



# **Energy Sector: An Environmental Performance Review**

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## Prologue

Although the protection of the environment has been one of the main concerns of the Bank for the past decades, the available evidence shows that the Bank has performed few ex-post evaluations about the environment. This type of evaluation is formally under the scope of the Office of Evaluation (OVE) Policy for ex-Post Evaluations.

### I. INTRODUCTION

Traditionally, a large share of the Bank's portfolio in the region has been dedicated to infrastructure development projects. Infrastructure projects entail significant environmental and social impacts and usually require the preparation of full Environmental Impact Assessments (EIAs) and the implementation of Environmental and Social Management Plans (ESMPs). Although these are responsibility of the borrowers, if the project is to be financed by the IDB, the Bank validates the EIA through the preparation of the Environmental Assessment (EA) reports. Through the EA reports, Management informs the Executive Board of Directors about the environmental and social viability of the projects it finances.

In general, past evaluations on Environmental and Social Assessment in Multilateral Financial Institutions (MFI)<sup>1</sup> show lack of consistency in the application of EA standards. The Environment Department of the World Bank has conducted three reviews of its Environmental Assessment process (1993, 1997, 2002) which identified the main limitations in the EA process.<sup>2</sup> For instance, the weakest link in the process are the alternative analysis during the preparation phase and the monitoring of the implementation of the Environmental and Social Management Plans (ESMP). The Independent Evaluation Group of the WB in 2008<sup>3</sup> also concluded that the Bank's supervision still insufficient to determine the effectiveness of mitigation measures and their sustainability. The EA process for the rest of MFIs appears to share some of these constraints.<sup>4</sup>

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<sup>1</sup> Chapter III presents more details of the studies reviewed: Kennedy, W.V., 1999 based on the publicly review of available information on EIA in the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development and the IADB, and general literature review on EIA practice; OED, 2001. Review of the Bank's Performance on the Environment. Sector and Thematic Evaluation Group. World Bank; European Bank for Reconstruction and Development (EBRD), 2001; Rodríguez, M et al, 2001. Gestión ambiental en América Latina y el Caribe : evolución, tendencias y principales prácticas; PRI/IDB, 2007. Mechanisms for Financial Institutions to Promote Environmental and Social Sustainability in the Private Sector.

<sup>2</sup> World Bank, 1993. Annual Review of EA. Environment Department; World Bank, 1997. The impact of Environmental Evaluation. A Review of World Bank experience. WB Technical paper num. 363. Environment Department; World Bank, 2002. Third EA Review. GY-96-00. Environment Department.

<sup>3</sup> Independent Evaluation Group (IEG)-WB, 2008. Environmental Sustainability. An Evaluation of World Bank Group support.

<sup>4</sup> Kennedy, 1999; Dullin, 2005.

This is the first OVE Evaluation of the IDB performance applying Environmental Safeguards to the Infrastructure sector (energy), and in particular on the Environmental Assessment process. The results presented in this report are the first phase of this evaluation, focused on the ex-ante compliance and the environmental and social reporting within the Bank. Other forthcoming OVE reports will present the results of an in-depth study on the effectiveness of the mitigation programs proposed for three cases.<sup>5</sup>

The report is organized as follows: Chapter II presents the objectives and scope of this environmental performance review, which covered a sample of 22 projects in the energy sector. Chapter III summarizes the evolution of the environmental and social quality control process at the Bank, including key instances in the development of the safeguard framework, from 1979 to the recent Bank's realignment process in 2007, as well as the institutional organization for quality control assurance and enforcement of EA safeguard policies. Chapter IV analyses the findings of the desk-review, which constitutes the first methodological step to the 'Ex-post evaluation on the Environmental Impact of Power Projects'. The desk-review is divided in two sections: (1) *ex-ante quality analysis* of the Environmental Assessment Reports prepared for the Bank to assess the environmental and social feasibility of operations to be financed and; (2) *progress analysis* through the revision of the Bank's monitoring reports (PPMR, PCR, XPSR). Finally, Chapter V summarizes the main conclusions of this qualitative analysis and proposes recommendations for improvement.

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<sup>5</sup> OVE, 2008 (draft). *Evaluación ex-post del impacto de las medidas de mitigación ambiental en el proyecto hidroeléctrico Porce II*. Banco InterAmericano de Desarrollo.; OVE, 2008 (draft). *Evaluación ex-post del impacto de las medidas de mitigación ambiental en los proyectos de mitigación térmica de Samalayuca II y Monterrey III*. Banco InterAmericano de Desarrollo

## II. OBJECTIVES AND SCOPE OF THE EVALUATION

### A. Objectives

This evaluation addresses how the Bank has dealt with the environmental and social impacts of infrastructure projects<sup>6</sup>, starting with a pilot in the power sector. The evaluation has a two-folded objective:

- a. Firstly, the evaluation assesses how well the Environmental Assessment (EA) reports prepared by IDB comply with the quality requirements of the IDB Environmental and Social Safeguards and international standards. To achieve this objective, OVE developed best-practice standards and performed a desk-review of a sample of 22 Bank environmental reports for power generation and transmission projects against these standards.
- b. Secondly, the evaluation assesses the relevance, effectiveness, efficiency and sustainability of the measures to prevent, mitigate or compensate (simplified as “mitigation measures” hereafter) the adverse environmental and social impact of the projects. It also assesses the results of the mitigation measures on the environmental quality of the area, as well as the Bank’s additionality in reaching better environmental and social results. To achieve this objective, projects with high score underwent detailed ex-post performance and sustainability assessments (EPSAs), using innovative methodologies to assess environmental and social impacts.<sup>7</sup>

This report presents the methodology, results and main conclusions of the first step of the evaluation, focused on the environmental quality control of the Bank’s operations. The second step through the in-depth environmental evaluation of three case studies will be presented in forthcoming stand-alone documents.

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<sup>6</sup> Following the consideration of the Policy Framework at the Bank, this evaluation define the “environment” in its broad sense, which includes physical/chemical factors (geophysical), biological factors (biotic), and associated social factors (anthropic) if they are derived from geophysical and/or biotic changes associated with a particular operation.

<sup>7</sup> The first in-depth assessment was conducted on the Porce II hydroelectric power plant (Colombia). This evaluation tests, on the one hand, the methodology to translate the biophysical indicators into environmental quality units. On the other hand, based on the information gathered by the executing agency on the resettlement plan, OVE applied control-group methodology to compare the flow of benefits between the resettled population and a control-group. The second in-depth evaluation compares the social and environmental management of two Mexican thermal power plants (Monterrey III and Samalayuca II), financed by Private Sector IDB loans, including the analysis of the added value gained by Bank involvement in terms of environmental and social results.

## B. Scope

The evaluation of the compliance of the Environmental Assessment (EA) reports prepared by IDB with minimum quality requirements was applied to a sample of projects in the energy sector. The sampling criteria described in the following box produced a list of 22 energy projects, details are found in Annex A.

<b>Box 1: Sampling criteria</b>
<ul style="list-style-type: none"> <li>✓ Projects in the electricity sector, public and private.</li> <li>✓ Projects with high environmental and social impacts (*)</li> <li>✓ Projects completely disbursed between 2000 and 2005</li> <li>✓ Projects focusing on the construction of new facilities (**)</li> </ul>
<p>(*) CESI Category III and IV under the old system and Category A under the new system (highest level of impact)</p> <p>(**) This evaluation does not include projects directed at rehabilitating or upgrading existing facilities or projects directed at improving the functioning of the whole spectrum from generation to consumption or projects with large components of policy or institutional reform.</p>

All projects of the sample are environmentally relevant infrastructure projects. Most of them were approved after 1994, when the Bank reinforced its environmental commitment considering the environment as one of its four priority areas (8th Replenishment of resources). The sample covers four types of energy projects: hydropower generation, thermal and geothermal generation, and transmission projects. There are 6 projects on the public sector and 16 on the private sector. The total amount disbursed is US\$2.0 billion; from that amount, US\$1.3 billion to the public sector and US\$700 million to the private sector.

<b>Box 2: Sample of projects</b>	
<b>Public sector</b>	<b>Private sector</b>
4 transmission projects 2 hydropower projects.	2 hydropower projects 1 geothermal project 3 transmission projects 10 thermal projects (8 gas-fired and 2 diesel-fired plants).
<b>Total Disbursed: US\$1.3 billion</b>	<b>Total disbursed: US\$700 million</b>

In order to contextualize the environmental quality control and results of the desk-review, the following sections analyze the evolution of the Environmental Policy Framework and the environmental and social viability control process at the Bank.

### III. THE ENVIRONMENTAL IMPACT ASSESSMENT PROCESS

#### A. Environmental and Social Quality Control Process at the Bank

The protection of the environment has been a concern in the Bank since 1979 when the first *Environmental Policy* (OP-703) was approved. Yet, this two-paged policy hardly contains general guidelines and identifies main activity areas of the IDB in the environment. Only in 1983, the Bank's Environment Committee (Comité de Medio Ambiente, CMA) was established to review a select number of projects of high environmental risks, especially hydroelectric and other large projects. In this process, the main functions of the Bank were validation and quality control of the Environmental Assessment reports prepared by borrowers. The CMA reviewed the environmental and social information provided by borrowers and classified the projects into four categories from low to high environmental and social impact (classification I, II, III and IV).<sup>8</sup> In 1993 a total of 27 professionals in IDB Headquarters were responsible for quality assurance and compliance with environmental procedures and standards.<sup>9</sup>

The broad statement of principles and intent of the 1979 Environmental Policy were not updated during those years. In fact, they were superseded by specific mandates of the 8<sup>th</sup> Replenishment of Resources in 1994. During the Replenishment, the Environmental sector was declared, together with Poverty Reduction and Social Equity, a priority area for Bank support. The Bank was reorganized in 1994 and many of the environmental staff was reassigned in one of the newly created three Regional Operational Departments. Country Offices were also given more autonomy in project supervision, including approval of loan conditions and environmental clauses.<sup>10</sup>

In 1996, the CMA was renamed as the Committee on Environment and Social Impacts (CESI) and the scope of its review was broadened. CESI's main objective was to *review the environmental and socio-cultural viability of Bank operations on behalf of the Loan committee*. The classification procedure was abandoned and thereafter, projects in all sectors were reviewed to ensure that they meet standards of environmental and social viability. The CESI concentrated specifically on: (i) the adequacy of environmental and socio-cultural protection, mitigation and enhancement measures, (ii) the regulatory and management frameworks for environmental and social issues, (iii) indigenous, afro-

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<sup>8</sup> Category I: operations designed with the sole purpose to improve environmental quality; Category II: operations with no significant direct or indirect environmental impact; Category III: operations which may have a moderate impact requiring a semi-detailed EIA; and **Category IV**: operations which may have significant negative impacts on the environment and require a detailed EIA (major dam projects fell in this category).

