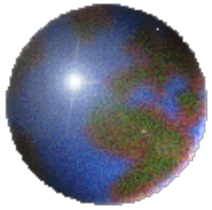


Environmental Governance in the World Bank & the Role of Supreme Audit Institutions

Carman Lapointe-Young
Auditor General, World Bank Group
Moscow, October 2005

Overview

- Who we are, what we do
- Making Sustainable Commitment: an Environment Strategy for the World Bank
- World Bank Safeguard Policies
- Project Cycle & Roles of Compliance & Evaluation Units
- Use of Country Systems & Areas of Particular Interest to SAIs

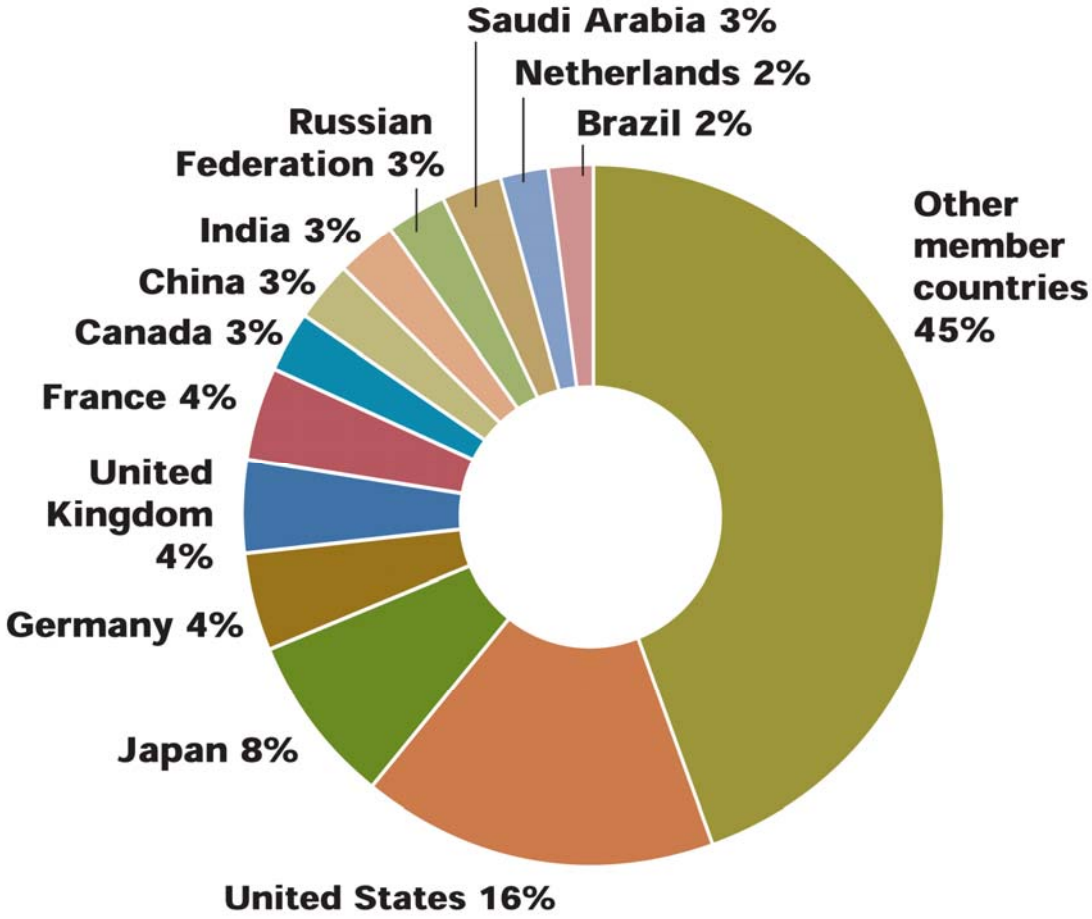
World Bank

- Established in 1944
- Over 180 member countries
- Focus on poverty reduction, including Millennium Development Goals
- Committed to environmentally and socially sustainable development
- Supporting responsible growth

