



# Bank Guidance

## Environmental, Forests, and other Natural Resource Aspects of Development Policy Financing

### **Bank Access to Information Policy Designation**

Public

### **Catalogue Number**

OPS5.02-GUID.107

### **Issued**

February 22, 2023

### **Effective**

February 22, 2023

### **Content**

Advice on implementation of DPF Policy requirements with regard to Environmental, Forests, and other Natural Resource Aspects, including guidance on how to assess (i) whether specific country policy reforms supported by the operation are likely to cause significant effects on Member Country's environmental, forests, and other Natural resource and if yes, assess the Member Country's systems for managing such effects, including measures to address any identified gaps or shortcomings in such systems.

### **Applicable to**

IBRD,IDA

### **Issuer**

Director, Operations Policy

### **Sponsor**

Manager, Operations Policy (Country Economics)

*This Guidance is produced to help World Bank staff in applying the Environmental, Forests and Natural Resources Aspects of DPF policy. It is written in a style and format that is intended for use by World Bank staff and to inform development partners. This Guidance is advisory in nature and is not World Bank policy nor is it mandatory. It will be updated periodically to reflect emerging good practice.*

## SECTION I – PURPOSE AND APPLICATION

1. This Guidance provides advice on how to implement the requirements of the Bank Policy, Development Policy Financing (DPF) with regard to Environmental, Forests, and other Natural Resource Aspects. Specifically, it provides guidance on how to: (i) assess whether specific country policy reforms supported by a Development Policy Financing (DPF) are likely to cause significant effects on the Member Country's environmental, forests, and other natural resource effects; (ii) make available to the public as part of the consultation process of the Member Country relevant to the operation key analytical findings of the Bank's assessment of significant effects, the Member Country's systems for managing such effects, and measures to address any identified gaps or shortcomings in such systems, in accordance with the Bank Policy on Access to Information; (iii) assess the adequacy of Country Systems to manage and mitigate identified adverse effect and enhance any positive effects; (iv) identify as needed additional measures to address any identified gaps or shortcomings in the Member Country's systems before or during programs implementation, as appropriate, and (v) describe these steps in the DPF Program Document.
2. This Guidance applies to the World Bank.

## SECTION II – DEFINITIONS

1. CEA: Country Environmental Assessment
2. CCDR: Country Climate and Development Report
3. Country Systems: A country's national, subnational, or sectoral implementing institutions and applicable laws, regulations, rules, and procedures and implementation capacity relevant to the environmental, environmental, forests and other natural resource aspects.
4. DPF: Development Policy Financing
5. EA system: Laws, regulations, other rules, and institutional capacity which govern environmental assessment
6. PD: Program Document