<sup>9</sup> This activity includes monitoring the quality of environmental analyses, verifying the implementation of environmental safeguard in Bank operations and ensuring a consistent quality of work across Bank projects, providing training on safeguards (Dullin, 2005. Assessment of capacity needs and skill-set analysis: basis for implementing the new Environment and Safeguards Compliance Policy. Report commissioned by SDS/ENV.).

<sup>10</sup> In fact there were only 8 environmental specialists assigned to some COFs (Bolivia, Brazil, Ecuador, Guyana, Honduras, Jamaica, Mexico and Panama). Yet, they spent little time in quality assurance and safeguard compliance (perhaps 0.5 months per year), as they also administer loans and TC. (Dullin, 2005)

descendant and vulnerable group rights, and community development issues, (iv) involuntary resettlement matters, (v) consultation and participation requirements, (vii) gender considerations, and (viii) occupational safety and health issues.

The Private Sector Department (PRI) established its own Environmental and Social Unit (ESU) in 2000 and published its own Environmental and Social Guidelines to reflect the specific characteristics of private sector projects.<sup>11</sup> The PRI Guidelines offer direction to PRI staff about the environmental, social, and health and safety aspects that they should consider throughout the project cycle.<sup>12</sup> ESU's staff was composed by its Head and four technical professionals, each one in charge of the supervision of approximately 15 projects at any one time (Dullin, 2005); yet the PRI environmental assessment throughout the project cycle was heavily supported by external consultants who are paid by borrowers.

In 2003, the Bank approved a *new Environmental Strategy* (OP-1007) which identified two key and fundamental lines of action: *environmental governance* and *environmental management*. According to the strategy, the application of these two lines of actions on a cross-cutting basis should contribute to address the main causes of environmental problems in the Region. The strategy proposes to fully internalize environmental sustainability as an underlying goal linked to Bank's development objectives. It also proposes to improve the overall environmental performance in Bank activity, related to the cycle of programming, design and implementation of projects. Although the approval of this Strategy represents an effort to harmonize environmental requirements in different MFIs<sup>13</sup>, several assessments have warned about the limitations in IDB Environmental Assessment practice.

A report in 2005 highlights that ‘the *environmental and social policy framework and guidelines at the IDB have lagged behind those of comparable organizations (such as the World Bank) and there is absence of consistent and robust risk assessment, operational implementation and post project evaluation procedures*’<sup>14</sup>. Similarly, the report alert

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<sup>11</sup> The Private Sector Department (PRI) projects are typically large, complex infrastructure projects with potentially significant environmental, social, health and safety, and labour impacts and risks. Moreover private sponsors usually bring their projects at an advanced level of construction, limiting the degrees of freedom for PRI in terms of the application of environmental safeguards (Dullin, 2005, p.4)

<sup>12</sup> For instance, they cover guidance in terms of content and process for the Investment Eligibility Review, Environmental and Social Impact Brief (ESIB), Environmental and Social Due Diligence, Environmental and Social Impact Report (ESIR), Loan Proposal and Monitoring. They also include the requirements of the environmental and social consultants which usually assist PRI in conducting Due-Diligence, Monitoring and Audits. PRI/IDB, 2000. PRI Staff Environmental and Social Guidelines.

<sup>13</sup> For instance, since the early 1990's the Working Group on Environment (WGE) is promoting a common framework for environmental assessment processes, starting with EIA. In 2003 they released a report which summarizes the main steps of the EIA process when MFIs are involved: screening, scoping, examination of alternatives, impact analysis, impact mitigation and management, preparation of an EIA report, information dissemination and EIA review. However, some civil society organizations have criticized the low specificity of the “Guidelines for EIA by the MFI Working Group of Environment”.

<sup>14</sup> Final Report of Recommendations of the IDB Blue Ribbon Panel on the Environment, February 2005. Other civil society stakeholders during the consultation process of the 2006 IDB Environmental Policy, such as Interaction, also highlight the insufficiency of this new Policy Framework which in their opinion, is

about the insufficiency of staff to perform an adequate review of the large volume of environmental and social documentation that CESI has to review each week. The report concludes that *“the capacity of CESI as the primary mechanism for [ex-ante] overseeing and integrating quality control and safeguard compliance functions had serious limitations.”*<sup>15</sup> In fact, from 1997 to 2004, the Environmental Unit saw its administrative budget reduced by more than 50% and lost a third of its headcount, which has also posed limitations in terms of the skills-set required to effectively carry out its safeguards compliance mandates (Dullin, 2005).<sup>16</sup> Outside the PRI, the Bank essentially has not developed capacity in occupational health and safety issues, which has been a recurring problem in many of the Bank’s infrastructure operations. Moreover, there is no qualified staff in mitigation measures related to cultural heritage sites, critical habitats, toxic and dangerous materials or persistent organic pollutants. Also, the Bank does not have on its staff an environmental lawyer.

In 2006, after an extensive consultation process, the Bank finally approved the *Environment and Safeguards Compliance Policy* (GN-2208). According to this Policy, the Bank’s environmental objectives are: (i) to enhance long-term development benefits to its members countries by integrating environmental sustainability outcomes in all Bank operations and activities and strengthening environmental management capacities in its borrowing member countries; (ii) to ensure that all Bank operations and activities are environmentally sustainable as defined in this Policy, and (iii) to foster corporate environmental responsibility within the Bank. The new policy is structured under two major categories: *environmental mainstreaming* and *environmental safeguards*. The first one applies mainly to Bank programming activities<sup>17</sup> while the second one establishes procedures and standards to ensure the environmental quality at the project level. Among the directives of the Policy in the category of *environmental safeguards*, the most relevant issues for the present evaluation are the screening and classification of operations according to their potential environmental impact and the environmental assessment requirements detailing the Bank’s review process, as well as the supervision and compliance with safeguard requirements.

The new environmental and social framework reasserts the function of the Bank in the validation and quality control of the environmental assessment process. The borrower is always responsible for preparing and submitting to the Bank the relevant environmental assessment reports. The IDB project team reviews these reports and summarizes the

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*the least rigorous, least credible environmental policy [...] of any major publicly supported international financial institutions.*

<sup>15</sup> In fact, *not all CESI members are able to read the documentation in advance of meetings, and the attendance rotates depending on availability.*

<sup>16</sup> For instance, an intranet-based survey answered by 58 Bank staff working in environmental and social management functions concluded that the Bank’s staff skills in preparing ESMPs is low (being this the basis for safeguarding environmental and social quality of Bank operations).

<sup>17</sup> According to the policy, the concept of environmental mainstreaming refers to addressing environmental issues strategically as a cross-cutting dimension of development. It proposes: (i) mainstreaming environment in country programming and strategies; (ii) supporting environmental and natural resources management operations; (iii) mainstreaming environmental across sectors, (iii) supporting regional initiatives and international agreements; (iv) tracking environmental sustainability indicators, (v) assessing environmental risks and opportunities; (vi) promoting corporate environmental responsibility.

results, including the Bank's analysis and due diligence. The new policy (2006) proposes a new screening and classification structure according to the potential impact of operations financed by the Bank (classification A, B, C) and specifies the environmental assessment requirements for each category<sup>18</sup>. A computer-based screening and classification tool was developed in 2007 to help staff identifying specific environmental and social risks and impacts, flagging "alert issues" requiring further examination, assigning impact categories and identifying types of safeguard evaluations needed.<sup>19</sup>

Environmental Assessment reports (EA reports) are produced in the Bank during the first stages of the project cycle to ensure the environmental feasibility and quality control of each operation.<sup>20</sup> The Environmental and Social Impact Brief (ESIB) is produced during the scoping stage of every project. The ESIB establishes the assessment requirements for ensuring the environmental and social viability of the operation. Later, the Bank's project team reviews and validates the main results of the required environmental assessment producing the Environmental and Social Impact Report (ESIR).<sup>21</sup> The CESI reviews these different reports and provided written comments and recommendations to the Loan Committee about the environmental and social viability of each operation. In theory, the recommendations can be tracked during the life of the project. In practice, CESI cannot check if they are actually included in the legal contracts. Moreover, the environmental and social specialist of the project is the one responsible to monitor the implementation of the recommendations, but there is no mechanism to ensure the effectiveness of those recommendations in relation to environmental and social quality or their value-added. Once the project has been approved by the Bank's Board of Directors, the results of the environmental and social follow-up during the execution phase are included in the general Bank's reporting mechanism (Project Progress and Monitoring Report, PPMR, and the Project Completion Report, PCR).<sup>22</sup>

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<sup>18</sup> Considering environmental impacts and environmentally-related social and cultural impacts, the three categories are: Category A: Any operation that is likely to cause significant negative environmental and associated social impacts, or have profound implications affecting natural resources. These operations will require an environmental assessment (EA), normally an Environmental Impact Assessment (EIA) or Strategic Environmental Assessment (SEA) for programs and other financial operations that involve plans and policies. They may also require specific Technical Studies or other measures such as a Resettlement Plan). These operations are considered high safeguard risk. Category B: Operations that are likely to cause mostly local and short-term negative environmental and associated social impacts and for which effective mitigation measures are readily available. These operations will normally require an environmental and/or social analysis focusing on the specific issues identified in the screening process, and an environmental and social management plan (ESMP). Category C: Operations that are likely to cause minimal or no negative environmental and associated social impacts. These operations do not require an environmental or social analysis beyond the screening and scoping analysis for determining the classification.