World Bank Group

- International Bank for Reconstruction and Development (IBRD)
- International Development Association (IDA)
- International Finance Corporation (IFC)
- Multilateral Investment Guarantee Agency (MIGA)
- International Centre for the Settlement of Investment Disputes (ICSID)

Voting Shares in the World Bank



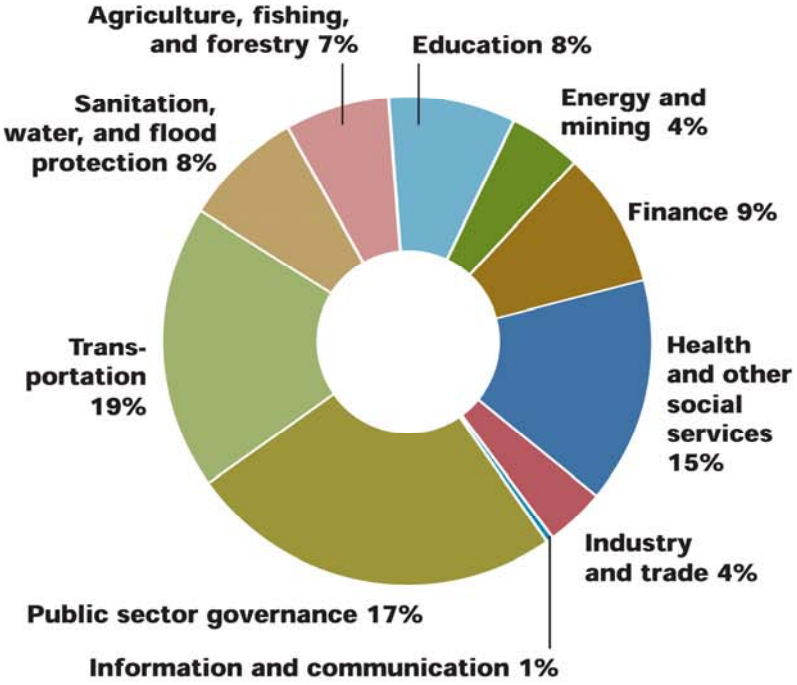
Source: World Bank Debtor Reporting System and staff estimates.

World Bank Major Activities

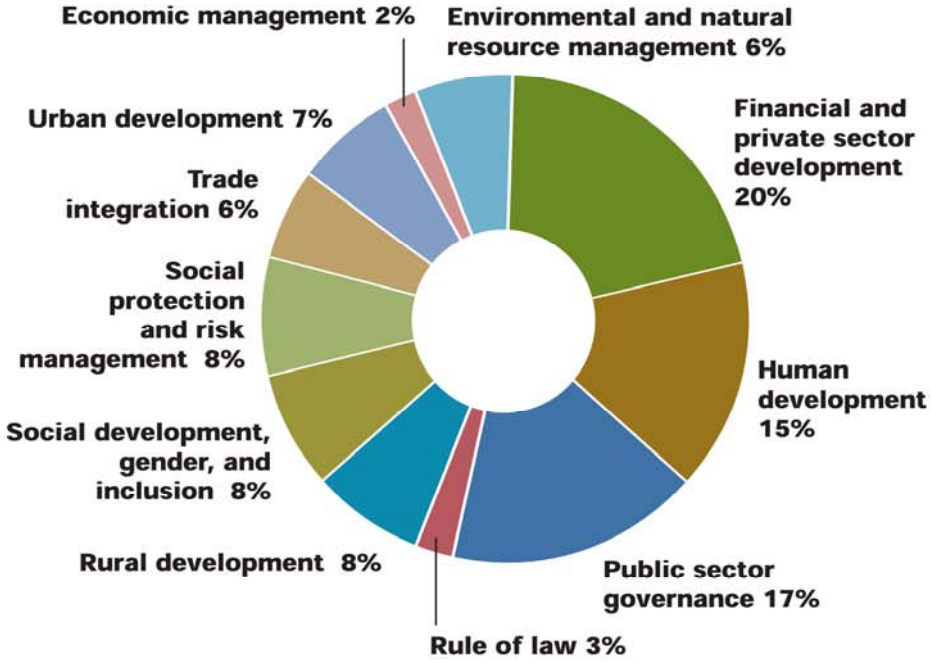
- Development Policy Loans
- Poverty Reduction Strategy Credits
- Investment Loans
- Financial Intermediary Operations
- Social Funds/Community Driven Development
- Emergency/Post Conflict Operations
- Global Environment Facility/Carbon Finance

