10. Annex C contains sample language.

11. "Rules of Procedure for the Meetings of Executive Directors," Section 7.



### *Environmental Assessments*

12. For all Bank-funded Category A projects, the Bank advises the borrower in writing<sup>12</sup> that, in addition to other requirements set forth in OD 4.01,<sup>13</sup> (a) the borrower is responsible for the environmental assessment (EA); (b) before the Bank proceeds to appraisal, the EA must be made available in the borrowing country at some public place accessible to affected groups and local NGOs and must be submitted to the Bank; and (c) once the EA is released locally and officially received by the Bank, it will also be made available at the PIC. Once the EA has been released locally and officially submitted to the Bank, the CD sends a copy to the PIC, through which interested parties may obtain it. If, in an exceptional case, the government objects to broader release of the EA, staff should not continue with project processing.<sup>14</sup> For an IBRD project, the issue of further processing is submitted to the executive directors for consideration.

### *Environmental Analyses*

13. For a Category B project, the environmental analysis<sup>15</sup> is summarized in an annex to the PID and documented in the SAR. If the environmental analysis for an IDA-funded Category B project results in a separate report, (a) before the Bank proceeds to appraisal, the separate report must be made available in the borrowing country at some public place accessible to affected groups and

local NGOs and must be submitted to the Bank; and (b) once the separate report is released locally and officially received by the Bank, it is sent to the PIC, through which interested parties may obtain it.

### *Environmental Action Plans*

14. Bank staff encourage governments to make their environmental action plans (EAPs)<sup>16</sup> available to the public. Once the Bank has officially received the EAP and has obtained the government's consent, the country department transmits a copy of the EAP to the PIC, through which interested parties may obtain it.

### *Effectiveness*

15. These procedures take effect on the dates shown in BP 17.50, Annex D.<sup>17</sup> Requests for SARs, CESW and environment-related reports, and sectoral policy papers produced before those dates are handled individually by the responsible director in consultation with the government concerned, under the policy in force at the time the documents were approved by the Bank or officially received from a government.

### *Other Documents*

16. Procedures governing the release of any documents not referred to in this statement are provided for in the Disclosure Directive.

12. Annex C contains sample language.

13. See OD 4.01, *Environmental Assessment*.

14. This provision for IDA projects reflects para. 21 of *Addition to IDA Resources: Tenth Replenishment*, approved by the Board on January 12, 1993, and adopted by the IDA Board of Governors (Resolution No. 174, March 31, 1993).

15. See OD 4.01, *Environmental Assessment*.

16. See OD 4.02, *Environmental Action Plans*.

17. Annex D also sets out arrangements for handling requests before the PIC begins operation.





## Application of the Bank's Disclosure Policy to Projects under the Global Environment Facility

1. The States participating (the Participants) in the Global Environment Facility (GEF) have indicated that activities under the GEF should be carried out in a transparent manner, with full information available promptly. As the trustee of the Global Environment Trust Fund and as an implementing agency of the GEF, the Bank is accountable to the Participants, and its policy of openness about projects and other GEF-related activity is consistent with their wishes. This annex sets out how the Bank's policy on and procedures for disclosing operational information<sup>1</sup> apply to projects financed or cofinanced from GEF trust funds, including Montreal Protocol projects financed through the Ozone Projects Trust Fund.<sup>2</sup>

### Disclosure and the Project Cycle

2. A GEF Project Information Document (GEF-PID) is prepared for projects financed or cofinanced from GEF trust funds. The GEF-PID, a factual summary of the main elements of the evolving project, gives particular attention to the environmental issues and concerns the project will address.<sup>3</sup> The GEF-PID serves both as the Bank's decision-making document for GEF-funded projects and as the information document that interested parties may obtain through the Bank's Public Information Center (PIC).<sup>4</sup>

3. When the GEF Implementation Committee includes a project in a work program for the GEF

Participants' review, it provides the following documentation for the Participants' meeting: the GEF-PID, with the associated reference sheet of project selection criteria and reviewers' opinions; and the Report of the GEF Chairman, which includes (a) a summary of the status of the projects in each work program reviewed by the Participants at earlier meetings, (b) minutes of the Implementation Committee meeting for the work program under consideration, (c) financial reports, and (d) a statement by nongovernmental organizations (NGOs) to the Participants. All the documents for the Participants' meeting are made available to the Bank's executive directors, recipient countries, other development institutions, and NGOs. The Bank also sends these documents to the PIC, through which interested parties may obtain them.

4. Following the Participants' meeting, any updates to the GEF-PID and any technical annexes to the Memorandum of the Director (MOD) are sent to the PIC, through which interested parties may obtain them.

5. The Invitation to Negotiate includes a statement that it is the Bank's policy to release the MOD after the project is approved. The Invitation to Negotiate also requests that the prospective GEF grant recipient's negotiating team be prepared to indicate, during negotiations, any section of the MOD that may be confidential or sensitive, or that could adversely affect relations

1. "Bank" includes IDA. The United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP), which together with the Bank are the implementing agencies under the GEF, have their own policies on disclosure of information.
2. Processing of GEF projects is described in OD 9.01, *Procedures for Investment Operations under the Global Environment Facility*.
3. See GP 17.50 for a sample GEF-PID.
4. The PIC is described in BP 17.50, Annex B.



with the prospective recipient.<sup>5</sup> The Bank and the prospective recipient discuss these sections during negotiations. Following negotiations, Bank staff take into account the prospective recipient's comments in preparing the final document. After approval of the GEF project, the final blue cover MOD (excluding the introductory paragraph and the paragraph pursuant to which the Regional vice president's approval is sought by the director of the country department concerned) is merged with the technical annexes and sent to the PIC, through which interested parties may obtain the document.

#### *Cofinanced Projects*

6. GEF-Bank cofinanced projects follow the same cycle as freestanding GEF projects, with the addition that the GEF-PID for cofinanced projects includes all relevant information on the Bank-financed aspects of the project.<sup>6</sup> As the GEF-funded segment of the project advances through its cycle, any significant changes in the Bank-financed part of the project are reflected in the GEF-PID and the final blue cover MOD.

#### *Evaluation Reports*

7. Two kinds of evaluation reports are sent to the Bank's PIC, through which interested parties may obtain them: (a) the annual Project Implementation Performance Report on GEF projects, and (b) the GEF Project Evaluation Report, which is prepared upon project completion.

#### **Effectiveness**

8. These procedures take effect on October 1, 1993. Requests for GEF project documents produced before that date are handled individually by the Global Environment Coordination Division.

#### **Other Documents**

9. Procedures for the release of any documents not referred to in this statement are provided for in *Directive on Disclosure of Information* (Washington, D.C.: World Bank and International Finance Corporation, 1993, forthcoming).

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5. Annex A1 contains sample language for the Invitation to Negotiate.

6. The PID for the Bank-financed portion of the project is available separately to interested parties on request through the PIC.



## **Sample Notice to Prospective Recipients of Grants under the Global Environment Facility**

### *Paragraph for Invitation to Negotiate*

With regard to GEF projects, it is the Bank's policy to release the Memorandum of the Director (MOD) to interested parties on request through the Public Information Center after the project is approved for financing. Before releasing this report, the Bank takes into account any comments made by the prospective grant recipient. Therefore, your delegation for the forthcoming negotiations should be prepared to indicate any text or data in the MOD that may be confidential or sensitive, or that may adversely affect the relations between the Bank and the government. The Bank will review your delegation's comments during negotiations.







## The Public Information Center

1. As of January 1, 1994, the Bank maintains at its headquarters a Public Information Center (PIC), which serves as the central contact for those who wish to obtain information about the Bank's activities. The public may visit the PIC (which includes a reading room); requests to the facility may also be submitted through the Bank's Paris, London, and Tokyo offices and through other field offices.
2. The PIC offers through the Internet network a complete set of Project Information Documents (PIDs) and a catalog of the Bank documents that are available to the public. Users of Internet worldwide may select and request the documents they need. PIDs are provided free of charge to users, either in electronic form or in hard copy.
3. All documents available in Washington are also available to interested parties through the Paris office. Users who request documents through the Tokyo office will be served through the PIC in Washington. The PIC provides to the other field offices only the documents specific to their country, plus policy papers. In Washington, Paris, London, and Tokyo, users pay a standard charge for all hard-copy documents (except PIDs).<sup>1</sup> At other field offices, documents on the country where the field office is located are provided free of charge to users in that country; documents on other countries are obtained from the PIC at the standard charge. Nationals of a country that has no field office may obtain documents on their country free of charge through the PIC; documents on other countries carry the standard charge.
4. The PIC deals only with requests for specific documents, not blanket requests for information.
5. PIC staff may direct individuals to other materials that are available to the public. They assist operational staff in handling requests for information. The Global Environment Coordination Division may also respond to requests for documents pertaining to projects financed or cofinanced from trust funds under the Global Environment Facility.

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1. As of January 1, 1994, the standard charge is US\$15.00, or the equivalent. This charge may be revised from time to time.





## Sample Notices to Prospective Borrowers

### *Paragraph for Invitation to Negotiate*

It is the Bank's policy to release the project's appraisal report to interested parties on request through the Public Information Center after the Board approves the project for Bank financing. Before releasing such a report, the Bank takes into account any comments made by the prospective borrower concerned. Therefore, your delegation for the forthcoming negotiations should be prepared to indicate any text or data in the appraisal report that may be confidential or sensitive, or that may adversely affect the relations between the Bank and the government. The Bank will review your delegation's comments during negotiations.

### *Paragraph on Economic and Sector Work Report*

This is to advise you that the Bank's policy is to make available to interested parties on request through the Public Information Center gray cover country economic and sector reports. The gray cover version of the [name] report will be released after the forthcoming final review of the report. Therefore, during that review, you should identify any parts of the report that, in your view, contain confidential or sensitive information. The Bank will take your comments into account in preparing the gray cover version of the report.

### *Paragraphs on Environmental Assessment or Analysis*

#### Category A Project

This is to advise you that [name of project] has been classified as Category A for purposes of environmental assessment. This is also to advise you that, in addition to other requirements specified in the Bank's OD 4.01, *Environmental Assessment*, (a) the borrower is responsible for the environmental assessment (EA); (b) before the Bank proceeds to appraisal, the EA must be made available in [name of country] at some public place accessible to affected groups and local NGOs and must be submitted to the Bank; and (c) once the EA is released locally and officially received by the Bank, it will also be made available at the Bank's Public Information Center.

#### Category B Project

This is to advise you that [name of project] has been classified as Category B for purposes of environmental assessment. This is also to advise you that, in addition to other requirements specified in the Bank's OD 4.01, *Environmental Assessment*, the borrower is responsible for the environmental analysis. The environmental analysis is summarized in the Project Information Document, which is made available to interested parties. For an IDA-funded project, if the analysis results in a separate report, (a) before the Bank proceeds to appraisal, the separate report must be made available in [name of country] at some public place accessible to affected groups and local NGOs and must be submitted to the Bank; and (b) once the separate environmental analysis is released locally and officially received by the Bank, it will also be made available at the Bank's Public Information Center.