<sup>19</sup> Specific tools are also being developed to evaluate project impacts and risks under other Operational Policies such as the Involuntary Resettlement Policy (OP-710), Natural and unexpected Disasters Policy (OP-704) and Indigenous People Policy (OP-765).

<sup>20</sup> The Bank has started producing also Country Environmental Strategy. This report is part of the strategic dialogue with the country and attempt at mainstreaming environmental issues into policies, plans and programs.

<sup>21</sup> These documents are also named Environmental and Social Strategy (ESS) and Environmental and Social Management Plan (ESMP). In the 22-project sample of this evaluation, both terminologies are used for the IDB Environmental Assessment reports which were reviewed.

<sup>22</sup> Also, until 1997 an Ex-post Evaluation Report was required including environmental and social issues.

The Realignment process undertaken in the Bank in October 2007, has produced some changes in the environmental and social review process. Indeed, the former CESI was renamed as the Environmental and Social Review (ESR) Unit. No meetings with different environmental specialists are conducted during the revision as it was done before. One environmental specialist is assigned to the review of the operations from a pool of a dozen specialists.<sup>23</sup> An average of 8 to 10 operations is reviewed by ESR per week, both private and public.<sup>24</sup> This new procedures are supposed to improve the accountability of the environmental revision and the subsequent monitoring of the recommendations by assigning responsibility to an environmental specialist.<sup>25</sup> However, the fact that the same environmental specialists act as environmental staff within Project teams for certain projects and as environmental reviewers for other projects may jeopardize their independence and create conflict of interest among the Unit.

## **B. Bibliography Review and Main Finding from previous evaluations**

**EIA procedures have been recognized as important tools by all the stakeholders related to investment projects. Nevertheless a study compiling the experience in Environmental Assessment of the major MFIs<sup>26</sup>, concluded that there is still work to do to overcome the narrow scope of EIA.** This refers mainly to the fact that EIA procedures are applied during project preparation while environmental plans and implementation procedures are still insufficiently developed. Moreover, the MFIs enter late in the planning process, thus their approach to EA process tends to be focused on “site-specific” impact analysis and mitigation measures, instead of alternatives. In fact, all MFIs have a similar project cycle and the EA procedures. The EA process begins with the screening or classification of the operations, which according to the report does not have any significant difference in the degree of diligence or strictness among MFIs. Afterwards, the borrower is responsible of the EA report preparation while the MFI’s staff usually reviews and validates the EA report. After the project’s formal approval, the borrower is once more responsible for the implementation of the environmental and social covenants of the loan. The Banks supervise the implementation through periodic reports focusing on loan covenants and EIA recommendations. The approach to public consultation is also quite similar in all MFIs and it is still a weak point in EA reviews.

**A review of the World Bank’s performance on environmental safeguards (OED, 2001)<sup>27</sup>, concluded that although the safeguards cover generally satisfactorily the impacts of different investment projects, the consistency in the application of EA standards is weak and its performance remains contentious.** An assessment of the

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<sup>23</sup> The review process is still one-week long including the revision by the environmental specialist, the answers of the project team and the issuance of minutes.

<sup>24</sup> Although there is no special procedure for high-risk projects, informally more than one person are usually assigned for the revision of those projects.

<sup>25</sup> For instance, having one person responsible for a project throughout the life of the project cycle, could improve the relevance of the environmental and social information in the PPMR and PCR.

<sup>26</sup> Kennedy, W.V., 1999 based on the publicly review of available information on EIA in the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development and the IADB, and general literature review on EIA practice.

<sup>27</sup> OED, 2001. Review of the Bank’s Performance on the Environment. Sector and Thematic Evaluation Group. World Bank.

quality of supervision found that *in a sample of 150 projects, 5% had significant safeguard issues which had not been identified at the time of approval, and for projects with safeguard aspects the mitigation actions for dealing with adverse impacts and arrangements for monitoring compliance, were inadequate in 20% of the cases.* Therefore, the report stated that it was nearly impossible to verify the effectiveness of mitigation measures and their sustainability during the subsequent life of the project. It finally concluded that Bank performance had been *partially successful [...] and its past achievement had fallen short of the high expectations.*

Another review of **evaluation of environmental performance European Bank for Reconstruction and Development (EBRD, 2001)**<sup>28</sup> concluded that although the Bank did well in respect of environmental performance,<sup>29</sup> notable deficiencies were found in environmental monitoring and reporting. Indeed, improvement of monitoring and environmental reporting practices were brought up as a major area of improvement. The study states that although the covenanting of loans is effective in safeguarding the establishment of environmental objectives, several improvements were pinpointed, including the incorporation of more specific environmental targets.

The Environmental Department of the **World Bank** conducted three systematic **reviews of the Environmental Assessment (EA)** process of the projects (1993, 1997, 2002)<sup>30</sup>. The **First Review (1993)** included the analysis of the EA process for 20 projects with significant environmental impacts and 7 case studies. It also analysed different EA processes from 1989 to 1992. The report points out that although the EA is a valuable tool for fostering the adoption of national environmental processes in certain countries, still 50% of EA were being produced by international consultants or joint ventures. Therefore the report concludes that further institutional strengthening and training of borrowers was needed. More resources and staff time in the Bank was also necessary to improve the quality of supervision. In terms of the EA process, the study concluded that EA process does not delay project preparation, and it usually cost between 5% and 10% of total project preparation costs. In relation to the quality of the EA reports validated by the Bank, the main weaknesses found are the **little or no analysis of alternatives, the limited discussion about mitigation measures and the weak monitoring and institutional arrangement.** They also stated that the extent to which EA recommendations are properly **implemented remains to be answered because of the absence of ex-post analysis.**

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<sup>28</sup> It evaluated the environmental impact of a sample of 39 environmentally sensitive projects Environmental Performance Evaluation Reports in sectors such as industry and manufacturing, energy, municipal and environmental infrastructure, natural resources and transport sector. Out of the sample of 39 projects, 12 projects were reviewed conducting field surveys, while 27 were desk studies. It also evaluated the environmental due diligence, monitoring, and especially evaluation practices and guidance

<sup>29</sup> The results show that out of 113 projects, only 15 per cent obtained below satisfactory environmental performance in relation to the relevant domestic and European Union or World Bank environmental regulations and guidelines.

<sup>30</sup> World Bank, 1993. Annual Review of EA. Environment Department; World Bank, 1997. The impact of Environmental Evaluation. A Review of World Bank experience. WB Technical paper num. 363. Environment Department; World Bank, 2002. Third EA Review. GY-96-00. Environment Department.

The **Second Review (1997)** evaluated the quality of EA in key areas, the effectiveness of the pre-approval EA process and, the implementation of projects subject to full EA. The report arrives to the following conclusions: (i) the quality of EA for Bank-financed projects has improved when comparing to results of the First Review. The reason proposed in this paper is that borrowers, consultants and the Bank seem to have improved their EA capabilities; (ii) although there is some evidence of progress, the **weakest points** identified in EA reports are the **consultation process and again the analysis of alternatives**. The reasons found are the lack of staff skills to conduct real consultation exercises and the impossibility to fully consider alternatives because decisions are already taken before the Bank's involvement. The report also found that although more information about mitigation, monitoring and management plans was included in EA reports, but **specific actions, timetable and costs were not sufficiently defined**. It also concluded that **Bank's supervision is generally insufficient to determine environmental performance** and detect and address environmental-related problems in a timely fashion. The knowledge of the actual environmental impacts and the performance of mitigation, monitoring and management plans is often incomplete.

The **Third Review (2002)** is focused on the effectiveness of the implementation of safeguards, and it is complemented with thematic reviews. This report found tangible progress in many areas of EA and safeguards performance (none of the 16 projects assessed rated unsatisfactorily for environmental aspects). In general, the study concluded that the more recent the project, the more likely it is to be in compliance with Bank safeguards policy. It also remarks the importance of the tools developed by the Legal Department to avoid legal loopholes that have permitted noncompliance in the past.

Special progress was documented in consultation and disclosure, although key problems pinpointed by the second EA review are still found. For instance, the report also shows problems related to classification of projects according to their environmental impact, as well as the insufficient supervision of projects by environmental specialists. Finally, it highlights the future challenge of EA implementation and quality of the WB new lending instruments and other Bank operational tools such as Country Assistance Strategies. Among the trends and challenges identified in this report are: (a) the need for homogenization of safeguard policies throughout all projects and coordination of safeguard practices with client countries and other donors; (b) the need for capacity-building in EA and safeguards in the World Bank and client countries; (c) the need to mainstream EA early in the process, through Strategic Environmental Assessments; (d) in order to improve environmental supervision, the study proposes to increase field-based local staff and consultants.

**In 2008, the Independent Evaluation Group (IEG) of the World Bank examined the Bank Group (World Bank, IFC and MIGA<sup>31</sup>) support for environmental sustainability in public and private sector from 1990 to 2007.** The report acknowledges the limitations to attribute specific country environmental outcomes and impacts to specific actions of donors because of the cross-sectoral and spatial nature of

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<sup>31</sup> International Finance Corporation and Multilateral Investment Guarantee Agency.

environmental challenges and the highest importance of the national governments actions as the main determinant of environmental outcomes.

**The report emphasizes the limitations in availability and quality of information on WB environmental quality and project outcomes data.** For instance, it mentions the lack of requirement that WB Implementation Completion Reports assess the environmental results of operations or the lack of an aggregate monitoring and reporting system that would allow it to more systematically assesses the environmental aspects and results of the projects it support.