Total World Bank Lending, Fiscal 2004
share of total lending of $20.1 billion

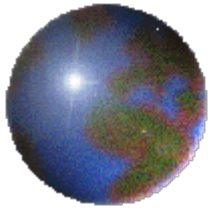
By sector



By theme



Source: World Bank data 2004.



Making Sustainable Commitments:

An Environment Strategy for the World Bank

World Bank - Environment Strategy

The Strategy sets three interrelated objectives:

- Improving the quality of life
- Improving the prospects for and the quality of growth
- Protecting the quality of the regional and global environmental commons

Example: Agriculture & Rural Development

After 50 years of effort, rural poverty persists.

Agriculture employs ½ labor force in developing countries, directly or indirectly

Cornerstone of poverty reduction is agriculture & rural development

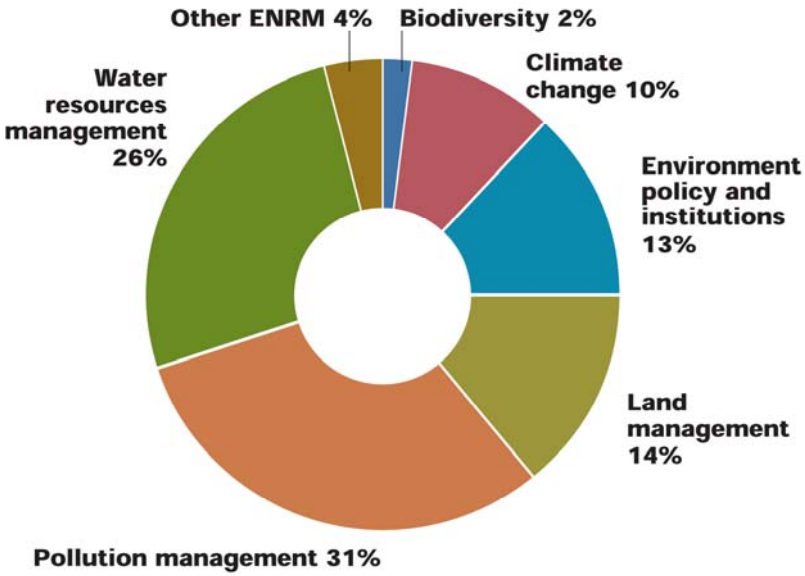
Strategy: foster broad-based rural enabling environment; enhance product competitiveness; promote non-farm growth; improve social well-being; enhance sustainability of natural resource management.

Actions: Increasing support for agricultural research & education; Chairing CGIAR, priorities to combat famine in Horn of Africa & promote rural development in food-insecure countries.

