

Environment Strategy of the World Bank Group

Consultation between the World Bank and German Development Cooperation Organisations

Bonn, September 7, 2000

Adjustment Lending and Environment

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1. Introduction

Since the beginning of the 90s Adjustment Lending and its environmental and social aspects are high on the agenda of the Bank's policy. Today the need for increased efforts to tackle this complex issue is even more urgent:

- 1) the tremendous increase of adjustment lending as a share of total World Bank lending commitments has to be taken into account (cf. Tab.1)

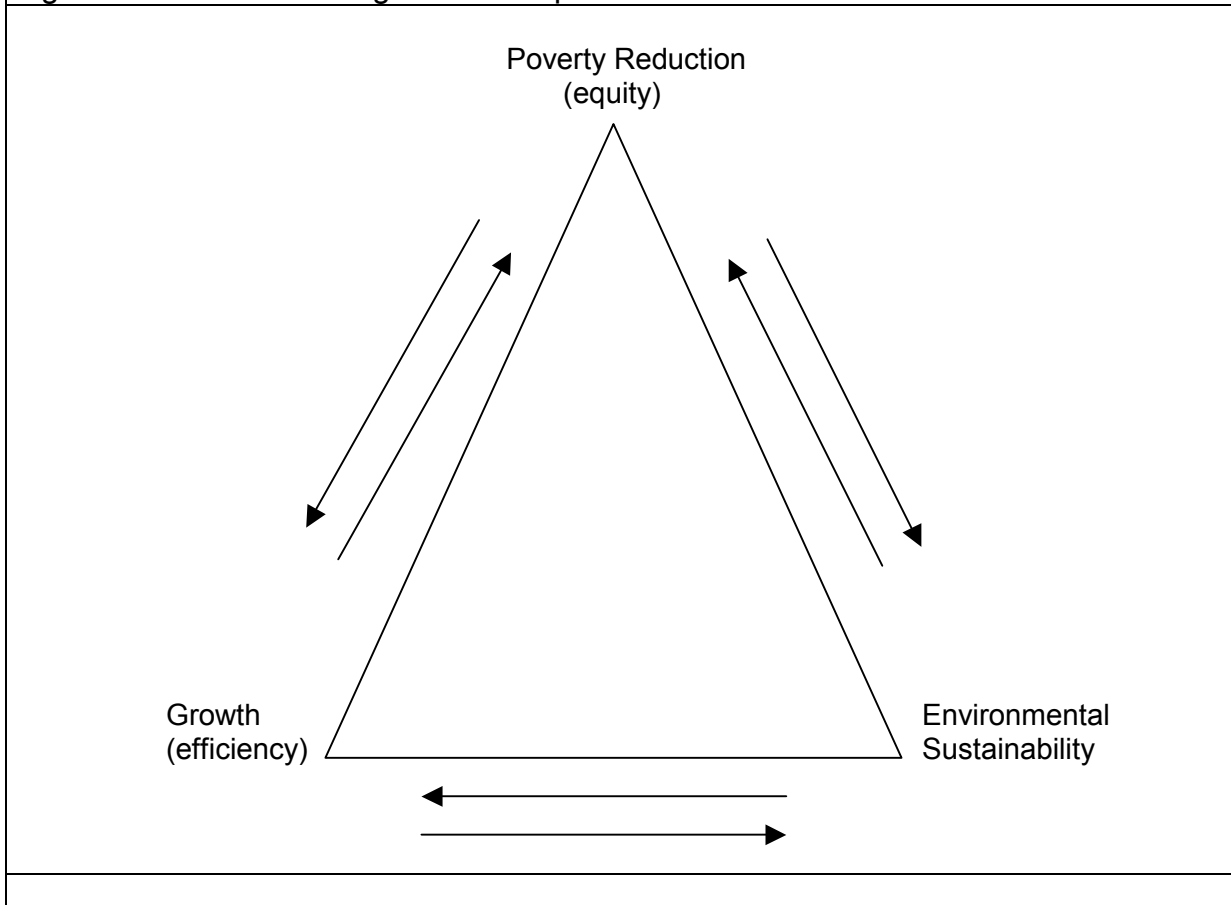
	FY97		FY98		FY99	
	\$ Million	Percent	\$ Million	Percent	\$ Million	Percent
Adjustment commitments by region						
Africa	693	14	818	7	768	5
EastAsia and Pacific	10	-	5685	50	5,712	37
Middle East and North Africa	195	4	180	2	680	4
Latin America and the Caribbean	1,011	20	1,589	14	4,445	29
Europe and Central Asia	3,174	62	2,768	25	3,372	22
South Asia	3	-	250	2	350	2
Adjustment Commitments by sector						
Finance	895	18	6,067	54	2,014	13
Multisector	1,906	37	1,803	16	9,552	62
Other	2,285	45	3,420	30	3,760	25
IBRD and IDA adjustment commitments						
Debt reduction loan	183	4	85	1	-	-
Rehabilitation import loan	120	2	10	-	-	-
Sector adjustment loan	2,671	53	2,151	19	4,116	27
Structural adjustment loan	2,112	42	9,043	80	11,210	73
IBRD and IDA adjustment commitments						
IBRD	4,138	81	9,935	88	13,937	91
IDA	948	19	1,354	12	1,389	9
Total adjustment loans	5,086	100	11,289	100	15,326	100
Total World Bank lending commitments						
IBRD	14,525		21,986		22,182	
IDA	4,622		7,508		6,812	
Total IBRD +IDA	19,147		28,594		28,994	
Share of adjustment loans		27		39		53

Source: World Bank (1999), Annual Report, p. 97

- 2) According to the statements in the Draft strategy in the 90s the Bank paid relatively little attention to the linkages between environmental and development objectives and thus limited the integration of environmental concerns into long-term policy, country assistance strategies and sector programmes.

