

**Evaluation of the Initial Phase of the
Pilot Program for Use of Country Systems for
Environmental and Social Safeguards:
Lessons Learned and Management Proposal
for an Incremental Scale Up of the Program**

1. **Summary.** Management has reviewed and discussed the attached Evaluation Report (see Annex 1) of the initial phase of the Pilot Program on Use of Country Systems (UCS) for Environmental and Social Safeguard Issues that was approved by the Board in March 2005. Based on this review and discussion, Management proposes to incrementally scale up the initiative from the project to the country level. The objectives of this new approach are to engage a greater range of borrowers and other development partners to achieve economies of scale, apply a greater range of safeguards and build borrower capacity on a more sustainable basis than is feasible at the project level. This expanded approach to UCS will not require any change in the Operational Policy /Bank Procedure 4.00 (OP/BP 4.00), *Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects*. (including Table A1, Equivalence Matrix – see Annex 2) that was approved by the Board for application to the pilot phase of the program, or to the analytical methodology developed to implement the policy, the Safeguard Diagnostic Review (SDR). However, it would entail application of OP 4.00 and SDR to the full range of the Bank's investment vehicles as well as to the national, sub-national and parastatal agencies involved in project implementation.

2. **Background.** On March 18, 2005 the Board approved OP/BP 4.00, *Piloting the Use of Borrower Systems to Address Environmental and Social Issues in Bank-Supported Projects* and a two year pilot program as an initial phase of demonstrating this approach at the project level. The Board's decision was part of the Bank's support for implementation of the Paris Declaration on Aid Effectiveness of March 2, 2005, that, among other things, agreed to promote the use of country systems and procedures to the maximum extent possible, as reiterated by the Development Committee on September 16, 2006. The Bank's commitments and achievements in this area are due to be reviewed at the forthcoming Third High Level Forum on Aid Effectiveness to be held in Accra on September 2-4, 2008.

3. The findings in the attached Evaluation Report are based on the seven pilots that are active—projects in Bhutan, Egypt, Ghana, Jamaica, Romania (two projects) and Tunisia—all in environmental assessment screening Category B and mainly in infrastructure sectors. Further lessons will also be learned from the seven additional projects currently under preparation. Table 1 of the Evaluation Report, reproduced at the end of this Note, summarizes the existing and pending portfolio of the pilot program.

4. During the course of the pilot program, Management provided several informal briefings to CODE and the Board regarding the status of the pilot program and on June 19, 2007 shared with the Board its proposal for scaling up the program based on the early experience of the pilots. Executive Directors deferred a decision on this proposal pending

submission to the Board of the formal Evaluation of the pilot program that had been agreed when the program was first approved. The formal Evaluation Report, incorporating comments solicited and received from all the VPUs, is attached to this proposal as Annex 1.

5. **Results of the Evaluation.** The following are the major conclusions of the Evaluation Report:

- ***Environmental Assessment.*** Use of borrower safeguard systems has helped to achieve Bank policy objectives in two areas in particular, Environmental Assessment (EA) and Physical Cultural Resources (PCR), by increasing borrower ownership of environmental and social safeguard systems and improving Bank-borrower working relationships. With respect to EA, moreover, there are signs that project-level UCS can have a strong demonstration effect on national policy. The results for EA are particularly encouraging because EA provides the overall framework for the approach that the Bank and most borrowers take to environmental and social safeguards. Although few other environmental safeguards were triggered by the pilot projects, experience to date has been encouraging with respect to prospects of using country systems, with appropriate gap-filling measures, for Natural Habitats, Forests, Pest Management and Safety of Dams.
- ***Social Safeguards.*** For specialized social safeguards, as anticipated when the Policy was discussed at the Board in March 2005, the situation is more complicated. Experience to date indicates that for Involuntary Resettlement (IR) in particular, the gaps between the requirements of Bank policy per OP/BP 4.00, Table A1 and corresponding borrower systems may be too substantial in most cases to be filled by measures that are feasible to implement at the project level. Although none of the pilot projects attempted to pilot the safeguard requirements pertaining to Indigenous Peoples, the situation is different than that for IR since a number of countries have updated their legal and policy frameworks covering this issue. Moreover, some borrowers participating in the pilot program have indicated a preference for addressing these social issues at the institutional level, with the support of the Bank and other parties, rather than at the project-specific level, so as to maintain consistency within their national systems.
- ***Safeguard Diagnostic Reviews.*** As the Evaluation Report and VPU comments demonstrate, the SDR has proven to be a valuable tool for informing both the Bank and borrowers of the strengths and weaknesses of borrower safeguard systems and identifying targeted measures to strengthen these systems. However, the Bank's need to learn more about borrower systems than is necessary when the Bank relies primarily or exclusively on its own safeguard policies and to conduct field-based due diligence to determine the capacity and performance of borrowers' systems has been demanding in terms of staff time and travel. Costs for preparation of SDRs, which are borne by the Bank, are expected to decline in subsequent projects in the same country or sector. The Evaluation Report recommends that the costs of conducting SDRs should not be borne by individual

projects but rather covered under separate dedicated budgetary support as part of the Bank’s Country Assistance Strategy. It is also recommended that preparation of SDRs be undertaken in such a way that the results can be applied to a wider spectrum of projects.

- **Gap Filling.** The measures to fill gaps in equivalence and achieve and sustain acceptability—the latter consisting mainly of capacity-building activities—rely heavily on follow-on commitments by the Bank and other development partners (both public and private sector) to assist borrowers in addressing gaps that are identified during the SDR process. However, it is difficult to obtain financial commitments from the Bank or other partners, or full engagement by borrowers, when these gap-filling measures are limited to the project level and do not entail full-scale institutional capacity enhancement.
- **Coordination, Dissemination and Cooperation.** On the policy level, the Bank’s pilot program for UCS, together with the methodology incorporated into OP 4.00, has been widely disseminated to and discussed with other multilateral and bilateral donors as well as civil society.¹ The Bank’s UCS website includes links to all of the SDRs and other project documents for those projects that have been approved by the Board and the SDRs are publicly posted via the Bank’s Infoshop prior to Appraisal. On the project level the Bank has shared its experiences in implementing UCS with these donors both individually and in larger settings such as the Multilateral Financial Institutions Working Group on Environment and the International Association for Impact Assessment. Various donors have participated in Bank-funded pilot projects through co-financing and in organized stakeholder workshops as part of the SDR process.²
- **Future Prospects.** The Evaluation Report concludes that on the basis of the initial pilots undertaken to date, the Bank has learned sufficient lessons to justify an incremental scaling up of the application of UCS for environmental and social safeguards, but not enough to support a move to full mainstreaming of UCS into Bank lending. Management’s proposed approach to this incremental scaling up of UCS is described below.

6. **Proposed Scaling Up of the Use of Country Systems.** The main features of the Management proposal for the scaling up the UCS would involve the following:

- **Incremental Scaling-Up.** The major change in the scope of the pilot program would be the scaling up of the analytical work (SDR) to the country or sub-national level rather than focusing the analysis on individual projects, and the subsequent selective application of the results (including the gap-filling and capacity building measures) to projects in those countries. In large countries with

¹ To date seven of the anticipated fourteen pilots authorized by OP 4.00 have been approved by the Board and are in implementation. Another seven projects are in active preparation or have been identified as pilots under the approved program.

² The Bank is providing technical assistance to the African Development Bank (AfDB) for potential application of UCS to an AfDB-funded rural roads project in Uganda.

diverse environmental and social safeguard systems and varying levels of regional and institutional capacity, scaling up would take place on a subnational level (state agencies or parastatals) rather than central governmental institutions, with gap-filling and capacity building measures tailored to the strengths and weaknesses of the implementing agencies responsible for each project.

- ***Identification of Potential Candidate Countries.*** The initial stage of the scaling up of UCS would involve at least eight countries (or key sub-national administrative units in large countries) in the first year, with at least one in each Region, from a list of at least two to three candidates per region.³ Each region would be asked to consult with borrowers to identify potential UCS candidate countries on the basis of the Bank's current knowledge of country safeguards as detailed in Country Environmental Assessments (CEA), SDRs from previous project-level pilots, Country Social Assessments, Strategic Environmental Assessments (SEA), safeguard harmonization analyses and other existing analytic tools.
- ***Country System Reviews.*** For each of the UCS candidate countries, a team from the Bank would use existing tools developed under the pilot program to assess the country's safeguard systems. Each region's proposal would be submitted to the Bankwide Safeguards Management and Review Team (SMART) for discussion and to QACU and LEGEN for review and endorsement. Approved pilots would be circulated to the Board for information and posted on the Bank's website, as is currently the case for project-level SDRs.
- ***Application to Selected Middle-Income Countries.*** As recommended in the Evaluation Report, Management would seek to develop an approach that allows selected middle-income countries with well developed systems, such as the new Member States of the European Union, to move to full use of country systems in some or all sectors, following an analysis of equivalence and acceptability, without the intermediate step of a pilot project. For new Member States of the European Union and accession countries, the analysis would be conducted in close coordination with the European Commission, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB).
- ***Gap-Filling Measures.*** OP/BP 4.00, including the key concepts of equivalence, acceptability and gap-filling/capacity building measures would remain the basis of the Bank's approach to UCS for environmental and social safeguards. In response to comments that OP 4.00 is too rigid to allow for legitimate diversity in borrower and other donor safeguard systems, Management believes that the Board approved Operational Policy can be implemented in a more effective manner

³ This initial year scale up would result in a significant increase in participating countries and regions compared to the previous phase of the pilot program, during which pilots were approved for seven countries and began preparation in an additional three, with participation concentrated in four of the Bank's six regions.

without in any way diluting the objective, principles and outcomes of the Bank's safeguard policies, by reaching agreements with borrowers for gap-filling measures for some less critical safeguard elements during project implementation rather than requiring that all gaps be filled prior to project effectiveness. However, this may require that more Bank resources be applied to supervision during project implementation than would be the case were all gaps to be filled prior to implementation.

- ***Complex Projects.*** As with the current project-level pilot, safeguard policies and sectors that are not considered appropriate for UCS in a given country (in particular, complex projects such as major hydropower projects and/or other infrastructure requiring large-scale resettlement) would be addressed through application of traditional Bank safeguard policies. Category A projects may be included in the UCS portfolio only with the concurrence of the Senior Technical Advisor of the Quality Assurance and Compliance Unit, Operations Policy and Country Services (OPCQC) and the concerned Regional Safeguard Advisor.
- ***Provisions of Legal Agreements.*** Legal agreements for individual projects would continue to provide for the Bank to be able to stop using the country's system and revert to its own safeguards if standards were to be lowered or significant decreases in implementation capacity were to arise at any time.
- ***Dissemination to External Partners.*** Multilateral donors would be collectively informed of the scaled up approach to UCS at the next meeting of the Multilateral Financial Institutions-Working Group on Environment and bilateral donors at the next meeting of the OECD/DAC-Network on Environment. Meetings would also be held with representatives of Civil Society Organizations and the private sector to disseminate information on the scaled up approach to UCS.
- ***Reporting to the Board.*** A brief report on progress would be submitted to the Board at the end of the first year identifying the countries, sectors or sub-national entities selected and the justifications for the selection, and the prospective project portfolio to be supported under UCS. Following the two year period of implementation of the second phase of the program, a detailed report would be submitted to the Board describing the implementation of the program and the results thereof, with a view to deciding on next steps in the use of country systems.

Table 1. UCS Pilot Projects: Coverage, Scope and Size

COUNTRY/ REGION	SECTOR	TYPE	AMOUNT (\$M)	FINANCING	POLICY AREAS TRIGGERED (✓) AND PILOTED (▲)								
					EA	NH	PM	IP	PCR	IR	F	SD	
ACTIVE PROJECTS													
Bhutan (SAR)	Roads and Highways	SIL	10	IDA	✓▲	✓▲				✓▲	✓		
Egypt (MNA)	Pollution Management and Environmental Health	FIL	166	IBRD, EIB, JBIC, AFD, Finland	✓▲								
Ghana (AFR)	Power and Renewable Energy	SIL	211	IDA, GEF, AfDB, ACGF, GPOBA, Switzerland	✓▲	✓				✓▲	✓		✓
Jamaica (LCR)	Water Supply, Sanitation, Other Social Services	SIL	33	IBRD	✓▲						✓▲		
Romania (ECA)	Water, Sanitation and Flood Protection	SIL	171	IBRD	✓▲					✓▲			
Romania (ECA)	Roads and Highways; Railways	SIL	225	IBRD	✓▲					✓▲	✓*		
Tunisia (MNA)	Solid Waste Management	SIL	27	IBRD	✓▲								
PROJECTS IN PROCESS													
India (SAR)	Electric Power Transmission	SIL	TBD	IBRD	✓	✓		✓	✓	✓	✓		
South Africa (AFR)	Protected Area Management	SIL	TBD	GEF	✓	✓			✓	✓			
Uganda (AFR)	Roads and Highways	SIL	TBD	AfDB	✓	✓			✓	✓			
PROJECTS UNDER ACTIVE CONSIDERATION													
Bhutan (SAR)	Urban Infrastructure	SIL	TBD	IDA	✓						✓		
Ghana (AFR)	Roads and Highways	SIL	TBD	IDA	✓						✓		
Morocco (MNA)	Solid Waste Management	SIL	TBD	IBRD	✓						✓		
Tunisia (MNA)	Water Supply	SIL	90	IBRD	✓								

**USE OF BORROWER SYSTEMS TO
ADDRESS ENVIRONMENTAL AND
SOCIAL SAFEGUARD ISSUES**

**AN EVALUATION OF PILOT PROJECTS
SINCE APPROVAL OF
OPERATIONAL POLICY 4.00**

**PREPARED FOR
OPERATIONS POLICY AND COUNTRY SERVICES**

DECEMBER 2007

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ABBREVIATIONS AND ACRONYMS

ACGF	Africa Catalytic Growth Fund
ADB	Asian Development Bank
AFD	Agence Française de Développement
AfDB	African Development Bank
AFR	Africa Region
ANGED	National Agency for Management of Solid Waste (Tunisia)
ANPE	Environmental Protection Agency (Tunisia)
BP	Bank Procedure
CAP	Compliance Action Plan
CAS	Country Assistance Strategy
CEA	Country Environmental Analysis
CIDA	Canadian International Development Agency
CODE	Committee on Development Effectiveness
DANIDA	Danish International Development Assistance
DEC	District Environmental Committee (Bhutan)
DOR	Department of Roads (Bhutan)
EA	Environmental Assessment
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECG	Electricity Company of Ghana
EEAA	Egyptian Environmental Affairs Agency
EFRC	Environmentally Friendly Road Construction
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EMF	Environmental Management Framework
EMP	Environmental Management Plan
EO	Environmental Officer (Bhutan)
ESW	Economic and Sector Work
EU	European Union
GEF	Global Environment Facility
GEPA	Ghana Environmental Protection Agency
GPOBA	Global Partnership on Output-based Aid
GTZ	Gesellschaft für Technische Zusammenarbeit
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IDB	Inter-American Development Bank
IR	Involuntary Resettlement
ISR	Implementation Status and Results
JBIC	Japan Bank for International Cooperation
JSIF	Jamaica Social Investment Fund
KfW	Kreditanstalt für Wiederaufbau
LCCSA	LCR Safeguards Unit
LEGEN	Environmentally and Socially Sustainable Development and International Law Unit
LCR	Latin America and Caribbean Region
MEDD	Ministry of Environment and Sustainable Development (Tunisia)
METAP	Mediterranean Environmental Technical Assistance Program
MEWM	Ministry of Environment and Water Management (Romania)
MIS	Management Information System
MNA	Middle East and North Africa Region
MOE	Ministry of Energy (Ghana)
MOU	Memorandum of Understanding
NEC	National Environment Commission (Bhutan)
NEPA	National Environment and Planning Agency (Jamaica)