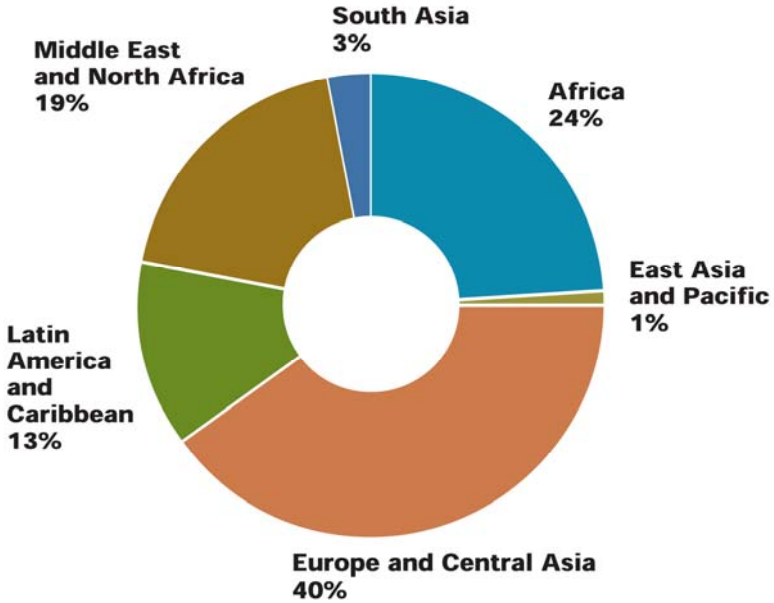
Lending for Environment and Natural Resource Management (ENRM) by Theme, Fiscal 2004

Percentage of all projects, based on commitment amounts, $2.0 billion

By theme



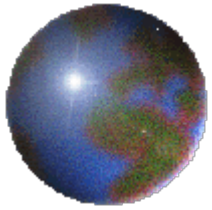
By region



Environmental Reporting & Transparency

- **Focus on Sustainability**
  - Sustainability Reports by Bank and IFC
- **Environment Matters**
  - Annual Review of Environment
- **Periodic Reports by Regions**
  - Examining Major Environmental Issues
- **Periodic Reports for Some Countries**
  - Environmental Monitors in East Asia Region

All available at www.worldbank.org



World Bank Safeguard Policies

Safeguard Policies

- Safeguard policies are mechanisms used to integrate environmental and social issues into decision making
- Provide a set of specialized tools to support development processes
- Support participatory approaches and transparency

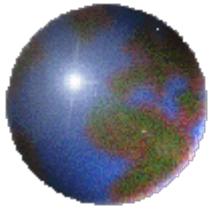
10 Safeguard Policies

- Environmental Assessment
- Natural Habitats
- Forests
- Pest Management
- Cultural Property
- Indigenous Peoples
- Involuntary Resettlement
- Safety of Dams
- Projects involving International Waters
- Projects in Disputed Areas

Plus Disclosure Policy

Primary Safeguard Instruments

- Environmental Assessment (EA)
  - Ensure environmental & social soundness of projects, support integration in decision-making
- Resettlement Action Plan (RAP)
  - Avoid or minimize resettlement; assist displaced persons improve or restore livelihoods & standards of living to pre-project conditions at least
- Indigenous Peoples Plan (IPP)
  - Design & implement in a way to ensure Ips receive culturally comparable benefits, and do not suffer



Project Cycle and Roles of Evaluation and Compliance Units

The Investment Lending Project Cycle
Stages, Major Decision Points, and Publicly Available Documents*

* Publicly available documents shown in blue relate to individual lending operations. A large number of analytic and evaluative publications are made public that aggregate individual operations; they may be found through www.worldbank.org.

** Dependent upon the safeguard triggered.

Independent Evaluation and Compliance Units

- **Department of Internal Auditing (IAD) – Reports to the President & Audit Committee of the Board**
  - Audits implementation of integrated safeguard compliance system & safeguard issues at project level
- **Operations Evaluation Department (OED) – Reports to the Committee on Development Effectiveness of the Board**
  - Reviews implementation experience of strategies, policies, programs & projects

Independent Evaluation and Compliance Units

- **Department of Institutional Integrity (INT) – Reports to the President & Audit Committee of the Board**
  - Investigates allegations of fraud & corruption, and misconduct of Bank staff
- **Inspection Panel (IP) – Reports to the Board**
  - Undertakes investigations at the request of affected parties or their representatives concerning compliance with policies other than procurement
  - Average of 2-3 cases per year
  - Focus on transparency and accountability