## SECTION III – SCOPE

### I - Introduction

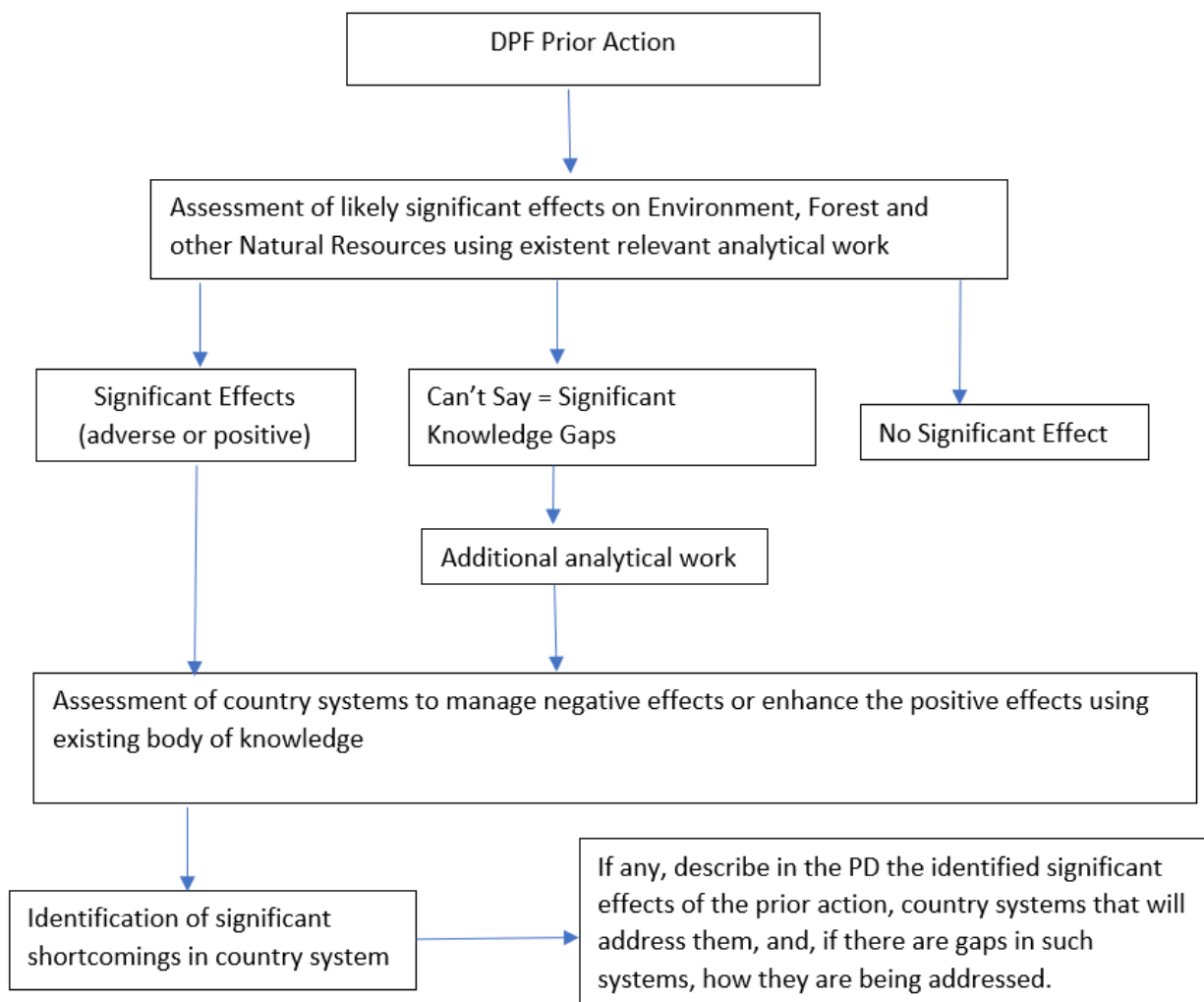
3. This Guidance advises task teams on how to implement the requirements of the Bank Policy, “Development Policy Financing” (Bank Policy) with regard to the environmental, forests and other natural resource aspects.<sup>1</sup> A separate Guidance advises teams on “poverty and social impact” aspects. Specifically, it provides guidance on how to (i) assess whether policy reforms supported by a DPF are likely to cause significant effects on the country’s environment, forests, and other natural resources; and (ii) conduct an analysis of these significant effects so that the Program Document (PD) discusses the analytical knowledge of these effects and their management and mitigation through existing Country Systems or additional support.
4. Bank Policy requires that “the Bank determines whether specific country policies supported by the operation are likely to cause significant effects on the Member Country’s environment, forests, and other natural resources.” The scope of country policies supported by the operation is defined by the program prior actions. When a specific policy as subset of a broader reform program is supported by the DPF program, task teams review the broader reform program to assess its consistency vis a vis the operation Development Program Objective. In case of inconsistencies, task teams may reconsider the focus of the prior action. The assessment of environmental aspects is however limited to the program subset as defined by the prior actions, not the broader government program, and teams are encouraged to establish a clear delineation in the narrative of the program document. While not all prior actions are expected to have significant effects on the environment, forest, and natural resources, some might have possible adverse or positive effects. If the effects are likely to be significant, *“the Bank assesses in the Program Document the Member Country’s systems for reducing such adverse effects and enhancing positive effects, drawing on relevant country-level or sectoral environmental analysis. If there are significant gaps in the analysis or shortcomings in these systems, the Bank describes in the Program Document how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.”*
5. Figure 1 illustrates the steps in implementing the policy requirements related to the environmental, forests, and other natural resource aspects of an operation. First, the task team determines if the specific country policies supported by the DPF are likely to cause ‘significant effects’ on the environment, forests and other natural resources, drawing from existing analytical body of knowledge, including relevant country-level or sectoral environmental analysis. If there are significant gaps in the existing analytical body of knowledge, the task team carries out analysis to fill them early in the preparation stage. Second, the team assesses the country’s systems to determine whether there are appropriate legal/policy/institutional frameworks and capacity to manage the likely significant effects. Third, if there are significant shortcomings in the Member country’s systems for reducing any significant adverse effects of the specific policies support by

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<sup>1</sup> Key environmental issues are those that are recognized as harmful to human health, productivity and biological environment. They may include, among others, air quality; pressure on water resources; water/hygiene/sanitation; blood lead levels; soil degradation; deforestation; carbon/fuel efficiency; natural resource degradation; pressure on terrestrial resources; pressure on aquatic resources; natural disasters; water supply; protection of environmentally sensitive areas; biodiversity conservation; climate change adaptation; and climate change mitigation.

the Bank that are part of the program and enhancing positive environmental effects of any specific policies in the program, the task team plans for and describes in the Program Document how these significant gaps or shortcomings will be addressed by the Member country before or during program implementation, by including mitigations measures in the Program itself, and/or by complementary policies, investments, technical assistance and/or projects (by the Member country and, as applicable, supported by Bank or other development partners). These mitigation measures may usefully be reflected in the Letter of Development Policy by the Member country. The implementation of the mitigation measures is monitored and evaluated by the Member country as part of the implementation of the program supported by the DPF. Task teams reviews the adequate implementation of mitigation measures during supervision.

**Figure 1. Steps towards implementing the requirements on Environmental, Forests, and other Natural Resource Aspects in Bank Policy: Development Policy Financing**



- Section 5.2 and Annex 4 of the DPF Program Document Template covers the environmental, forests, and natural resource aspects of the DPF. Annex 4 includes a summary screening table for all Prior Actions of the operation and an analysis of any likely significant effect (C.f. Annex 1). Section 5.2 summarizes the analysis on those prior actions indicated in the Annex 4 screening Table “as having likely significant environmental effects or to be determined”, an assessment of

Country Systems to manage and address these effects, and additional mitigation measures as required.