OP	Operational Policy
OPCQC	OPC Quality Assurance and Compliance Unit (formerly ESDQC)
OPCS	Operations Policy and Country Services
PAD	Project Appraisal Document
PCR	Physical Cultural Resources
RPF	Resettlement Policy Framework
SAR	South Asia Region
SASDN	South Asia Environment Unit
SDR	Safeguards Diagnostic Review
SME	Small and Medium Enterprise
SNV	Netherlands Development Agency
TA	Technical Assistance
UCS	Use of Country Systems
USAID	United States Agency for International Development
VRA	Volta River Authority (Ghana)

EXECUTIVE SUMMARY

1. This report is a review, after two years of implementation, of the initial phase of the pilot program for the use of borrower systems to address environmental and social safeguards, under Operational Policy/Bank Procedure 4.00, *Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects*. The review has been prepared for the Operations Policy and Country Services (OPCS) Vice Presidency and Network and is intended to examine the aggregate performance of the pilot projects and to consider whether the use of country systems helps to achieve the objectives of Bank policy, how the use of country systems can be facilitated and, if advisable, mainstreamed in the future, and what the resource implications are for the Bank and the borrower.
2. Findings are based on the seven pilots that are active—projects in Bhutan, Egypt, Ghana, Jamaica, Romania (two projects) and Tunisia—all in environmental assessment screening Category B and mainly in infrastructure sectors. Further lessons will also be learned from the seven additional projects currently under preparation. Because only two of the seven approved projects have been effective for more than six months, the report's conclusions and recommendations reflect experience with inputs and outputs much more than with outcomes. However, some outcomes are available for a pre-pilot project involving the use of country systems for environmental and social safeguards in Mexico that was approved by the Bank in June 2004, prior to Board approval of OP 4.00. (These results are reported separately in Box 1 of this report.)
3. Environmental Assessment is piloted in all of the projects, Physical Cultural Resources in four, and Natural Habitats and Involuntary Resettlement in one each. The amount of gap-filling required to achieve equivalence for the policies being piloted ranged from modest to none and has been completed satisfactorily. Capacity building and other activities to achieve and sustain acceptability are varied and are being implemented without significant problems.
4. The pilots in Egypt and Tunisia are thus far the only ones in which EAs have been produced under the country systems—three in Egypt and one in Tunisia. In other cases, EAs were prepared for the projects prior to the commencement of the UCS pilot and were reviewed and revised as necessary to conform to borrower legal and administrative requirements. The project teams' informal evaluations indicate that the quality of the documents is good. The other tangible result is in Jamaica, where the implementing agency has successfully initiated the screening of proposed investments under its new environmental management framework and has begun collecting information relevant to resettlement as inputs to its Management Information System as called for in its new resettlement policy framework. Supervision missions have begun to see results “on the ground” in Egypt, Jamaica and Tunisia, and beginning in 2008 for the other pilots.
5. Information that is still anecdotal pending full supervision missions reveals a trend toward improvements in the performance of safeguards functions. There has been a definite and substantial increase in ownership of safeguards processes in all of the pilot

countries (although in Romania this is attributable to recent EU accession rather than the pilot program).

6. Transaction costs for the first UCS pilots have been substantial. The average cost to prepare a pilot project was \$104,000 in addition to regular preparation expenses, nearly all of it for staff time and travel. There was no dedicated budget for the program, and most of the sector managers involved insisted that the UCS teams bring their own funds to their pilot. For most of the UCS teams, fund-raising required considerable time and effort. The diagnostic work, which required development and implementation of a new diagnostic tool, the Safeguards Diagnostic Review (SDR), was demanding in terms of level of effort from safeguards and legal specialists. However, in only one case did the UCS pilot activity affect the preparation schedule and that by no more than three weeks. The teams preparing the SDRs made strong efforts to avoid delay, having in most cases promised sector managers that there would be no slippage in appraisal or Board dates.

7. The highlights of conclusions and lessons learned from the first two years of the program are summarized below.

- The pilot program has demonstrated that the use of country systems for environmental and social safeguards is a viable approach to addressing these issues in the project preparation phase when there is equivalence and acceptability of the systems consistent with OP 4.00. The pilots have also allowed for establishment of a sound methodology for the evaluation of country systems—the SDR—that will be further tested and improved as the pilot process continues.
- Based on the pilot projects approved and in implementation to date it is reasonable to conclude that country safeguards systems can help to achieve the objectives of Bank policy in two areas, Environmental Assessment (EA) and physical cultural resources (PCR). The results for EA are particularly encouraging because EA provides the overall framework that the Bank and most borrowers take to environmental and social safeguards.
- On the other hand, Involuntary Resettlement (IR) is a policy area in which individual pilots may not be the ideal vehicle for achieving the objectives of OP 4.00. With respect to IR, the gaps are typically at a more fundamental policy level concerning objectives, eligibility and the basis for compensation. Gap-filling in resettlement policy may be more manageable in pilots at a national or institutional level that go beyond the scope of individual investment projects.
- UCS pilots definitely increase borrower ownership of safeguards and contribute to improved Bank-borrower working relationships. They have also allowed Bank staff to focus more on the transfer of knowledge and development of skills to counterparts, which has long-term benefits.
- The measures to fill gaps in equivalence and achieve and sustain acceptability—the latter consisting mainly of capacity building activities—are already having positive influences in project-related sectors, beyond the confines of the

individual pilot projects. This is an area where targeted use of funds from the Bank and bilateral donors can support the expanded use of country systems for projects supported by the Bank and other development partners.

- The question of the potential for pilots to influence guidelines and performance country-wide shows that where country policies have close alignment to established international practice, such as in EA or PCR, there are signs that the pilot projects can have a strong effect on national policy. A necessary condition for success in realization of these benefits is the ready availability of funds and staff to support follow-on work, particularly when the borrower's request for assistance comes as a direct result of the pilot. Greater access to funds from the Bank and other development partners could have a multiplier effect.
- The pilots have been time-consuming for the staff who worked on them—usually a team separate from the project preparation team with core members from OPCQC (formerly ESDQC), LEGEN, and the regional unit responsible for safeguards—but the work did not significantly affect project preparation schedules. Most of the sector managers concerned made it clear in discussions of possible piloting that they could not tolerate a delay in scheduled delivery. The UCS pilot program evidently did not bring with it incentives for country and sector managers to participate that are as strong as the imperative to deliver the lending program on time. UCS teams tried diligently and, for the most part, successfully, to deliver the SDR on time. However LEGEN staff who worked on some of the pilots remain concerned that the quality of equivalence analysis could be affected by the compressed time schedule in countries where the Bank did not already have extensive information on the country system.
- There is no information yet on incremental costs to the Bank for pilot project implementation, but it is clear that participation in supervision by at least some member(s) of the relevant UCS team is appropriate and would likely require additional funds that have thus far materialized in only one of the seven pilots.
- There is no readily available data on incremental costs to the borrower for preparation of the pilot projects, but it appears that borrowers bore little if any additional cost. During implementation, borrowers will likely spend less than usual. More substantial time and cost savings will likely accrue to borrowers in subsequent pilots, or in scaling up UCS sectorally or nationally.
- Harmonization of donor requirements is being advanced through acceptance of UCS by co-financiers and other development partners active in the countries and sectors. An individual borrower benefits from being able to use the country EA system in a project with multiple financing institutions. That does not necessarily cause movement towards uniformity in the policies and procedures of those institutions, but the UCS program was not intended as a vehicle to achieve that form of harmonization. It may be looked on, however, as a demonstration of the value of eventual inter-agency harmonization. However, some donors believe that the Bank could take a more pragmatic approach to UCS that would provide

greater opportunities for use of country systems than is currently the case.

- The systematic planning process for selection of pilot projects envisioned in the Issues Paper only materialized in MNA. In the other regions, pilot projects were selected in an *ad hoc* manner based on national expressions of interest, project preparation schedules, availability of staff, and willingness of sector managers and task team leaders to participate.
- In order to accelerate the pilot program, internal constraints and disincentives will need to be addressed. For country and sector managers, costs were clear, benefits were not. Delivery schedules were perceived to be at risk and there was no dedicated funding for the diagnostic work, capacity building, or follow-on activities. There was also concern that projects would be subject to extra scrutiny and require extra reviews. Some borrowers were suspicious of the Bank's motives and feared the results of the diagnostic study would be as prescriptive as the Bank's safeguard policies. In addition, some country and sector managers and task team leaders preferred to avoid the risk of engaging in a new approach to addressing safeguard policies.

8. The overall recommendation from this evaluation is to scale up the UCS pilot program, with important adjustments to enhance and accelerate benefits, manage costs, and eliminate barriers.

- Scale up of the SDR to the country or sub-national level as a free-standing exercise distinct from the preparation of any specific project. This approach would focus on the analysis of equivalence and overall acceptability, that is, the portions that do not require detailed information on sectoral agencies, such as evaluation of governance in the context of environmental and social impact management. The results of the SDR would be applied to selected projects in the country, with gap-filling and capacity building measures tailored to the strengths and weaknesses of the implementing agencies responsible for each project.
- In large countries with diverse environmental and social safeguard systems and varying levels of regional and institutional capacity, take a subnational approach to scaling up, with implementation focused on the state and municipal levels or on parastatal institutions or special authorities, rather than central governmental institutions.
- In selecting countries for the safeguards analyses, give priority consideration to the interest on the part of the country, opportunities presented by the lending program, and the level of mutual trust that has been developed between the Bank and the borrower.
- Identify potential UCS candidate countries systematically on the basis of country safeguards as detailed in Country Environmental Assessments (CEA), SDRs from previous project-level pilots, Country Social Assessments, Strategic Environmental Assessments (SEA), safeguard harmonization analyses and other existing analytic tools.

To support this process, guidance on preparation of CEAs should recommend giving systematic attention to equivalence and acceptability for safeguard policies under the UCS approach.

- Develop linkages between the UCS program and other Bank activities and instruments that offer opportunities to fill gaps and develop capacity in the long term: CEAs, the Country Assistance Strategy (CAS) process, Development Policy Lending that has environmental and social policy elements, policy dialogue in areas such as forestry and protected area management, and environmental lending operations.
- Provide a clear road map to the potential benefits that motivate both countries and staff to participate in a UCS pilot, and assure borrowers and staff, by having clear arrangements defined and in place, that they will be supported as they follow that road map.
- Develop a modified approach for the UCS program, to allow middle-income countries with well-developed systems, such as the new Member States of the European Union, to move to full use of country systems in some or all sectors, following an analysis of equivalence and acceptability, without the intermediate step of a pilot project. For new Member States of the European Union and accession countries, the analysis should be conducted in close coordination with the European Commission, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). This approach could also apply to parastatal companies with international quality safeguards procedures and some countries that have committed themselves to higher environmental standards as part of regional trade agreements.
- Consider provision of dedicated funds for the UCS program, from start to finish, not only for equivalence analysis and acceptability assessment at the national level, but also for immediate gap-filling, project supervision, and for quick response to borrower requests for longer-term capacity building assistance.
- Clarify for staff that gap-filling can be seen as a continuum: some gaps in equivalence need to be filled in the country system to make it consistent with the objectives in Table A1 of OP 4.00, but others (for instance, those that are specific to the Bank, such as the critical habitat conversion prohibition in OP 4.04) may be better addressed in project-specific arrangements that are then incorporated in the legal agreements.
- In the application of OP 4.00, in particular with respect to the identification of appropriate gap-filling measures, seek solutions for these two criticisms of the Bank's UCS program: (i) the program is Bank-dominated, not oriented toward borrowers' circumstances, and (ii) it is inflexible and prescriptive. The way forward on these issues should include at least the following steps:
 - Recognize that there is a difference between reputational risk for the Bank and

actual risk of adverse environmental or social impact for the borrower. A borrower's safeguards system does not need to include provisions to protect the Bank from reputational risks that are specific to itself, as long as any Bank-funded projects supported under a UCS program have adequate protections against those risks that can be effectively implemented.

- Where such reputational risks or substantively intractable gaps are identified, such as the prohibition on conversion of critical habitat, or eligibility for resettlement assistance for individuals that the borrower considers illegal occupants, address these as additional requirements in the legal agreements in Bank-supported projects, rather than insisting that they be incorporated in country systems.
- Without diluting the objective, principles and outcomes of the Bank's safeguard policies, seek to reach agreements with borrowers for gap-filling measures for some less critical safeguard elements during project implementation rather than requiring that all gaps be filled prior to project effectiveness. However, this may require that more Bank resources be applied to supervision during project implementation than would be the case were all gaps to be filled prior to implementation.
- Formulate monitoring measures to estimate borrowers' safeguards costs under UCS, both to compare them with costs in "normal" projects and to identify trends where UCS is continuing by way of additional pilots or scaling up to the national level.
- Looking ahead, and assuming continuation of positive results from the UCS pilot program, there is a possibility that the UCS approach may be mainstreamed into the Bank's lending portfolio, at least for certain countries and sectors. If such were to be the case, there will be a need for a more proactive approach to the SDR process and other environmental and social assessments and supervision instruments relative to the project cycle. In order to realize this approach, staff will need guidelines for operations in a UCS environment.

I. INTRODUCTION

A. ORIGINS OF THE UCS PILOT PROGRAM

1. In 2002, recognizing the importance of country ownership and institutional capacity building, the Board's Committee on Development Effectiveness (CODE) agreed that the Bank's focus should increasingly be to integrate environmental and social safeguards into country systems, without compromising the objectives and operational principles of its safeguard policies. The 2002 CODE paper laid out a medium-term plan for introducing such use through pilots and eventually making any necessary changes to Bank policy on the basis of the experience gained through the pilots. The plan built on the evidence that while development practitioners broadly support the objectives of the Bank's environmental and social safeguards, the specificity of these policies and procedures creates difficulties for borrowers attempting to mainstream these policies within their own legal and administrative frameworks and their own development programs. The challenge was to build on the consensus around the objectives of the Bank's policies and, consistent with them, help countries strengthen their own systems, recognizing shareholder and stakeholder concerns about borrower institutional capacity and implementation track record, and the importance of maintaining the objectives and operational principles of Bank policies.

2. Development of the pilot program for the Use of Country Systems (UCS) took place over a ten-month process during 2004-2005. In September 2004, the Board endorsed an Issues Paper on using country systems in Bank operations. The Paper noted that Bank policies permit the use of country systems in financial management and in national competitive bidding procurement, and that such use was increasing. In considering how to use country systems for environmental and social safeguards, international competitive bidding procurement, and international selection of consultants, and how to advance implementation already under way in other fiduciary areas, Management presented five sets of issues: the policy framework for using country systems more broadly, the methodology and tools for assessing country systems, considerations in implementing the approach, Bank and borrower accountability, and incremental costs, including the potential for medium- and long-term savings. The key elements of the policy framework governing the pilots were as follows: equivalence and acceptability; addressing gaps; borrower role and obligations; bank responsibility and accountability; changes in borrower systems and bank remedies; and disclosure.

3. In order to refine the Bank's understanding of relevant policy and implementation issues, Management proposed to conduct a two-year program of activities in which it would pilot the use of borrower environmental and social safeguard systems in operations funded by the Bank. The portfolio of safeguard pilot operations was expected to comprise about 14 investment lending cases (including sector wide approaches) in a range of countries and sectors. Management also proposed that these operations be governed by a new Operational Policy/Bank Procedure (OP/BP) 4.00, Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects.