Evaluation and Compliance Units Reporting to Management

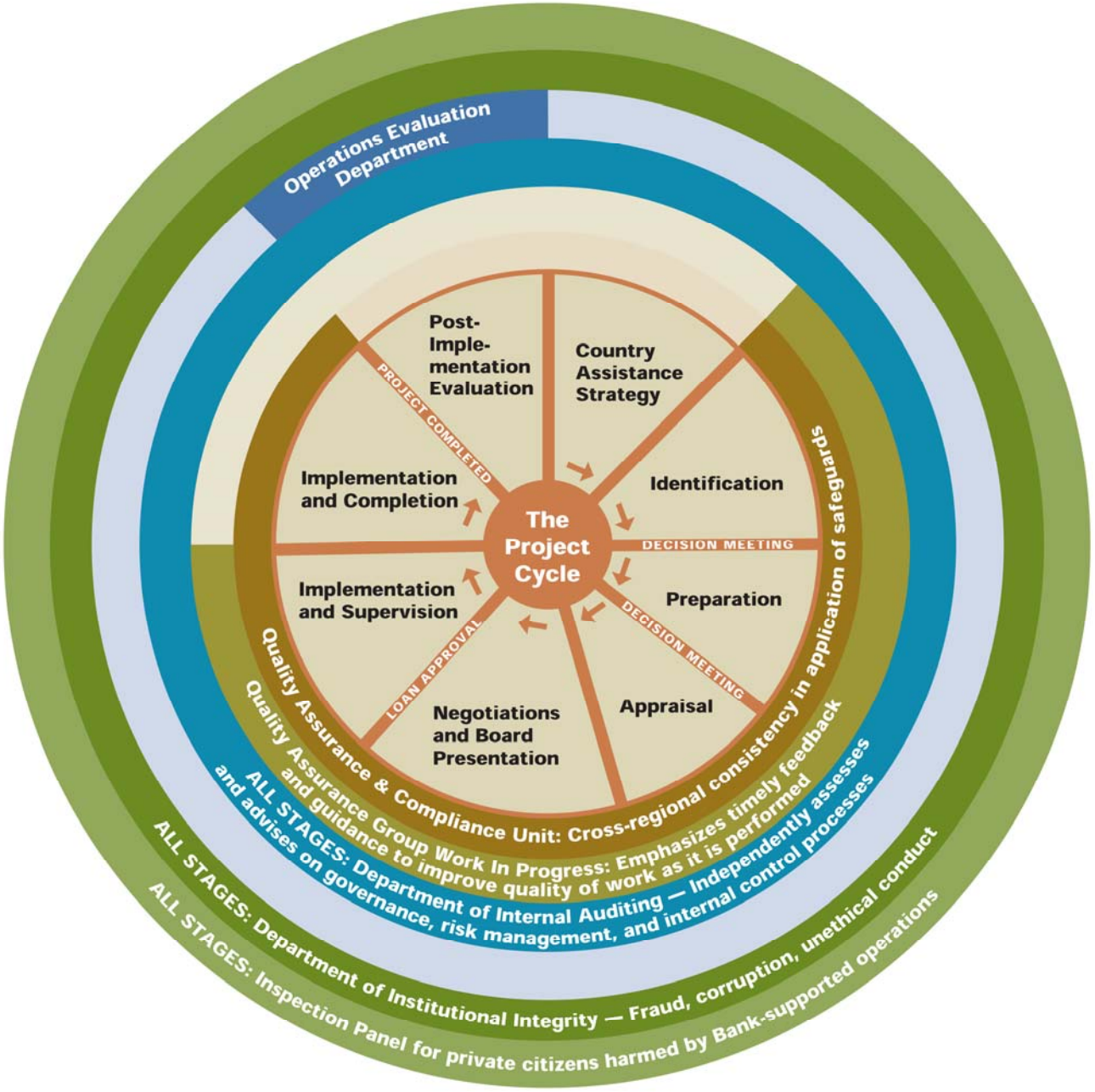
- **Quality Assurance and Compliance Unit (QACU) – Environmental and Social Safeguards**