## Disclosure Policy: Effectiveness and Interim Arrangements

1. The Bank's expanded policy on disclosure of information was approved on August 26, 1993. The individual provisions of the policy will take effect according to the following schedule:
  - (a) A Project Information Document (PID) will be produced at the same time as the Initial Executive Project Summary (IEPS) for each new project that reaches the IEPS stage after October 1, 1993. For the remainder of the portfolio not yet approved (i.e., projects beyond the IEPS stage but not presented to the Board), a PID will be completed by January 1, 1994. For projects financed or cofinanced from trust funds under the Global Environment Facility (GEF), a GEF-PID will be produced for each project submitted to the GEF Implementation Committee after October 1, 1993.
  - (b) Consultation with the government on, and subsequent release of, Staff Appraisal Reports (SARs) and (for GEF projects) Memoranda of the Director (MODs) will take place for all projects for which Invitations to Negotiate are issued after October 1, 1993.
  - (c) Release of country economic and sector work (CESW) reports (following consultation with the government) will take place for all such reports that go to gray cover after January 1, 1994.
  - (d) Release of sectoral policy papers will take place for all such papers approved by the Board after January 1, 1994.
  - (e) Environmental assessments for IDA-funded Category A projects and environmental analyses for IDA-funded Category B projects (when there are separate reports) have been made available to the public since July 1, 1993. The expansion of the disclosure policy for environment-related documents to cover all Bank-financed projects will take effect on January 1, 1994.
2. The Public Information Center will be open to the public from January 1, 1994. In the interim, requests for documents will be handled as follows:
  - (a) The Internal Documents Unit will handle requests for printed copies of PIDs, GEF-PIDs, and MODs.
  - (b) Country departments will handle requests for SARs and gray cover CESW reports; when the requests are approved, the Internal Documents Unit will provide printed copies.
  - (c) Requests for sectoral policy papers will be handled by the responsible department director in the central vice presidential units.
  - (d) The Environment Department will handle requests for environment-related documents.



**INSTRUMENT FOR THE ESTABLISHMENT  
OF THE RESTRUCTURED  
GLOBAL ENVIRONMENT FACILITY**

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## INTRODUCTION

Negotiations to restructure the Global Environment Facility (GEF) concluded at a GEF Participants meeting in Geneva, Switzerland, in March 1994, with the acceptance by representatives of 73 States of the *Instrument for the Establishment of the Restructured Global Environment Facility*.

Thereafter, the Instrument was formally adopted, in accordance with paragraph 1 of the Instrument, by the three implementing agencies of the GEF:

- The Executive Board of the United Nations Development Programme and of the United Nations Population Fund adopted the instrument at a meeting in New York on May 13, 1994 (Document DP/1994/9, "Report on the Second Regular Session");
- The Governing Council of the United Nations Environment Programme adopted the instrument at a special meeting of its Governing Council in Nairobi on June 18, 1994 (Resolution ss.iv.1, "Adoption of the Instrument for the Establishment of the Restructured Global Environment Facility"); and
- The Executive Directors of the World Bank adopted the instrument at a meeting in Washington, D.C., on May 24, 1994 (Resolution No. 94-2, "Global Environment Facility Trust Fund: Restructuring and First Replenishment of the Global Environment Facility"), and the Board of Governors of the Bank adopted a resolution on July 7, 1994, approving cooperation by the Bank with other international organizations as appropriate to achieve the purposes of the GEF (Resolution No. 487, "Protection of the Global Environment").

This publication contains the text of the *Instrument for the Establishment of the Restructured Global Environment Facility*, along with the texts of the decisions adopted by the three implementing agencies.

**INSTRUMENT FOR THE  
ESTABLISHMENT OF THE RESTRUCTURED  
GLOBAL ENVIRONMENT FACILITY**

Preamble

- I. Basic Provisions
- II. Contributions and Other Financial Provisions for Replenishment
- III. Governance and Structure
- IV. Principles of Decision-Making
- V. Relationship and Cooperation with Conventions
- VI. Cooperation with Other Bodies
- VII. Operational Modalities
- VIII. Reporting
- IX. Transitional and Final Provisions

**ANNEXES**

- A: Notification of Participation and Termination of Participation
- B: Role and Fiduciary Responsibilities of the Trustee of the GEF Trust Fund
- C: GEF Trust Fund: Financial Provisions for Replenishment
- D: Principles of Cooperation among the Implementing Agencies
- E: Constituencies of the GEF Council

## **PREAMBLE**

Whereas:

- (a) The Global Environment Facility (GEF or the Facility) was established in the International Bank for Reconstruction and Development (IBRD or World Bank) as a pilot program in order to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development, by resolution of the Executive Directors of the World Bank and related interagency arrangements between the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), and the World Bank;
- (b) In April 1992, Participants in the GEF agreed that its structure and modalities should be modified. Agenda 21 (the action plan of the 1992 United Nations Conference on Environment and Development), the United Nations Framework Convention on Climate Change and the Convention on Biological Diversity subsequently called for the restructuring of the Facility;
- (c) Representatives of the States participating at present in the Facility and of other States wishing to participate in it have requested that the Facility be restructured in order to take account of these developments, to establish the GEF as one of the principal mechanisms for global environment funding, to ensure a governance that is transparent and democratic in nature, to promote universality in its participation and to provide for full cooperation in its implementation among UNDP, UNEP and the World Bank (together referred to hereinafter as the Implementing Agencies), and to benefit from the evaluation of experience with the operation of the Facility since its establishment;
- (d) It is necessary to replenish the resources for these purposes under a restructured Facility which includes a new GEF Trust Fund on the basis of this Instrument;
- (e) It is desirable to terminate the existing Global Environment Trust Fund (GET) and to transfer any funds, receipts, assets and liabilities held in it upon termination to the new GEF Trust Fund;
- (f) The Implementing Agencies have reached a common understanding of principles for cooperation as set forth in the present Instrument, subject to approval of their participation by their respective governing bodies;

It is resolved as follows:

## **I. BASIC PROVISIONS**

### **Restructuring and Purpose of GEF**

1. The restructured GEF shall be established in accordance with the present Instrument. This Instrument, having been accepted by representatives of the States participating in the GEF at their meeting in Geneva, Switzerland, from March 14 to 16, 1994, shall be adopted by the Implementing Agencies in accordance with their respective rules and procedural requirements.
2. The GEF shall operate, on the basis of collaboration and partnership among the Implementing Agencies, as a mechanism for international cooperation for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits in the following focal areas:
  - (a) climate change,
  - (b) biological diversity,
  - (c) international waters, and
  - (d) ozone layer depletion.
3. The agreed incremental costs of activities concerning land degradation, primarily desertification and deforestation, as they relate to the four focal areas shall be eligible for funding. The agreed incremental costs of other relevant activities under Agenda 21 that may be agreed by the Council shall also be eligible for funding insofar as they achieve global environmental benefits by protecting the global environment in the four focal areas.
4. The GEF shall ensure the cost-effectiveness of its activities in addressing the targeted global environmental issues, shall fund programs and projects which are country-driven and based on national priorities designed to support sustainable development and shall maintain sufficient flexibility to respond to changing circumstances in order to achieve its purposes.
5. The GEF operational policies shall be determined by the Council in accordance with paragraph 20(f) and with respect to GEF-financed projects shall provide for full disclosure of all non-confidential information, and consultation with, and participation as appropriate of, major groups and local communities throughout the project cycle.
6. In partial fulfillment of its purposes, the GEF shall, on an interim basis, operate the financial mechanism for the implementation of the United Nations Framework Convention on Climate Change and shall be, on an interim basis, the institutional structure which carries out the operation of the financial mechanism for the implementation of the Convention on Biological Diversity, in accordance with such cooperative arrangements or agreements as may be made pursuant to paragraphs 27 and 31. The GEF shall be available to continue to serve for the purposes of the financial mechanisms for the implementation of those conventions if it is requested to do so by their Conferences of the Parties. In both respects, the GEF shall function under the guidance of, and be accountable to, the Conferences of the Parties which shall decide on policies, program priorities and eligibility criteria for the purposes of the

conventions. The GEF shall also be available to meet the agreed full costs of activities under Article 12, paragraph 1, of the United Nations Framework Convention on Climate Change.

### **Participation**

7. Any State member of the United Nations or of any of its specialized agencies may become a Participant in the GEF by depositing with the Secretariat an instrument of participation substantially in the form set out in Annex A. In the case of a State contributing to the GEF Trust Fund, an instrument of commitment shall be deemed to serve as an instrument of participation. Any Participant may withdraw from the GEF by depositing with the Secretariat an instrument of termination of participation substantially in the form set out in Annex A.

### **Establishment of GEF Trust Fund**

8. The new GEF Trust Fund shall be established, and the World Bank shall be invited to serve as the Trustee of the Fund. The GEF Trust Fund shall consist of the contributions received in accordance with the present Instrument, the balance of funds transferred from the GET pursuant to paragraph 32, and any other assets and receipts of the Fund. In serving as the Trustee of the Fund, the World Bank shall serve in a fiduciary and administrative capacity, and shall be bound by its Articles of Agreement, By-Laws, rules and decisions, as specified in Annex B.

### **Eligibility**

9. GEF funding shall be made available for activities within the focal areas defined in paragraphs 2 and 3 of this Instrument in accordance with the following eligibility criteria:
  - (a) GEF grants that are made available within the framework of the financial mechanisms of the conventions referred to in paragraph 6 shall be in conformity with the eligibility criteria decided by the Conference of the Parties of each convention, as provided under the arrangements or agreements referred to in paragraph 27.
  - (b) All other GEF grants shall be made available to eligible recipient countries and, where appropriate, for other activities promoting the purposes of the Facility in accordance with this paragraph and any additional eligibility criteria determined by the Council. A country shall be an eligible recipient of GEF grants if it is eligible to borrow from the World Bank (IBRD and/or IDA) or if it is an eligible recipient of UNDP technical assistance through its country Indicative Planning Figure (IPF). GEF grants for activities within a focal area addressed by a convention referred to in paragraph 6 but outside the framework of the financial mechanism of the convention, shall only be made available to eligible recipient countries that are party to the convention concerned.
  - (c) GEF concessional financing in a form other than grants that is made available within the framework of the financial mechanism of the conventions referred to in paragraph

6 shall be in conformity with eligibility criteria decided by the Conference of the Parties of each convention, as provided under the arrangements or agreements referred to in paragraph 27. GEF concessional financing in a form other than grants may also be made available outside those frameworks on terms to be determined by the Council.

## **II. CONTRIBUTIONS AND OTHER FINANCIAL PROVISIONS FOR REPLENISHMENT**

10. Contributions to the GEF Trust Fund for the first replenishment period shall be made to the Trustee by Contributing Participants in accordance with the financial provisions for replenishment as specified in Annex C. The Trustee's responsibility for mobilization of resources pursuant to paragraph 20(e) of this Instrument and paragraph 4(a) of Annex B shall be initiated for subsequent replenishments at the request of the Council.