4. Between October 2004 and January 2005, Management held face-to-face discussions in 15 countries and discussions by videoconference in three additional countries. These consultations included a broad range of interested borrowers, development partners, civil society, professional associations, and the private sector and comprised discussions on the environmental and social safeguard aspects of the proposed program and draft policies. OP and BP 4.00 are based on proposals in the revised issues paper, “Expanding the Use of Country Systems in Bank-Supported Operations: Issues and Proposals” (R2005-0018/2), which was approved by the Executive Directors on March 18, 2005. OP and BP 4.00 apply to Bank-supported projects that pilot the use of borrower systems to address environmental and social safeguard issues and that were approved by the Board as part of the pilot program on or after March 21, 2005.

B. REPORTING TO THE BOARD

1. Purpose of This Report

5. This report has been prepared to respond to the proposal made in March 2005 to undertake a review of the whole program after two years of implementation. The review was intended to examine the aggregate performance of the pilot projects vis-à-vis their development objectives, implementation quality, compliance with applicable operational framework, and achievement of the objectives of using country systems. Beyond individual projects, the review also was proposed to consider whether the use of country systems helps to achieve the objectives of Bank policy, how the use of country systems can be facilitated and mainstreamed, and what the resource implications are for the Bank and the borrower. While acknowledging that two years may be too short a period to observe the development impact or results on the ground, Management expected to be able to monitor gap filling as well as progress toward achievement of the intermediate outcome indicators listed in the Implementation Status and Results (ISR) reports.

6. Lessons derived from the pilot program, including the application of the new OP/BP for the safeguard pilots, were also expected to feed into the evolution of Bank policy, including work to achieve consistency across the suite of environmental and social safeguard policies. It was anticipated that experience from the pilots would enable Management to better understand the implications of the use of country systems for costs, skills, and the way the Bank does business. The program was expected to provide data on the incremental resource implications and enable an understanding of exactly what is involved at each stage of the process. In addition, the pilots would provide information on the demands on and transaction costs to borrowers. On the basis of the evaluation findings, Management would recommend that the Board approve mainstreaming the use of country systems, offer another policy approach for Board consideration, or suggest other steps.

2. Limitations

7. This report has two limitations that readers should keep in mind. The Board had authorized up to fourteen pilot projects when it issued OP 4.00, but only eleven have

begun preparation.¹ Seven of those have reached or passed the stage of Board approval, two have been dropped, and one has encountered substantial delays unrelated to UCS.² As of March 2007, two years after the issuance of the OP, two of the pilots had become effective; the other five became effective between April and December 2007. The reasons for this situation are discussed later in the report. The points to be taken here are, first, that the evaluation is based on a somewhat smaller number of pilot projects than had been anticipated, second, that there is a prevalence of infrastructure projects in the portfolio relative to other sectors and third, opportunities to pilot safeguards focused primarily on environmental assessment, physical cultural resources and involuntary resettlement and less on other safeguard policies.

C. REPORT PROCESS AND STRUCTURE

8. The evaluation process began with a review of the Safeguards Diagnostic Report (SDR) and the Project Appraisal Document (PAD) for each project. SAP and regional databases were reviewed for useful data on key dates, duration of preparation, and preparation costs, but it quickly became clear that the full picture of the level of effort and cost of the pilot program could not be obtained from those databases. ISR ratings were not particularly informative, given the newness of the projects and the fact that supervision had not begun in earnest in most of the projects, but the few *aides mémoires* and workshop reports that were available were reviewed. The main sources of information were therefore interviews with key team members and managers—24 in all—including task team leaders (6); regional safeguards coordinators (3) and other safeguards unit staff (1); environmental specialists on the task teams (2) and other task team members (2); individuals from LEGEN (3) and OPCQC (2) who joined the UCS teams for the projects;³ a sample of sector managers (3) and country directors (1); and a representative of the African Development Bank (AfDB), the one agency formally in partnership with the Bank in a UCS pilot. Interviews did not extend to borrower agencies; information on borrower reactions and opinions was obtained from workshop reports and the interviews with Bank staff. Direct discussions with borrowers will be an activity to be conducted by Management to support continued development of the UCS program. The evaluation did not include direct review of gap-filling or safeguards instruments produced by the borrowers; it relied on the task teams' reports and comments for this information. The report is organized into five sections in addition to this introduction, containing facts about the projects, results to date, conclusions, lessons learned, and recommendations for next steps in the UCS program.

¹ The Bank is assisting AfDB in preparing a pilot in the Uganda roads and highways sector, bringing the total number to eleven. It is scheduled for appraisal in mid-2008.

² The delayed pilot is a Global Environment Facility (GEF)-financed, protected area management project in South Africa. The pilots dropped were an urban infrastructure project in Bulgaria and a health-sector project in India.

³ In most of the pilots, the team that conducted the diagnostic work on country systems was composed of specialists who were not on the team that was preparing the project. Exceptions were in the two MNA projects, where the task team leaders were environmental specialists who also worked on safeguards in the region. In this report, "UCS team" and "task team" are used to differentiate between the two.

II. THE PILOT PROJECTS

A. PROJECT SCOPE

9. This report covers the seven pilots listed below and shown as active projects in Table 1, all of which are effective:

- Bhutan: Second Rural Access Project;
- Egypt: Second Pollution Abatement Project;
- Ghana: Energy Development and Access Project;
- Jamaica: Inner City Basic Services Project;
- Romania: Municipal Services Project;
- Romania: Transport Sector Support Project; and
- Tunisia: Sustainable Municipal Solid Waste Management Project.

Table 1. UCS Pilot Projects: Coverage, Scope and Size												
COUNTRY/ REGION	SECTOR	TYPE	AMOUNT (\$M)	FINANCING	POLICY AREAS TRIGGERED (✓) AND PILOTED (▲)							
					EA	NH	PM	IP	PCR	IR	F	SD
ACTIVE PROJECTS												
Bhutan (SAR)	Roads and Highways	SIL	10	IDA	✓▲	✓▲				✓▲	✓	
Egypt (MNA)	Pollution Management and Environmental Health	FIL	166	IBRD, EIB, JBIC, AFD, Finland	✓▲							
Ghana (AFR)	Power and Renewable Energy	SIL	211	IDA, GEF, AfDB, ACGF, GPOBA, Switzerland	✓▲	✓				✓▲	✓	✓
Jamaica (LCR)	Water Supply, Sanitation, Other Social Services	SIL	33	IBRD	✓▲						✓▲	
Romania (ECA)	Water, Sanitation and Flood Protection	SIL	171	IBRD	✓▲					✓▲		
Romania (ECA)	Roads and Highways; Railways	SIL	225	IBRD	✓▲					✓▲	✓*	
Tunisia (MNA)	Solid Waste Management	SIL	27	IBRD	✓▲							
PROJECTS IN PROCESS												
India (SAR)	Electric Power Transmission	SIL	TBD	IBRD	✓	✓		✓	✓	✓	✓	

Table 1. UCS Pilot Projects: Coverage, Scope and Size												
COUNTRY/ REGION	SECTOR	TYPE	AMOUNT (\$M)	FINANCING	POLICY AREAS TRIGGERED (✓) AND PILOTED (▲)							
					EA	NH	PM	IP	PCR	IR	F	SD
South Africa (AFR)	Protected Area Management	SIL	TBD	GEF	✓	✓			✓	✓		
Uganda (AFR)	Roads and Highways	SIL	TBD	AfDB	✓	✓			✓	✓		
PROJECTS UNDER ACTIVE CONSIDERATION												
Bhutan (SAR)	Urban Infrastructure	SIL	TBD	IDA	✓					✓		
Ghana (AFR)	Roads and Highways	SIL	TBD	IDA	✓					✓		
Morocco (MNA)	Solid Waste Management	SIL	TBD	IBRD	✓					✓		
Tunisia (MNA)	Water Supply	SIL	90	IBRD	✓							

* Investments that could cause resettlement were deleted from the Romania transport project at negotiations.
EA = Environmental Assessment; NH = Natural Habitats; PM = Pest Management; IP = Indigenous Peoples;
PCR = Physical Cultural Resources; IR = Involuntary Resettlement; F = Forests; SD = Safety of Dams

10. As Table 1 shows, five of the active pilots are specific investment loans or credits, mostly sectoral in scope, and one is a financial intermediary loan. They come from five regions of the Bank. Four of the borrowers are middle-income countries and two are IDA countries. Most of the investments are in various forms of infrastructure. Environmental Assessment is piloted in all of them, Physical Cultural Resources in three, and Natural Habitats and Involuntary Resettlement in one each. Natural Habitats and Safety of Dams are triggered but not piloted in one other project each, because of differences between country and Bank systems that lie more in the countries' approaches to these topics than in their principles, but are nevertheless too wide to bridge without changes in basic national legislation that could not have been enacted during project preparation, if at all.

11. Involuntary Resettlement warrants special mention, having been triggered in four of the seven projects but piloted only in one. IR is a policy area in which individual pilots may not be the ideal vehicle for achieving the objectives of OP 4.00. With respect to IR, the gaps are typically at a more fundamental policy level concerning objectives, eligibility and the basis for compensation. Rights for land "owners" without land titles are one of the common areas of difference. The methods and formulas applied for calculating compensation are another. The Bank's policy that illegal occupants of land are eligible for resettlement assistance is absent from or contrary to national policy in all six of the countries. It is unlikely that such changes could be accomplished over the life of one of the projects and impossible within the period of project preparation, even if the Bank had a government counterpart agency with which to work. Without fundamental changes in national land law and perhaps even in the constitution of at least one country (Ghana), these gaps could not be bridged. As none of the pilot project implementing agencies or the relevant environmental agencies is responsible for national land policy or land law, the Bank had no such counterpart. The Jamaica pilot included involuntary resettlement only because its sole implementing agency adopted a resettlement policy framework modeled on the Bank's and committed to apply it to all of its investments. Gap-filling in

resettlement policy may be more manageable in pilots at a national or institutional level that go beyond the scope of individual investment projects.

12. Table 1 shows three additional pilots that are in advanced stages of preparation, one of which (Uganda Urban Roads) is an operation led by the African Development Bank, in which the Bank is providing technical support in the SDR. Four other projects are under consideration for UCS piloting. As three of them would be the second pilots in their respective countries, they should demonstrate the potential benefits of scaling up UCS. Two pilots were dropped before their SDRs were completed.

13. Two pilots that began preparation at about the same time as the seven that are effective were dropped prior to issuance of an SDR. In one case, while the country system was generally equivalent, implementation performance was such that the amount of gap filling needed to achieve acceptability would be excessive. In the other, the project was restructured substantially during preparation, with the result that the policy areas triggered and being considered for piloting were no longer applicable.

B. PROJECT DESCRIPTIONS

1. Bhutan

Bhutan Second Rural Access Project (P100332)			
Environmental Assessment Category	B	Sectors	Roads and Highways
Type of Operation	Specific Investment Loan		
Total Project Cost:	\$10 million	Themes	Rural Roads
Amount of Loan / Credit	\$10 million IDA		
Responsible Agency	Bhutan Department of Roads	Counterpart Agencies for UCS Diagnostic Review	National Environment Commission, Ministry of Works and Human Settlements, Ministry of Agriculture
Co-financiers	None	Other Interested International Development Agencies	ADB, DANIDA, GEF, SNV
Safeguard policies Triggered	Environmental Assessment, Natural Habitats, Physical Cultural Resources, Involuntary Resettlement	Safeguard policies Selected for UCS	Environmental Assessment, Natural Habitats, and Physical Cultural Resources

Development Objective: To provide all-season road access to targeted rural communities.

Project Description: This was a follow-on project with two components. The *Road Access Component* supports construction of approximately 65 km of new feeder roads, upgrading 24 km of existing roads, and construction or upgrading of eight bridges. The *Capacity Development and Implementation Support Component* supports human resource development and training, technical assistance to pilot performance-based maintenance

mechanisms, implementation support for Project Coordinating Unit and Project Management Units, and socio-economic impact monitoring study.

Summary of Gap-Filling Measures to Attain Equivalence: Gaps identified in the area of Environmental Assessment were not relevant to this project, hence no gap-filling was required. The National Environment Commission made two changes in Bhutan’s Code of Environmental Practices for Highways and Roads to achieve equivalence in Natural Habitat and Physical Cultural Resources, respectively—adding a provision stating clear preference for siting projects on previously converted lands, and a provision for protection of unanticipated “chance finds” of cultural importance. Legislation to formalize these changes is currently in the public hearing process in Bhutan.

Summary of Measures to Achieve and Sustain Acceptability: An Environmental Officer (EO) and Assistant EO have been appointed in the Department of Roads (DOR) to review and approve Environmental Assessments (EAs) and monitor their implementation. Contractor payments will be linked to compliance with Environmental Management Plan (EMP) requirements, and satisfactory project completion in accordance with EMP implementation will be certified jointly by the National Environment Commission (NEC) and the EO. District Environmental Committees (DEC) will be empowered to carry out compliance monitoring and report independently to NEC. Additional training and other capacity building measures that are not limited to the scope and term of this project have been agreed with the Government and will be supported by other donors, principally the Asian Development Bank (ADB), Denmark, the GEF and the Netherlands.

2. Egypt

Egypt Second Pollution Abatement Project (P090073)			
Environmental Assessment Category	FI	Sectors	Other Industry
Type of Operation	Financial Intermediary Loan		
Total Project Cost:	\$166 million	Themes	Pollution management and environmental health
Amount of Loan / Credit	\$20 million IBRD		
Responsible Agency	National Bank of Egypt; Egypt Environmental Affairs Agency	Counterpart Agencies for UCS Diagnostic Review	Egypt Environmental Affairs Agency
Co-financiers	EIB, JBIC, AFD, Government of Finland	Other Interested International Development Agencies	DANIDA
Safeguard policies Triggered	Environmental Assessment	Safeguard policies Selected for UCS	Environmental Assessment

Development Objective: To demonstrate, in the Egyptian context, the applicability of market-based financial/technical approaches to facilitate significant pollution abatement in selected hot spot areas in and around Alexandria and Greater Cairo.

Project Description: *Component 1, a Line of Credit Facility* for pollution abatement, is targeted to the industrial sector at large. It is managed by the National Bank of Egypt and financed by the IBRD loan, European Investment Bank (EIB), Japan Bank for International Cooperation (JBIC), and the French Development Agency (AFD). *Component 2, Technical Assistance*, will strengthen the capacity of the Egyptian Environmental Affairs Agency (EEAA) and other key stakeholders, plus project management support. It is financed by the Government of Egypt, the National Bank of Egypt, the Government of Finland, and EIB. The project also includes a carbon finance sub-program, but it is not part of the UCS pilot.

Summary of Gap-Filling Measures to Attain Equivalence: The EEAA prepared revised generic EA procedural guidelines acceptable to the Bank, revised project screening criteria, updated the current list of Competent Administrative Authorities, issued detailed terms of reference and guidelines for preparation of Compliance Action Plans (CAPs), and revised existing sectoral guidelines to reflect the requirements under the new EA procedural guidelines. However, these items have not been formally published and thus have not been officially introduced. Concerning the particular case of the CAP, a first version was rolled out in the context of the first sub-projects under EPAP II, and based on the feedback from this early implementation, the EEAA is reviewing the CAP format. The new format will be submitted to the Bank for approval by February 2008.