7. The Program Document includes a clear and substantiated statement whether “...the reforms being supported by the DPF are likely to have significant adverse or positive effects on the environment, forests and other natural resources.”. For those prior actions which are not likely to have significant effects, no further explanation is required. For other prior actions, these significant effects, whether positive or negative, are discussed in a *consistent* and *comprehensive* manner in Section 5.2, which highlights: (i) the likely significant effects of each prior action and their explanation, (ii) the analytical knowledge consulted or developed during preparation to determine the significant effects (as a good practice, a non-technical summary of the analytical work used for that purpose with key findings may be given), (iii) a description of the Member country’s system to identify, monitor and manage the identified likely significant effects, including capacity and regulatory mechanism of agencies relevant to the implementation of the policy reforms. In addition, gaps in systems managing the likely significant effects are clearly identified, with the description of implemented or planned mitigation measures to address these gaps before or during program implementation. These measures may include complementary policies, investments, technical assistance and/or projects by the Bank or other development partners. It should be underscored that the assessment of Country Systems and proposed mitigation measures are circumscribed at addressing the likely significant effects of the program, rather than any overall country system gaps as a whole. In situations where it is not possible to make an appropriate determination of whether a particular policy action is likely to cause a significant impact on the Member Country’s environment, forests or natural resources or assess the adequacy of Member country’s systems for addressing such impacts or agree on additional measures required to address any identified gaps or shortcomings in such systems, the Bank cannot support the relevant policy as part of the program financed by the DPF operation and agrees with the Member country on appropriate revisions to the program.

## II - Consultations and Disclosure

8. The borrower carries out consultation on any likely significant effect and proposed mitigation measures to engage key stakeholders in policymaking as part of the formulation of its development strategies. Bank Policy (Paragraph 9) says: *“In carrying out dialogue with a Member country, the Bank advises it to consult with and engage the participation of key stakeholders in the country in the process of formulating its development strategies. Key stakeholders include social groups directly affected by the operations, as well as public sector, private sector, and donor organizations relevant to the operation. For a DPF, the Member country draws on this process of strategy formulation to determine, in the context of its constitutional and legislative framework, the form and extent of consultations and participation in preparing, implementing, and monitoring and evaluating the operation. The Bank’s Program Document (PD) describes the Member country’s arrangements for consultations and participation relevant to the operation, and the outcomes of the participatory process adopted in formulating the Member country’s development strategy.”* Feedback from these consultations helps in defining the measures (to mitigate the adverse effects and enhance the positive effects).
9. As part of these consultations, Task teams disclose to the public the Banks’ analysis of environmental, forests, and natural resource aspects of specific country policies supported by the proposed DPF. Paragraph 9 of Bank Policy states that *“Relevant analytic work conducted by the Bank, particularly on poverty and social impacts and on environmental aspects, is made available*

Suggested guidance for World Bank Staff.

*to the public as part of the consultation process, in accordance with the Bank's Policy on Access to Information."* The public debate about likely significant effects of the proposed reforms on the environment, forest or other natural resources helps policymakers and Bank teams to make decisions about the design, sequencing, timing and appropriateness of the proposed reforms, and to better define mitigating or enhancing measures where appropriate. The Consultation Section 4.4. of the Program Document highlights the process and feedback from these consultations. The analysis and findings from the "Environment and Poverty/Social Analysis" of the Program Document are made available to the public by, for example, posting them on the World Bank Member country website. While the format may vary, the analysis and findings should have sufficient information for stakeholders to understand what specific prior actions are proposed, what positive or negative significant impacts they might have, the adequacy of the Member Country's Systems to manage and mitigate any adverse significant effects, and measures to address any identified gaps or shortcomings in such systems, and for positive effects, what benefits may be received.

10. A strong in-country constituency for significant environmental effect analysis and engagement with a range of key stakeholders is essential for mainstreaming the analysis and mitigation into country policy processes. Task teams can support capacity building by: (i) raising awareness for environmental significant effect analysis among key government officials, CSOs and think tanks, illustrating how it can inform policy choices; (ii) strengthening the capacity of research organizations and government agencies to carry out these analyses, and (iii) enhancing the ability of policymakers and other key stakeholders to review the results and recommendations based on the findings. To that end it is recommended that the analytical work and findings be shared widely and transparently.

### **III - The Environmental Analysis**

11. The methodology for undertaking the environmental analysis involves partly technical assessment and partly judgement, and the analysis should be thoroughly substantiated.
12. The first step is to determine if significant adverse/positive effects on the environment are likely. This determination is informed by existing knowledge and experience on environmental effects of a given policy reform, existing country analytical work. In case of a significant knowledge gap, it is supplemented by analysis carried out specifically for the proposed DPF. It can come from the Bank, the country or development partners. Bank country work may include Country Environmental Analysis (CEA), Country Climate and Development Report (CCDR), sector reviews, data and trends in environmental resource use and degradation, other relevant literature and, ultimately, task team judgement. A more detailed table indicating the potential significant effects likely due to some of the most commonly supported policy reforms is given in Annex I.
13. Because significant environmental effects resulting from DPF supported reforms are for the most part context specific and dependent on behavioral change, establishing attribution is often indirect. To do so, when identifying a prior action that may have a likely significant environment, forests, natural resources effect, it is necessary to understand how the proposed reform may affect incentives and human behavior and the likelihood of that behavioral change having an impact on the environment within the specific country context. Typically, these policy changes are expected to lead to changes in behavior, leading to likely significant adverse or positive

effects. Behavioral changes may lead for example to urban/urban migration, changes in patterns of resource use and access to resources, and others. From an analytical perspective, the task team assesses how the behavior is expected to change and the context within which that change is expected to take place. The context could be a fragile ecosystem, weak governance/corruption, susceptibility to adverse weather conditions, at the national or regional. etc. The social, political, institutional, economic and environmental interactions also need to be considered. Building in mechanisms into the policy reform such as tax breaks, incentives, access to credit or subsidies to protect the poor and vulnerable can limit behavioral change that are potentially damaging to the environment.