## **III. GOVERNANCE AND STRUCTURE**

11. The GEF shall have an Assembly, a Council and a Secretariat. In accordance with paragraph 24, a Scientific and Technical Advisory Panel (STAP) shall provide appropriate advice.
12. The Implementing Agencies shall establish a process for their collaboration in accordance with an interagency agreement to be concluded on the basis of the principles set forth in Annex D.

### **Assembly**

13. The Assembly shall consist of Representatives of all Participants. The Assembly shall meet once every three years. Each Participant may appoint one Representative and one Alternate to the Assembly in such manner as it may determine. Each Representative and each Alternate shall serve until replaced. The Assembly shall elect its Chairperson from among the Representatives.
14. The Assembly shall:
  - (a) review the general policies of the Facility;
  - (b) review and evaluate the operation of the Facility on the basis of reports submitted by the Council;
  - (c) keep under review the membership of the Facility; and
  - (d) consider, for approval by consensus, amendments to the present Instrument on the basis of recommendations by the Council.

## **Council**

15. The Council shall be responsible for developing, adopting and evaluating the operational policies and programs for GEF-financed activities, in conformity with the present Instrument and fully taking into account reviews carried out by the Assembly. Where the GEF serves for the purposes of the financial mechanisms of the conventions referred to in paragraph 6, the Council shall act in conformity with the policies, program priorities and eligibility criteria decided by the Conference of the Parties for the purposes of the convention concerned.
16. The Council shall consist of 32 Members, representing constituency groupings formulated and distributed taking into account the need for balanced and equitable representation of all Participants and giving due weight to the funding efforts of all donors. There shall be 16 Members from developing countries, 14 Members from developed countries and 2 Members from the countries of central and eastern Europe and the former Soviet Union, in accordance with Annex E. There shall be an equal number of Alternate Members. The Member and Alternate representing a constituency shall be appointed by the Participants in each constituency. Unless the constituency decides otherwise, each Member of the Council and each Alternate shall serve for three years or until a new Member is appointed by the constituency, whichever comes first. A Member or Alternate may be reappointed by the constituency. Members and Alternates shall serve without compensation. The Alternate Member shall have full power to act for the absent Member.
17. The Council shall meet semi-annually or as frequently as necessary at the seat of the Secretariat to enable it to discharge its responsibilities. Two-thirds of the Members of the Council shall constitute a quorum.
18. At each meeting, the Council shall elect a Chairperson from among its Members for the duration of that meeting. The elected Chairperson shall conduct deliberations of the Council at that meeting on issues related to Council responsibilities listed in paragraphs 20(b), (g), (i), (j) and (k). The position of elected Chairperson shall alternate from one meeting to another between recipient and non-recipient Council Members. The Chief Executive Officer of the Facility (CEO) shall conduct deliberations of the Council on issues related to Council responsibilities listed in paragraphs 20(c), (e), (f) and (h). The elected Chairperson and the CEO shall jointly conduct deliberations of the Council on issues related to paragraph 20(a).
19. Costs of Council meetings, including travel and subsistence of Council Members from developing countries, in particular the Least Developed Countries, shall be disbursed from the administrative budget of the Secretariat as necessary.



20. The Council shall:

- (a) keep under review the operation of the Facility with respect to its purposes, scope and objectives;
- (b) ensure that GEF policies, programs, operational strategies and projects are monitored and evaluated on a regular basis;
- (c) review and approve the work program referred to in paragraph 29, monitor and evaluate progress in the implementation of the work program and provide related guidance to the Secretariat, the Implementing Agencies and the other bodies referred to in paragraph 28, recognizing that the Implementing Agencies will retain responsibility for the further preparation of individual projects approved in the work program;
- (d) arrange for Council Members to receive final project documents and within four weeks transmit to the CEO any concerns they may have prior to the CEO endorsing a project document for final approval by the Implementing Agency;
- (e) direct the utilization of GEF funds, review the availability of resources from the GEF Trust Fund and cooperate with the Trustee to mobilize financial resources;
- (f) approve and periodically review operational modalities for the Facility, including operational strategies and directives for project selection, means to facilitate arrangements for project preparation and execution by organizations and entities referred to in paragraph 28, additional eligibility and other financing criteria in accordance with paragraphs 9(b) and 9(c) respectively, procedural steps to be included in the project cycle, and the mandate, composition and role of STAP;
- (g) act as the focal point for the purpose of relations with the Conferences of the Parties to the conventions referred to in paragraph 6, including consideration, approval and review of the arrangements or agreements with such Conferences, receipt of guidance and recommendations from them and compliance with requirements under these arrangements or agreements for reporting to them;
- (h) in accordance with paragraphs 26 and 27, ensure that GEF-financed activities relating to the conventions referred to in paragraph 6 conform with the policies, program priorities and eligibility criteria decided by the Conference of the Parties for the purposes of the convention concerned;

- (i) appoint the CEO in accordance with paragraph 21, oversee the work of the Secretariat, and assign specific tasks and responsibilities to the Secretariat;
- (j) review and approve the administrative budget of the GEF and arrange for periodic financial and performance audits of the Secretariat and the Implementing Agencies with regard to activities undertaken for the Facility;
- (k) in accordance with paragraph 31, approve an annual report and keep the UN Commission on Sustainable Development apprised of its activities; and
- (l) exercise such other operational functions as may be appropriate to fulfill the purposes of the Facility.

### **Secretariat**

21. The GEF Secretariat shall service and report to the Assembly and the Council. The Secretariat, which shall be headed by the CEO/Chairperson of the Facility, shall be supported administratively by the World Bank and shall operate in a functionally independent and effective manner. The CEO shall be appointed to serve for three years on a full time basis by the Council on the joint recommendation of the Implementing Agencies. Such recommendation shall be made after consultation with the Council. The CEO may be reappointed by the Council. The CEO may be removed by the Council only for cause. The staff of the Secretariat shall include staff members seconded from the Implementing Agencies as well as individuals hired competitively on an as needed basis by one of the Implementing Agencies. The CEO shall be responsible for the organization, appointment and dismissal of Secretariat staff. The CEO shall be accountable for the performance of the Secretariat functions to the Council. The Secretariat shall, on behalf of the Council, exercise the following functions:

- (a) implement effectively the decisions of the Assembly and the Council;
- (b) coordinate the formulation and oversee the implementation of program activities pursuant to the joint work program, ensuring liaison with other bodies as required, particularly in the context of the cooperative arrangements or agreements referred to in paragraph 27;
- (c) in consultation with the Implementing Agencies, ensure the implementation of the operational policies adopted by the Council through the preparation of common guidelines on the project cycle. Such guidelines shall address project identification and development, including the proper and adequate review of project and work program proposals, consultation with and participation of local communities and other interested parties, monitoring of project implementation and evaluation of project results;

- (d) review and report to the Council on the adequacy of arrangements made by the Implementing Agencies in accordance with the guidelines referred to in paragraph (c) above, and if warranted, recommend to the Council and the Implementing Agencies additional arrangements for project preparation and execution under paragraphs 20(f) and 28;
- (e) chair interagency group meetings to ensure the effective execution of the Council's decisions and to facilitate coordination and collaboration among the Implementing Agencies;
- (f) coordinate with the Secretariats of other relevant international bodies, in particular the Secretariats of the conventions referred to in paragraph 6 and the Secretariats of the Montreal Protocol on Substances that Deplete the Ozone Layer and its Multilateral Fund;
- (g) report to the Assembly, the Council and other institutions as directed by the Council;
- (h) provide the Trustee with all relevant information to enable it to carry out its responsibilities; and
- (i) perform any other functions assigned to the Secretariat by the Council.

#### **Implementing Agencies**

22. The Implementing Agencies of the GEF shall be UNDP, UNEP, and the World Bank. The Implementing Agencies shall be accountable to the Council for their GEF-financed activities, including the preparation and cost-effectiveness of GEF projects, and for the implementation of the operational policies, strategies and decisions of the Council within their respective areas of competence and in accordance with an interagency agreement to be concluded on the basis of the principles of cooperation set forth in Annex D to the present Instrument. The Implementing Agencies shall cooperate with the Participants, the Secretariat, parties receiving assistance under the GEF, and other interested parties, including local communities and non-governmental organizations, to promote the purposes of the Facility.
23. The CEO shall periodically convene meetings with the heads of the Implementing Agencies to promote interagency collaboration and communication, and to review operational policy issues regarding the implementation of GEF-financed activities. The CEO shall transmit their conclusions and recommendations to the Council for its consideration.

#### **Scientific and Technical Advisory Panel (STAP)**

24. UNEP shall establish, in consultation with UNDP and the World Bank and on the basis of guidelines and criteria established by the Council, the Scientific and Technical Advisory Panel

(STAP) as an advisory body to the Facility. UNEP shall provide the STAP's Secretariat and shall operate as the liaison between the Facility and the STAP.

#### **IV. PRINCIPLES OF DECISION-MAKING**

##### **25. (a) Procedure**

The Assembly and the Council shall each adopt by consensus regulations as may be necessary or appropriate to perform their respective functions transparently; in particular, they shall determine any aspect of their respective procedures, including the admission of observers and, in the case of the Council, provision for executive sessions.

##### **(b) Consensus**

Decisions of the Assembly and the Council shall be taken by consensus. In the case of the Council if, in the consideration of any matter of substance, all practicable efforts by the Council and its Chairperson have been made and no consensus appears attainable, any member of the Council may require a formal vote.

##### **(c) Formal Vote**

- (i) Unless otherwise provided in this Instrument, decisions requiring a formal vote by the Council shall be taken by a double weighted majority, that is, an affirmative vote representing both a 60 percent majority of the total number of Participants and a 60 percent majority of the total contributions.
- (ii) Each Member of the Council shall cast the votes of the Participant or Participants he/she represents. A Member of the Council appointed by a group of Participants may cast separately the votes of each Participant in the constituency he/she represents.
- (iii) For the purpose of voting power, total contributions shall consist of the actual cumulative contributions made to the GEF Trust Fund as specified in Annex C (Attachment 1) and in subsequent replenishments of the GEF Trust Fund, contributions made to the GET, and the grant equivalent of co-financing and parallel financing made under the GEF pilot program, or agreed with the Trustee, until the effective date of the GEF Trust Fund. Until the effective date of the GEF Trust Fund, advance contributions made under paragraph 7(c) of Annex C shall be deemed to be contributions to the GET.

**V. RELATIONSHIP AND COOPERATION WITH CONVENTIONS**

26. The Council shall ensure the effective operation of the GEF as a source of funding activities under the conventions referred to in paragraph 6. The use of the GEF resources for purposes of such conventions shall be in conformity with the policies, program priorities and eligibility criteria decided by the Conference of the Parties of each of those conventions.
27. The Council shall consider and approve cooperative arrangements or agreements with the Conferences of the Parties to the conventions referred to in paragraph 6, including reciprocal arrangements for representation in meetings. Such arrangements or agreements shall be in conformity with the relevant provisions of the convention concerned regarding its financial mechanism and shall include procedures for determining jointly the aggregate GEF funding requirements for the purpose of the convention. With regard to each convention referred to in paragraph 6, until the first meeting of its Conference of the Parties, the Council shall consult the convention's interim body.