**The evaluation praises the IFC progress on Environmental and Social evaluation and reporting.** The Environmental and Social Effects (ESE) Indicators included from 1996 as part of the project-level evaluation and rating system of development outcomes is considered as a good step to systematize environmental information of the projects. IEG evaluated 605 randomly selected IFC projects using ESE methodology. It concluded that 67% had acceptable environmental and social performance. The electric power projects of the sample, including hydroelectric plants requiring resettlement and land acquisition, and electric distribution projects, scored well (ESE success rate of 85%). The weakest performance was found for the sectors of tourism and agroindustry.

**The report also highlights the launch of the Equator Principles in 2003<sup>32</sup>, as well as the Performance Standards on Social and Environmental Sustainability in 2006, which includes a system to benchmark and rate investment projects performance at appraisal and supervision.** These initiatives are too recent to be evaluated, but the IEG report, based on a desk review of a sample of projects, concluded that IFC's environmental appraisal is good, although supervision quality was assessed as much lower (47% in 2006). In relation to the environmental and social effects of MIGA projects, category B projects are assessed as having worse performance than category A<sup>33</sup>. Both categories of projects require more attention to social issues. The evaluation recommends IFC and MIGA a shift to focus on issues beyond those of individual projects to include the aggregate impact in the affected sector or a regional of a country.

**The Report concludes that the goal of improving the safeguards system over the past five years has been only moderately achieved, echoing the evaluation on the implementation of Sectoral Strategies (2007)<sup>34</sup>.** For instance, 65% of the requests to the Bank's Inspection Panel have still been related to the Environmental Assessment Policy. The quality at entry of Bank operations with respect to environmental aspects is assessed as better over the past years (QAG, 2007)

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<sup>32</sup> Harmonized environmental and social standards similar to those followed by IFC for commercial financial institutions in their developing countries investments.

<sup>33</sup> According to the WB terminology, on one hand, category A projects have potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented. On the other hand, category B have potential limited impacts that are few in number, site-specific, largely reversible and readily addressed through mitigation measures.

<sup>34</sup> Bank Sector Strategies Implementation Update, 2007.

**The main recommendations in relation to environmental project management echoed the ones included in previous reports (World Bank, 2002).** The report suggests the need to improve the monitoring and evaluation activities and their results; the need to measure the environmental performance and impacts of its activities beyond individual project performance and considering wider time horizons (up to 40-50 years especially for power and transport sectors); and the need to develop and implement methods to assess environmental impact.

**The IDB funded a regional technical cooperation to improve the environmental management in the Latin American and Caribbean countries in 2001<sup>35</sup>.** It reviewed the situation of the use of Environmental Impact Assessment Systems in 24 countries focusing on the legal and institutional framework, EIA implementation, as well as perceptions of stakeholders involved in the EIA process<sup>36</sup>. The qualitative review of a large sample of Environmental Studies (200 formally approved in 10 countries) concluded that the compliance with administrative and legal requirements is usually good. Moreover the descriptive part of the EA reports provides good quality information, while the **environmental management plans (including mitigation, risk prevention, monitoring and public participation) present important information gaps.**

The study points out that after more than two decades of use of EIA tools in the region, the results show a certain degree of homogenization of administrative procedures, legal requirements and the establishment of institutions with environmental mandates. Nevertheless, **the practical implementation of EIA processes towards the achievement of environmental protection objectives is still limited.** Environmental management plans, environmental audits and monitoring programs are still deficient and often lack guidance for implementation or mechanisms to feed their results into the decision making process.

**The Private Department of the IDB** has also released several **publications about new tools in environmental and social management.**<sup>37</sup> In 2006 the Environmental and Social Unit of the PRI released a study on the environmental and social value added of its projects<sup>38</sup>. Through different examples of real case studies it highlighted the environmental additionality contributed by PRI in five main areas: (i) identifying and assessing impacts and risks, (ii) managing potentially negative impacts and risks, (iii) stakeholder involvement, (iv) monitoring and supervision systems, (v) promoting positive impacts and benefits. For instance, pushing higher air quality standards in gas-fired plants or promoting the use of continuous emissions monitoring systems are exemplified in this report. Other examples are the support to private companies to deal with the

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<sup>35</sup> Rodríguez, M et al, 2001. Gestión ambiental en América Latina y el Caribe : evolución, tendencias y principales prácticas.

<sup>36</sup> Academia, consultants, NGOs staff, private sector representatives, public sector.

<sup>37</sup> analysis of environmental risks and their influence in the financial risk of a project, contingent valuation of natural resources, Use of Geographic Information Systems, qualitative valuation of natural resources, development indicators, impact of project in labour market, etc.

<sup>38</sup> Understanding the concept of additionality in the sense that IDB's involvement in private sector projects causes something "better" to happen for the environment and for human communities than would have occurred had the investment been made with private capital only.

governmental authorities to mitigate risks that are beyond the borrower's responsibility, such as resettlement projects associated with roads.

Following these types of studies, PRI published another **study in 2007 about mechanisms for financial institutions to go beyond environmental and social compliance** when funding private sector operations<sup>39</sup>. The study identifies potentially viable financial instruments and products that Financial Institutions can use to provide incentives to help private sector companies exceed minimal legal requirements, thereby building sustainability. Among the financial mechanisms are preferential financial terms of conditions, such as rates or tenure based on a company or project meeting specific environmental or social performance targets. This will require the use of environmental and social indicators and management systems to promote continuous improvement of performance through a systematic and structured approach. Among the financial products, are innovative fund structures to facilitate investment into environmentally and socially sustainable investments, the use of environmental bonds and guarantees, or the payment for environmental services.

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<sup>39</sup> PRI/IDB, 2007. Mechanisms for Financial Institutions to Promote Environmental and Social Sustainability in the Private Sector.

## IV. OVE'S QUALITATIVE ANALYSIS OF ENVIRONMENTAL ASSESSMENT REPORTS

### C. Methodology: OVE's Qualitative Standards

**Based on best-practice methodologies<sup>40</sup>, OVE has developed an instrument containing the standards for qualitative analysis of the environmental and social information included in Bank's reports.** The instrument has a set of 27 questions and is used for a systematic evaluation of the environmental quality reporting. It covers five main sections: (1) Description of the overall project; (2) Description of the local environment and the baseline conditions; (3) Identification and evaluation of key environmental and social impacts; (4) Alternatives and mitigation of impacts; (5) Monitoring and Evaluation (M&E) issues. The full version of the checklist and the benchmarking are included in Annex B<sup>41</sup>.

The objective of the desk-review is to assess: (i) If the information contained in the reports is sufficient, correct and technically sound; (ii) If the information submitted is adequate to the accepted good practice in EA; (iii) If the mitigation measures proposed and the monitoring systems are properly defined. This tool could be used as a relative standard to foster changes towards better environmental quality reporting.

The instrument was applied to the Environmental Assessment (EA) reports validated by the Bank: (a) for private projects: Environmental and Social Impact Reports (ESIR); (b) for public projects: Loan Proposals (Environmental Feasibility section) and Environmental and Social Impact Briefs (ESIB)<sup>42</sup>. Templates for the 22 projects were filled out by at least two reviewers with the explanation of the rating for every standard question. A four points scale was used for benchmarking and to reach an agreed score.

### D. Results of the Application of the Instrument in the Desk-review

**In general, private sector projects scored higher for the majority of the standard questions than public projects.** Yet, the results of the M&E section are similar, slightly higher for public projects.<sup>43</sup> The averaged results of the application of the qualitative analysis tool to all EA reports validated by the Bank of 22 sampled projects are showed in the figure below. There is a considerable dispersion of results within the public sector projects<sup>44</sup>. The two public hydroelectric projects in the sample (VE-0084 and CO-0221)

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<sup>40</sup> The European Commission checklist (EC, 2001), the Review Package from the EIA Centre of the University of Manchester (Lee and Colley, 2001) and several approach papers from other multilaterals (World Bank, UNEP, EBRD, etc).

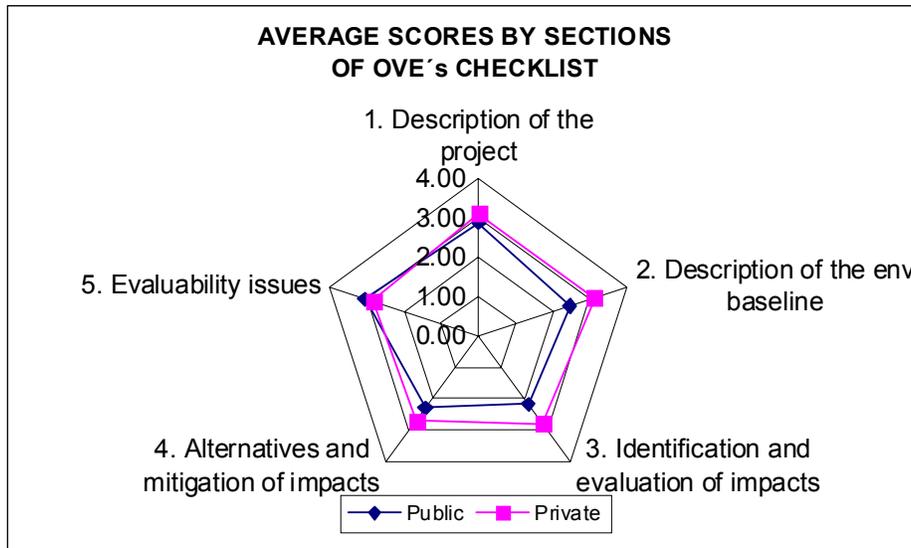
<sup>41</sup> It is important to note that the instrument developed by OVE covers all the requirements of the PR-1006 on the Committee on Environmental and Social Impact (CESI) review.

<sup>42</sup> In this case, some supervision documents were also reviewed due to the insufficiency of environmental information in the ex-ante proposals. The ex-ante documents used in every case are detailed in the following section "progress analysis".

<sup>43</sup> When comparing the results between public and private projects of the sample, the difference of number of projects has to be considered. Only six public sector projects met the sampling criteria, whereas sixteen projects met the criteria in the private projects.

<sup>44</sup> The standard deviation for every section is between 0.5 and 1 points.

performed as outliers against the rest of the projects in the sample. In contrast, the sixteen private projects perform within the same range of scores with a narrower dispersion of results<sup>45</sup>.