**Box 1. Examples of Prior Actions with significant environment, forests, natural resources effects**

*A prior action aimed at improving the management of the cotton sector by creating incentive to use fertilizer.* While such an action can boost the cotton sector, the link between the increased use of fertilizer and land conversion on the environment needs to be evaluated. Intensifying agricultural practices may increase output as a result of which expanding the amount of land for cotton production may not be required, placing less pressure on forests and other agricultural land. Yet, promoting higher fertilizer use can negatively impact water resources. Runoff from fertilizer can lead to water pollution and ground water contamination.

*A prior action phasing out of electricity subsidies and moving towards a more cost-reflective tariffs.* It was determined that the outcomes of the reform would have positive environmental effects and would also reduce the risk for an even greater share of coal in power generation compared to the business-as-usual scenario. The prior action aimed at reducing subsidies and move towards cost-reflective electricity tariffs would lead to efficiency gains and create incentives for reducing demand. This along with measures supporting an increase in gas and renewables (including geothermal power) in the power generation mix, would have positive effects on global and local emissions relative to a baseline absence of such reforms.<sup>2</sup>

*A reform of energy price* in general aims to promote fuel efficiency<sup>3</sup> with possible positive environmental effects. However, increasing tariff without adequate safety nets in place for the poor households could lead to negative environmental effects through increased use of firewood for cooking (in a specific country context), with adverse effects on air quality and subsequently on human health and the forests. In other words, environmental effects imply a behavioral change induced by a policy that in turn leads to a change in the quantity or quality of an environmental resource (for example, loss of forest cover or habitat, or a change in the concentration of pollutants in air, soil or water).

14. Based on available knowledge, it becomes clearer to the task team that significant environmental effects are not likely for some of the DPF supported prior actions, while in others, there may be a potential for significant environmental effect and in few others, due to inadequacy of existing information, it may be difficult to determine the potential for a significant environmental effect. Not all DPF supported prior actions are likely to have significant environment effects. For example, PFM, health, education or social protection related reforms have typically less often significant

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<sup>2</sup> For sound policy making, there is need for policy makers to understand the relative environmental impacts of alternative energy sources, including how the impacts of renewable energy technologies compare to those of fossil-fuel technologies and to opportunities for improvements in energy efficiency.

<sup>3</sup> The efficiency gains could come in from the expected increase in tariffs to cost reflective levels (reducing subsidies and increasing allocative efficiency), which then allows the Energy producers to invest in energy efficient systems including moving into renewable energy.

## Suggested guidance for World Bank Staff.

environmental effects, while reforms in agriculture, infrastructure and energy, among others, are more likely to have environmental significant effects. Significant effects may be more likely in agriculture, energy, transport, urban and water, while they might be less likely in finance, public administration, or education.

15. It is advisable that any new analysis is undertaken at an early stage of the Bank's DPF engagement. This is to ensure that environmental issues are fully addressed in the reform design, and duly part of the consultative process, with key findings disclosed in the course of preparation to inform consultations. The extent to which the analysis can be done upstream depends, however, on the context and timeline of reforms. A downstream analysis (conducted later in the policy making process) can help identify the likely impacts of a specific reform on the environment, allowing for the introduction of measures to enhance positive impacts and help mitigate negative ones. In addition, it can inform subsequent reforms (triggers) that are part of the programmatic series. The measures may be supported by the DPF itself, or through technical assistance, either in an existing project or self-standing, by the Bank or through other development partners.
16. The outcomes of a reform should be analyzed in relation to the significant effect it may have on the key environmental issues and priorities, noting that a prior action can have both significant positive and negative effects (regardless of whether they are direct or indirect, short term or long term). The significant effect can be evaluated by assessing if the policy action will: (i) Increase or decrease environmental costs (towards improving/protecting the environment) at a sufficient scale at the local, regional or national level, (ii) Contribute or not to implementing environmental priorities in key sectors, (iii) Contribute or hamper local, regional or national sustainable development goals, (iv) Shifts, diverts or creates problems elsewhere (unintended consequences).
17. Once prior actions which are likely to have significant environmental effects are identified, the next step is to analyze their expected effect. If a prior action in a DPF is identified as one that merits an analysis of its significant effect on the environment, forest, or natural resources, the program document must include: a description of the environmental effects of the policy reform (prior action) and any knowledge and analytical gaps; the assessment of relevant systems to identify, monitor and manage the environmental effects (both positive and negative) from the prior actions; key gaps and shortcomings in these systems; recommendations for the management of environmental effects to inform the Member country and Bank policy dialogue; analysis of actions being undertaken and proposed to be undertaken before or during program implementation by the government to close the capacity, institutional and regulatory gaps to manage the likely significant environmental effects from the prior actions<sup>4</sup> and; identification of the DPF's residual environmental risk. In the case of a programmatic series, if a trigger is expected to have significant environmental impacts, it is advisable to plan and undertake an analysis in advance so that the findings of the analysis can inform the design of the next operation. However, only potential impacts of the prior actions (not the triggers) are expected to be reviewed in the PD.
18. Further analysis is carried out if significant knowledge gaps are left which do not allow to inform the reform adequately. The scope of additional analysis depends on the formulation of the policy reform. While some environmental analysis may have a specific focus (e.g., the impact of an

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<sup>4</sup> This includes ongoing or planned programs such as technical assistance or projects by other donors that can complement and strengthen the policy reform.