Summary of Measures to Achieve and Sustain Acceptability: The EEAA will continue to improve the EA process through annual reviews, training of trainers, training of staff, introduction of public environmental performance ratings for industries, and extension of the program to other “hotspots.” Compliance monitoring will be improved through training in preparation of CAPs and development of a compliance status database.

3. Ghana

Ghana Energy Development and Access Project (P070970)			
Environmental Assessment Category	B	Sectors	Power; Renewable Energy; Central Government Administration; Micro and SME Finance
Type of Operation	Specific Investment Loan		
Total Project Cost:	\$211 million	Themes	Infrastructure services for private development; rural services and infrastructure; climate change; small and medium enterprise support; other public sector governance
Amount of Loan / Credit	\$82 million IDA		
Responsible Agency	Ministry of Environment, Electricity Company of Ghana, Volta River Authority (VRA), ARB Apex Bank Ltd.	Counterpart Agencies for UCS Diagnostic Review	Environmental Protection Agency, Ministry of Energy, Volta River Authority, Electricity Company of Ghana
Co-financiers	AfDB, GEF, Africa Catalytic Growth Fund (ACGF), Global Partnership on Output-based Aid (GPOBA), Swiss Agency	Other Interested International Development Agencies	AFD, Nordic Development Fund

	for Development and Cooperation		
Safeguard policies Triggered	Environmental Assessment, Natural Habitat, Physical Cultural Resources, Involuntary Resettlement, Safety of Dams	Safeguard policies Selected for UCS	Environmental Assessment and Physical Cultural Resources.

Development Objective: To improve the operational efficiency of the electricity distribution system and increase the population’s access to electricity, and to help in Ghana’s transition to a low-carbon economy through the reduction of greenhouse gas emissions.

Project Description: The project has three components. *Sectoral and Institutional Development* will finance technical assistance and capacity building to: improve monitoring, regulation, and coordination in the energy sector; provide the Electricity Company of Ghana (ECG) with capacity to implement operational and financial performance improvements; develop renewable energy projects and a competitive framework for independent power producers; support Ministry of Energy (MOE) in managing the project; and enhance environmental management practices. *Electricity Distribution Improvement* will finance investments to improve quality and reliability of distribution, reduce system losses, and improve customer service and commercial operations. *Electricity Access and Renewable Energy* will help to establish an independent Rural Electrification Agency and will finance various elements of the access program including new grid connections and renewable energy projects.

Summary of Gap-Filling Measures to Attain Equivalence: The Ghana Environmental Protection Agency (GEPA) will complete and issue the “Sector-Specific Guidelines for EA” for the energy sector. The new guidelines are currently available in draft for consultation with stakeholders.

Summary of Measures to Achieve and Sustain Acceptability: The Volta River Authority (VRA), MOE, and ECG issued their respective policy frameworks for environmental and social management, and ECG and MOE prepared staffing plans to provide for adequate environmental and social management capacity. The GEPA will review and report on the quality of environmental assessment and management annually, prepare and issue a revised EA Procedures Manual, prepare guidelines and administer training on public consultation and EMP preparation, and analyze and optimize the present deployment of GEPA resources with respect to EA compliance monitoring in the regions. There will be a transition from consultant-provided EA capacity to in-house permanent capacity in the MOE “Electricity Group” and ECG.

4. Jamaica

Jamaica Inner City Basic Services for the Poor Project (P091299)			
Environmental Assessment Category	B	Sectors	Water Supply, Sanitation, Other Social Services, Micro and SME Finance
Type of Operation	Specific Investment Loan		
Total Project Cost:	\$32.8 million	Themes	Access to urban services

Amount of Loan / Credit	\$29.3 million IBRD		and housing; other urban development
Responsible Agency	Jamaica Social Investment Fund (JSIF)	Counterpart Agencies for UCS Diagnostic Review	National Environment and Planning Agency (NEPA) and JSIF
Co-financiers	None	Other Interested International Development Agencies	CIDA, USAID
Safeguard policies Triggered	Environmental Assessment and Involuntary Resettlement	Safeguard policies Selected for UCS	Environmental Assessment and Involuntary Resettlement

Development Objective: To improve the quality of life in twelve Jamaican inner-city areas and poor urban informal settlements through improved access to basic urban infrastructure, financial services, land tenure regularization, enhanced community capacity and improvements in public safety.

Project Description: *Component 1, Access to Services*, includes three subcomponents covering basic community infrastructure, access to financial services, and a pilot land titling initiative. *Component 2, Public Safety Enhancement and Capacity Building*, will finance integrated packages of consultant services, training and technical assistance focused on both short-term mitigation and conflict resolution and medium-term social prevention and capacity-enhancement interventions. *Component 3, Project Management*, will finance consultant services, training, goods and operating costs for project management and administration.

Summary of Gap-Filling Measures to Attain Equivalence: The JSIF prepared and the JSIF Board adopted a new Environmental Management Framework (EMF) and Resettlement Policy Framework (RPF). The EMF and RPF have been incorporated into JSIF's Operations Manual and will henceforth apply to all JSIF-implemented projects, regardless of funding source.

Summary of Measures to Achieve and Sustain Acceptability: The JSIF appointed a permanent environmental specialist and resettlement specialist, included EMF and RPF compliance in Memoranda of Understanding (MOUs) with its contracting agencies, and incorporated the monitoring requirements for EMF and RPF in its management information system. The environmental and resettlement specialists as well as staff from implementing agencies received training in EMF and RPF implementation. Periodic training will be given on environmental management and resettlement at least once a year. A sample of projects will be audited annually to assess and improve EMF and RPF compliance.

5. Romania (1)

Romania Municipal Services Project (P088252)			
Environmental Assessment Category	B	Sectors	General Water, Sanitation and Flood Protection
Type of Operation	Specific Investment Loan		
Total Project Cost:	\$170.6 million	Themes	Other urban

Amount of Loan / Credit	\$131.7 million IBRD		development
Responsible Agency	Ministry of Environment and Water Management, Municipality of Bucharest, and Municipality of Arad	Counterpart Agencies for UCS Diagnostic Review	Ministry of Environment and Water Management (MEWM) and The European Commission (EC)
Co-financiers	None	Other Interested International Development Agencies	EU
Safeguard policies Triggered	Environmental Assessment, Physical Cultural Resources, and International Waterways	Safeguard policies Selected for UCS	Environmental Assessment and Physical Cultural Resources

Development Objective: To assist Romania in meeting EU environmental directives in the water and wastewater sector, thereby improving the quality and coverage of water and wastewater services.

Project Description: There are three components. *Urban Services in Bucharest Municipality* supports provision of water, sewerage, drainage and road surfacing in priority neighborhoods of Bucharest. *Urban Services in Arad Municipality* supports provision of sewerage, drainage and road surfacing in priority neighborhoods of Arad. *Project Application for the EU* finances consulting services to prepare water and wastewater projects for EU funding in 11 counties.

Summary of Gap-Filling Measures to Attain Equivalence: None required. Romania's systems have been brought into conformance with EU requirements, and there are no significant differences between its systems and those of the Bank.

Summary of Measures to Achieve and Sustain Acceptability: Romania has an ongoing program to improve environmental management capacity and performance, but no specific measures were required for this project. Thus, there were no gap-filling measures required for acceptability.

6. Romania (2)

Romania Transport Sector Support Project (P093812)			
Environmental Assessment Category	B	Sectors	Roads and Highways; Railways
Type of Operation	Specific Investment Loan		
Total Project Cost:	\$225 million		
Amount of Loan / Credit	\$180 million IBRD	Themes	Trade facilitation and market access; infrastructure services for private sector development; regional integration; export development and competitiveness; public expenditure, financial management and procurement

Responsible Agency	National Company for Motorways and National Roads; National Railway Infrastructure Company	Counterpart Agencies for UCS Diagnostic Review	Ministry of Environment and Water Management (MEWM) and The European Commission (EC)
Co-financiers	None	Other Interested International Development Agencies	EU
Safeguard policies Triggered	Environmental Assessment Involuntary Resettlement*	Safeguard policies Selected for UCS	Environmental Assessment

*Initially triggered but later removed from the PAD

Development Objective: To assist Romania in reducing transport costs through the improvement of the overall quality of its national roads and railways networks during the first years of EU accession.

Project Description: The *Roads Component* supports increasing the percentage of national roads in good condition; providing sustainable funding for road maintenance, rehabilitation and safety; and improving the capacity of relevant agencies to manage maintenance and rehabilitation. The *Railroads Component* supports decreasing the number of hazardous locations and sections on the main lines that are subject to temporary speed restrictions, through repair and rehabilitation of track and signaling and electrification equipment; providing sustainable funding for railway maintenance, repair and overhaul; and improving the capacity of the railway company to manage maintenance and rehabilitation.

Summary of Gap-Filling Measures to Attain Equivalence: None required. Romania's systems have been brought into conformance with EU requirements, and there are no significant differences between its systems and those of the Bank. Although initially triggered IR was found not be equivalent and IR-related components were later omitted from the project.

Summary of Measures to Achieve and Sustain Acceptability: Romania has an ongoing program to improve environmental management capacity and performance, but no specific measures were required for this project. Again, there were no gap-filling measures required for acceptability.

7. Tunisia

Tunisia Sustainable Municipal Solid Waste Management Project (P095012)			
Environmental Assessment Category	B	Sectors	Solid Waste Management, Central Government Administration, Sub-national Government Administration
Type of Operation	Specific Investment Loan		
Total Project Cost:	\$27.4 million	Themes	Pollution management and environmental health, Climate change, environmental policies and institutions
Amount of Loan / Credit	\$22 million IBRD		

Responsible Agency	Ministry of Environment and Sustainable Development (MEDD)	Counterpart Agencies for UCS Diagnostic Review	MEDD; National Environmental Protection Agency (ANPE)
Co-financiers	None	Other Interested International Development Agencies	GTZ, KfW
Safeguard policies Triggered	Environmental Assessment, Involuntary Resettlement	Safeguard policies Selected for UCS	Environmental Assessment

Development Objective: To assist the Government of Tunisia in strengthening the key elements of municipal solid waste management, through the operationalization of a planning and implementation system at the national and local levels and the rehabilitation of a number of harmful dumpsites.

Project Description: The *Institutional Support and Capacity building Component* supports technical assistance and capacity building activities for relevant national institutions, and the establishment of a decentralized solid waste management system at the regional and inter-municipal levels. The *Infrastructure Construction, Landfill Gas Collection and Treatment, and Dumpsites Rehabilitation Component* will finance the construction of a fifth cell in the Greater Tunis landfill; the design, construction and operation of a gas recovery system at the same landfill; and the construction of initial cells in each of the new landfills for nine other cities.

Summary of Gap-Filling Measures to Attain Equivalence: The Government updated the terms of reference for solid waste management to incorporate all of the elements of an EMP that are stipulated in OP 4.00, Table A1.

Summary of Measures to Achieve and Sustain Acceptability: The Environmental Impact Assessment (EIA) and EMP for the Tunis landfill were updated. EMPs were prepared for each of the nine new landfills. Public consultation on the project was conducted. Technical studies for closure and rehabilitation of the uncontrolled landfills were prepared. Summaries of the foregoing reports were publicly disclosed. Deployment of newly-trained staff of the National Agency for Management of Solid Waste (ANGED) to regional and municipal offices has begun. The project supports ongoing technical assistance to ANGED and the National Environmental Protection Agency (ANPE) as part of the project.

C. SUMMARY OF PILOT PROJECT GAP-FILLING ACTIVITIES

14. Table 2 summarizes the gap-filling activities in the current UCS pilot projects.

Table 2. Summary of Gap-Filling Activities in the Active UCS Pilot Projects

Pilot	Activity	Status
Bhutan	Equivalence: <ul style="list-style-type: none"> - EA – No relevant gaps - NH – Add provision to Code for siting preference on land already converted - PCR – Add chance finds procedure to Code 	n/a completed completed
	Acceptability: <ul style="list-style-type: none"> - Appoint environmental officers in DOR - Link contractor payments to EMP compliance certified by NEC and DOR - Empower District Environmental Committees for compliance monitoring - Additional training beyond the scope of the project 	completed completed in progress not yet due

Egypt	Equivalence:	- EA – Prepare revised generic EA guidelines; revise project screening criteria; issue TORs for compliance action plans (CAP); revise industrial sector EA guidelines	completed completed
	Acceptability:	- Annual reviews of EA process - Ongoing training of staff, training of trainers - Improve compliance monitoring through training in CAP preparation and development of database - Introduce public environmental performance ratings for industries - Extend program to other industrial pollution hot-spots	in progress in progress in progress in progress not yet due
Ghana	Equivalence:	- EA – EPA issues energy sector EA guidelines including enhanced guidance for consultation, disclosure, and review of legal and institutional framework, by effectiveness - PCR – no gaps	in progress n/a
	Acceptability:	- Implementing agencies issue environmental/social policies and frameworks - Implementing agencies prepare environmental/social staffing plans - EPA reviews and reports annually on quality of EA and of EMP implementation - EPA prepares and issues revised EA procedures manual - EPA analyzes and optimizes deployment of EPA resources for EA compliance monitoring in regional offices - Transition from consultants to permanent in-house EA capacity in implementing agencies	completed completed not yet due not yet due not yet due not yet due
Jamaica	Equivalence:	- EA – Implementing agency (JSIF) adopts and issues environmental management framework (EMF) and incorporates into agency operations manual - IR - Implementing agency adopts and issues resettlement policy framework (RPF) and incorporates into agency operations manual	completed completed
	Acceptability:	- JSIF appoints environmental and resettlement specialists - JSIF includes EMF and RPF compliance in MOUs with contracting agencies - JSIF incorporates EMF and RPF monitoring requirements in management information systems - Administer initial EMF and RPF implementation training to staff from JSIF and other agencies - Continue periodic EMF and RPF training at least annually - Audit a sample of projects annually to assess and improve EMF and RPF compliance	completed completed completed completed not yet due not yet due
Romania (Municipal Services)	Equivalence:	- EA - no gaps because of recent improvements in country system for EU accession - PCR – no gaps	n/a n/a
	Acceptability:	- Romania has ongoing program to improve environmental management capacity and performance, but no specific measures were required for this project	n/a
Romania (Transport)	Equivalence:	- EA - no gaps because of recent improvements in country system for EU accession - PCR – no gaps	n/a n/a
	Acceptability:	- Romania has ongoing program to improve environmental management capacity and performance, but no specific measures were required for this project	n/a
Tunisia	Equivalence:	- EA – update TOR for solid waste management activities to incorporate all elements of EMP - PCR – no gaps	completed
	Acceptability:	- Update EIA and EMP for Tunis Landfill - Prepare EMPs for nine new landfills - Prepare technical studies for rehabilitation of uncontrolled landfills - Disclose summaries of the environmental reports for public comment - Deploy newly-trained environmental staff to regional and municipal offices of solid waste management agency (ANGED)	completed completed completed completed in process

III. RESULTS TO DATE

A. SAFEGUARDS WORK IN THE UCS PILOTS

1. Implementation of Measures to Fill Gaps in Equivalence

15. Performance in filling gaps in equivalence were an important indicator of borrower readiness to apply country systems for those safeguards that were piloted. In Bhutan, for the three policy areas piloted, the gaps were minor—none relevant to the project in environmental assessment, one each in natural habitats and physical cultural resources. Bhutan’s NEC completed the gap-filling on schedule through the temporary measure of modifying the Code of Environmental Practices for Highways and Roads. New legislation is in process to permanently fill these two gaps, and the supervision mission scheduled for October 2007 will check its status. Equivalence gap-filling in Egypt was carried out by the EEAA and involved primarily revising the country’s EA procedural guidelines, project screening criteria, and sectoral guidelines for industry and issuing detailed terms of reference and guidelines for CAPs. EEAA completed the preparation of these measures in May 2007, later than scheduled, but because of bureaucratic delays and not substantive problems. The November 2007 supervision mission determined that official approval and formal issuance has not occurred, again mostly for bureaucratic reasons as the Minister of Environment confirms its commitment toward progress in this area. In Ghana, the three gaps in equivalence—enhancement of the existing EA regulations pertaining to consultation and disclosure, and specific requirements for institutional capacity assessment and observance of international conventions—were met temporarily by provisions in the Credit Agreement. The EA guidelines for the energy sector that were already being prepared by the GEPA prior to the inception of the UCS pilot will incorporate those provisions as a condition of effectiveness.