Some differences are also found according to the different types of projects in the sample (hydroelectric, thermoelectric, geothermal and transmission lines). Thus, the following sections present the analysis of the results by type of project, distinguishing between private and public projects.

## 1. Result by type of projects

### a) Transmission Projects

**Public sector transmission projects have very little ex-ante environmental information.** The loan proposals for each project were reviewed, but since this document contained only very general environmental and social information, other project documents were also reviewed.<sup>46</sup> In these cases, general monitoring reports of the Bank, PPMR and PCR, were also considered. Despite the effort to review all the available information, the scores for these four projects are the lowest of the whole sample.<sup>47</sup> For instance, the project with the highest financing and the most recent operation in this category (BR-0275) presents significant information deficiencies in the description of the

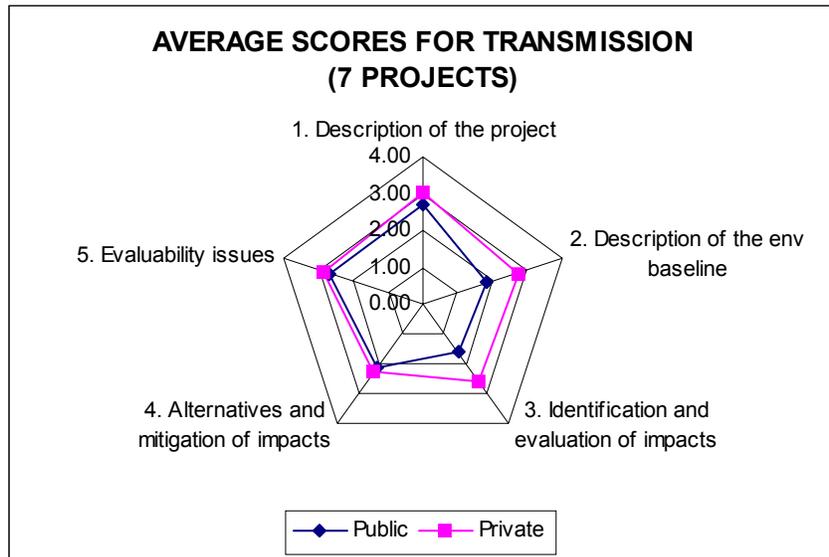
<sup>45</sup> A maximum of 0.4 points of standard deviation.

<sup>46</sup> For instance, two of the four public transmission projects (PE-0018 and UR-0022, which are the oldest projects) have a specific environmental document, while the other two projects (BR-0275 and PR-0030) have only some environmental and social impact information in a few sections in the loan proposal. Basically, the environmental and social-related information presented in the loan proposal document is the category according to the CESI classification in the Executive Summary, general ideas about the Environmental and Social Impact in Section III and some information about the environmental feasibility of the project in Section V.

<sup>47</sup> The oldest project (PE-0018, 1993) scored the highest in all the sections, probably because of the fact that was the only project with a specific Environmental Summary section.

environmental baseline and identification and evaluation of key impacts (sections 2 and 3). These are the two sections with the lowest score for all four projects.<sup>48</sup> Moreover, the compliance with Health and Safety provision standards is very low. Severe deficiencies in the alternatives and mitigation of impacts were also found (Section 4). Finally, the monitoring schemes lack clear indicators, benchmarks, costs and schedules (lower scores in 5.1).

**Results for the three private sector transmission projects are very similar for all sections, performing satisfactorily on most questions.**<sup>49</sup> The main exception is section 4, where the “no project scenario” (question 4.2) is not included in two of the three projects, causing lower scores. In general, the quality of environmental and social information of transmission projects is better in private project reports compared with public project reports, with bigger differences in sections 2 and 3. Nevertheless, there are isolated cases that do not follow this trend. For instance, the public project PE-0018 shows similar scores to the average of private sector projects.



### b) Results for the hydroelectric generation projects

**In the case of the public sector,<sup>50</sup> the overall scores of the two hydro-projects are the highest of the whole sample, with four of the five sections scoring above 3 for both projects (CO-0221, VE-0084).** In this case the pattern of results is different from the other types of projects since the two public projects outperformed the two private projects. Both projects have a quite good environmental and social baseline description

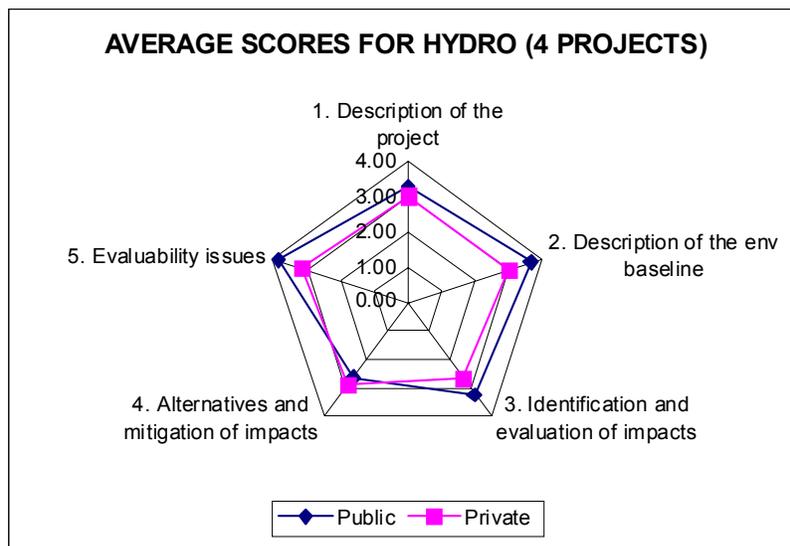
<sup>48</sup> Indeed, the description of the local environment (question 2.1) and the social and economic conditions in the area (2.2) are very weak in all projects. Another critical issue is the lack of information on the different methods used to conduct the scoping, prediction and valuation of impacts (3.8)

<sup>49</sup> Only PE-0210 presents some deficiencies in the environmental and social baseline description (questions 2.1 and 2.2), but the rest of the questions of Section 2 perform similarly for the three projects

<sup>50</sup> In the case of these two projects. it was possible to conduct the desk review using the same ex-ante documentation for the two projects: loan proposal and environmental summary.

(Section 2), including valuable information about the methods used to produce the data and conduct the assessment (3.8). The assessment of impacts (3.9) and the monitoring provisions (5.1) offer good opportunities for the in depth ex-post analysis of both projects. Although mentioned, the discussion and analysis of the cumulative impacts (3.5) is not considered sufficient for these kinds of big infrastructure projects.

**In the case of the private sector,<sup>51</sup> the two projects perform very similar, with lower scores compared to the public sector projects.** Section 3 is the worst performing section, i.e. the analysis of the environmental impacts is mainly descriptive; the information about methodology (3.8) is limited, especially in BR-0315. The M&E schemes (question 5.1), on the other hand, are complete and relevant to the projects. i.e. BR-0304 covers details describing specific quantitative indicators, schedule, even data gathering methods for different environmental and social programs. The private projects maintain the consistency of results with the other types of private projects of the sample<sup>52</sup>.



### c) Results for Thermal Private Projects (10 projects)

**The bulk of these operations<sup>53</sup> were approved from 1997 to 2000. Despite the range of six years difference in approval date, the scores are very similar suggesting that the standardization of the environmental reporting has been quite effective.<sup>54</sup>** Only some isolated differences among projects can be highlighted, such as the lack of information about the public consultation process performed (1.7) in the oldest project

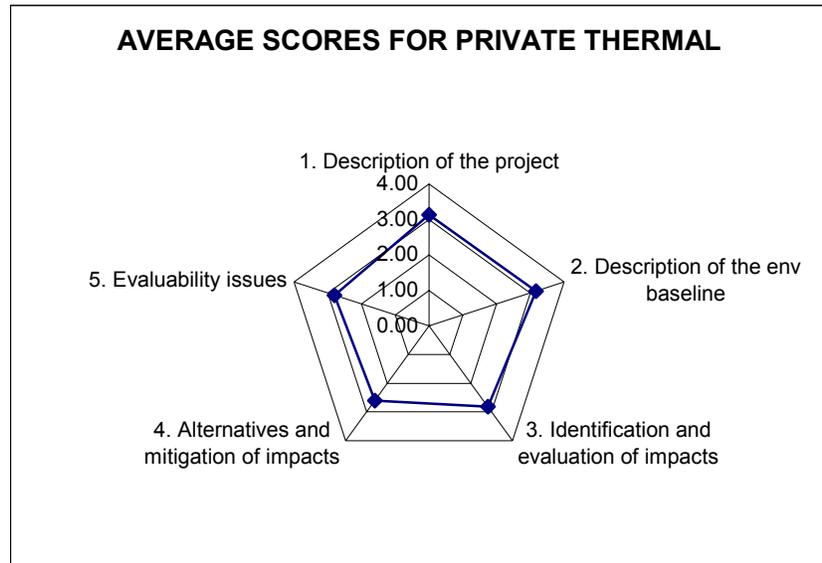
<sup>51</sup> Both reviews are based in the Environmental and Social Impact Report (ESIR), the standardized document developed following the “PRI Environmental and Social guidelines” (January 2000).

<sup>52</sup> The experience of the borrowers in conducting these types of environment and social assessments could be a factor influencing the different of environmental quality reporting

<sup>53</sup> The majority of thermal power plants funded by the Bank in the period are combined-cycle gas plants (seven of the ten projects).

<sup>54</sup> The standard deviation of the scores is low for all sections.

ME-0189<sup>55</sup>. The consideration of cumulative effects (3.5) is poor for ME-0220 and BR-0361, while the other projects consider this issue with a certain degree of detailed analysis (usually only in relation to previous phases of the same project in the site and to atmospheric emissions). The risk analyses included (4.4) in the reports of ME-0189, ME-0220, ME-0228 and NI-0103 are very complete and include relevant information for the environmental and social assessment, in comparison with the average section or paragraphs dealing with these issues in the rest of the thermal projects.