**VI. COOPERATION WITH OTHER BODIES**

28. The Secretariat and the Implementing Agencies under the guidance of the Council shall cooperate with other international organizations to promote achievement of the purposes of the GEF. The Implementing Agencies may make arrangements for GEF project preparation and execution by multilateral development banks, specialized agencies and programs of the United Nations, other international organizations, bilateral development agencies, national institutions, non-governmental organizations, private sector entities and academic institutions, taking into account their comparative advantages in efficient and cost-effective project execution. Such arrangements shall be made in accordance with national priorities. Pursuant to paragraph 20(f), the Council may request the Secretariat to make similar arrangements in accordance with national priorities. In the event of disagreements among the Implementing Agencies or between an Implementing Agency and any entity concerning project preparation or execution, an Implementing Agency or any entity referred to in this paragraph may request the Secretariat to seek to resolve such disagreements.

**VII. OPERATIONAL MODALITIES**

29. The Secretariat shall coordinate the preparation of and determine the content of a joint work program for the GEF among the Implementing Agencies, including an indication of the financial resources required for the program, for approval by the Council. The work program shall be prepared in accordance with paragraph 4 and in cooperation with eligible recipients and any executing agency referred to in paragraph 28.
30. GEF projects shall be subject to endorsement by the CEO before final project approval. If at least four Council Members request that a project be reviewed at a Council meeting because

in their view the project is not consistent with the Instrument or GEF policies and procedures, the CEO shall submit the project document to the next Council meeting, and shall only endorse the project for final approval by the Implementing Agency if the Council finds that the project is consistent with the Instrument and GEF policies and procedures.

## VIII. REPORTING

31. The Council shall approve an annual report on the activities of the GEF. The report shall be prepared by the Secretariat and circulated to all Participants. It shall contain information on the activities carried out under the GEF, including a list of project ideas submitted for consideration and a review of the project activities funded by the Facility and their outcomes. The report shall contain all the information necessary to meet the principles of accountability and transparency that shall characterize the Facility as well as the requirements arising from the reporting arrangements agreed with each Conference of the Parties to the conventions referred to in paragraph 6. The report shall be conveyed to each of these Conferences of the Parties, the United Nations Commission on Sustainable Development and any other international organization deemed appropriate by the Council.

## IX. TRANSITIONAL AND FINAL PROVISIONS

### Termination of the GET

32. The World Bank shall be invited to terminate the existing Global Environment Trust Fund (GET) on the effective date of the establishment of the new GEF Trust Fund, and any funds, receipts, assets and liabilities held in the GET upon termination, including the administration of any cofinancing by the Trustee in accordance with the provisions of Resolution No. 91-5 of the Executive Directors of the World Bank, shall be transferred to the new GEF Trust Fund. Pending the termination of the GET under this provision, projects financed from the GET resources shall continue to be processed and approved subject to the rules and procedures applicable to the GET.

### Interim Period

33. The Council may, pursuant to the provisions of this Instrument, be convened during the period from the adoption of this Instrument and its annexes by the Implementing Agencies until the effective date of the establishment of the new GEF Trust Fund (a) to appoint, by consensus, the CEO in order to enable him/her to assume the work of the Secretariat, and (b) to prepare the Council's rules of procedure and the operational modalities for the Facility. The first meeting of the Council shall be organized by the secretariat of the GEF pilot program. Administrative expenses during this interim period shall be covered by the existing GET.

## **Amendment and Termination**

34. Amendment or termination of the present Instrument may be approved by consensus by the Assembly upon the recommendation of the Council, after taking into account the views of the Implementing Agencies and the Trustee, and shall become effective after adoption by the Implementing Agencies and the Trustee in accordance with their respective rules and procedural requirements. This paragraph shall apply to the amendment of any annex to this Instrument unless the annex concerned provides otherwise.
35. The Trustee may at any time terminate its role as trustee in accordance with paragraph 14 of Annex B, and an Implementing Agency may at any time terminate its role as implementing agency, after consultation with the other Implementing Agencies and after giving the Council six months notice in writing.

**NOTIFICATION OF PARTICIPATION  
OR TERMINATION OF PARTICIPATION**

**ANNEX A**



**Notification of Participation/Termination of Participation**

The Government of \_\_\_\_\_ hereby notifies the Chief Executive Officer of the Global Environment Facility ("the Facility") that it will participate [terminate its participation] in the Facility.

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Name and Office)

NOTE: The notification is to be signed on behalf of the Government by a duly authorized representative thereof. Participation, and termination of participation, will take effect upon deposit of the notification with the CEO. In the case of a State contributing to the GEF Trust Fund, an instrument of commitment (Attachment 2 of Annex C) shall be deemed to serve as a notification of participation.

**ROLE AND FIDUCIARY RESPONSIBILITIES  
OF THE TRUSTEE  
OF THE GEF TRUST FUND**

**ANNEX B**

**ROLE AND FIDUCIARY RESPONSIBILITIES OF THE TRUSTEE  
OF THE GEF TRUST FUND**

1. The World Bank shall be the Trustee of the GEF Trust Fund (the Fund) referred to in paragraph 8 of the Instrument and in this capacity shall, as legal owner, hold in trust the funds, assets and receipts which constitute the Fund, and manage and use them only for the purpose of, and in accordance with, the provisions of the Instrument keeping them separate and apart from all other accounts and assets of, or administered by, the Trustee.
2. The Trustee shall be accountable to the Council for the performance of its fiduciary responsibilities as set forth in this Annex.
3. The Trustee shall administer the Fund in accordance with the applicable provisions of the Instrument and such decisions as the Council may take under the Instrument and shall be bound in the performance of its duties by the applicable provisions of the Trustee's Articles of Agreement, By-Laws, rules and decisions (hereinafter referred to as "the rules of the Trustee").
4. The responsibilities of the Trustee shall include in particular:
  - (a) the mobilization of resources for the Fund and the preparation of such studies and arrangements as may be required for this purpose;
  - (b) the financial management of the Fund, including the investment of its liquid assets, the disbursement of funds to the Implementing and other executing Agencies as well as the preparation of the financial reports regarding the investment and use of the Fund's resources;
  - (c) the maintenance of appropriate records and accounts of the Fund, and providing for their audit, in accordance with the rules of the Trustee; and
  - (d) the monitoring of the application of budgetary and project funds in accordance with paragraph 21(h) of the Instrument and paragraph 11 of this Annex so as to ensure that the resources of the Fund are being used in accordance with the Instrument and the decisions taken by the Council, including the regular reporting to the Council on the status of the Fund's resources.
5. The Trustee shall exercise the same care in the discharge of its functions under this Annex as it exercises with respect to its own affairs and shall have no further liability in respect thereof. To this end, the Trustee shall apply such considerations of economy and efficiency as may be required for the investment and disbursement of funds from the Fund, consistent with the rules of the Trustee and the decisions of the Council.

## ANNEX B

6. All amounts in respect of which the Trustee is authorized to make commitments or disbursements under the Instrument shall be used by the Trustee on the basis of the work program approved by the Council for the activities of the Facility, including the reasonable expenses incurred by the Implementing Agencies and any executing agency in the performance of their responsibilities, in accordance with the Instrument and the decisions taken by the Council. All amounts in respect of which the Trustee is authorized to make transfers to the Implementing Agencies and any executing agency shall be transferred as agreed between the Trustee and the transferee.
7. The Trustee may enter into arrangements and agreements with any national or international entity as may be needed in order to administer and manage financing for the purpose of, and on terms consistent with, the Instrument. Upon the request of the Council, the Trustee will, for the purposes of paragraph 27 of the Instrument, formalize the arrangements or agreements that have been considered and approved by the Council with the Conferences of the Parties of the conventions referred to in paragraph 6 of the Instrument.
8. Pending transfers to the Implementing Agencies or an executing agency, the Trustee may invest the funds held in the Fund in such form as it may decide, including pooled investments (in which separate accounts shall be held for the funds of the Fund) with other funds owned, or administered, by it. The income of such investments shall be credited to the Fund, and the Trustee shall be reimbursed annually from the resources of the Fund for the reasonable expenses incurred by it for the administration of the Fund and for expenses incurred in administratively supporting the Secretariat. The reimbursement shall be made on the basis of estimated cost, subject to end of year adjustment.
9. The Trustee shall make all necessary arrangements to avoid commitments on behalf of the Fund in excess of the resources available to such Fund.
10. In order to enable the Trustee to carry out its functions enumerated in this Annex, the Chief Executive Officer of the Facility (CEO) shall cooperate fully with the Trustee and shall observe the rules of the Trustee specified in paragraph 3 above, in the activities of the Secretariat relating to the administration of the Fund under the provisions of the Instrument and its Annexes.
11. To ensure that the resources of the Fund are being used in accordance with the Instrument and the decisions taken by the Council, the Trustee shall work with the Implementing Agencies and the CEO to address and resolve any concerns it may have about inconsistencies between the uses of Fund resources and such Instrument and decisions. The CEO shall inform the Council of any concerns that the Trustee or an Implementing Agency may have which are not satisfactorily resolved.

ANNEX B

12. Should it appear to the Council or the Trustee that there is an inconsistency between the decisions of the Council and the rules of the Trustee, the Council and the Trustee shall consult each other with a view to avoiding the inconsistency.
13. The privileges and immunities accorded to the Trustee under its Articles of Agreement shall apply to the property, assets, archives, income, operations and transactions of the Fund.
14. The provisions of this Annex may be amended by the Executive Directors of the Trustee only with the agreement of the Council and the other Implementing Agencies. The provisions of this Annex may be terminated when the Executive Directors of the Trustee so decide after consultation with the Council and the other Implementing Agencies and after giving the Council six months notice in writing. In case of termination, the Trustee shall take all necessary action for winding up its activities in an expeditious manner, in accordance with such decision. The decision shall also provide for meeting the commitments of the Facility already made for grants and transfers, and for the disposition of any remaining funds, receipts, assets or liabilities of the Fund upon termination.

**GEF TRUST FUND —  
FINANCIAL PROVISIONS FOR REPLENISHMENT**

**ANNEX C**

**GEF TRUST FUND — FINANCIAL PROVISIONS FOR REPLENISHMENT**

**Contributions**

1. The Bank, acting as Trustee for the GEF Trust Fund, is authorized to accept contributions to the Fund for the period from July 1, 1994 to June 30, 1997:
  - (a) by way of grant from each Participant in the amount specified for each participant in Attachment 1; and
  - (b) other contributions on terms consistent with the present Annex.