16. In Jamaica, the JSIF, the implementing agency for the project, filled the gaps in equivalence by preparing, adopting, and integrating into its Operations Manual two new frameworks—one for environmental management and one for resettlement—completing this work prior to Board. The Tunisia pilot required but a single gap-filling action, which the Government accomplished in December 2006, prior to Board approval of the project. This action was to produce updated terms of reference for solid waste management projects that incorporated all elements of an EMP as described in OP 4.00, Table A1, including provisions for consultation and disclosure that were absent from Tunisian environmental assessment regulations.

17. Romania is unique among the six pilot countries because it had completed EU accession shortly before the pilot began. Consequently, Romanian laws and regulations for environmental assessment and physical cultural resources conform to those of the EU, are consistent with international practice, and are substantively equivalent to the Bank’s system. Involuntary resettlement was a different matter. The EU does not have a policy or regulations governing land acquisition, hence these remain a national issue. In the case of the transport project, however, the Bank and Government did not find sufficient common ground to produce a list of mutually acceptable measures. The eventual result was that

the PAD for the transport project was rewritten to eliminate financing for any subprojects requiring resettlement.

2. Quality of Safeguards Preparation

18. This section covers the pilots in Egypt, Jamaica and Tunisia. The pilots in Bhutan, Ghana and Romania have not produced any EIAs, EMPs, or other such safeguards documents under UCS and therefore they are not included.

19. The Egypt pilot is the oldest. Its design appropriately does not call for prior review of the EIAs produced under UCS, and so the supervision mission in mid-November 2007 was the first opportunity to fully review the status of implementation of the EIA system. Several environmental audits have been completed as part of the preparation of sub-projects assessed under EPAP II; however, none of those sub-projects has been found to trigger the national UCS. They are all essentially in-plant process modifications or end-of-pipe treatment aimed at improving emissions. The task team has reviewed these audits and found them to be satisfactory.

20. In the Jamaica pilot, the JSIF has successfully initiated the screening of proposed investments under a new procedure, now required by the EMF it prepared to achieve equivalence. The scale of investments in Jamaica is such that few, if any, will require full environmental assessments. The JSIF has also begun collecting information on land titles and other items relevant to resettlement as inputs to its Management Information System (MIS)—another new procedure, called for in the RPF. No investments requiring resettlement have been prepared, but there are several under consideration that can be evaluated during future supervision missions.

21. In Tunisia, one EIA has been prepared under the new terms of reference for solid waste management. The project design does not call for prior review; however, the borrower sent the document to the Bank for an informal review at the end of August 2007, and the Bank had only minor comments. Normal supervision missions will follow the environmental management progress and outcomes in this subproject.

B. TRENDS IN SAFEGUARDS CAPACITY AND PERFORMANCE

1. Implementation of Measures to Achieve and Sustain Acceptability

22. The Bhutan pilot is the only repeater project among the pilots, and this allowed outputs from and lessons learned in the first project to be taken up in the pilot. The concept of “Environmental Friendly Road Construction” (EFRC) that developed in the first project became an integral part of the pilot. The borrower has completed all of the measures identified to achieve acceptability, most notably the creation and filling of positions in the DOR for an EO and Assistant EO. To sustain acceptability, Bhutan needs to develop capacity more broadly, particularly at the district level. There are few environmental or social development specialists in the country, but there is a strong cadre of civil engineers who are already familiar with working in the demanding circumstances of hill roads and can easily be trained in environmental and social impact management. This training is going on in the DOR but has been slow in starting at the district level,

where it is likely to have its greatest effect. The NEC is working to begin the training, with support from the pilot project. The supervision mission in October 2007 confirmed that capacity building was proceeding as anticipated.

23. The Government of Egypt was reluctant to borrow from the Bank for capacity building, and this has delayed the activities identified in the SDR. However, two of the co-financiers are now supporting the work with grant funds. EIB is financing the training, for which consultant selection is just beginning, and the Government of Finland is financing two technical assistance contracts for which consultants have recently been engaged. One contract is to deepen Egyptian guidelines for clean technology, and the other is to support long-term acceptability measures including training, reviews of safeguards performance, and preparation of sectoral guidelines.

24. In the Ghana pilot, the measures to attain acceptability called for the implementing agencies for the project to adopt environmental and social policy frameworks, and two of them had to prepare staffing and capacity building plans; they accomplished this prior to negotiations. The longer-term measures to sustain acceptability are not yet due, but the technical assistance component of the project includes funds for their implementation by the GEPA.

25. Jamaica has completed the measures to attain acceptability. The JSIF appointed a permanent environmental specialist and resettlement specialist, included EMF and RPF compliance in MOUs with its contracting agencies, and incorporated the monitoring requirements for EMF and RPF in its management information system. The environmental and resettlement specialists as well as staff from implementing agencies received training in EMF and RPF implementation. Measures to sustain acceptability are not yet due -- periodic training on environmental management and resettlement to be administered at least once a year, and annual audits of a sample of projects to assess and improve safeguards compliance.

26. As a consequence of EU accession, Romania has an ongoing program to improve environmental management capacity and performance. No specific acceptability measures were required for the UCS pilot.

27. Tunisia's actions to achieve acceptability are complete. ANGED updated the EIA and EMP for the Tunis landfill and had EMPs prepared for each of the nine new landfills. Public consultation on the project was conducted. The technical studies for rehabilitation of the uncontrolled landfills are complete. Summaries of all of the reports were publicly disclosed. For the longer term, deployment of newly-trained staff of ANGED to regional and municipal offices has begun. The pilot project supports ongoing technical assistance to ANGED and the ANPE.

2. Trends in Performance of Safeguards Functions

28. None of the seven pilots has yet undergone a full supervision mission focusing on the implementation of country systems. Available information on the performance of the implementing and environmental agencies has been provided by task teams based on

early performance experience. One notable exception is the pre-pilot approved for Mexico in June 2004, prior to Board approval of OP/BP 4.00. Results from a mid-term review and subsequent interim supervision missions are reported separately in Box 1 of this report.

29. Historically in Bhutan, the NEC screened projects but then had little or nothing more to do with them. Now, as a result of the UCS, the DOR is obliged to collaborate with NEC on safeguards implementation, and NEC is training district staff in managing environmental impacts of roads. The UCS pilot has bridged a gap between the two agencies.

30. In Egypt, there were three units in the EEAA that were involved with industrial pollution control—one department for inspections, a second for industries, and a third for environmental assessment. Their activities were not coordinated, limiting the effectiveness of industrial pollution abatement. The UCS pilot now has them working in coordination, with written descriptions of their respective responsibilities and functions. However, measures need to be taken to reduce bureaucratic barriers that are preventing full, interdepartmental coordination and efficient implementation of the gap-filling measures. The project team intends to call on the Minister and the CEO to ensure that this coordination barrier is removed.

31. As noted earlier, the JSIF is now for the first time screening proposed investments and including social data in its management information system as a result of the Jamaica pilot.

3. Effects on Country Ownership of Safeguards Processes

32. Ownership of safeguards is high in Romania, but this fact cannot be attributed to the UCS pilot; it came about as a result of the work required for EU accession. Still, UCS did not diminish ownership in that country, and it is clear that ownership has increased in the other five countries in the pilot program. Other than Romania, the key factors in the increases are:

- Positive response to the Bank’s formal recognition of the country system as being consistent with international standards as reflected in OP 4.00;
- The interactive nature of the safeguards diagnostic work, with extensive Bank-borrower dialogue and stakeholder involvement;
- Active involvement of borrowing agencies in gap-filling, with strong Bank advice and support;
- Strong direct engagement of Bank staff in the diagnostic work; and
- Bank involvement seen as constructive and collaborative rather than critical and prescriptive (with the notable exception of Romania’s reaction to the proposed gap-filling for resettlement described in paragraph 17).

33. The effect is perhaps the most dramatic in Tunisia. While its Ministry of Environment and Sustainable Development has had a long relationship with the Bank and was enthusiastic about the UCS pilot from the beginning, the Ministry of International Cooperation was strongly opposed and continued to be so for more than one year. This attitude completely reversed once the latter ministry saw the recommendations in the SDR and understood that resources could be available for follow-up. The result has been a request to the Bank to assist Tunisia in bringing its national EA systems up to international standards.

34. Something similar happened in Bhutan. There, mainstreaming safeguards in roads projects was already on the agenda, so that even before the second roads project became a UCS pilot, a decision was made to have it support preparation of a single, consolidated safeguards document for roads—the Sectoral Environmental Framework—that was largely complete before UCS began. Motivated by the results of the pilot to take the work further, the Government of Bhutan has asked the Bank to assist it in a “country environmental safeguards analysis” at the national level, to upgrade environmental policies other than the three being piloted and to address social policies.

35. The pattern repeated itself in Jamaica. Enthusiastic from the beginning, the Government of Jamaica was pleased that JSIF’s safeguards systems met the requirements for piloting. The NEPA subsequently asked the Bank to help improve the national system.

36. In Egypt, the fact that the Government agreed to revise the national EA guidelines and then did so is evidence of increased ownership. The commitment is particularly strong at the Ministerial level but measures need to be taken to increase commitment within the concerned departments in EEAA. A key indicator to be examined during supervision will be compliance monitoring; if that also improves, it will provide further evidence of ownership. Ownership of safeguards was already strong in one of the implementing agencies in Ghana, the VRA, which had a written corporate environmental policy in effect and was drafting a detailed environmental and social management framework before the pilot began. The other two implementing agencies—Ministry of Energy and Electricity Company of Ghana—had no such documentation prior to the pilot but now have issued corporate environmental and social policy statements and procedures approved by senior management.

Box 1. A Precursor to the Use of Country Systems Pilot Program Mexico Decentralized Infrastructure Reform and Development Loan Project (P080149)			
Environmental Assessment Category	FI	Sectors	Roads and Highways; Water Supply and Sewerage; Housing
Type of Operation	Financial Intermediary Loan		
Total Project Cost:	\$291 million	Amount of Loan / Credit	\$107.8 million IBRD
Responsible Agency	National Bank of Public Works and Services (BANOBRAS)	Counterpart Agencies for Safeguards Review	Secretariat of Public Works of the State of Guanajuato (SOP)
Safeguard policies	Environmental	Safeguard policies	Environmental

Triggered	Assessment, Natural Habitats, Cultural Property, Involuntary Resettlement, Indigenous Peoples, Safety of Dams	Selected for UCS	Assessment, Natural Habitats, Physical Cultural Resources, Involuntary Resettlement, Indigenous Peoples
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Safeguards Arrangements: The Board approved this project on June 8, 2004, nine months before it approved OP 4.00. The project is therefore technically not a UCS pilot and is not included in the aggregated tables on costs, time to prepare, and safeguards triggered and piloted in this report. However, in the case of the State of Guanajuato (SoG), the Bank, BANOBRAS and state agencies assessed the existing safeguards-related legal and institutional frameworks and capacities of the Government of Mexico (GoM), SoG, and the sectors in comparison to Bank operational policies. The project's ESMF, which is incorporated in the BANOBRAS Operating Regulations, allows for use of country and state safeguards systems. According to the PAD, "The Bank loan... would serve as a 'safeguards pilot' for the state of Guanajuato, with the Bank using GoM and SoG systems to materially meet the objectives of the Bank's environmental and social safeguard policies."

Development Objective: To support programs in SoG to achieve sustainable investment levels and an efficient operation of sector strategies for the following sectors: road transport, water supply and sanitation, and low income housing.

Project Description: *Component 1. Implementing the Road Transport Sector Strategy:* institutional strengthening for planning and maintenance, expansion of state road network, including 600 km of new roads; improvement of bridges and elimination of bottlenecks; pre-investment studies for construction of toll roads; and improvement and construction of rural roads. *Component 2. Implementing the Water Supply and Sanitation Sector Strategy:* improved water resources management through establishment of Hydraulic Planning System and participatory mechanisms; increased coverage in rural and urban areas; increased wastewater treatment in large communities; and institutional strengthening for regulation and provision of service. *Component 3. Implementing the Low-Income Housing Strategy:* institutional strengthening for housing finance; increased supply of low income housing through financing of materials for self-construction; additional housing for the poorest segments of the population; gradual improvement and rehabilitation of housing and of urbanized lots ready for construction.

Summary of Gap-Filling Measures: There were no gaps in the laws and regulations relevant to Environmental Assessment, but it was necessary for SoG to develop specific arrangements to ensure that they would be systematically applied to all subprojects. For Natural Habitats, the only gap was the absence of a requirement in Mexican law for compensation for conversion of non-critical natural habitat. However, this was deemed to be of minimal significance in view of Guanajuato State's robust protected area system and the SoG EA requirement for avoidance or mitigation of impacts on natural habitat. Nevertheless, projects with significant potential impacts would be screened to ensure that the Bank would have an opportunity to recommend measures to address any adverse impacts to non-critical habitats. There were no gaps to be filled with respect to Cultural Property. For Safety of Dams, the Bank would oversee projects involving dam heights in excess of 15 meters but considered state systems adequate for smaller dams.

SoG was tasked with preparing and following procedures for resettlement planning based on one of the state's good practice examples, which the Bank considered to be fully consistent with OP 4.12 on Involuntary Resettlement. The Bank will review subprojects involving resettlement of more than 200 persons. With respect to Indigenous Peoples, there were no significant discrepancies between Mexican and SoG legal frameworks and OD 4.20. SoG would develop procedures for screening subprojects for potential effects on Indigenous Peoples, and any found to have potential impacts would be forwarded to the Bank for review.

Summary of Results: The Mid-Term Review in October 2006 concluded that there had been progress in the creation of social and environmental units in the sectoral agencies, in implementing a series of learning activities, and in developing a clear vision regarding social and environmental impacts of infrastructure projects. However, it identified some areas for improvement: (i) the need to apply the safeguards procedures developed under the project to all works contracted by the State; (ii) fulfillment of the procedures related to resettlement plans; (iii) submission of environmental and social studies to the Bank for projects with significant potential impacts; and (iv) the absence of a clear operational approach and institutional organization for incorporating social and environmental aspects in the investment cycle so that the process becomes sustainable. In December 2006, the regional safeguards advisor remained concerned about insufficient progress on establishing institutional capacity and procedures in the participating agencies to address social and environmental issues.

The most recent Implementation Status Report (ISR), date June 4, 2007, reports significant progress in correcting deficiencies identified at mid-term. Most notable are: the engagement by SOP of four social specialists to oversee the social impacts of roads projects, the submission of an SOP report on land acquisition and resettlement from 2004 through 2006, and formulation of a plan to create an environmental and social management unit to oversee the state's housing program. Remaining challenges are to strengthen agency capacity, which is still limited; to institutionalize the safeguards functions and procedures through, among other things, creation of permanent staff positions for environmental and social staff; and to support efforts to make the project's environmental and social management procedures legally binding for all projects in the sectors.