**In general the overall results of the environmental the three projects, which technology (diesel fuel and petroleum coke) is widely recognized as more pollutant than the rest of gas-fuelled thermal plants, are around the average.** The results of the two diesel-fuel plants (NI-0103 and PN-0136) fall on the same average range while the other power plant fuelled with petroleum-coke (ME-0218) has higher scores than the average for private thermal plants for all sections, except section 4 (alternatives and mitigation measures). The only geothermal project in the sample performs quite high.<sup>56</sup>

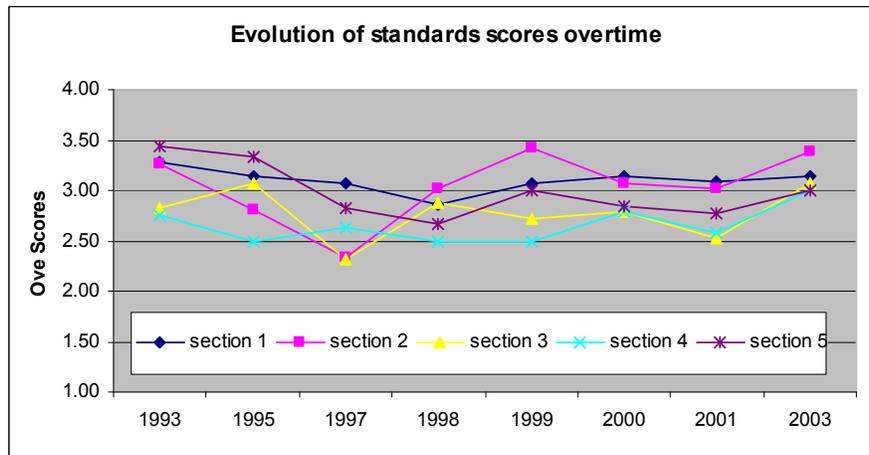
## 2. Results by year of approval

**The analysis of the environmental and social information of the 22 projects overtime does not show a trend of improvement over the ten years covered by the sample (1993-2003).** Although since 1993 the IDB has improved its social and environmental guidelines and policies, etc, this does not seem to have translated into improvements on

<sup>55</sup> This project was approved in 1995 after the newly approved Disclosure of Information Policy, OP-102.

<sup>56</sup> From the first section, the description of the land required (1.3) and the residues and emissions (2.1b and c and 3.1b) and its associated treatment methods are better covered than the majority of the projects. The baseline description in general is also remarkable, although the methods used are not fully explained (2.4). The consideration of the cumulative atmospheric impacts of previous geothermal projects is well covered, although the no project scenario is not discussed (4.2) and the long-term environmental sustainability and value-added are not clearly described (5.3).

the quality of IDB reports, since the environmental and social ex-ante information included in the Bank reports does not show improvements overtime.



### 3. Implementation Progress Analysis

In order to capture the IDB follow-up performance on environmental and social issues for the 22 projects of the sample, the two main monitoring reports (Project Performance Monitoring Report, PPRM, and Project Completion Report, PCR) were analyzed to assess the quality of the environmental and social information included. The main results of this desk review exercise are presented below:

**In general terms, for public sector projects, the environmental and social information included in the Project Completion Reports (PCR) is too general and does not allow assessing the real implementation of the environmental and social mitigation measures, and their effective results in relation to their environmental and social protection objectives.** This confirms the finding of all the previous evaluations of the Environmental Assessment process in Multilateral Financial Institutions regarding the general lack of consistency in Bank's environmental and social reporting. To illustrate, BR-0275 only mentions the three activities dealing with the component of strengthening of the environmental management and some relevant information about its compliance, but no information is provided regarding the results of the implementation of these activities. In the case of Yacireta (PR-0030), although the PCR claims that the environmental and social issues are critical for project results achievement, since there were important problems with the resettlement, the environmental and social information included in the PCR is too general and it only provides some clues about the main problems arisen during the implementation of the environmental and social components. The PCR of PE-0018 does not include any information about environmental or social issues, although the ex-ante environmental and social information was quite complete according to OVE Standards. For UR-0022 the ex-post environmental information is also insufficient, with just a mention about the environmental impact assessment performed.

**The Project Monitoring of Environmental and Social aspects of private projects is typically done by consultants hired by the borrower companies who produce very**

**detailed information** about: (a) the compliance with environmental, social, and health and safety requirements in the project legal agreements, (b) the present level of project-related negative impacts, (c) the present level of environmental financial risks, (d) the local perceptions of the project, and (e) the positive environmental and social related activities that the company has performed. This information is collected in two documents every year (Semi-annual review, SAR and the annual Project Supervision Reports, PSR). Moreover, the general Project Completion Report (PCR) includes a section of Environmental and Social Performance.

The environmental monitoring data is sent by the borrower quarterly and is reviewed by PRI (and the external consultants). The information contains raw values of indicators and some analysis of trends of certain environmental variables. It replicates the compliance approach of the requirements of the Environmental Ministry which relates the values of indicators with the legal thresholds, after ensuring that the mitigation measures proposed were implemented. There are also some conclusions about the environmental management for every monitoring period.

In 2006, PRI started preparing Expanded Project Supervision Reports (XPSRs<sup>57</sup>), and submitted them to OVE for its validation (according to the guidelines of the Development Effectiveness Overview). Section III.E of the XPSR contains information about Environmental, Social and Health and Safety (ESHS) matters, with a general description, compliance and sustainability assessment regarding to ESHS issues. ESHS additionality of Bank involvement in the project is also considered through questions about the standards required by the Bank in relation to the host country, the information disclosure and public consultation requirements, the monitoring and supervision activities and ESHS general additionality (section V.C: role, contribution and additionality of the IDB).<sup>58</sup>

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<sup>57</sup> These reports build on existing PCRs and SARs, adding information on the company's business success, private sector development, development outcome, and the Bank's operational effectiveness.

<sup>58</sup> 1.1 This new supervision instrument has only been applied to 5 projects approved in 2000. Among them there is one of the private thermal projects (ME-0228) and a public transmission project (PE-0210) of the sample of OVE's evaluation. The ESHS information in XPSRs is less complete than the data contained in SARs, PSRs and PCRs for PRI projects.

## V. CONCLUSIONS

Past evaluations on environmental and social issues for IMFs recognize that certain progress in the EA process and practice has been achieved.<sup>59</sup> Therefore, it would be expected that the Environmental and Social reports (EA reports) produced by the Bank to ensure environmental and social viability of the operations it funds comply with Bank's environmental and social Safeguards, as well as the good-practice EA practice.

The Desk Review conducted for this first stage of OVE's evaluation only captures the consideration and degree of analysis of key factors related to environmental and social impacts in the Bank EA reports. The fact that MFI enter late in the EA planning process and with an approach that tends to be focused on "site-specific" impact analysis and mitigation measures, prevents MFI from proposing alternatives in the beginnings of the EA procedures.

OVE's qualitative desk review found problems of consistency in the application of safeguards across the different types of projects of the sample of 22 EA reports of energy projects approved from 1993 to 2003. Different types of projects (hydroelectric, transmission, thermoelectric and geothermal) and projects funded by the Bank's public sector and the private sector department obtained very different results in relation to the quality of environmental and social information contained in EA Reports. This finding agrees with the previous World Bank Evaluation in 2001.

In general, the results of the OVE evaluation show that private sector (PRI) EA reports score better than their public sector counterparts for the majority of the sections of the qualitative checklist developed by OVE. The PRI EA reports in the sample contain good information regarding environmental objectives and components, and environmental and social baselines, although the description of alternative scenarios is sometimes deficient. This weakness was also found in other previous World Bank studies and it is usually explained by the late involvement of the Bank, when the project identification is already done. By contrast, the overall quality of public sector EA reports is low, and particularly deficient in quantifying impacts and establishing clear mitigation programs for some of the projects of the sample.

The dispersion of results within the six public projects in the sample should be considered. The two public hydroelectric projects in the sample (VE-0084 and CO-0221) performed above all the other types of projects, while the transmission projects have the lowest scores. This could be explained by the high environmental and social controversy of these types of projects in previous decades which forced the improvement of quality

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<sup>59</sup> Better capacities to manage environmental and social impacts (World Bank, 1997), improved standardization of the assessment process and reporting system (Wescoat, 1999, WGE, 2003), improved safeguard coverage of environmental and social impacts (World Bank, 2001), more careful consideration of environmental and social legal tools in loan agreements (World Bank, 2002). Similarly, some other studies highlight the progress done by the majority of countries in Latin America and the Caribbean in environmental and social compliance with administrative and legal requirements (Rodríguez, M et al, 2001).

control processes. Moreover, the professional zeal and capability of particular project team members, certain COF specialists and borrowers, could determine the quality of the Environmental and Social Assessment. In contrast, the sixteen EA reports of private sector projects perform within the same range. OVE considers that the process of standardization that the Private Sector Department (PRI) endeavored during the period caused this better and more homogeneous quality of EA reports.

OVE's evaluation of the compliance of Bank's reports with Environmental and Social Policies and international standards through the application of the qualitative checklist supplies standard data of the projects, but doesn't allow to deal with key aspects in depth. The evaluation does not show a clear correlation between the year of approval of the projects in the sample and better ratings in the checklist for the ten-year period covered by the sample of projects. Differing with previous studies of other Multilateral Institutions (World Bank, 2002), the most recent IDB projects of the sample do not seem to have a better ex-ante environmental and social compliance with Environmental and Social Safeguards.

OVE's findings corroborate the weaknesses identified by previous IDB studies and other Multilateral Financial and Academic Institutions<sup>60</sup> during the environmental and social follow-up. The reporting system at the Bank once the project is approved, based on PPMR y PCR, offers very little information regarding the environmental and social follow-up of the ex-ante analyses. The environmental and social information occasionally included in the MPPMR and PCR during project implementation is only centered in compliance. Indicators about the actual environmental and social performance at results level (for instance, the effectiveness of mitigation or the overall sustainability assessment of the project) is usually missing. The lack of consistent Environmental and Social Reporting at the Bank jeopardizes the capacity to monitor the systematic inclusion of CESI recommendations into loan agreements, bidding contracts, project budgets, which are essential for the Country Offices project supervision (Dullin, 2005).