Suggested guidance for World Bank Staff.

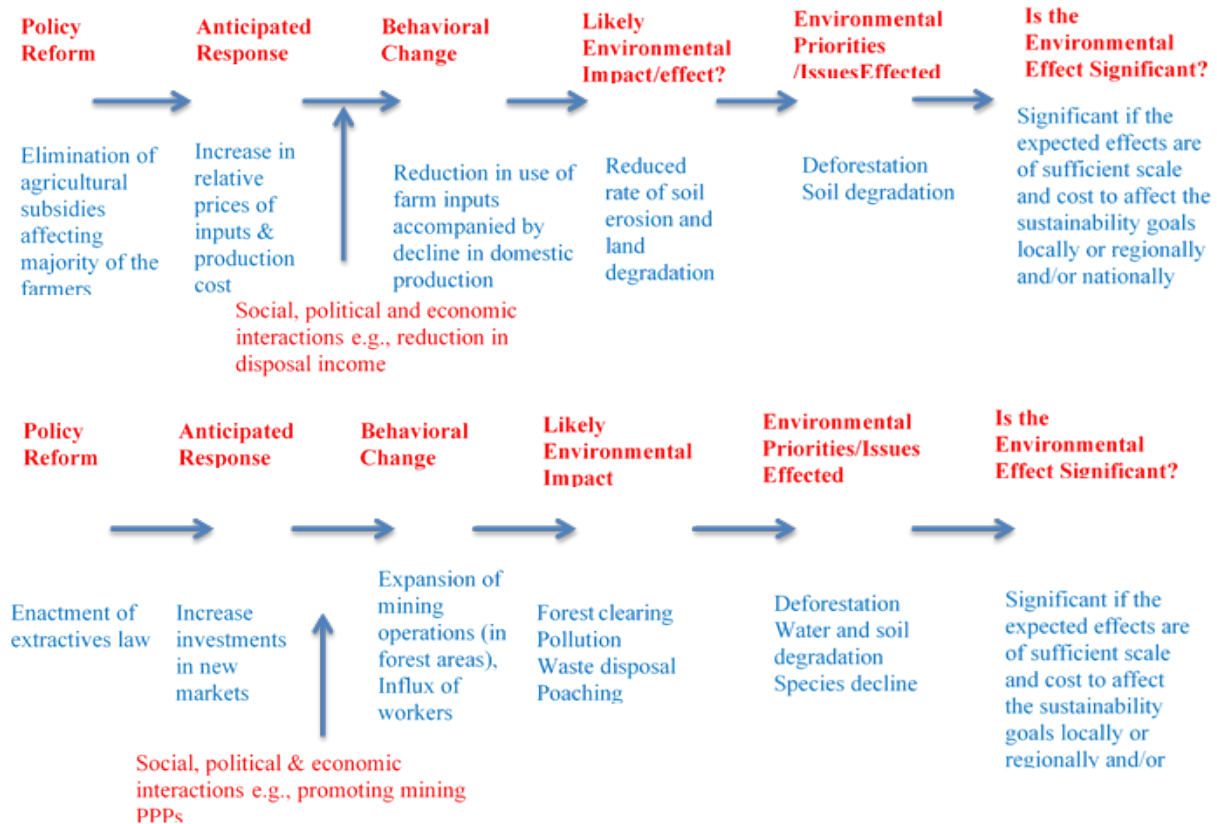
increase in electricity tariffs), others may call for a broader approach (e.g., new climate change related policies, new mining regulations).

**Box 2. Example**

A prior action on the Government’s adoption of a regulation updating the diesel quality parameters with the objective of reducing toxic emissions in the air. Indoor and outdoor air quality are identified as environmental priorities in the country. In this case, the environmental analysis carried out for the DPF found that the measures included in this prior action would reduce costs associated with premature mortality, lower respiratory illnesses in children, chronic bronchitis, restricted activity days, hospital admissions, as well as in emergency room and outpatient hospital visits. Thereby, translating into significant environmental benefits.

However, it was found that there is a risk that old vehicles will be sold in smaller cities and towns where the control is likely to be weak, thus spreading the pollution to smaller urban areas once the Government updates and consolidates the norms associated with pollutant emissions to allow for the renewal of the car fleet. Thus, due to the policy reform the problem (toxic emissions from an aging car fleet) can be shifted to smaller towns or rural areas if not adequately managed.

**Figure 3. Linking Policy Reform and Significant Environmental Effect**



Adapted from Iannariello et al. 2001 and Mani et al. 2008.

19. Once it is determined that significant effects are likely and their nature well understood, the systems to manage these effects should be assessed.