C. COSTS IN PROJECT PREPARATION AND IMPLEMENTATION

1. *Time to Prepare the Pilots, Compared to Norms*

37. Table 3 shows the key dates in the processing of the UCS pilots. Figure 1 recasts the data from that table to show the durations from concept review to appraisal and from appraisal to effectiveness. Five of the pilots exceeded the Bank-wide average for the interval from concept review to appraisal, and four exceeded the average for total preparation time. The Bhutan project was processed as a repeater, hence the significantly faster preparation. However, interviews with task team leaders revealed that in only one case—the transport pilot in Romania—did the UCS pilot activity affect the preparation schedule and that by no more than three weeks. UCS teams made a strong effort to avoid delay, having in most cases promised sector managers and/or task team leaders that there would be no slippage in appraisal or Board dates to obtain their agreement to allow a project to be used as a pilot. Delays, when they occurred, were caused by some other issue not related to UCS.

Key Processing Dates:	Jamaica	Egypt	Romania 1	Romania 2	Ghana	Tunisia	Bhutan
Concept Review	10/06/2004	10/12/2004	11/22/2004	05/24/2005	06/22/2005	07/13/2005	06/15/2006
Diagnostic Report Completed	02/07/2006	12/22/2006	01/05/2006	01/05/2006	01/29/2007	03/01/2006	11/10/2006
Decision Meeting	02/14/2006	12/15/2005	04/24/2006	04/06/2006	02/27/2007	11/14/2006	11/20/2006
Appraisal	02/27/2006	12/15/2005	05/08/2006	04/25/2006	03/12/2007	11/15/2006	11/20/2006
Board Approval	03/29/2006	03/23/2006	07/13/2006	11/02/2006	07/26/2007	03/13/2007	04/10/2007
Effectiveness	06/27/2006	10/12/2006	05/20/2007	04/26/2007	10/01/2007*	07/20/2007	07/22/2007

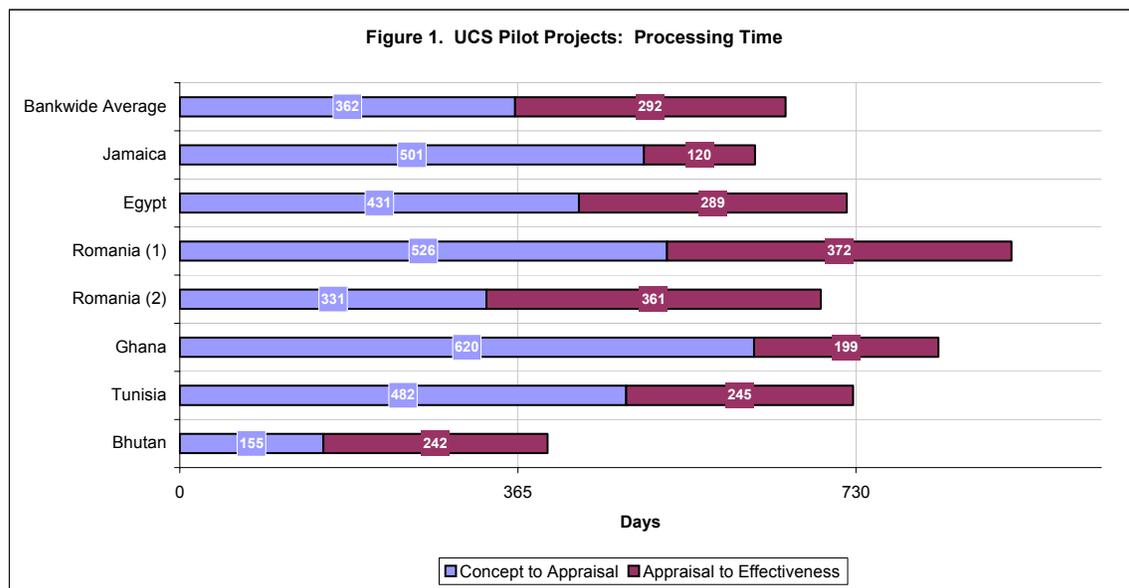
* estimated

2. *Project Preparation Costs*

38. The average cost for the Bank's UCS work to prepare a pilot project was \$104,000, nearly all of it for staff time and travel. Table 4 shows the expenditures for each pilot, which are additional to the regular preparation expenditures, also shown. There was no dedicated budget for the program, and most of the sector managers involved insisted that the UCS teams bring their own funds to their pilot. Consequently, UCS teams had to explore a variety of sources, and the typical funding package for a pilot was a mixture of contributions from the regional safeguards budgets and, in MNA's

case, METAP; OPCS, which provided between \$10,000 and 20,000 on request; and ENVQC and LEGEN, both of which contributed the time and the travel cost of their participating staff. The UCS budgets for the Jamaica and Tunisia pilots respectively included significant amounts from the Sector Manager and the Country Director. For most of the UCS teams, fund-raising required considerable time and effort.

Country	Lending (SAP Data)	Safeguards (OPCS Data)
Bhutan	100,817	68,000
Egypt	71,322	93,000
Ghana	288,682	100,000
Jamaica	97,806	72,000
Romania (1)	77,774	135,000
Romania (2)	78,610	
Tunisia	82,120	159,000



39. There are no data on the preparation cost impacts of the UCS pilots on borrowers, but UCS teams believe that there were no significant extra costs to them and that some borrowers probably spent less than they normally would have because the Bank was doing so much of the safeguards work. Theoretically, a borrower's expense for safeguards implementation should be lower in a UCS pilot, and several of the task team leaders interviewed opined that this would be the case. In Egypt, however, some of the small- and medium-size companies that sought funds from the pollution abatement line of credit complained that they could not afford the cost of the EIAs. Because this became a barrier to their participation, the task team is now using some of the project funds provided by the Government of Finland to assist these companies with the cost of EIA preparation.

40. There is not yet sufficient experience to determine that the Bank is incurring extra supervision costs, as the Issues Paper envisioned. It is reasonable to assume that will be the case, however, since the progress of the UCS piloting and the progress of the project toward its development objectives both need to be supervised, probably not by the same individuals. In this context, the fact that only one of the seven pilots has received the extra supervision budget mentioned in the Issues Paper is cause for concern.

D. MEETING THE OBJECTIVES OF OP 4.00

41. All of the persons interviewed were asked three broad questions. The first of these was: Is the UCS pilot program adequately meeting its narrow objective as defined in OP 4.00: “to improve overall understanding of implementation issues related to greater use of country systems?” The consensus answer to this question is a strong “yes” with the caveat that the information gathered so far almost exclusively concerns project preparation. Implementation has scarcely begun, and, because the pilots are all in one way or another sectoral rather than project specific, there is almost no experience with the actual preparation of safeguards instruments. Thus far we know that the participating countries generally appreciate the recognition and the opportunity the program has given them, that the pilots are expensive and demanding of staff time, that fund-raising has been challenging and time-consuming, that sector managers generally would not have allowed their projects to be pilots if it meant slippage of delivery schedules, and that there is much more to be learned as the seven pilots proceed into implementation. All seven pilots have received Board approval, but supervision is only just beginning in earnest.

42. The coverage is limited in terms of sectors and policy areas. The pilots primarily involve infrastructure—urban including both large and community scale systems, road and rail transport, power, and pollution abatement. Given that infrastructure projects tend to trigger more safeguard policies, this could have led to a large number of triggered policies. However, the pilot program initially focused on low-risk Category B projects and, as it has turned out, many of the subprojects will not require EAs or even EMPs. Policies such as pest management, natural habitats, forestry, and safety of dams are under-represented. Resettlement and, to a lesser extent natural habitats and safety of dams were triggered more than they were piloted; few countries have standards as strict as the Bank’s in these areas, and OP 4.00 was not seen by UCS teams or task teams as encouraging flexibility in determining equivalence. Including some projects with higher safeguards risks and targeting agriculture and natural resource projects in future pilots would broaden the range, both in terms of sectors and policies.

43. That only eleven pilots have begun the preparation process and only seven have emerged to date can be attributed to a variety of external and internal factors. Some countries (and task teams) did not trust the Bank to change from its prescriptive approach to safeguards and were suspicious of the Bank’s motives. While some of the proposed pilot countries welcomed the attention to their safeguards systems and environmental institutions, others were reluctant to expose their regulations, procedures and agencies to scrutiny. Internally, some sector managers and task team leaders had difficulty seeing the benefits of the program, in part because of the absence of clarity on follow-up actions and resources to support them. Costs, on the other hand, were easy to envision: the program

was for the most part an unfunded mandate; anything having to do with safeguards was potentially risky for task team leaders, who, it is well known, already have more than enough issues to deal with; and sector managers worried about disruptions in processing. Most troubling to the sector units was the possibility that the diagnostic review would conclude that country systems could not be used, and by then the project would be six months into preparation with no safeguards instruments being readied. In a second country considered for piloting in a particular region, the sector manager canceled the pilot when he concluded that the few likely benefits did not justify either the expense or the friction generated by the Bank's perceived inflexibility in conducting the first pilot project in the region.

44. Practicality was also an issue. In the words of one task team leader, "The reason for low uptake is the difficulty in aligning the necessary parts: the right country, the right sector, the right project timing, the right team. Low uptake is not so much caused by a philosophical problem as a practical one." In addition, the Issues Paper was correct that the diagnostic work had to be conducted by Bank staff—the one attempt to have a local consultant conduct a portion of the equivalence analysis failed—and there are not many staff available with the right qualifications.

45. That said, even the participants most vocal about shortcomings in the way the pilot program was developed and put into effect acknowledge that the information being obtained is useful. Getting more detailed knowledge about the safeguards systems in the pilot countries was seen as a clear benefit, and one that should be enhanced. Staff from OPCQC (formerly ESDQC) and LEGEN, and various of the task team leaders and environmental specialists in the project and UCS teams worry that project preparation schedules impose time constraints on equivalence analysis and suggest that it be carried out at the national rather than sectoral level, free-standing with an independent funding source, and through longer-term engagements with the borrower's institutions. The same can be said for acceptability assessment—at least those elements such as overall governance capacity and performance with respect to environmental and social impact management, which can be conducted without knowing the specific project that will be the pilot and thus the sectoral agencies for which detailed information is needed.

E. SPILLOVER OF IMPROVEMENTS IN SAFEGUARDS WORK

46. The second question posed was: Are the changes in safeguards procedure and performance that have resulted from UCS likely to be limited to the pilot or would you expect them to be seen in subsequent projects in the sector or in other sectors in the country? There are three possibilities: pilots that will have influence beyond the project no matter what, pilots that depend on follow-on actions outside the project in order to have wider influence, and pilots that will have little or no influence for any of several reasons. One project may fall into two categories, since the mechanisms for and hence the probabilities of its affecting practices in the sector (and beyond the sector) may differ.

47. With respect to influence on the sector, the pilots in Bhutan, Egypt, Ghana, Jamaica and Tunisia will have impacts on subsequent investments, whether Bank-financed or not. In Bhutan, progress in strengthening safeguards in rural roads

development was being made prior to the pilot, with support from the Bank and the Netherlands. The pilot has solidified and enhanced what had been achieved and is helping to build implementation and enforcement capacity. All rural roads projects will benefit, although the extent of the effect will be limited by the small size of the Bank's and other donors' and lenders' programs in Bhutan and the reality that no single sector has a significant pipeline of projects in that small country.

48. In Ghana, the EPA was already preparing EA guidelines for the energy sector; the pilot served to accelerate them and effected additions to fill relatively minor gaps in equivalence. Where the pilot was more directly instrumental was in promoting the adoption of environmental and social policies and procedures at the Ministry of Energy and the ECG, patterned after the policy framework that was being drafted by the VRA with technical advice from the Bank under a different project.⁴ The MOE and ECG will implement the staffing plans that they prepared as part of the pilot (VRA is already well staffed for safeguards work) and will certainly apply their new policies and procedures within GEDAP and within other Bank-financed projects in the sector if they are implemented as pilots or UCS is scaled up in Ghana. It is less certain that ECG and MOE will apply the new policies to non-Bank-financed projects, not yet having safeguards embedded in their corporate cultures, but the example of VRA's adherence to international standards for EA is cause for optimism.

49. Egypt is a country in which safeguards performance was already improving. The UCS pilot may thus be seen as catalytic but not as the driving force. Certainly the gap-filling measures—improved generic and sectoral EA guidelines, revised screening criteria and detailed terms of reference for compliance action plans—will have a beneficial effect on EA work in the sector, provided they are applied in projects other than those funded by the Bank or co-financing donors. Monitoring and enforcement have been weak in Egypt, however, and so the improvement in those areas included as a measure to achieve acceptability is a necessary condition for positive effects in the sector.

50. The Jamaica case was nearly a greenfields situation: national legislation and regulations are not robust, and JSIF had no safeguards system to speak of until it adopted its new frameworks to establish equivalence. All JSIF projects will be processed under the frameworks, regardless of funding source, extending improved safeguards treatment to a wide range of community-scale infrastructure. In Romania, the improved safeguards procedures will certainly influence other projects in the sector, but the UCS pilot cannot really claim credit for this, since the improvements were made in preparation for EU accession. The Tunisia pilot was already sector-wide, and the improved terms of reference and EMP guidelines for solid waste projects will apply to all solid waste investments in the country.

51. The third question asked was: Is the program meeting or likely to meet its broader objective as defined in the OP: “to encourage the development and effective application

⁴ The final design of the Ghana pilot did not include a component for implementation by VRA. It was fortunate for UCS that the Bank did not know this at the outset; it might have excluded VRA from the acceptability assessment and, in so doing, would have missed the environmental and social policy framework that became the model for ECG and MOE.

of such systems and thereby focus on building borrower capacity beyond individual project settings?” Whether the pilots will influence guidelines and performance country-wide is a more complicated question. One task team leader remarked, “A pilot program at the project level is not an effective vehicle to change national policy and legislation; ‘trickle-up’ doesn’t work.” He was arguing that UCS should have been implemented at the national level initially. If the policy area concerned is resettlement, his observation is probably correct, but for EA there are signs that the pilot projects can have a strong effect on national policy. Success depends on two factors: whether the borrower requested follow-on work outside the sector of the pilot, and whether Bank staff can find the resources necessary to support it.

52. Romania is a special case; the changes made for EU accession apply to EA in all sectors and, as already mentioned, the UCS pilot is not the cause. In Bhutan, some country-wide effect is likely no matter what happens next. The country is small, and the NEC is a small agency; what is occurring in the rural roads sector is known throughout the government. The focus the pilot placed on country systems has motivated and empowered NEC to take the work further, and the SDR provides guidance as it identifies strengths and weaknesses in those systems. The Government is interested in moving to country systems across the board and has requested support from the Bank in conducting a country environmental safeguards analysis that will begin with the environmental policy areas and could later extend to resettlement and Indigenous Peoples. The safeguards group (SASDN) is planning this as an Economic and Sector Work (ESW) activity that will eventually cost approximately \$500,000 and is seeking funds for it from regional management.

53. The situation in Egypt as described for the sector, above, is the same for broader impacts outside the sector. In Ghana, it is likely that the measures to fill gaps in equivalence being taken by EPA will influence projects outside the energy sector, but the likelihood of a strong effect at the national level will be greater if the Bank can demonstrate tangible benefits from the pilot in two ways—extending UCS to other Bank-supported projects in the energy sector (ideally not as another pilot but as an outcome of the existing pilot) and piloting UCS in another sector that is ready, such as transport.