**Instruments of Commitment**

2.
  - (a) Participants contributing to the GEF Trust Fund (Contributing Participants) shall be expected to deposit with the Trustee an instrument of commitment substantially in the form set out in Attachment 2 (Instrument of Commitment).
  - (b) When a Contributing Participant agrees to pay a part of its contribution without qualification and the remainder is subject to enactment by its legislature of the necessary appropriation legislation, it shall deposit a qualified instrument of commitment in a form acceptable to the Trustee (Qualified Instrument of Commitment); such Participant undertakes to exercise its best efforts to obtain legislative approval for the full amount of its contribution by the payment dates set out in paragraph 3.
3.
  - (a) Contributions to the GEF Trust Fund under paragraph 1 (a) shall be paid, at the option of each Contributing Participant, in cash by November 30, 1994 or in installments.
  - (b) Payment in cash under paragraph (a) above shall be made on terms agreed between the Contributing Participant and the Trustee that shall be no less favorable to the GEF Trust Fund than payment in installment.
  - (c) Payment in installments that a Contributing Participant agrees to make without qualification shall be paid to the Trustee in four equal installments by November 30, 1994, November 30, 1995, November 30, 1996 and November 30, 1997, provided that:

## ANNEX C

- (i) the Trustee and each Contributing Participant may agree to earlier payment;
  - (ii) if the GEF Trust Fund shall not have become effective by October 31, 1994, payment of the first such installment may be postponed by the Contributing Participant for not more than 30 days after the date on which this Annex becomes effective;
  - (iii) the Trustee may agree to postpone the payment of any installment, or part thereof, if the amount paid, together with any unused balance of previous payments by the Contributing Participant, shall be at least equal to the amount estimated by the Trustee to be required from the Contributing Participant, up to the date of the next installment, for meeting commitments under the GEF Trust Fund; and
  - (iv) if any Contributing Participant shall deposit an Instrument of Commitment with the Trustee after the date on which the first installment of the contributions is due, payment of any installment, or part thereof, shall be made to the Trustee within 30 days after the date of such deposit.
- (d) If a Contributing Participant has deposited a Qualified Instrument of Commitment and thereafter notifies the Trustee that an installment, or part thereof, is unqualified after the date when it was due, then payment of such installment, or part thereof, shall be made within 30 days of such notification.

### **Mode of Payment in Installments**

4. (a) Payments shall be made, at the option of each Contributing Participant, in cash on terms agreed between the Contributing Participant and the Trustee that shall be no less favorable to the GEF Trust Fund than payment in installments or by the deposit of notes or similar obligations issued by the government of the Contributing Participant or the depository designated by the Contributing Participant, which shall be non-negotiable, non-interest bearing and payable at their par value on demand to the account of the Trustee.
- (b) The Trustee shall encash the notes or similar obligations quarterly in equal proportions in terms of their unit of denomination, as needed for disbursement and transfers referred to in paragraph 8 and the operational and administrative requirements for liquidity of the Trustee and the Implementing Agencies, as determined by the Trustee. At the request of a Contributing Participant that is also an eligible recipient under the GEF Trust Fund the Trustee may permit postponement of encashment for up to two years in light of exceptionally difficult budgetary circumstances of the Contributing Participant.



- (c) In respect of each contribution under paragraph 1 (b), payment shall be made in accordance with the terms on which such contributions are accepted by the Trustee.

**Currency of Denomination and Payment**

- 5. (a) Contributing Participants shall denominate their contributions in Special Drawing Rights (SDRs) or a currency that is freely convertible as determined by the Trustee, except that if a Contributing Participant's economy experienced a rate of inflation in excess of fifteen percent per annum on average in the period 1990 to 1992 as determined by the Trustee as of the date of adoption of this Annex, its contribution shall be denominated in SDRs.
- (b) Contributing Participants shall make payments in SDRs, a currency used for the valuation of the SDR, or with the agreement of the Trustee in another freely convertible currency, and the Trustee may exchange the amounts received for such currencies as it may decide.
- (c) Each Contributing Participant shall maintain, in respect of its currency paid to the Trustee and the currency of such Contributing Participant derived therefrom, the same convertibility as existed on the date of adoption of this Annex.

**Effective Date**

- 6. (a) The GEF Trust Fund shall become effective and the resources to be contributed pursuant to this Annex shall become payable to the Trustee on the date when Contributing Participants whose contributions aggregate not less than SDR 980.53 million shall have deposited with the Trustee Instruments of Commitment or Qualified Instruments of Commitment (the effective date), provided that this date shall not be later than October 31, 1994, or such later date as the Trustee may determine.
- (b) If the Trustee determines that the effective date is likely to be unduly delayed, it shall convene promptly a meeting of the Contributing Participants to review the situation and to consider the steps to be taken to prevent an interruption of GEF financing.

**Advance Contribution**

- 7. (a) In order to avoid an interruption in the GEF's ability to make financing commitments pending the effectiveness of the GEF Trust Fund, and if the Trustee will have received Instruments of Commitment from Contributing Participants whose contributions aggregate not less than SDR 280.15 million the Trustee may deem, prior to the effective date, one-quarter of the total amount of each contribution for which an Instrument of Commitment has been deposited with the Trustee as an

## ANNEX C

advance contribution, unless the Contributing Participant specifies otherwise in its Instrument of Commitment. Advance contributions shall be paid to the GEF under Resolution 91-5 adopted by the Executive Directors of the World Bank and shall be governed by the provisions of that Resolution until the effective date.

- (b) The Trustee shall specify when advance contributions pursuant to paragraph (a) above are to be paid to the Trustee.
- (c) The terms and conditions applicable to contributions under this Annex shall apply also to advance contributions until the effective date, when such contributions shall be deemed to constitute payment towards the amount due from each Contributing Participant for its contribution.

### **Commitment or Transfer Authority**

- 8. (a) Contributions shall become available for commitment by the Trustee, for disbursement or transfer as needed pursuant to the work program approved by the Council under paragraph 20(c) of the Instrument, upon receipt of payment by the Trustee, except as provided in subparagraph (c) below.
- (b) The Trustee shall promptly inform Contributing Participants if a Participant that has deposited a Qualified Instrument of Commitment and whose contribution represents more than 20 percent of the total amount of the resources to be contributed pursuant to this Annex has not unqualified at least 50 percent of the total amount of its contribution by November 30, 1995, or 30 days after the effective date, whichever is later, and at least 75 percent of the total amount of its contribution by November 30, 1996, or 30 days after the effective date, whichever is later, and the total amount thereof by November 30, 1997, or 30 days after the effective date, whichever is later.
- (c) Within 30 days of the dispatch of notice by the Trustee under paragraph (b) above, each other Contributing Participant may notify the Trustee in writing that the commitment by the Trustee of the second, third or fourth tranche, whichever is applicable, of such Participant's contribution shall be deferred while, and to the extent that, any part of the contribution referred to in subparagraph (b) remains qualified; during such period, the Trustee shall make no commitments in respect of the resources to which the notice pertains unless the right of the Contributing Participant is waived pursuant to paragraph (d) below.
- (d) The right of a Contributing Participant under paragraph (c) above may be waived in writing, and it shall be deemed waived if the Trustee receives no written notice pursuant to such subparagraph within the period specified therein.

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- (e) The Trustee shall consult with the Contributing Participants where, in its judgment:
  - (i) there is a substantial likelihood that the total amount of the contribution referred to in paragraph (b) above could not be committed to the Trustee without qualification by June 30, 1998, or
  - (ii) as a result of Contributing Participants exercising their rights under paragraph (b), the Trustee is or may shortly be precluded from entering into new commitments for disbursement or transfer.
  
- (f) Commitment and transfer authority shall be increased by:
  - (i) the income of investment of resources held in the GEF Trust Fund pending disbursement or transfer by the Trustee;
  - (ii) uncommitted resources transferred to the Trustee upon termination of the GET;
  - (iii) the amount of undisbursed commitments that have been cancelled; and
  - (iv) payments received by the Trustee as repayment, interest or charges on loans made by the GEF Trust Fund.
  
- (g) Commitment and transfer authority shall be reduced for the reimbursement of administrative costs charged against the resources of the GEF Trust Fund, as determined by the Trustee on the basis of the work program and budget approved by the Council.
  
- (h) The Trustee may enter into agreements to provide financing from the GEF Trust Fund, conditional on such financing becoming effective and binding on the GEF Trust Fund when resources become available for commitment by the Trustee.

GLOBAL ENVIRONMENT FACILITY TRUST FUND

CONTRIBUTIONS  
(in millions)

| Contributing Participants   | SDR Amounts | National Currency Amounts <sup>a/</sup> |
|-----------------------------|-------------|---|
| <u>Group I b/ c/</u>        |             |   |
| Australia                   | 20.84       | 42.76                                   |
| Austria                     | 14.28       | 231.51                                  |
| Canada                      | 61.78       | 111.11                                  |
| Denmark                     | 25.08       | f/                                      |
| Finland                     | 15.45       | 124.00                                  |
| France                      | 102.26      | 806.71                                  |
| Germany                     | 171.30      | 394.76                                  |
| Italy                       | 81.86       | 159,803.25                              |
| Japan                       | 295.95      | 45,698.09                               |
| Netherlands                 | 50.97       | f/                                      |
| New Zealand                 | 4.00        | 10.35                                   |
| Norway                      | 21.93       | 216.42                                  |
| Portugal                    | 4.00        | f/                                      |
| Spain                       | 12.36       | 2,180.10                                |
| Sweden                      | 41.60       | 450.04                                  |
| Switzerland                 | 31.97       | f/                                      |
| United Kingdom              | 96.04       | 89.55                                   |
| United States               | 306.92      | 430.00                                  |
| <u>Group II b/</u>          |             |   |
| Brazil                      | 4.00        | f/                                      |
| China                       | 4.00        | f/                                      |
| Cote d'Ivoire               | 4.00        | f/                                      |
| Egypt                       | 4.00        | f/                                      |
| India                       | 6.00        |   |
| Mexico                      | 4.00        | f/                                      |
| Pakistan                    | 4.00        |   |
| Turkey                      | 4.00        | f/                                      |
| <u>Group III b/</u>         |             |   |
| Ireland                     | 1.71        | 1.64                                    |
| Other <sup>d/</sup>         | 6.48        |   |
| Unallocated <sup>e/</sup>   | 42.83       |   |
| TOTAL in SDRs               | 1,443.59    |   |
| TOTAL in US\$ <sup>g/</sup> | 2,022.52    |   |

ANNEX C  
Attachment 1

a/Calculated by converting the SDR amount to the national currency using an average of daily exchange rates over the period February 1, 1993 to October 31, 1993.

b/Group I consists of non-recipient donors that participated in the replenishment meetings.

Group II consists of recipient donors that participated in the replenishment meetings.

Group III consists of other donors.

c/The following table shows background information and explanations regarding the breakdown of Group I contributions according to contributions based on IDA10 Basic Shares.

Supplementary Contributions towards meeting adjusted IDA10 shares, and additional Supplementary Contributions.

d/Includes the enhanced value of contributions through accelerated encashments, not included in the figures above and new and additional contributions made to the GET and expected to be available for the GEF2.

e/It is expected that other donors will make contributions amounting to US\$60 million (SDR 42.83 million), which represents 3% of the original replenishment target of US\$2,000 million.

f/These countries are denominating their contributions in SDRs.

g/Calculated by converting the SDR amount into US\$ using an average of daily exchange rates over the period February 1, 1993 to October 31, 1993.