- **Quality Assurance Group (QAG) – Project Design and Supervision Quality**

Integrated Management Reviews

- **Environment Department**
  - Sustainability Reporting
  - Environment Strategy Reporting
- **Central Safeguard Staff**
  - Review of Implementation of Safeguard Policies
  - Review of Bank Investment Portfolio
- **Regional Safeguard Staff**
  - Thematic Supervision of Programs
  - Project Specific Supervision

The Project Cycle: Oversight by Major Evaluation and Compliance Units



Performance Audits and Reviews

- Audits and reviews of a variety of types by units reporting to both the Board and Management are an established process at World Bank
- Board and Management have found them to be useful instruments for assessment of both process and outcomes
- Support strategic decisions on policy development, procedures and use of staff resources
- Contribute to improved performance and enhanced quality of operations

Performance Audits and Reviews

- Environment and Sustainable Development initiatives are areas in which audit and review practices are evolving based on experience

- Interactive approaches have been used to ensure dialogue between all parties involved in process and to increase internalization of recommendations

Use of Country Systems & Areas of Particular Interest for SAIs

Use of Country Systems

- Process involving the development community and cooperating countries to promote harmonization of polices and practices
- Goal is to increase development effectiveness and enhance quality of policies and procedures and their implementation
- Move to improve quality of all investments in a country independent of their source of funding
- Initial areas of focus:
  - Financial Management
  - Procurement
  - Environmental and Social Safeguards

Approach

- Exploring through pilots the Use of Country Systems to achieve same objectives and principles as World Bank policy and performance standards
- Current safeguard policies remain in use for all lending operations beyond the pilots
- All pilots subject to monitoring and evaluation

Objectives of Using Country Systems

- Increasing Development Effectiveness
- Improving Policies, Procedures and Practices
- Expanding Country Ownership
- Strengthening Implementation Performance
- Increasing Efficiency in Use of Resources (including country resources)
- Strengthening Country Capacity
- Creating Performance Based Incentives

New Safeguard Policy

- OP/BP 4.00
  - "Piloting the Use of Borrower Environmental and Social Safeguard Policies, Procedures, and Practices in Bank-Supported Projects"
- Equivalence
  - The World Bank would consider a borrower country's environmental and social safeguard system to be equivalent to the World Bank's if the borrower's system is designed to achieve the objectives and adhere to the applicable operational principles as set out in the Policy
- Acceptability
  - Before deciding on the use of borrower systems, the World Bank would also assess the acceptability of the borrower's implementation practices, track record, and capacity

Pilot Program

- Two Year Pilot Process
- 14 Pilots
- Selected Countries, Programs, Projects
- Reporting to Board of Executive Directors
- Monitoring and Evaluation
- Focus on Partnership with Development Organizations
- Results will Impact Future Decisions on Next Steps

Selection Criteria for Pilots

- Country Interest and Ownership
- System Quality & Level of Risk
- Knowledge Base and opportunities (equivalence and acceptability)
- Pilot that cover as many safeguard policies as possible.
- Bhutan, China, Croatia, Ghana, Jamaica, Tunisia

An Example: Environmental Assessment

Objectives

A. Environmental Assessment

To help ensure the environmental and social soundness and sustainability of investment projects

Operational Principles

1. Use a screening process for each proposed project, as early as possible, to determine the appropriate extent and type of environmental assessment (EA).

Summary

Moving Forward

- World Bank will continue audits and reviews by various units and continue to test new approaches
- Increased emphasis will be given to examination of sustainability issues
- Use of Country Systems approach provides a new opportunity to increase focus on capacity building and improve quality

The Challenge for World Bank and for SAIs

How to improve country ownership, enhance development outcomes and increase aid effectiveness

- Leadership through reinforcement & awareness
- Recommend & support policy & capacity development
- Shore up effectiveness and reliability of country systems through audits and evaluations
- Identify opportunities for continuous improvement