54. Jamaica’s case is much like Bhutan’s. It is a small country, and NEPA has asked the Bank for help in strengthening the national environmental safeguards system. Whether this could be funded was in doubt for some months, but LCCSA has committed to financing the necessary technical assistance. There is virtually no likelihood that the pilot work in resettlement will be extended to national policy; the gaps are large and there is no counterpart agency interested in working on this topic.

55. Tunisia has expressed interest in working with the Bank to bring its already fairly strong country system up to international standards at the national level. During the November 2007 supervision mission, the Minister of Environment clearly indicated his interest in pursuing the UCS approach but on a large scale in order to further strengthen the current system and reach a better level of harmonization with international practice.

F. EFFECTS ON BANK-BORROWER WORKING RELATIONSHIPS

56. One of the assumptions behind the pilot program is that it would ease the borrower's burden of compliance with safeguards. This, together with the boost to national pride and the concomitant reduction in friction caused when the Bank requires adherence to its own safeguards in countries that believe their systems are adequate, should be reflected in improved working relationships. The observations of interviewees confirm various degrees of positive effect on working relationships in five of the countries, based mainly on the national pride effect. It is too early for borrowers to have much experience with the lessened burden of compliance.

57. Bhutan has been satisfied with the results of the pilot and, as already mentioned, is interested in moving from the sectoral to the national scale. A second pilot is also possible, in the urban sector. Egypt was proud to be chosen as the first country systems pilot country, and this good feeling has continued in interactions with the EEAA. Ghana's GEPA was particularly pleased to be collaborating with the Bank on a country systems pilot and has consistently responded promptly and well to anything the Bank has asked of it even though it is not an implementing agency in the project. The GEPA expressed particular appreciation for the provision of technical assistance (TA) funding in the project budget for it to monitor and report on the results of the pilot and to carry out the measures to sustain acceptability. GEPA stated that this had not been done before in donor-funded investment operations and was very welcome. The implementing agencies in Ghana have been enthusiastic collaborators in the pilot. The broader view of the Government of Ghana—that Bank safeguards requirements are too rigid—remains unchanged, however, and will probably persist until and unless there is a scaling-up from the pilot to other projects in the sector and to other sectors.

58. In Jamaica, the pilot has resulted in very positive feelings; even the prime minister has made public mention of Jamaica's participation in the program. In contrast, in Romania, two aspects of the pilot program negatively affected the working relationship in the safeguards area, albeit only temporarily. One was the disagreement over the extensive gap-filling measures the Bank would require for the piloting of involuntary resettlement, and the other was the more general view that the Bank's questioning of aspects of a system that had just been accepted by the EU was inappropriate. The effects in Tunisia were strongly positive, especially so given that the Ministry of International Cooperation was initially suspicious of the Bank's intent and resistant to the pilot. That ministry expected a long list of prescriptive gap-filling measures from the Bank and, when it saw that the list was actually quite short and manageable, became an enthusiastic supporter of country systems and is seeking to carry out another pilot in a different sector.

G. HARMONIZATION OF DONOR REQUIREMENTS

59. As expressed in the Issues Paper, part of the rationale for UCS is to help reduce the burden recipient countries must bear when multiple development agencies impose "separate and different system requirements." The Bank's UCS pilot program is in part a demonstration of what can be achieved when multilateral and bilateral agencies harmonize their individual requirements around country systems that incorporate

internationally recognized good practices. The UCS program is also an element of the Bank's commitment to the harmonization objectives of the Paris Declaration on Aid Effectiveness. Following the Bank, the new environmental and social safeguard policies of the IDB include provisions for UCS and the draft revised policies of the ADB and AfDB do so as well.

60. The UCS pilots are achieving this sort of harmonization on three different levels.

- *Partnership in UCS diagnostic work and project preparation.* The Bank and AfDB jointly conducted the equivalence analysis and acceptability assessment for the Ghana pilot, and the SDR is a product of both banks. AfDB subsequently became a co-financier in the project. Ghana benefits from having one set of safeguard obligations for EA and PCR that it will meet through the use of its own systems and the implementation of the gap-filling measures agreed among AfDB, the Bank, and the Government.⁵ The initial UCS mission in Uganda was also a joint AfDB-Bank activity, and the Bank is now providing technical support for SDR completion since a project to be funded by AfDB has been identified and pre-appraised. The resulting SDR could serve as the basis for UCS in any future Bank-supported project in the Ugandan transport sector.
- *Co-financing agencies accepting UCS for safeguards implementation.* While AfDB is the only international development agency that participated directly in the UCS diagnostic work, numerous other co-financiers have accepted UCS in lieu of whatever requirements they might otherwise have called for in the respective projects. They are EIB, JBIC, ACGF,⁶ GPOBA, and the aid agencies of Finland, France and Switzerland. In the Egypt pilot, for example, all the financing agencies have adopted the Operations Manual that specifies the UCS-based safeguards arrangements for the project.
- *Other development agencies supporting gap-filling or otherwise recognizing the implementation of safeguards through UCS.* It was standard practice in all the pilots for Bank staff to keep donors informed on the progress of the UCS diagnostic work and the decision to use country systems in the projects. The donors were also invited to the stakeholder workshops that the respective governments held for consultation on the SDRs. In Bhutan, ADB and the Netherlands Development Agency (SNV) attended country systems meetings and expressed support for the process. Both are active in development finance in Bhutan. In Egypt, Danish International Development Assistance (DANIDA) had been supporting capacity development for environmental management prior to the Bank's project. Initially concerned about possible negative impacts of a publicly-disclosed assessment of the Egyptian EA system, it found the SDR to

⁵ There was a temporary setback when AfDB, in the course of preparing its co-financing project, requested an environmental assessment under AfDB procedures. This resulted from changes of personnel within AfDB and was eventually rectified, but it was greeted with understandable consternation in the ECG.

⁶ The fact that the Ghana Energy Development and Access Project was being implemented as a UCS pilot was one of the factors that made the project an attractive investment for the Africa Catalytic Grant Fund, which committed a grant of \$50 million to the project.

be useful and constructive and is now financing some of the follow-on activities. Canada is providing technical assistance funding to help JSIF strengthen its safeguards capacity, and JSIF will request that all donors financing its operations adhere to its new environmental and resettlement frameworks. Harmonization in Romania between the EC and the Bank resulted from the use of the country's EU-based system in the two Bank-financed projects. Moreover, projects that are being prepared under the TA component of the Romania pilot for eventual EU financing are being processed under the country/EU system. In Tunisia, KfW and GTZ are the two bilateral agencies most active in efforts to improve solid waste management, and, while initially somewhat concerned about the Bank's intervention in the sector, they have not objected to the UCS approach that has resulted.

IV. CONCLUSIONS AND LESSONS LEARNED

61. *The pilot program has demonstrated that the use of country systems for environmental and social safeguards is a viable approach to addressing these issues in the project preparation phase when there is equivalence and acceptability of the systems consistent with OP 4.00.* The pilots have also allowed for establishment of a sound methodology for the evaluation of country systems—the SDR—that will be further tested and improved as the pilot process continues.

62. *UCS pilots definitely increase borrower ownership of safeguards and contribute to improved Bank-borrower working relationships.* The main factor is satisfaction derived from having the country system recognized by the Bank. Borrowers are also pleased to have the opportunity to participate in the pilot program. They have also allowed Bank staff to focus more on the transfer of knowledge and development of skills to counterparts, which has long-term benefits. The increase was particularly dramatic in three countries, exemplified by their having asked the Bank to move outside of the sector of the pilot and assist them in improving safeguards systems at the national level.

63. *Based on the pilot projects approved and in implementation to date it is reasonable to conclude that country safeguards systems can help to achieve the objectives of Bank policy in two areas, Environmental Assessment (EA) and physical cultural resources (PCR).* The results for EA are particularly encouraging because EA provides the overall framework for the approach that the Bank and most borrowers take to environmental and social safeguards. EA and PCR were both piloted in every project in which they were triggered—all seven in the case of EA, and four for PCR. All measures to fill gaps in equivalence have been completed, and only one pilot experienced significant delays in gap-filling. Measures to achieve acceptability are essentially complete in all the projects, and the programs to sustain acceptability are proceeding without obvious problems other than minor delays. For the two most important performance indicators—quality of safeguards instruments and their effectiveness in managing environmental and social impacts—there are preliminary indications of positive results in Egypt, Jamaica and Tunisia, but it is too early in the lives of all seven projects for tangible outcomes. In some of the pilots, few if any sub-projects will require EAs, with the result that the full capability of the country system will not be tested.

64. *On the other hand, Involuntary Resettlement (IR) is a policy area in which individual pilots may not be the ideal vehicle for achieving the objectives of OP 4.00.* With respect to IR, the gaps are typically at a more fundamental policy level concerning objectives, eligibility and the basis for compensation. Gap-filling in resettlement policy may be more manageable in pilots at a national or institutional level that go beyond the scope of individual investment projects. The agencies typically involved with Bank-supported projects are not effective counterparts for efforts to promote changes in national land law. Initially triggered in four projects, resettlement was piloted in only one. Success was achieved in that case because the project's sole implementing entity, the Jamaica Social Investment Fund, was a special purpose agency with its own governing board. It had the authority to adopt for itself a resettlement policy equivalent to that of the Bank, whereas the overall country system was definitely not equivalent. Resettlement failed the equivalency test in two other projects, with differences too wide to address in gap-filling. In the fourth project, the SDR contained a list of gap-filling measures that the borrower rejected as unduly prescriptive. Perceiving the Bank as unwilling to compromise, it dropped from the project any investment that would trigger the resettlement policy.

65. *Although none of the pilot projects attempted to pilot the safeguard requirements pertaining to Indigenous Peoples, the situation differs from IR in that a number of countries have updated their legal and policy frameworks.* Moreover, some borrowers participating in the pilot program have indicated an interest and potential capacity in addressing social issues at the institutional level. Priority should be given in the next phase of the pilot program to testing the application of OP 4.00 on one or more projects involving Indigenous Peoples' issues.

66. *Natural habitats and safety of dams are each being piloted in one project, having been triggered in two apiece and there are no preliminary findings to report.* Ghana, the country where the two policies were triggered but determined to be not equivalent, has a good record in dam safety and abundant legislation to prevent or tightly regulate development in protected areas. However, Ghana does not have the specific requirement for dam safety panels and the outright prohibition on conversion of critical natural habitat. Few countries do. A lesson learned from this, is that if equivalence analysis can be made more pragmatic in order to accept alternative ways of achieving the safeguard objective, it will allow more country systems to be found equivalent.

67. *The systematic planning process for selection of pilot projects envisioned in the Issues Paper only materialized in MNA.* In the other regions, pilot projects were selected in an *ad hoc* manner based on national expressions of interest, project preparation schedules, availability of staff, and willingness of sector managers and task team leaders to participate. The Issues Paper anticipated that countries where CEAs or other studies had produced knowledge bases on country EA systems would be logical candidates for UCS pilots. It also promoted the idea of selecting countries with strong sectoral pipelines so that economies of scale could be derived from a single set of analyses, and it stated that Management was seeking a range of country and sectoral conditions and experiences. Although the potential for UCS has occasionally been highlighted in CAS

documentation, in general, however, the linkages to CEAs and the CAS process envisioned in the Issues Paper did not materialize.

68. *The lesson learned from the first seven pilots is that project selection depended more on finding a combination of: a country and a sector with reasonable potential, based on whatever knowledge the Bank staff had available; a project at the right stage in the pipeline; willing sector manager and country director; funding; and a qualified team with time to do the work.* A more rational approach would be possible if equivalence analysis and substantial portions of acceptability assessment were undertaken independently of project preparation schedules and budgets, in promising countries. This would allow sufficient time for more in-depth analysis and would provide sector managers and task team leaders advance information on what policy areas were ripe for UCS. It would also eliminate any stigma of “unfunded mandate” from the program.

69. *The measures to fill gaps in equivalence and achieve and sustain acceptability—the latter consisting mainly of capacity building activities—are already having positive influences in the project-related sectors, beyond the confines of the individual pilot projects.* This is an area where targeted use of funds from the Bank and bilateral donors can support the expanded use of country systems for projects supported by the Bank and other development partners.

70. *The UCS pilots are building capacity in five of the six countries, the sixth having just completed EU accession which implies that adequate capacity already exists there.* Although four of the seven projects include project implementation units in their implementing arrangements, capacity building exercises are targeted at the staff of the sectoral agencies, the national environmental agencies, and district and local governments. This ensures that capacity is built outside the boundaries of the project itself and that the persons who have developed skills and knowledge during the project will not be lost to the country when it closes. There are positive trends in the way safeguards functions are being conducted. The information is anecdotal and applies to three countries, but it indicates that the capacity building activities are having an effect.

71. *The question of the potential for pilots to influence guidelines and performance country-wide shows that where country policies have close alignment to established international practice, such as in EA or PCR, there are signs that the pilot projects can have a strong effect on national policy.* A necessary condition for success in realization of these benefits is the ready availability of funds and staff to support follow-on work, particularly when the borrower’s request for assistance comes as a direct result of the pilot. A pilot that, if successful, is going to lead quickly to scaling up in the country and/or sector, is one that borrowers and staff can understand as a genuine effort to reduce the cost of doing business with the Bank and strengthen not only borrower capacity but self-reliance and self-respect as practitioners of environmentally sound development. This necessitates an up-front commitment from the Bank to assist borrowers with supervision of UCS-related elements of the pilot projects and with follow-on technical assistance, supported by continuing staff participation and funding. Greater access to funds from the Bank and other development partners also could have a multiplier effect.

72. *The pilots have been time-consuming for the staff who worked on them—usually a team separate from the project preparation team with core members from OPCQC (formerly ESDQC), LEGEN, and the regional unit responsible for safeguards—but the work did not significantly affect project preparation schedules.* Most of the sector managers concerned made it clear in discussions of possible piloting that they could not tolerate a delay in scheduled delivery, and UCS teams tried diligently and, for the most part, successfully, to deliver the SDR on time. However LEGEN staff who worked on some of the pilots remain concerned that the quality of equivalence analysis could be affected by the compressed time schedule in countries where the Bank did not already have extensive information on the country system.

73. *The pilot program did not bring with it incentives for country and sector managers to participate that are as strong as the imperative to deliver the lending program on time.*

74. *There is no information yet on incremental costs to the Bank for pilot project implementation, but it is clear that participation in supervision by at least some member(s) of the relevant UCS team is appropriate and would likely require additional funds that have thus far materialized in only one of the seven pilots.*

75. *The costs of pilots are substantial. The average additional expenditure for the diagnostic work and other activities to ready the projects to be UCS pilots was \$104,000, nearly all of it for staff time and travel.* Even in Tunisia, cited in the Issues Paper as an example of a country where the incremental cost would be low because of the Bank's extensive existing knowledge base, preparing the SDR required \$159,000. Apart from \$10,000 to \$20,000 contributed to each pilot on request to OPCS, there was no dedicated funding for the UCS program. Most of the pilots were prepared without drawing on the project preparation budget or other sector management unit funds, using an *ad hoc* assemblage of country department and safeguards unit funds, the OPCS contribution, the time and travel of LEGEN and OPCQC staff that was covered by their units, and, in the case of MNA, some funding from METAP. Raising funds was a time-consuming task for the individual leading or championing each pilot, and a disincentive for enthusiastic participation in the UCS pilot program.

76. *There is no readily available data on incremental costs to the borrower for preparation of the pilot projects. The task team leaders were in general agreement, though, that borrowers bore little if any additional cost.* During implementation, borrowers will likely spend less than usual; the reason being that all of the projects are “sectoral” in scope, and borrowers will be able to use country systems to meet all EA requirements rather than having to comply with both national and Bank requirements. More substantial time and cost savings will likely accrue to borrowers in subsequent pilots, or in scaling up UCS sectorally or nationally; in either case, they will be able to capitalize on the diagnostic work and gap-filling already accomplished.