The Environmental and Social Monitoring and Reporting conducted for PRI projects offer much more detailed information, especially related to compliance with national laws and the Bank's Safeguards. Nevertheless, it is important to mention that this supervision is typically made by international consultants, paid by the borrowers, so it could disguise some of the results. This was identified by the first revisions of the Environmental Assessment process at the World Bank (1997) as a limitation due to the disincentive for strengthening local capacities. It is also contrary to the stated objective in the IDB 2006 Environmental Policy which says "*The Bank will work with borrowers to manage environmental risks effectively and to help develop environmental capacity*".

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<sup>60</sup> World Bank, 2001, EBRD, 2001, World Bank, 1993, World Bank, 1997, Wescoat, 1999, Arts et al, 2001, LAC, 2001. Studies about environmental supervision carried out by RE1 and RE3 found that monitoring was the most unsatisfactory of all activities carried out by the Bank, its borrowers and executing agencies (Dulin, 2005, p. 7)

## VI. RECOMMENDATIONS

The Realignment process implies that the same group of environmental and social specialists will be involved in private and public projects review and monitoring. This could avoid the differences in the application of the safeguards found in OVE's evaluation. Nevertheless, it is important to ensure that this standardization does not imply a race to the bottom in relation to environmental and social requirements. It is necessary **to monitor the quality of the environmental and social information generated under the new organizational system in comparison to the previous one**, improving the benchmark of PRI projects as the ones with better information.

In general, the information is clearly insufficient to assess the implementation of the environmental and social mitigation measures and other management provisions. There is no requirement to include information about the environmental and social results of operations in the Bank monitoring system (PPMR and PCRs). This should **be reinforced for the Bank to move beyond the administrative compliance approach and to document the actual environmental and social effects of the IDB-funded projects**. Methodologies to do so are presented in the case studies of the second stage of the evaluation.

The organizational system for environmental and social compliance oversight was deficient for the period under evaluation and continues being understaffed and without a suitable budget at present. The limited number of environmental and social staff is also lacking in several technical areas which restrict the quality of Bank operations throughout the project cycle, from design to implementation.<sup>61</sup> This challenges the Bank capacity to perform a rigorous analysis and to add technical value to the environmental and social process, from the early steps of EA to be able to focus on project alternatives to minimize social and environmental impacts. Although the assignment of an environmental specialist from project inception to completion can improve accountability in the environmental revision process, the existence of an independent environmental staff unit which monitors the quality control compliance within the Bank different from the one in charge of the ex-ante validation and environmental monitoring could contribute partiality to the EA process.

OVE recommends to improve the contractual covenants concerning to environmental and social issues to achieve a meaningful oversight process focused on the environmental objectives beyond the administrative and bureaucratic procedure, which should be independent and including site visits. Moreover, an internal incentive structures should be commissioned which reward sustainable outcomes from programmatic and project lending across all staff groups (Blue Ribbon recommendations, 2005<sup>62</sup>). The Private Sector Department of the Bank conducted an analysis of its environmental and social

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<sup>61</sup> A 2005 Survey conducted to the 75 professionals in the Bank who conducted some environmental and social work, based on interviewee's self-assessment, showed that only six of the fifty-eight respondents had experience in preparing ESMP or carrying out environmental audits, some of the key environmental and social management tools at the Bank.

<sup>62</sup> The Blue Ribbon Panel on Environment (BRPE) was created in 2004 to advice on the draft of the Environment and Safeguards Compliance Policy.

additionality. The technical value-added over the environmental and social objectives of Bank's involvement should be included in each case

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## VIII. ANNEXES

### A. Projects meeting the sampling criteria

**Table 1. Projects meeting the sampling criteria**

<b>Project Number</b>	<b>Project Name</b>	<b>Summary Description</b>	<b>Category (CESI)</b>	<b>Public &amp; Private</b>	<b>Approval Year</b>	<b>Original Approved Amount</b>	<b>Current. Disb. Exp. Date</b>	<b>Ys from Tot. Disb. (as of 04/2007)</b>
ME0189	Samalayuca II	Thermal Generation	III	Private	1995	75,000,000	5/28/2000	6.8
AR0200	Aes Parana Project	Thermal (natural gas) + Distribution	N/A	Private	1997	60,000,000	6/25/2002	4.8
NI0103	Tipitapa 50 Mw Power Plant	Generation (Diesel plant)	N/A	Private	1998	10,750,000	6/15/2000	6.8
ME0220	Hermosillo Power Generation Plant	Thermal Generation (combine cycle, natural gas)	N/A	Private	1999	41,578,612	9/20/2001	5.5
ME0218	Termoelectrica del Golfo, S.A. de C.V.	Petroleum coke thermal plant	N/A	Private	1999	75,000,000	4/15/2003	4.0
PN0136	Chorrera Power Project	fuel-oil (y diesel) thermal	N/A	Private	2000	20,294,559	4/16/2001	6.0
BR0315	Power Plant Dona Francisca	hydro Generation	N/A	Private	2000	16,000,000	1/1/2002	5.3
PE0210	Redesur Transmission Line	Transmission	N/A	Private	2000	15,085,360	7/15/2002	4.7
ME0228	Vitro Cogeneration Project	Thermal Generation (combine cycle, natural gas)	N/A	Private	2000	45,500,000	6/30/2003	3.8
ME0229	Monterrey III Power Project	Thermal Generation (combine cycle, natural gas)	N/A	Private	2000	75,000,000	8/15/2003	3.6
BR0304	Cana Brava Hydroelectric Power Project	hydro Generation	N/A	Private	2000	75,000,000	1/31/2004	3.2
BR0354	Termobahia Co-Generation Plant	Thermal Generation (combine cycle, natural gas)	N/A	Private	2001	57,785,829	1/15/2004	3.2
BR0398	Novatrans Energy	Transmission + substations	N/A	Private	2003	30,000,000	11/15/2004	2.4
CR0115	Miravalles III	Geo-thermal Generation	N/A	Private	1998	16,500,000	12/17/2000	6.3

<b>Project Number</b>	<b>Project Name</b>	<b>Summary Description</b>	<b>Category (CESI)</b>	<b>Public &amp; Private</b>	<b>Approval Year</b>	<b>Original Approved Amount</b>	<b>Current Disb. Exp. Date</b>	<b>Ys from Tot. Disb. (as of 04/2007)</b>	
RG0054	Argentina-Brazil Electricity Interconnection	Transmission + substations	N/A	Private	2001	74,000,000	12/20/2002	4.3	
BR0361	Termopernambuco Power Project	Thermal Generation (combine cycle, natural gas)	N/A	Private	2001	42,400,000	5/15/2005	1.9	
PE0018	Transmisión y Reestructuración Subsector	Transmission	IV	Public	1993	45,000,000	7/10/2001	5.7	
UR0022	Transmisión y Distribución Energía Eléct	Transmission	III	Public	1995	54,000,000	9/18/2004	2.5	
PR0030	Sistema de Transmisión de Yacyreta	Transmission	III	Public	1996	50,000,000	10/21/2004	2.4	
CO0221	Central Hidroeléctrica Porce II	hydro Generation	III	Public	1993	328,000,000	7/14/2001	5.7	
VE0084	Central Hidroeléctrica de Caruachi	hydro Generation	IV	Public	1993	500,000,000	12/21/2003	3.3	
BR0275	Interconexión Eléctrica Norte-Sur	Transmission	IV	Public	1997	307,000,000	10/6/2001	5.5	
<b>Total</b>				<b>22</b>	<b>Total</b>		<b>2,013,894,360</b>	<b>Average</b>	<b>4.4</b>

## **B. Qualitative checklist and benchmarking**

### **Section 1: Description of the project**

#### **1.1. Description of the objectives and main activities of the project.**

A, need of the specific project and its context very well argued, clear and detailed description of the main activities involved in the project.

B, only some general ideas are included, but it is not clear the magnitude and nature of the project (objectives and activities).

C, very vague information about the main objectives and activities of the project.

D, no information about the objectives or the activities of the project.

#### **Programme for implementation of the project (construction, operation and decommissioning, restoration and after-use when appropriate)<sup>63</sup>.**

A, very clear chronogram for the implementation of the project, from design to decommissioning.

B, the exact chronogram is not included in the documents, information disperse throughout the text, but overall idea acceptable. Some information about decommissioning included.

C, only some weak general information about construction and operation is provided, decommissioning phase is completely missing

D, lack of information about the different phases of the project, jeopardizing the possibility to guess the different activities that the project will encompass.

#### **Area or land temporarily required for construction and land occupied for operation**

A, clear description and quantification of the land to be occupied by all the buildings and ancillary operations (eg. ROWs, gas pipe lines...)

B, some ideas about the land required, described but not quantified.

C, only general information about the surroundings, but the use of land is not clear.

D, no information provided about the use of land.

#### **Main components and facilities of the project described and located (maps, plans, diagrams...)**

A, complete map of the project area, plant in relation to its context (the national electric system and the transmission routing, the general river basin...).

B, good map of the plant and its immediate surroundings.

C, the map does not show very clearly the plant in relation to the national electric system or it is mentioned but not included in the document.

D, there is no map even mentioned.

#### **Types and quantities of raw materials, energy and other resources needed for construction and operation discussed?**

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<sup>63</sup> Although it is difficult to assess the future decommission of the infrastructure, EIA guidelines usually recommend to consider it in order to prevent future environmental management problems.

- A, very clear information about the input-output (eg. Energy efficiency) of the plant.
- B, good information about the use of water, fuel consumption, stone materials ...
- C, only some general information of the resources needed.
- D, not mentioned or included in the analysis.