These statements are somewhat confusing because the shift towards a cross-sectoral approach was already declared during the first half of the 90s and the „critical triangle“ (cf. Figure 1) which is again pointed out in the draft strategy has also been presented as an orientation for the Bank’s environmental policy many years ago (Munasinghe 1993).

Figure 1: Critical triangle of development outcomes



Before recommending any additional activities I would like to outline the current situation. A number of studies have been done in this area in the past. The most recent study available is the desk review „Social and environmental aspects of SECALs and SALs approved during FY 98 and FY 99“ (May 1999), done by ESSD (World Bank). Most of the following facts and figures are based on this review.

2. Experiences with Sustainability Goals and Adjustment Lending

The main objective of the desk study was to review all SECALs and SALs approved between July 1997 and December 1998. Altogether more than 50 of these programmes were reviewed.

The focus of this study is not on the real environmental and social impact of SALs and SECAIs, but on those parts/elements of the documents which address environmental and social aspects and which should be improved.

Regarding the *environmental dimension* the review of the adjustment lending documents was based on a number of questions, for example:

- Are environmental issues or potential impacts mentioned as a concern or a factor in the documents?
- Is the environment brought up as a potential risk or benefit?
- Are any conditionalities attached to projects related to environmental concerns?
- Are any policy measures included relating to potential environmental impact (positive or negative)?
- Does the project include any efforts to mitigate impacts on the environment ?

Regarding the *social dimension* various priority areas were singled out, for example:

- poverty,
- adverse social impacts,
- stakeholder analysis,
- public sector,
- participation,
- complexity and capacity.

According to the ESSD review only few reports actually discuss potential environmental impacts. Only about one third of the projects include a paragraph called "environmental assessment".

Less than 9 (20%) of the 54 projects have any substantial mention of potential environmental concerns. For any other environmental criteria the findings are weaker. About 4 mention the environment as a potential risk or benefit and 7 include some form of effort to mitigate or control the environmental effects of the project. And, at most there are 4 with environmentally motivated conditionalities (cf. Table 2).

Regarding the social dimension the main findings of the review in the selected priority areas can be summed up as follows:

Poverty: The majority of loans do neither address poverty directly nor the likely economic impact on the poor or ways to mitigate negative effects. The assumption is that poverty alleviation is to be achieved through improvements in the areas of macroeconomic stability and public administration. Direct efforts to address short-term impact on the poorest are rarely considered. Thus, most of the adjustment loans leave the connection to poverty at the abstract level.

Adverse impact: The analysis of the effects of adjustment focusses on efficiency gains and governance and neglects the potential for reversals.

Stakeholder analysis: The stakeholder analysis of organizational and civil society actors tends to be minimal. As a result there is little analysis of potential negative impacts of reform and of the mechanisms to guarantee government ownership, accountabilities and broad based support.

Category of project	# of projects	a) EA section*	b) Environment mentioned as a factor?	c) Risk or benefit?	d) Environmental conditionalities	c) Mitigating measures
Structural Adjustment/Multisectoral Projects	17	2	5	2	2	4
Social Sector/Pension Reform	12	9	0	-	-	-
Public Sector Reform and Management	10	2	1	-	-	-
Finance and Banking Sector	10	6	0	-	-	-
Private Sector Development	2	1		-	-	-
Transport and Energy Sectors	3		3	2	2	3
Total	54	20	9	4	4	7

*numbers indicate projects with an "environmental assessment" paragraph, but which simply states that there will be no direct impact on the environment

Source: World Bank (ESSD), Social and Environmental Aspects – A Desk Review of SECALs and SALs Approved During FY 98 and FY 99, May 1999 (Draft)

Public Sector: Wherever coordination among government agencies is required in the public sector, neither the relationship between central and line ministries nor the relationship among central, regional and municipal government are explored.

Participation: While a high degree of civil society participation is not necessarily advisable in all loans, the documents reveal that participation is systematically neglected.

Capacity and complexity : The analysis of the alignment between the complexity of policy reform and existing capacity is weak. As a result there is an over-reliance on technical assistance to fill gaps which are not necessarily technical in nature and have to do more with the country's institutional capacity to implement the proposed reforms.

Facit: The findings of the ESSD review demonstrate that there is still insufficient analysis of the potential environmental aspects of adjustment lending. The review also shows that the institutional capacity and organizational constraints facing

borrowing countries are not fully assessed, the connection to poverty is abstract, stakeholder analysis is weak and consequently, any discussion on public involvement and civil society participation is minimal, if not absent and the sustainability of the programmes in terms of their impact on the poor and the natural environment is not fully considered.

3. Conclusions and recommendations

Following the facts and figures presented here, it becomes clear that with respect to the environmental and social aspects there is still a considerable gap between World Bank policy and the operations in the area of SALs and SECALs. The key challenge to find an appropriate mix to make the three goals of the triangle compatible remains high on the agenda. Considering the fact that, in terms of volume, adjustment lending meanwhile has become the most important lending operation the Bank draft strategy should take this challenge more into account and should provide more detailed orientations how to handle the gap between policy and operation in this area.

As a first step to cope with these challenges we recommend:

1. to revise the draft strategy in order to give the issue of adjustment lending and environmental/social aspects its due weight;
2. to strengthen ESSD activities to improve SAL/SECAL programmes with a view to better integrate environmental and social aspects;
3. to support additional research activities, in particular in the following fields:
 - analysis and documentation of *best practices* in adjustment lending which include environmental and social aspects,
 - a study of the internal and external constraints placed on the Bank and its clients to implement SALs/SECALs while at the same time paying more attention to the environmental and social dimension.

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