## **The GEF Project Cycle**

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## **INTRODUCTION**

This document presents a pragmatic description of the procedures that will be followed throughout the project cycle for GEF-financed activities, and it addresses the role and responsibilities of the major actors in the GEF project cycle: recipient governments, Implementing Agencies, STAP, the Council, the CEO and the GEF Secretariat.

The Council reviewed and approved the GEF project cycle at its meeting in May 1995. In its approval, the Council stressed the need to apply its procedures flexibly, recognizing the differences that may exist between specific projects, focal areas, and regions. The Council agreed that the project cycle should be kept under review, particularly in light of the information and analysis that will be generated through monitoring and evaluation activities. The Council agreed that the project cycle should be updated as necessary by the Secretariat to reflect any additional policies approved by the Council.

*Basic  
principles*

**I. PRINCIPLES OF PROJECT CYCLE**

The GEF will ensure the cost-effectiveness of its activities in addressing the targeted global environmental issues, will fund programs and projects which are country-driven and based on national priorities designed to support sustainable development, and will maintain sufficient flexibility to respond to changing circumstances in order to achieve its purposes.<sup>1</sup>

The GEF operational policies will be determined by the Council, and with respect to GEF-financed projects, will provide for full disclosure of all non-confidential information, and consultation with, and participation as appropriate of, major groups and local communities throughout the project cycle.<sup>2</sup>

The Secretariat and the Implementing Agencies, under the guidance of the Council, will cooperate with other international organizations to promote achievement of the purposes of the GEF. The Implementing Agencies may make arrangements for GEF project preparation and execution by multilateral development banks, specialized agencies and programs of the United Nations, other international organizations, bilateral development agencies, national institutions, non-governmental organizations, private sector entities and academic institutions, taking into account their comparative advantages in efficient and cost-effective project execution. Such arrangements will be made in accordance with national priorities.<sup>3</sup>

The three Implementing Agencies recognize the need for institutional arrangements in conformity with, and contributing to the fulfillment of, GEF objectives, based on a results-oriented approach and in a spirit of partnership, and consistent with the principles of universality, transparency, cost-effectiveness and accountability.<sup>4</sup>

The Implementing Agencies will put these principles into practice by ensuring the development and implementation of programs and projects which are country-driven and based on national priorities designed to support

- 
1. Instrument, paragraph 4.
  2. Instrument, paragraph 5.
  3. Instrument, paragraph 28.
  4. Instrument, Annex D, paragraph 4.

Actions needed to attain global environmental benefits are strongly influenced by existing national policies and subregional and regional cooperative mechanisms. GEF financing must be coordinated with appropriate national policies and strategies as well as with development financing. To the extent that the GEF operates a funding mechanism for global environmental conventions, the Implementing Agencies will collaborate with eligible countries on project programming and implementation, either directly or, where appropriate, at a subregional or regional level, of the program priorities and criteria adopted by the Conference of the Parties to each Convention.<sup>5</sup>

In developing GEF work programs and in project preparation, the Implementing Agencies will, through country-driven initiatives, collaborate with eligible countries in the identification of projects for GEF funding through the Project Preparation and Development Facility. Priority will be given to integrating global environmental concerns with national ones, in the framework of national sustainable development.<sup>6</sup>

The Implementing Agencies will assure the cost-effectiveness and sustainability of their activities in addressing the targeted global environmental issues. In this context, one important feature of adhering to these principles is that the least-cost sustainable means of meeting many global environmental objectives lie in a combination of investment, technical assistance, and policy actions at the national and regional levels. The experience and mandate of each Implementing Agency will contribute to bringing to light, when assessing specific project interventions, the range of possible policy, technical assistance, and investment options. In addition, each Implementing Agency will strive to promote measures to achieve global environmental benefits within the context of its regular work programs.<sup>7</sup>

The Implementing Agencies are committed to facilitating continued effective participation, as appropriate, of major groups and local communities and to promoting opportunities for mobilizing external resources in support of GEF activities.<sup>8</sup>

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5. Instrument, Annex D, paragraph 5.

6. Instrument, Annex D, paragraph 6.

7. Instrument, Annex D, paragraph 7.

8. Instrument, Annex D, paragraph 8.

sustainable  
development.

Collaboration among the Implementing Agencies will be sufficiently flexible to promote introduction of modifications as the need arises. Within an overall cooperative framework, the Implementing Agencies will strive for innovative approaches to strengthening their collaboration and effectiveness, in particular at the country level, and an efficient division of labor that maximizes the synergy among them and recognizes their terms of reference and comparative advantages.<sup>9</sup>

## II. PROCEDURAL STEPS IN PROJECT CYCLE

### Phase I: From Project Concept or Idea to Work Program Approval

#### *Country focus*

#### *Country "operational" focal points*

Each recipient country will be invited to identify an operational focal point with which the Implementing Agencies will collaborate on GEF operational activities. The GEF focal point will be responsible for:

- (a) acting as the principal contact point for all GEF activities in the country;
- (b) reviewing project ideas and concepts, endorsing their consistency with respect to the national programs and the country's participation in the Climate Change or Biological Diversity conventions, and confirming their national priorities
- (c) facilitating broad as well as project-related consultation; and
- (d) providing feedback on GEF activities.

#### *Project identification*

#### *Project Identification and Preparation*

Project ideas should be identified in full consultation with the recipient country operational focal point. The Implementing Agencies will work with the operational focal point to develop project ideas that are consistent with the country's national programs and priorities as well as the GEF operational strategies.

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9.. Instrument, Annex D, paragraph 9.

13. The GEF will encourage and strengthen partnerships to address programs at the regional level. Regional programs and projects may be developed in all countries that endorse the GEF activity. GEF financing will only be provided to those eligible to receive GEF funding. Global program and project proposals will be designed to facilitate national-level efforts to achieve global environmental benefits.

***Project  
preparation***

Careful preparation of project ideas is requisite for quality projects. When a recipient country requests financial and technical help with project preparation, it may seek such assistance from a variety of sources. GEF project preparation funding is available through the Project Preparation and Development Facility (PDF). Where feasible, the PDF would normally complement other sources of finance for preparation of a project proposal: World Bank loans, UNDP technical assistance grants, bilateral finance, and private funds. GEF project preparation resources should be allocated on an incremental cost basis; that is, in proportion to the likely level of project preparation costs financed by the non-incremental financier.

Recourse to GEF project preparation funds will not always be necessary. There may be cases where GEF funds are not requested, or where the level of project preparation is sufficiently advanced that GEF resources are not required to prepare a project proposal for inclusion in the GEF work program. Whatever the source of project preparation financing, it is important for purposes of portfolio management that the Implementing Agencies keep the Secretariat informed of all project proposals under development for which GEF financing will be sought, and that the Secretariat maintains a project proposal tracking system.

***PDF***

PDF financing is available for project proposal preparation under three blocks (Blocks A, B, and C). Table 1 is a summary of the objectives and approval procedures for each of the blocks.

***Government  
endorsement***

Before any PDF funds are committed by an Implementing Agency, the project idea will be discussed, reviewed, and endorsed at the country level by the operational focal point.

In addition to the reporting on PDF expenditures that will be included in the GEF Quarterly Operational Report, the Annual Report to the Council will include a review of PDF operations and expenditures.

**DESCRIPTION OF BLOCKS A, B, AND C**

|                             | <b>BLOCK A</b>  | <b>BLOCK B</b>  | <b>Block C</b>   |
|-----------------------------|---|---|--|
| <b>CEILING:</b>             | \$25,000  | \$350,000   | \$1 million  |
| <b>OBJECTIVE:</b>           | To make funds available at very early stages of project or program identification for pre-project activities at the national level.   | To provide information requisite to complete project proposals and necessary supporting documentation.  | To provide additional financing, where required for large projects, to complete technical design and feasibility work. Normally, funds will be made available after Council has approved project proposal.   |
| <b>APPROVAL:</b>            | Implementing Agency   | CEO taking into account recommendations of GEFOP.   | <ol style="list-style-type: none"> <li>1. If Council has approved project, by CEO taking into account recommendations of GEFOP.</li> <li>2. If Council has not approved project proposal, taking into account, recommendations of GEFOP:                             <ol style="list-style-type: none"> <li>(a) by CEO up to \$750,000,</li> <li>(b) by CEO in consultation with the Council for funds between \$750,000 and \$1 million.</li> </ol> </li> </ol> |
| <b>ENDORSEMENT:</b>         | National Operational Focal Point  | National Operational Focal Point  | National Operational Focal Point   |
| <b>DOCUMENT:</b>            | Information Sheet including basic project proposal description, executing agency, expected outputs, and budget.   | Page proposal including: project description, objectives and justification in view of GEF operational strategy; summary of recipient's commitment; identification of key stakeholders; level and nature of national-level consultations; relationships to conventions, national strategies and plans, and Implementing Agency country assistance; and preliminary financing plan. | PDF proposal including: (i) an explanation of project preparation resources (PDF or other) that have already been utilized; (ii) justification for the requested resources; (iii) a financing plan for use of Block C funds; and (iv) a description of, and schedule for, outputs  |
| <b>REPORTING:</b>           | Allocations to Implementing Agencies reported in quarterly operational bulletin.  | Approved funding reported in quarterly operational bulletin.  | Approved funding reported in quarterly operational bulletin  |
| <b>REVIEW OF FUNDS USE:</b> | Information sheet to be submitted to the Secretariat for its information and record keeping. Each quarter, GEFOP to review coverage, direction and eligibility of Block A-funded activities and to make recommendations on their content and direction. | Report on how funds were used to be submitted to Council, together with project proposal that is prepared with PDF resources.   | Report on how funds were used to be submitted to Council   |
| <b>OUTPUTS:</b>             | Information necessary to prepare a preliminary initial project brief or draft project proposal; scientific, technical, and environmental and economic assessments; documentation on in-country consultations  | Final project appraisal-supporting documentation, and information required for preparing project documentation for approval.  | Technical Design and Feasibility Reports, Engineering design and projects.   |

## *GEF Operations Committee*

### ***GEFOP***

The GEF Operations Committee (GEFOP) is an interagency committee with important responsibilities in the project cycle. The GEFOP is composed of representatives of the three Implementing Agencies, the Chairperson of STAP and, as appropriate, representatives of the secretariats of the Convention on Biological Diversity and the Framework Convention on Climate Change. The Committee is chaired by a representative of the GEF Secretariat.

### ***GEFOP role in project preparation***

With regard to the PDF, the GEFOP has a role under each of the three blocks. Under Block A, the GEFOP is informed of Block A grants approved by the Implementing Agencies. Every three months, the GEFOP will review the coverage and overall direction of Block A-funded activities and will make recommendations concerning future Block A funding.

Proposals for Block B funding are to be submitted to the GEFOP for its review and recommendation as to whether the funding should be approved. The recommendations of GEFOP are submitted to the Chief Executive Officer (CEO), who is responsible for approving Block B funding.