#### IV - Assessing the Member Country Systems

20. The “Environmental, Forests, and Natural Resource aspects” section of the Program Document includes a brief description of the Member Country Systems that are relevant to mitigate the adverse effects and or enhance the positive effects of the prior actions of the DPF. The assessment focuses on the ability of existing systems to identify and manage the effects of the policy reforms supported by the DPF prior actions on the environmental significant effects. The weaker the institutional, legal and regulatory framework in which policy reform is formulated and implemented, the greater the risk of possible negative significant effects occurring. The assessment of the systems is carried out by using existing analysis (non-Bank and Bank), or any additional analysis. It is important to focus the assessment on the ability of the systems to manage adequately the environmental significant effects of the Prior Actions of the Program, rather than any broader consideration or gaps. In case adequate information is unavailable, a new assessment is conducted to fill the information gap.
21. **Key questions may include:** Are institutional systems with adequate capacity in place to identify and monitor environmental issues related to the significant effects of the policy reform? Are these systems capable of responding when changes to the issues affected by the policy reform occur? Experience from DPFs indicates that the environmental assessment (EA) system is often analyzed. The EA country system is useful in identifying priorities at the project level in a general manner. However, at a national level, impacts can be cumulative so the appropriate systems to identify priorities at the policy level (prior action) are essential.
22. The assessment typically includes not only the environmental agency/Ministry but all institutions and stakeholders relevant to the reform. Typically, DPFs focus their analysis of Country Systems to manage environmental significant effects on the capacity of the Ministry of Environment. The overall management system evaluation should thus take into account the ability of the concerned agencies to identify environmental issues and to monitor and manage the likely risks due to the outcomes of the reform.
23. Assessing the monitoring and compliance mechanisms as pertaining to the potential environmental significant effects of the prior action is essential. Appropriate monitoring helps detect positive or negative changes to the priorities which may arise due to a policy reform. Through an EA country system, assessment, managing, and monitoring of possible effects can take place at a project level. For a policy reform such as one that can exacerbate pollution, it should be determined if systems to monitor, assess, and manage pollution levels including monitoring equipment, expertise to analyze and interpret the data, standards, incentives, and remedial measures, are in place locally and nationally. Without adequate monitoring, changes that may manifest due to the likely significant effects on the priorities such as changes to pollution levels or deforestation as a result of the policy reform may not be assessed.

#### V- Addressing gaps or shortcomings

24. Bank Policy states that “If there are significant gaps in the analysis or shortcomings in these systems, the Bank describes in the Program Document how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.” Appropriate measures to mitigate any adverse significant effects and to strengthen Country Systems should take place either during the DPF preparation or during its implementation. These measures are implemented by the Member country and may be supported by the Bank, in the DPF itself by for example to

adjust the prior action content to mitigate the adverse impact or add a prior action that is the mitigation, or through technical assistance and/or using existing projects; or they can be supported by other development partners.<sup>5</sup> These measures are described in the Program Document and updated in the subsequent operation in the case of a programmatic series. These mitigation measures may usefully be reflected in the Letter of Development Policy by the Member country. The implementation of the mitigation measures is monitored and evaluated by the Member country as part of the implementation of the program supported by the DPF. Task teams reviews the adequate implementation of mitigation measures during supervision. Task teams seek to mitigate any significant adverse effect caused by a DPF prior action. In case mitigation measures are assessed as insufficient<sup>6</sup>, the prior action is revised.

### **Box 3: Examples**

*Is the system able to identify the environmental issue?* A policy reform may exacerbate *air pollution* and the literature review may identify air pollution in certain cities/areas as a key issue but whether appropriate agencies are in place with the technical knowhow nationally and/or locally to assess and evaluate the issue should be determined. If the systems to identify the problem are not in place i.e., agencies are unable to determine that air pollution is an issue, then it can be assumed that likely environmental effects will not be managed.

A prior action is envisaged to develop the aquaculture sector to support the government's objective of establishing and growing new sectors in rural areas. This is expected to create new jobs and increase participation of women in the rural economy. As the objective is to create a significant number of jobs, the government is placing emphasis on extensive, rather than intensive aquaculture. Based on the expected growth of the sector and its scale, analysis for the DPF determined that significant negative effects could occur. National legislation seemed adequate to handle environmental impact assessment for individual fish farms, but concerns arise from the potential for cumulative impacts of large number of farms operating, especially if in close proximity to one another and to other human and natural users of the coastal zone. Therefore, before supporting the reform, an environmental assessment for the aquaculture sector and possibly regions where there is likely to be an increase in aquaculture is carried to determine the significance of the effect. During DPF preparation, measures to strengthen the system such as the environmental impact control by detailing specific procedures for environmental controls of aquaculture investments are initiated.

A sector assessment might not be necessary, if the relevant institutions and adequate capacity are already on place. In such a case, to the extent that existing systems are adequate, the program document simply describes them. For example, a prior action on approving a national fisheries policy to strengthen the sustainable management of fisheries resources and maximize license revenue can have significant positive effects by reducing illegal catches. However, the systems and institutions such as fisheries management authority with appropriate capacity and legislative authority should be in place to identify and respond to emerging issues that may occur due to the reform (e.g., mounting pressure on aquatic resources). The urban and housing DPF in Brazil offers another example where the Bank determined that environmental risks existed, but existing environmental management capacity was adequate. The program supported a range of policy reforms aimed at providing housing for the poor including through titling programs, noting that environmental risks existed from the possibility of unplanned occupation and housing construction in environmentally sensitive areas. The Program

<sup>5</sup> For example, a DPF program which supports greater liberalization of FDI for private sector development may consider including a prior action focusing on regulations to guard against adverse environmental effects in environmental or climate change sensitive sectors.

<sup>6</sup> Resulting, for instance, in an elevated environmental risk rating.

Suggested guidance for World Bank Staff.