**1.2. Any other existing or planned developments with which the project could have cumulative effects**

- A, consideration and discussion of cumulative effects (even quantitatively) of other near plants affecting the same environment.
- B, only some general information about the existence of other sources of impacts in the area, but weak information to assess impacts in next section.
- C, not assessed as important, even beneficial.
- D, not mentioned (especially in industrial sites or river basins with other dams).

**1.3. Description of the public consultation steps or participation program conducted.**

- A, details about the events and measures to inform and consult the affected population and the general public.
- B, good general information of the participation or/consultation process.
- C, only some minor details about the need to do it, but no more information provided.
- D, not considered or mentioned in any document.

**Section 2: Description of the local environment and the baseline conditions.**

**Completeness of the description of the local environment occupied/affected (baseline conditions in the “no project situation”):**

- a. hydrology, water quality and use of any water resources**
- b. local climatic and meteorological conditions and existing air quality**
- c. topography, geology and soils**
- d. fauna and flora and habitats**
- e. existing levels of noise, heat and electromagnetic radiation**
- f. archaeological, historic, cultural or other community importance sites**
- g. landscape or townscape situation**

- A, clear description and quantification of environmental factor, very relevant for further analysis.
- B, good general information about the env. factor, but weak quantification and some gaps.
- C, only some general information, omitting important information to assess the baseline conditions.
- D, not mentioned.

**2.1. Completeness of the description of the demographic, social and economic conditions in the area affected<sup>64</sup>**

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<sup>64</sup> Disaggregated by gender, indigenous and afrodescendant communities or vulnerable groups; issues about employment, etc.

- A, clear description and quantification of key parameters, very relevant for further analysis.
- B, good general information, but weak quantification and some gaps.
- C, only some general information, omitting important information to assess the baseline conditions.
- D, not mentioned.

**Description of any area under protection or regulation or sensitive areas.**

- A, clear statement about the results from the EIA study.
- B, only some general information about special areas in or near the study area.
- C, not clear information, quite vague.
- D, not considered.

**2.2. Description of the methods to define the study area (local environment potentially affected) and the methods to characterise the baseline environment.**

- A, complete statement of the methods and criteria to raise the baseline information.
- B, although there is no clear justification of methods, the study area and the information provided on the environmental and social baseline seems very reasonable and well chosen.
- C, it is not clear which is the study area throughout the text, and the baseline information is too general and descriptive.
- D, no information about any method and important deficiencies in the baseline information provided.

**Section 3: Identification and evaluation of key impacts**

**3.1. Description and appropriate quantification of the direct and primary effects on:**

- a. hydrology (drainage pattern in the area, ground water level, water courses, effects on coastal or estuarine hydrology, etc) and water quality
- b. air quality and climatic conditions
- c. geological features (local topography), characteristics of soils, soil erosion, etc
- d. fauna and flora and habitats
- e. acoustic environment (noise/vibration), heat, light or electromagnetic radiation
- f. buildings, historic heritage and archaeological features
- g. quality of the landscapes and on views and viewpoints

- A, use of quantitative models, indicators and legal standards.
- B, some general information about the anticipated impacts quite relevant.
- C, very vague information about the impact.
- D, no information about this impact when it appears to be important for this type of project.

**3.2. Description and appropriate quantification of the direct and primary effect on demography, social and socio-economic condition in the area<sup>65</sup>.**

A, clear socioeconomic description and quantification of people affected, at different levels (resettled, compensated, indirectly affected in different ways: noise, health issues, employment...)

B, only some general ideas, although appropriate for the type of project according to the sectoral guidelines.

C, too vague information about potentially significant impacts.

D, not mentioned.

**3.3. Focus on key issues (most severe, adverse effects) and avoid irrelevant or unnecessary information (less significant effects)?**

A, good prioritization, focusing on the main impacts of the type of plant according to sectoral guidelines.

B, some good information for some impacts, but prioritization is not clear throughout the text.

C, too vague information and plenty of irrelevant data.

D, very important issues missing according to sectoral guidelines.

**3.4. Secondary or indirect effects on any of the above aspects of the environment caused by primary effects on other aspects described and appropriate quantified?**

A, very complete coverage of the indirect impacts arisen from the project.

B, general information about some indirect or secondary impacts.

C, there is no an specific section dealing with these issues, but some information can be deducted from the information about direct impacts.

D, not considered at all and difficult to infer.

**Cumulative effects on the environment of the project together with other existing or planned developments in the locality and/or assimilative capacity of the environment in critical areas described?**

A, very good consideration of cumulative effects, especially in relation to the main impacts (eg. air emissions, risk assessment...), discussed and analyzed.

B, some general information about the existence of other sources of environmental and social impacts (eg. other industrial facilities, other dams in the same river, volcanos, etc)

C, very vague information.

D, not considered.

**3.5. primary effects on occupational human health and safety (H&S) and welfare described and appropriate quantified?**

A, very good coverage of occupational issues in the analysis of impacts, quantified and analyzed.

B, there is some information about the main impacts on occupational H&S and welfare (in the impacts section or the mitigation measures and monitoring scheme proposed).

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<sup>65</sup> E.g. gender issues, impacts on indigenous and afrodescendant communities or vulnerable groups, employment, effect on local transport, land uses and property, etc.

- C, some vague information, not sufficient for assess its relevance.
- D, not considered or mentioned.

**3.6. Description of the positive effects on the environment<sup>66</sup>.**

- A, clearly stated and justified environmental benefits of the project.
- B, general statement about positive environmental effects but they are not further explained and justified (job increase, development of productive activities, reduction of air emissions because of the use of natural gas instead of oil or hydroelectric generation, etc.)
- C, little and vague information provided.
- D, not considered.

**3.7. Description of the methods for scoping<sup>67</sup> and impact prediction and valuation.**

- A, very good information about the identification and evaluation methods used.
- B, general information about the methods can be deducted from the evaluation of the impacts (expert judgment, general guidelines and legislation, etc).
- C, little and too vague information.
- D, no evidence of the use of any systematic method found in the reports.

**3.8. geographic extent, duration, frequency, reversibility and probability of occurrence of each effect identified as appropriate?**

- A, good coverage of the evaluation of the importance or relevance of impacts using standardized methodologies.
- B, general information about the characteristics of some impacts.
- C, not fully considered but some vague ideas about the assessment of importance of impacts can be deducted.
- D, not considered at all.

**Section 4: Alternatives and mitigation of impacts**

**4.1. Is it evident that the EA Team and the developer have considered the full range of possible approaches to alternatives<sup>68</sup>.**

- A, good coverage of alternatives discussed and quantified when possible, with the reasons for the choice of the proposed project explained.
- B, very general information about alternatives, using only some criteria, including environmental parameters.

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<sup>66</sup> Including direct project benefits (such as increased employment, economic development, reduction in emissions or discharges, waste reduction programs...) or implementation of specific components that will provide “positive environmental and social benefits” or enhancements to the affected areas or persons (e.g.improved environmental management systems).

<sup>67</sup> Preliminary identification of the most probable significant impacts to define the key point to examine during the environmental and social evaluation.

<sup>68</sup> Alternative locations, alternative technologies, changes to the project design and layout, changes to methods and processes, pollution control and treatment, etc.

- C, very little information about alternatives, environmental criteria are not considered.
- D, alternatives did not seem to have been considered.

**Consideration of the “no project situation” (absence of the project) as an alternative.**

- A, clear evaluation of the “no project scenario”
- B, some general information about the possibility of no constructing the plant.
- C, the “without project” is considered but not including environmental and social issues (eg. Economic cost and benefit analysis)
- D, the “without project” scenario is not considered as an alternative in the analysis.

**4.2. Description and completeness of the mitigation measures proposed.**

- A, detailed description of the mitigation measures and indicators associated with them
- B, mitigation plans seem very well-thought and complete in comparison to the environmental and social impacts identified., but no indicators for each one are provided.
- C, very vague information and some important impacts identified are not covered by the mitigation plan.
- D, mitigation measures are not described.

**4.3. Description of preventive and response measures to accidents and abnormal events associated with the project (Health and Safety Plan or Risk Assessment).**

- A, specific section dealing with environmental risk assessment, with monitoring plans and specific activities.
- B, good general information about some measures.
- C, very vague information, only some disperse details.
- D, not considered.

**Section 5: Evaluability issues<sup>69</sup>**

**5.1. Monitoring framework of social and environmental impacts throughout the execution of the project (clearly defined indicators, data collection methods, schedules, responsibilities and costs).**

- A, good monitoring scheme including quantitative indicators, schedule, data gathering methods, cost and assigned responsibilities.
- B, some general information about monitoring of some indicators, but not very systematic (eg. no indicators for all the impacts to be monitored).
- C, only little information about monitoring and supervision presented.
- D, no monitoring scheme mentioned

**5.2. Responsibilities and institutional capacity for implementation and management of environmental and social plans including schedule and funding clearly defined?**

- A, institution responsible for the environmental and social plans implementation, schedule and costs associated clearly described.

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<sup>69</sup> Based on the Environmental and Social Management Plan (ESMP).

B, some general information about the institution in charge, but there is no assessment or evidences of clear commitments.

C, very weak information about the provisions of implementation of the plans.

D, no consideration of the institutional and funding needs for the implementation of plans.

**5.3.Environmental and social value added and long-term sustainability<sup>70</sup> and indicators for measuring the project's contribution.**

A, clear information about the value-added of the project in relation to the national standards, even considered as a model to similar projects regarding the consideration of environmental and social issues.

B, some general information (eg. institutional strengthening as a component of the project), but its relationship with higher sustainability is not clear.

C, there is not enough information to assess it, but IDB Monitoring and Supervision could be an important added-value, it is not even clear the continuity of the measures.

D, not mentioned or possibly deducted from the information provided.

A: Excellent = 4, B: Good = 3, C: Poor = 2, D: Very poor = 1, E: Not relevant = 0

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<sup>70</sup> Supplementary measures beyond the basic national or Bank's requirements or required environmental mitigation actions (e.g. technical assistance to enhance local regulations on resettlement that will be also applied to projects not financed by the bank, more stringent emissions limits, etc).