Proposals for Block C funding are also to be submitted to the GEFOP for its review and recommendations on funding. If Block C funding is requested for a project proposal that has already been approved by the Council, the CEO may approve the Block C funding, taking into account the recommendation of the GEFOP. If the Council has not approved the project proposal, then the CEO is authorized to approve Block C funding up to \$750,000. For funding between \$750,000 and \$1 million, the CEO will consult with the Council prior to approval.

### ***GEFOP role in project review***

The GEFOP is also responsible for recommending to the CEO project proposals for inclusion in the work program to be considered by the Council at its regular meetings. Project proposals to be considered by the GEFOP for inclusion in the work program are to be prepared in an agreed project proposal format. Each project proposal must be endorsed by the recipient country's operational focal point. Each project proposal must attach a technical review by an expert chosen from the roster developed and managed by the STAP. Each project proposal must also record the consultations that have been undertaken with major groups and local communities during the preparation of the project.

### ***Government endorsement***

### ***STAP expert technical review***

### ***Consultations***

**Considerations  
for GEFOP  
review**

Projects will be reviewed by the GEFOP, taking into account the following considerations, as appropriate:

**· eligibility**

- (a) Country Eligibility:
  - (i) Within the financial mechanism:
    - . Party to Convention and
    - . Developing country; or
  - (ii) Outside the financial mechanism:
    - . Eligibility under paragraph 9 (b) of the Instrument (UNDP/World Bank criteria)
    - . Where relevant, party to Convention.

**· policy and  
program  
framework**

- (b) Policy and Program Framework of the proposed project:
  - (i) Endorsement by recipient country operational focal point;
  - (ii) Consultation and coordination among Implementing Agencies;
  - (iii) Substantive eligibility: Consistency with GEF strategy and operational programs;
  - (iv) Linkages to:
    - a. Country/sector programs, national strategies, action plans;
    - b. Implementing Agencies in-country framework;
    - c. Pilot Phase activities;
    - d. Other focal areas;
    - e. Other programs and action plans at region/sub-regional levels.

**· technical  
review**

- (c) Technical review including:
  - (i) Specification of global benefits;
  - (ii) Thoroughness of technical reviews by experts from STAP roster;
  - (iii) Response to recommendations of technical reviewers;
  - (iv) Plans to make natural resource use sustainable;
  - (v) Environmental assessment and measures to prevent or mitigate potential damage;
  - (vi) Technology cooperation and transfer.



- **social assessment and consultation**
  - (d) Social assessment and consultation including:
    - (i) Demonstration of local participation/consultation in project preparations and measures for on-going participation and consultation in project implementation;
    - (ii) Role of local communities;
    - (iii) Role of indigenous people;
    - (iv) Resettlement plans, if human populations are going to be resettled;
    - (v) Plans for public awareness, environmental education, and social communication;
    - (vi) Gender considerations.
- **capacity building**
  - (e) Capacity building
    - (i) Training;
    - (ii) Institution building;
    - (iii) Planning and policy development;
    - (iv) Targeted research;
    - (v) Linkage of capacity building to enabling activities and to investment.
- **financial information**
  - (f) Financial information:
    - (i) Funding and budget, including cost-effectiveness;
    - (ii) Overhead and management costs of Implementing Agencies and executing agencies;
    - (iii) Use of PDF resources;
    - (iv) Co-financing from other sources and the Implementing Agencies;
    - (v) Financial sustainability.
- **incremental cost**
  - (g) Incremental cost (preliminary estimates):
    - (i) Correct application of methodology;
    - (ii) Procedures for estimation and agreement with recipient country;
    - (iii) Reasonableness of estimates and assumptions for baselines and projects; and
    - (iv) Lessons from comparable cases.
- **monitoring and evaluation**
  - (h) Monitoring and Evaluation:
    - (i) Provision for monitoring and evaluation;
    - (ii) If continuation of previously funded project, requirement that evaluation has been completed and recommendations of evaluation have been taken into account in formulation of project being proposed.

***CEO proposes work program***

On the basis of its review, the GEFOP recommends to the CEO projects to be included in the work program. The CEO determines the content of the work program proposed to the Council for approval.

***Council approval***

The Council approves work programs at its regular meetings. In its review of the work program, the Council will focus primarily on the strategic and policy issues raised therein. Council Members may also provide written technical comments on specific project proposals. Such written comments should be submitted to the Secretariat no later than three weeks after the conclusion of the Council meeting concerned.

***STAP***

***STAP***

Consistent with criteria approved by the Council, STAP may selectively identify projects for review of their scientific and technical aspects.

## **Phase II: From Work Program Approval to Project Approval**

***Implementing Agency prepares final project document***

Once the work program is approved, the Implementing Agency is responsible for the further preparation of any of its project proposals in the work program. In preparing a final draft project document for approval, each agency is to consider the comments made by the Council during its review of the work program, and subsequent technical comments submitted by the Council Members.

The Implementing Agencies are accountable to the Council for the preparation and cost-effectiveness of the projects they prepare, for the implementation of the operational policies, strategies, and decisions of the Council, and for the activities of the executing agencies working through it. It is expected that the Implementing Agencies will follow their own internal procedures when preparing final draft project documents, while ensuring that any additional policies or operational requirements for use of GEF funds are met.

***Incremental Costs***

An important consideration in preparing the final draft project document will be the determination of the "agreed incremental costs" of the project. The Secretariat will develop guidelines in 1996 to be followed by the Implementing Agencies in their estimation and documentation of incremental costs for GEF projects.

***Circulation of project document to the Council***

Before an Implementing Agency undertakes final approval of a final draft project document for a GEF-financed activity in accordance with its internal procedures, the final draft project document will be endorsed by the CEO. Before endorsing the final draft project document, the CEO will circulate the draft document to Council Members with a request that they submit any comments that they may have to the Secretariat within four weeks. If at least four Council Members consider that the project is not consistent with the Instrument or GEF policies and procedures, they may request that the draft document be reviewed at a Council meeting before its approval. The CEO will then submit the draft project document to the next regular Council meeting.

***STAP and Implementing Agencies review***

STAP and the Implementing Agency will also receive the final draft project document prior to endorsement.

***STAP***

The Council may request STAP to review a project document prior to CEO endorsement.

***CEO endorsement***

The CEO will endorse the draft project document for final approval by the Implementing Agency, if he ascertains that it is consistent with the project proposal approved by the Council in the work program and GEF policies and procedures. Recognizing that the costing of project proposals for purposes of the work program is quite tentative, the CEO will examine the final budget of the draft project, including the incremental cost calculations.

***Approval by Implementing Agency and Recipient Country***

The Implementing Agency is responsible for final approval of the project document in accordance with its internal procedures. The recipient government will also approve the final project document.

**Phase III: From Project Approval to Project Completion**

***Reporting and project implementation review***

Each Implementing Agency will be responsible for monitoring project implementation. The GEF Secretariat should be kept informed about progress in the implementation of the projects through semi-annual reports. The Secretariat will organize an annual Project Implementation Review of all GEF activities. The Implementing Agencies and STAP will participate in this review. Each project will be reviewed to determine: status of implementation, progress toward the objectives of the project, compliance with GEF policies, project modifications made, and an assessment of potential problems. The results of the project implementation review will be summarized and distributed to the Council.

***STAP***

implementation review, and consistent with criteria approved by the Council. STAP may selectively identify projects for further review of the scientific and technical aspects of project implementation.

***Monitoring and evaluation***

In addition, once a Monitoring and Evaluation policy is approved by the Council, the Secretariat will prepare guidelines to implement the policy. The Implementing Agencies will be expected to implement the guidelines in each of their projects and to report on their implementation.

***Project completion***

Whenever a project is fully disbursed or substantially completed, a final evaluation report will be prepared by the Implementing Agency. This report should explicitly address the performance of the project and assess whether it has achieved its objectives. Guidelines for final project evaluation will be prepared by the Secretariat on the basis of the monitoring and evaluation policy approved by the Council.

The evaluations should assist the GEF, with the advice of STAP, to ascertain whether the Facility is achieving its overall objective of providing global environmental benefits in the four focal areas. The evaluation guidelines will clarify the role of STAP in evaluating the scientific and technical aspects of project implementation and the scientific and technical effectiveness of the GEF portfolio.

**III. FURTHER POLICY GUIDANCE AND ELABORATION TO BE INCORPORATED IN PROJECT CYCLE**

***Further elaboration of policy***

The Council is still developing policies that will have a direct influence on the project cycle. As experience is gained and evaluated, the lessons should be brought to the attention of the Council, which is responsible for keeping under review the operation of the Facility. The Council may then revisit the project cycle if appropriate. It is necessary to recognize the need for flexibility and innovation to facilitate the evolution in the cycle over time.

The Council is expected to consider and approve the following policies that must be fully incorporated in the GEF project cycle:

- (a) Public involvement in GEF-financed projects; and
- (b) Monitoring and Evaluation.

On the basis of the project

the Council, it is expected that each Implementing Agency will adhere to its own policies and procedures concerning monitoring and evaluation, information disclosure, and consultation with, and participation of, major groups and local communities.

#### **IV. TIMING OF THE PROJECT CYCLE**

It is very difficult to assign a specific time frame to the project cycle because project will vary according to its focal area, to project complexity and to the procedures of the Implementing Agency. The Implementing Agencies are all committed to expediting project development to the greatest extent possible and will continuously seek means to streamline the project cycle and to reduce the time between commitments and disbursement of funds. Also, it is expected that in the restructured GEF, the project proposals presented for Council approval will be well advanced in their preparation, which should reduce the time between Council approval of project proposals and final approval of project documents by the Implementing Agency. This aspect of the project cycle will be kept under review by the GEFOP.