Document described the existing legislative and regulations designed to prevent this, and then discussed the ability and capacity of the state institutions to implement these rules and to supervise environmental aspects of the policy reforms (IEG 2015).

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Suggested guidance for World Bank Staff.

## **SECTION IV – OTHER PROVISIONS**

N/A

## **SECTION V – TEMPORARY PROVISIONS**

N/A

## **SECTION VI – EFFECTIVE DATE**

This Guidance is effective as of the date on its cover page.

## **SECTION VII – ISSUER**

The Issuer of this Guidance is the Director, Operations Policy.

## **SECTION VIII – SPONSOR**

The Sponsor of this Guidance is the Manager, Operations Policy (Country Economics).

## **SECTION IX – RELATED DOCUMENTS**

Policy: Development Policy Financing

Directive: Development Policy Financing

Procedure: Development Policy Financing (DPF) Processing Instructions

Guidance: Using Poverty and Social Impact Analysis to Support Development Policy Financing

## ANNEXES

### Annex I. DPF Program Document Annex 4 - Environment and Poverty/Social Analysis

Annex 4 of the DPF Program Document includes the summary screening table for all Prior Actions. The screening table provides a simple yes/no or (at concept review only) to be determined and, if yes, whether positive or negative. For those Prior Actions identified as likely to have a significant effect on environment, forests and natural resources, it presents the underpinning analysis for reaching this conclusion (at decision stage). It should be consistent with the summary analysis presented in section 5 of the DPF Program Document.

**Table 1: Environment and Poverty/Social Analysis**

| Prior actions                           | Significant Adverse or positive Environment effects (likely/not likely). Briefly explain. | Significant poverty, social or distributional effects (yes/no). Briefly explain. |
|---|---|--|
| <b>Program Development Objective 1:</b> |   |  |
| <b>Prior action #1:</b>                 | likely/not likely/to be determined). Briefly explain                                      | (yes/no). Briefly explain  |
| <b>Prior action #2:</b>                 |   |  |
| <b>Program Development Objective 2:</b> |   |  |
| <b>Prior action #3:</b>                 |   |  |

**Annex II. Typical Reforms in Policy-based Operations and Illustrative Environmental Linkages**

| Sector      | Reforms  | Potential Positive Effects  | Potential Negative Effects  | Comments  |
|-------------|--|---|---|---|
| Energy      | <p>Tariff Increase; change in pricing structure.</p> <p>Extractives law</p>  | <p>Energy efficiency with safety nets - less dependence on wood and charcoal having health benefits and reducing environmental degradation.</p> <p>Improving environmental management of the extractive industry.</p> | <p>Higher tariff without subsidies to assist the poor can lead to a switch to less environmental friendly alternatives such as fuel wood.</p> <p>Cumulative effects at the regional or local levels.</p> <p>Incentivizing mining activities in countries with poor capacity and track record on EIA may lead to adverse impact.</p> | <p>Tariff increase typically occurs to close the revenue gap for utility companies allowing investments for improving efficiency and increasing the share of renewables for energy production.</p> <p>Extractives law such as that on mining has the potential to improve environmental practices when environmental provisions are incorporated into the laws, to the extent institutional capacity/enforcement capabilities are adequate.</p> |
| Agriculture | <p>Enhancing agriculture productivity through expanding irrigation network; using better seed technology; adopting climate change resilient technologies; farm subsidy programs.</p> | <p>The reforms could lead to higher yields, reducing the demand for more land thereby reducing pressure on forests.</p>   | <p>Increased agricultural output by increasing irrigation or fertilizer use could lead to water pollution (runoff), ground water use, waterlogging, soil degradation (increased salinity and nitrate leaching).</p>   | <p>If adequate technical assistance on fertilizer application and irrigation management are given, potential for negative effects can be minimized.</p>   |
| Financial   | <p>Privatization, microfinance;</p>  | <p>Promotion of responsible and sound</p>   | <p>Poor environmental practices by small</p>  | <p>Most informal sector activities do not cause significant</p>   |



Suggested guidance for World Bank Staff.

|                            |  |  |  |   |
|----------------------------|--|--|--|---|
|                            |  | investments; eco-friendly microfinance activities.   | businesses; activities potentially harmful for the environment such as discharging waste into rivers from tanneries or pollution from pesticide and chemical manufacturers | harm to the environment but location and scale can lead to cumulative impacts.                |
| Fisheries                  | Fishing licenses   | Minimizes the potential for illegal fishing  |  | Quota system ensures conservation of fisheries  |
| Tax reform                 | Changes to tax rates   | Taxes can be earmarked for environmental use including resource royalties. Direct taxes such as vehicle emission taxes, taxes on polluting inputs such as energy or carbon tax and can minimize pollution. | Distributional effects causing change in behavior that may affect the environment.   |   |
| Private sector development | Public Private Partnerships; Lower administrative barriers for private investors | More readily application of environmental policies due to technological and managerial improvements.   | Increased pressure on landfills and waterbodies due to greater generation of solid waste and wastewater  |   |
| Trade reform               | Regional trade agreements, promoting foreign direct investment.                  | Greater access to cleaner technologies and investments by corporations with high environmental standards; raise environmental  | Increased exports causing unsustainable use of natural resources   | Appropriate policies have to be in place to ensure trade reforms do not harm the environment. |

Suggested guidance for World Bank Staff.