Until such time  
as these policies  
are approved by

### ACTORS AND ROLES

| ACTOR                      | ROLES  |
|----------------------------|--|
| <i>Recipient Country</i>   | <ol style="list-style-type: none"> <li>1. Identification of operational focal point.</li> <li>2. Identification of project ideas, endorsement of project proposals.</li> <li>3. Approves final project document.</li> <li>4. Facilitates broad based, as well as, project related consultations.</li> <li>5. Feedback on GEF activities, including implementation of projects.</li> </ol>  |
| <i>Implementing Agency</i> | <ol style="list-style-type: none"> <li>1. Works with recipient country to facilitate identification of operational focal point.</li> <li>2. Assists in identification of project ideas.</li> <li>3. Manages project preparation.</li> <li>4. Approves final project in accordance with internal procedures.</li> <li>5. Supervises and monitors project implementation. Prepares semi-annual project reports for Secretariat.</li> </ol> |
| <i>GEFOP</i>               | <ol style="list-style-type: none"> <li>1. Informed of Block A grants.</li> <li>2. Recommends to CEO PDF-Blocks B and C grants.</li> <li>3. Reviews project proposals and recommends to CEO projects for inclusion in proposed work program.</li> </ol>   |
| <i>STAP</i>                | <ol style="list-style-type: none"> <li>1. STAP-roster expert to review each project proposal.</li> <li>2. STAP to selectively review projects in accordance with Council approved criteria.</li> <li>3. Evaluation of scientific and technical aspects of project implementation and technical effectiveness of GEF portfolio..</li> </ol>   |
| <i>Council</i>             | <ol style="list-style-type: none"> <li>1. Approves GEF policies and operational strategies which will include guidance received from Conventions.</li> <li>2. Approves work program.</li> <li>3. Members review projects before final approval. Members may request project be reviewed at a Council meeting.</li> <li>4. Approves Annual Report.</li> </ol>   |
| <i>CEO</i>                 | <ol style="list-style-type: none"> <li>1. Approves PDF Block B and C grants.</li> <li>2. Determines content of proposed work program.</li> <li>3. Endorses projects before final approval.</li> </ol>  |
| <i>Secretariat</i>         | <ol style="list-style-type: none"> <li>1. General portfolio management and record keeping.</li> <li>2. Chairs GEFOP.</li> <li>3. Develops operational guidelines on basis of Council - approved policies.</li> <li>4. Organizes annual project implementation review.</li> <li>5. Prepares Annual Report to Council.</li> </ol>  |

## **Public Involvement in GEF-Financed Projects**

This document presents the GEF policy on public involvement in GEF-financed projects. At its meeting in April 1996, the Council approved the principles presented herein as a basis for public involvement in the design, implementation and evaluation of GEF-financed projects. The Council stressed that in applying the principles: (a) there should be emphasis on local participation and local stakeholders; (b) specific conditions in-country should be taken into consideration; and (c) public involvement should be consistent with the provision of the *Instrument for the Establishment of the Restructured GEF*.



## **I. INTRODUCTION**

1. At its February 1995 meeting, the Council requested the Secretariat to prepare a “document proposing GEF policies for information disclosure and public participation” (*Joint Summary of Chairs*, p. 3). An information paper, *Draft Outline of Policy Paper on Public Involvement in GEF-Financed Projects* (GEF/C.6/Inf.5), and two Background Papers were made available at the October 1995 Council meeting for comments. Since the release of the information paper, the Secretariat engaged in consultations using the electronic media and small group meetings involving Council Members, NGOs and regional NGO networks, and recipient governments.

2. This document builds upon the previous papers and incorporates comments from the consultations. Part II provides the rationale and definition of public involvement. The basic principles of public involvement are presented in Part III, together with an identification of how the principles will be applied by the Secretariat, Implementing Agencies, project executing agencies<sup>1</sup>, and others participating in GEF-financed projects.

## **II. RATIONALE AND DEFINITION**

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<sup>1</sup>The term “project executing agency or agencies,” as used throughout this paper, refers to the institutions or range of institutions, which are directly responsible for project preparation, design, implementation, and evaluation. These may be recipient government agencies, U.N. specialized agencies, non-governmental organizations, and/or other bodies. The term “project executing agency” is not synonymous with “executing agency” as used by UNDP. In UNDP, only recipient governments; organizations of the U.N. system, including U.N. specialized agencies and the U.N. Office for Project Services (UNOPS); governmental agencies not part of the U.N. system, and UNDP itself may be “executing agencies” although NGOs and other bodies may provide extensive services to project preparation, design, implementation, and evaluation.

3. The need for public involvement -- information dissemination, consultation, and stakeholder participation -- is explicit in the *Instrument for the Establishment of the Restructured Global Environment Facility* (or Instrument). As stated in the basic provisions of the Instrument, all GEF-financed projects will “provide for full disclosure of non-confidential information, and consultation with, and participation as appropriate of, major groups and local communities throughout the project cycle” (para 5, p. 6). The Secretariat is to “in consultation with the Implementing Agencies, ensure the implementation of the operational policies adopted by the Council through the preparation of common guidelines on the project cycle. Such guidelines shall address project identification and development, including the proper and adequate review of project and work program proposals, consultation with and participation of local communities and other interested parties” (p. 12). The Implementing Agencies also have their own policies, guidelines, and procedures on public involvement which are consistent with the above provisions.

## **Rationale**

4. Effective public involvement is critical to the success of GEF-financed projects. When done appropriately, public involvement improves the performance and impact of projects by:

- (a) enhancing recipient country ownership of, and accountability for, project outcomes;
- (b) addressing the social and economic needs of affected people;
- (c) building partnerships among project executing agencies and stakeholders;  
and
- (d) making use of skills, experiences, and knowledge, in particular, of non-governmental organizations (NGOs), community and local groups, and the private sector in the design, implementation, and evaluation of project activities.

## **Definition**

5. Public involvement consists of three related, and often overlapping, processes: information dissemination, consultation, and stakeholder participation. Stakeholders are the individuals, groups, or institutions which have an interest or “stake” in the outcome of a GEF-financed project or are potentially affected by it. Stakeholders include the recipient country government; Implementing Agencies; project executing agency or agencies; groups

contracted to carry out project activities and/or consulted at various stages of the project; project beneficiaries; groups of people who may be affected by project activities; and other groups in the civil society which may have an interest in the project.

6. **Information dissemination** refers to the availability and distribution of timely and relevant information on GEF-financed projects, including notification, disclosure, and public access to such information.<sup>2</sup>

7. **Consultation** involves information exchanges among the government, the Implementing Agency, the project executing agencies, and other stakeholders. Although decision making authority rests with the government, the Implementing Agencies, and the project executing agencies, periodic consultations throughout the project cycle help managers make informed choices about project activities. More important, it provides opportunities for communities and local groups to contribute to project design, implementation, and evaluation.

8. **Stakeholder participation** is where stakeholders collaboratively engage, as appropriate, in the identification of project concepts and objectives, selection of sites, design and implementation of activities, and monitoring and evaluation of project outcomes. Developing strategies for incorporating stakeholder participation throughout the project

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<sup>2</sup> Notification includes the announcement and availability of GEF-related information. Disclosure refers to the availability of non-confidential information, often through a public information center, library or office, or through various forms of media. Such information may include GEF project documents and reports and GEF technical papers. Access covers the ways in which information is disseminated to a broad range of groups through publications, workshops, electronic networks, popular media, vernacular translations, village information meetings, and others.

cycle is particularly necessary in projects which have impacts on the incomes and livelihoods of local groups, especially disadvantaged populations in and around project sites (e.g., indigenous communities, women, poor households).

### **III. PRINCIPLES OF PUBLIC INVOLVEMENT**

9. Based upon provisions contained in the Instrument, policies and procedures of the Implementing Agencies, and experience gained from the pilot phase, the following principles will apply in the design, implementation, and evaluation of GEF-financed projects.

*Effective public involvement should enhance the social, environmental, and financial sustainability of projects.*

10. Public involvement activities should be designed so that they contribute to the environmental, financial, and social sustainability of projects. By improving project performance and sharing accountability for project outcomes, public involvement contributes to the environmental and financial sustainability of projects. In addition, to be socially sustainable, projects should, as appropriate, address the social, cultural, and economic needs of people affected by GEF-financed projects. As mentioned in the operational strategy, relevant social issues will be taken into account in the design, implementation, and

evaluation of projects. Such issues may include the socio-economic needs of affected people, the special needs of vulnerable populations, and access to project benefits.

*Responsibility for assuring public involvement rests within the country, normally with the government, project executing agency or agencies, with the support of the Implementing Agencies.*

11. Public involvement activities should strengthen ownership of projects by recipient countries. Governments should ensure that all GEF-financed projects are country-driven and based on national priorities for sustainable development. Governments should promote public involvement in the identification of project concepts which are consistent with national priorities. The Implementing Agencies will assist and collaborate with recipient governments and project executing agencies, as appropriate, in developing projects that make use of, and promote public involvement throughout the project cycle. The Implementing Agencies will work closely with governments and project executing agencies to involve stakeholders starting at the earliest phase of project identification and throughout design, implementation, and evaluation.

***Public involvement activities should be designed and implemented in a flexible manner, adapting and responding to recipient countries' national and local conditions and to project requirements***

12. It is recognized that there are differences in requirements for public involvement across focal areas and types of projects and, thus, all public involvement activities should be based on local needs and conditions. For example, biodiversity projects affecting indigenous communities may require more extensive stakeholder participation than global projects which focus on technical assistance and capacity building at the national and regional levels. There will also be diversity in approaches to design of public involvement activities that respond to in-country conditions, such as the cultural, political, and project-specific factors influencing project development and implementation.

***To be effective, public involvement activities should be broad-based and sustainable. The Implementing Agencies will include in project budgets, as needed, the necessary financial and technical assistance to recipient governments and project executing agencies to ensure effective public involvement.***

13. The Implementing Agencies will work with governments and project executing agencies to ensure that public involvement activities are designed in a manner that is representative of a broad range of stakeholder groups and effectively carried out over the long-term. The Implementing Agencies will support project executing agencies in: (a) providing relevant, timely, and accessible information to as many stakeholders as possible;

(b) facilitating broad-based and project-specific consultations, especially at the local or sub-national levels; and (c) promoting the active participation of key stakeholder groups throughout the project cycle, including awareness raising and capacity strengthening activities.

***Public involvement activities will be carried out in a transparent and open manner. All GEF-financed projects should have full documentation of public involvement.***

14. Consistent with provisions in the Instrument, there should be transparency in the preparation, conduct, reporting, and evaluation of public involvement activities in all projects. The format for documentation of public involvement will be developed by the Secretariat, in consultation with the Implementing Agencies. Such a format should be brief and concise and should take into consideration good practice formats currently in use by the Implementing Agencies, NGOs, and project executing agencies.

15. The Secretariat will undertake the following to facilitate effective public involvement in all GEF-financed projects.:

- (a) Establish, in consultation with the Implementing Agencies, operational guidelines for assessing the effectiveness of public involvement activities in the project's design and implementation plan: subsequent monitoring of public involvement activities through the annual project implementation



review; and evaluating the impacts of public involvement in terms of improving projects:

- (b) Facilitate the exchange of best practices on public involvement among recipient governments, the Implementing Agencies, project executing agencies, and other stakeholders with a view to ensuring that lessons learned are incorporated into design of future projects;
- (c) In collaboration with the Implementing Agencies, explore ways in which roles of NGOs and other stakeholders can be strengthened in project preparation, design, implementation, and evaluation, and conduct periodic assessments of the effectiveness of public involvement in projects; and
- (d) Ensure that funding is available to recipient governments, executing agencies, and, as appropriate, NGOs for carrying out effective public involvement.

16. The Implementing Agencies are committed to promoting effective public involvement within their own institutional environment. In accordance with internal policies and procedures, and consistent with the principles outlined in Part III above, the Implementing Agencies will develop guidelines for public involvement in their own GEF-financed projects, and should include the following:

- (a) Modalities for incorporating public involvement in projects, and addressing social issues, starting at the earliest stages of the project cycle, and

recognizing the difficulties and long-term nature of cultivating local participation; and

- (b) Financing options during project preparation, and within project budgets, to facilitate design and implementation of public involvement activities, as appropriate, including allocation of project funding to encourage participation of NGOs, local groups, and the private sector.