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|  |  | standards to meet regional standards such as those of the European Union. |  |  |
|--|--|---|--|--|

Source: 2015 DPF Retrospective

### Annex III. Examples of Good Practice

#### Morocco Municipal Solid Waste (MSW) Sector Development Policy Loan

**Prior Action DPO-1:** *Publication in the Bulletin official of the decrees related to (i) the responsibilities and operations of the national EIA committee and regional EIA committees, and (ii) procedures for EIA-related public consultations.*

**Prior Action DPO-2:** *Operationalization of three established regional EIA committees*

The Government of Morocco identified *protection of natural resources particularly water, development of the tourism sector and improving service delivery to citizens as priorities*. It was realized that without improving and strengthening the municipal solid waste management system, achieving these goals would be difficult.

To improve monitoring and control of MSW facilities, reform of the environmental sector including the establishment of a modern Environmental Impact Assessment (EIA) system was undertaken. As a result of the DPO, an *EIA system consistent with international good practices is now fully operational, at the national and regional levels*. The Government has successfully developed the necessary EIA operational tools and manuals for the preparation and review of the EIA system including the appropriate procedures for public consultation as well as an annual reporting of its activities and achievements.

In addition, investment into social programs by Morocco as well as Technical Assistance and coordination with partners such as GIZ, JICA and USAID have further strengthened the reforms in environmental protection and solid waste management. The DPF series is expected to have significant positive effects on the environment, forests and natural resources of Morocco with benefits (of the upgraded EIA system) spilling over beyond the municipal solid waste sector.

#### Morocco First Inclusive Green Growth Development Policy Loan

**Prior Action:** *Publication of the establishment of technical and economic criteria for setting the lease for fees paid by aquaculture farms in the National Gazette.*

This reform action was undertaken to support the government's objective of establishing and growing new sectors in rural areas. This is expected to create new jobs and increase participation of women in the rural economy. In order to create a significant number of jobs, the government placed emphasis on extensive, rather than intensive aquaculture. Based on the expected growth of the sector and its scale, analysis for the DPL determined that significant negative effects could occur. While the national legislation seemed adequate to handle environmental impact assessment for individual fish farms, concerns arose from the potential for cumulative impacts of large number of farms operating, especially if in close proximity to one another and to other human and natural users of the coastal zone. Thus, the dialogue between the World Bank and the country counterpart focused on understanding the environmental implications of aquaculture expansion and efforts to manage the environmental footprint of the sector to positively contribute to Morocco's sustainable development agenda.

As a result, the government formulated a two-tier procedure – conducting a Strategic Environmental Assessment (SEA) for the aquaculture sector and strengthening of the environmental impact control framework through a specific *Directive* issued by the Ministry of Environment. The *Directive* was meant to complement the framework of the existing EIA Law by detailing specific procedures for environmental controls of aquaculture investments. The SEA was carried out and based on the findings in consultation

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with the World Bank, the national *Directive* was drafted. In addition, the German Development Agency GIZ financed a manual for aquaculture investors to understand what an aquaculture EIA entails.

### **Second Climate Change DPO (DPO2) Vietnam**

**Prior Action:** *To enhance the efficiency of water supply and use in irrigation in order to increase the resilience of water resources to variability of needs and water flows (MARD)*

The PD clearly explains the likely environmental effects and analytical reasoning based on the DPL Environment Toolkit and existing analytical work (such as Water Sector Review and other assessments). The PD presents in a tabular manner the likely positive and negative effects, color coding the effects based on the toolkit. The above-mentioned prior action is likely to have both positive effects and negative effects.

If water resources were used more intensely for irrigation purposes this might reduce the water availability for other purposes, such as ensuring conservation flows. Increasing use of irrigation in a given area could lead to more intense agriculture with possible adverse environmental impacts, such as increased use of pesticides. To minimize the effect or to ensure an environmentally positive outcome, the development of water management practices for irrigation as part of larger integrated strategy for water resources management was recommended as a prior action. Improved efficiency in terms of water management of irrigation systems would generally lead to more availability of water for other purposes, including environmental purposes, resulting in a positive effect from the policy measures.

### **First Fiscal Sustainability and Competitiveness DPL Colombia**

**Prior Action:** *The Borrower adopted measures to reduce its executive branch's recurrent expenditures in the context of the 2016 national budget, including, inter alia: (i) the implementation of cutbacks in general operating expenses (gastos generales) and communication costs; (iii) the establishment of a set of limitations for hiring new personnel, including a freeze in overall personnel numbers.*

**Prior Action:** *The Borrower established regulations for the adoption and usage of electronic invoices, including, inter alia: (i) conditions and procedures for issuing, receiving and processing electronic invoices; and (ii) rules for their circulation as legal title.*

The PD states that none of the prior actions will have a significant effect on the environment and the rationale for the assessment is given. The screening table is provided indicating the likely environmental effect and the reasoning. For example, for the first prior action stated above, it is explained that the budget of the Ministry of Environment and Sustainable Development (Minambiente) decreased less than that of other institutions. Other agencies in charge of environmental management, such as the Institute for Hydrology, Meteorology and Environmental Studies and the National Environment Fund, also experienced below-average reductions of their approved spending envelopes. Therefore, according to the PD, it is unlikely that the public spending measures will have significant effects on environmental management. For the second prior action, it is stated that improved tax compliance will contribute to increased government revenue, which can help finance public goods including environmental ones and thus no significant environmental effect is likely.

Suggested guidance for World Bank Staff.

For questions regarding this Guidance, contact us [here](#).