77. *Harmonization of donor requirements is being advanced through acceptance of UCS by co-financiers and other development partners active in the countries and sectors.* An individual borrower benefits from being able to use the country EA system in a

project with multiple financing institutions. That does not necessarily cause movement towards uniformity in the policies and procedures of those institutions, but the UCS program was not intended as a vehicle to achieve that form of harmonization. It may be looked on, however, as a demonstration of the value of eventual inter-agency harmonization. However, some donors believe that the Bank could take a more pragmatic approach to UCS that would provide greater opportunities for use of country systems than is currently the case.

78. *In order to accelerate the pilot program, internal constraints and disincentives will need to be addressed.* For country and sector managers, costs were clear, benefits were not. Delivery schedules were perceived to be at risk and there was no dedicated funding for the diagnostic work, capacity building, or follow-on activities. There was also concern that projects would be subject to extra scrutiny and require extra reviews. Some borrowers were suspicious of the Bank's motives and feared the results of the diagnostic study would be as prescriptive as the Bank's safeguard policies. In addition, some country and sector managers and task team leaders preferred to avoid the risk of engaging in a new approach to addressing safeguard policies.

79. *The staff who have been involved in the pilots see the program as a positive step for the Bank and believe that moving to country systems is vitally important.* However, they also believe that the UCS pilots have had high transaction costs that should be lowered and that the UCS program's incentives, for both borrowers and staff, need to be made clear. Borrowers are generally satisfied with their pilots, whereas all of the staff that have participated directly in the pilots, and some of their managers, have suggestions to improve the program.

80. *The Bank should continue the UCS pilot program. However, it needs adjustments including modified approaches for middle-income countries which have well-developed safeguards systems.* Many staff and borrowers applauded the issuance of OP 4.00 and the inception of UCS piloting because it signaled an intent to a move away from "Bank-dominated" approaches to safeguards and to be less prescriptive. Results from the application of the OP were mixed, in part because some Bank staff and borrowers misunderstood the OP to require that gap filling measures take place at a systemic level as a prerequisite to project approval, rather than through administrative measures undertaken at the project level prior to approval where feasible and during early project implementation where it made sense to do so. It is in this respect that the Bank needs to make greater efforts to be more pragmatic in its application of some of the more specialized Operational Principles of OP 4.00 Table A1 to corresponding borrower safeguard systems. It also needs to find a way of moving more directly to the use of country systems in countries where the systems have already been upgraded to international standards, albeit not the Bank's own, for example, by the EU accession process or participation in a regional trade agreement. In other cases, parastatals may have operational safeguards systems that are or could easily be fully acceptable under OP 4.00, even in countries in which the pertinent legislation and regulations are not equally rigorous. Insisting that the first step be a pilot project in these cases is inefficient and should be replaced by a modified approach that allows for examination of the systems in

use at the country, sub-national, sectoral or parastatal enterprise level to allow for broader application of the principles of OP 4.00.

V. RECOMMENDATIONS

81. The overall recommendation from this evaluation is to continue the UCS pilot program but with important adjustments to enhance and accelerate benefits, manage costs, and eliminate barriers.

- Scale up of the SDR to the country or sub-national level as a free-standing exercise distinct from the preparation of any specific project. This approach would focus on the analysis of equivalence and overall acceptability, that is, the portions that do not require detailed information on sectoral agencies, such as evaluation of governance in the context of environmental and social impact management. The results of the SDR would be applied to selected projects in the country, with gap-filling and capacity building measures tailored to the strengths and weaknesses of the implementing agencies responsible for each project.
- In large countries with diverse environmental and social safeguard systems and varying levels of regional and institutional capacity, take a subnational approach to scaling up, with implementation focused on the state and municipal levels or on parastatal institutions or special authorities, rather than central governmental institutions.
- In selecting countries for the safeguards analyses, give priority consideration to the interest on the part of the country, opportunities presented by the lending program, and the level of mutual trust that has been developed between the Bank and the borrower.
- Identify potential UCS candidate countries systematically on the basis of country safeguards as detailed in Country Environmental Assessments (CEA), SDRs from previous project-level pilots, Country Social Assessments, Strategic Environmental Assessments (SEA), safeguard harmonization analyses and other existing analytic tools. To support this process, guidance on preparation of CEAs should recommend giving systematic attention to equivalence and acceptability for safeguard policies under the UCS approach.
- Develop linkages between the UCS program and other Bank activities and instruments that offer opportunities to fill gaps and develop capacity in the long term: CEAs, the CAS process, Development Policy Lending that has environmental and social policy elements, policy dialogue in areas such as forestry and protected area management, and environmental lending operations.
- Provide a clear road map to the potential benefits that motivate both countries and staff to participate in a UCS pilot, and assure borrowers and staff, by having clear arrangements defined and in place, that they will be supported as they follow that road map.

- Develop a modified approach for the UCS program, to allow middle-income countries with well-developed systems, such as the new Member States of the European Union, to move to full use of country systems in some or all sectors, following an analysis of equivalence and acceptability, without the intermediate step of a pilot project. For new Member States of the European Union and accession countries, the analysis should be conducted in close coordination with the European Commission, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). This approach could also apply to parastatal companies with international quality safeguards procedures and some countries that have committed themselves to higher environmental standards as part of regional trade agreements.
- Consider provision of dedicated funds for the UCS program, from start to finish, not only for equivalence analysis and acceptability assessment at the national level, but also for immediate gap-filling, project supervision, and for quick response to borrower requests for longer-term capacity building assistance.
- Clarify for staff that gap-filling can be seen as a continuum: some gaps in equivalence need to be filled in the country system to make it consistent with the objectives in Table A1 of OP 4.00, but others (for instance, those that are specific to the Bank, such as the critical habitat conversion prohibition in OP 4.04) may be better addressed in project-specific arrangements that are then incorporated in the legal agreements.
- In the application of OP 4.00, in particular with respect to the identification of appropriate gap-filling measures, seek solutions for these two criticisms of the Bank's UCS program: (i) the program is Bank-dominated, not oriented toward borrowers' circumstances, and (ii) it is inflexible and prescriptive. The way forward on these issues should include at least the following steps:
 - Recognize that there is a difference between reputational risk for the Bank and actual risk of adverse environmental or social impact for the borrower. A borrower's safeguards system does not need to include provisions to protect the Bank from reputational risks that are specific to itself, as long as any Bank-funded projects supported under a UCS program have adequate protections against those risks that can be effectively implemented.⁷
 - Where such reputational risks or substantively intractable gaps are identified, such as the prohibition on conversion of critical habitat, or eligibility for resettlement assistance for individuals that the borrower considers illegal occupants, address these as additional requirements in the legal agreements in Bank-supported projects, rather than insisting that they be incorporated in

⁷ For example, a gap in the borrower's EA system relative to the requirement in OP 4.00 Table A1, that the borrower's system normally apply the Pollution Prevention and Abatement Handbook (PPAH) and justify deviations when alternatives to measures set forth in the PPAH are selected, is not a risk to the borrower so long as its environmental mitigation requirements are consistent with some internationally recognized standard, not necessarily the PPAH.

country systems.

- Without diluting the objective, principles and outcomes of the Bank's safeguard policies, seek to reach agreements with borrowers for gap-filling measures for some less critical safeguard elements during project implementation rather than requiring that all gaps be filled prior to project effectiveness. However, this may require that more Bank resources be applied to supervision during project implementation than would be the case were all gaps to be filled prior to implementation.
- Formulate monitoring measures to estimate borrowers' safeguards costs under UCS, to compare them with costs in "normal" projects and to identify trends in additional project-level pilots as well as in scaling up to the national level.
- Looking ahead, and assuming continuation of positive results from the UCS pilot program, there is a possibility that the UCS approach may be mainstreamed into the Bank's lending portfolio, at least for certain countries and sectors. If such were to be the case, there will be a need for a more proactive approach to the SDR process and other environmental and social assessments and supervision instruments relative to the project cycle. In order to realize this approach, staff will need guidelines for operations in a UCS environment.

ANNEX 1. DOCUMENTS REVIEWED

Bhutan

- *Project Appraisal Document on a Proposed IDA Grant in the Amount of SDR6.7 Million (US\$10 Million Equivalent) to the Kingdom of Bhutan for a Second Rural Access Project.* Report No. 38312-BT, March 12, 2007.
- *Safeguards Diagnostic Review for Piloting the Use of Bhutanese Systems to Address Environmental and Social Safeguards Issues in the Proposed World Bank-Assisted Rural Access II Project: Equivalence and Acceptability Report.* November 2006.

Egypt

- *Project Appraisal Document on a Proposed Loan in the Amount of US\$20 Million to the Arab Republic of Egypt for a Second Pollution Abatement Project.* Report No. 33433-EG, February 27, 2006.
- *Safeguards Diagnostic Review for Piloting the Use of Egyptian Systems to Address Environmental Safeguards Issues in the Proposed World Bank-Assisted Egypt Pollution Abatement Project II: Equivalence and Acceptability Assessment Report.* December 2005.
- *Aide Mémoire. Egypt Second Pollution Abatement Project, Supervision Mission,* September 11-25, 2006.

Ghana

- *Project Appraisal Document on a Proposed Credit in the Amount of SDR59.1 Million (US\$90.0 Million Equivalent) and a Proposed Grant from the Global Environment Facility Trust Fund in the Amount of US\$5.5 Million to the Republic of Ghana for an Energy Development and Access Project.* Report No. 39713-GH, June 25, 2007.
- *Safeguards Diagnostic Review for Piloting the Use of Ghanaian Systems to Address Environmental Safeguard Issues in the Proposed World Bank-Assisted Ghana Energy Development and Access Project (GEDAP): Equivalence and Acceptability Report.* December 2006.

Jamaica

- *Project Appraisal Document for a Proposed Loan in the Amount of US\$29.3 Million to Jamaica for an Inner City Basic Services for the Poor Project.* Report No. 34741-JM, May 3, 2006.
- *Safeguards Diagnostic Review for Piloting the Use of Jamaican Systems to Address Environmental and Social Safeguard Issues in the Proposed World Bank-Assisted Inner City Basic Services for the Poor Project (ICBSP): Equivalence and Acceptability Assessment Report.* January 2006.

- *Aide Mémoire. Jamaica: Inner City Basic Services Project (ICBSP) Supervision Mission*, September 11-15, 2006.

Romania

- *Project Appraisal Document on a Proposed Loan in an Amount Equal to EUR 106.2 Million (US\$131.7 Million Equivalent to Romania for a Municipal Services Project*. Report No. 35843-RO, May 25, 2006.
- *Project Appraisal Document on a Proposed Loan in the Amount of US\$180 Million to Romania for a Transport Sector Support Project*. Report No. 35702-RO, October 6, 2006.
- *Safeguards Diagnostic Review for Piloting the Use of Romanian Systems to Address Environmental Safeguard Issues in the Proposed World Bank-Assisted Romania Municipal Services Project and Transport Sector Support Project: Equivalence and Acceptability Assessment Report*. May 2006.

Tunisia

- *Project Appraisal Document on a Proposed Loan in the Amount of EUROS 16.8 Million (US\$22.0 Million Equivalent) to the Republic of Tunisia for a Sustainable Municipal Solid Waste Management Project*. Report No. 35611-TN, February 12, 2007.
- *Safeguards Diagnostic Review for Piloting the Use of Tunisian Systems to Address Environmental Safeguard Issues in the Proposed World Bank-Assisted Tunisia Sustainable Management of Municipal Waste Project: Equivalence and Acceptability Report*. March 2006.
- *Follow-up on the Implementation Measures for the Use of Country Systems. A workshop and mission report*, May 22, 2007.

Mexico

- *Project Appraisal Document on a Proposed Loan in the Amount of US\$ 108.0 Million to the National Bank of Public Works and Services (BANOBRAS) with the Guarantee of the United Mexican States for a Decentralized Infrastructure Reform and Development Loan Project*. Report No. 28599-ME, April 23, 2004.
- *Implementation Status Report: Mexico Decentralized Infrastructure Development Project (Project ID: P080149 – Loan/Credit No.: 72300*. June 4, 2007
- *MX Decentralized Infrastructure Reform Project (FESI) – P080149 – Mid-Term Review Mission – Back-to-Office Report*. November 13, 2006.

General

- *Expanding the Use of Country Systems in Bank-Supported Operations: Issues and Proposals.* World Bank Board Paper, March 2005.
- *Interim Guidance Note: Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects.* June 21, 2005.
- OP/BP 4.00, *Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects.*

OP 4.00 - Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects

These policies were prepared for use by World Bank staff and are not necessarily a complete treatment of the subject.

OP 4.00
March, 2005

Section E of Table A1 was revised in July 2005 to ensure consistency with the requirements of [OP/BP 4.10](#), *Indigenous Peoples*, issued in July 2005. Section G of Table A1 was revised in July 2006 following issuance of [OP/BP 4.11](#), *Physical Cultural Resources*.

Note: OP and [BP 4.00](#) are based on proposals in *Expanding the Use of Country Systems in Bank-Supported Operations: Issues and Proposals* (R2005-0018/2) that were approved by Executive Directors on March 18, 2005. OP and BP 4.00 apply to Bank-supported projects that pilot the use of borrower systems to address environmental and social safeguard issues and that are approved by the Board as part of the pilot program on or after March 21, 2005. General questions on using country systems in World Bank-supported projects should be addressed to the Adviser, Investment Lending Unit, Operations Policy and Country Services. Questions on environmental and social safeguards aspects of pilot operations should be directed to the Senior Adviser, Quality Assurance and Compliance Unit in the Environmentally and Socially Sustainable Development Network.

1. The Bank's¹ environmental and social ("safeguard") policies² are designed to avoid, mitigate, or minimize adverse environmental and social impacts of projects supported by the Bank. The Bank encourages its borrowing member countries to adopt and implement systems³ that meet these objectives while ensuring that development resources are used transparently and efficiently to achieve desired outcomes. To encourage the development and effective application of such systems and thereby focus on building borrower capacity beyond individual project settings, the Bank is piloting the use of borrower systems in Bank-supported projects. The key objective of the pilot program is to improve overall understanding of implementation issues related to greater use of country systems.

2. **Equivalence and Acceptability.** The Bank considers a borrower's environmental and social safeguard system to be equivalent to the Bank's if the borrower's system is designed to achieve the objectives and adhere to the applicable operational principles set out in [Table A1](#). Since equivalence is determined on a policy-by-policy basis, the Bank may conclude that the borrower's system is equivalent to the Bank's in specific environmental or social safeguard areas in particular pilot projects, and not in other such areas. Before deciding on the use of borrower systems, the Bank also assesses the acceptability of the borrower's implementation practices, track record, and capacity.⁴

3. **Addressing Gaps.** If the borrower has to fill gaps in its system to meet the objectives and applicable principles in [Table A1](#) and is committed to doing so, the Bank may, when determining

¹ "Bank" includes IBRD and IDA; "loan" includes IDA credit and IDA grant; and "borrower" includes grant recipient.

² The Bank's environmental and social safeguards policies and procedures are: OP/BP 4.01, Environmental Assessment; OP/BP 4.04, Natural Habitats; OP 4.09, Pest Management; OP/BP 4.10, Indigenous Peoples; OP/BP 4.11, Physical Cultural Resources; OP/BP, 4.12, Involuntary Resettlement; OP 4.36, Forests; and OP/BP 4.37, Safety of Dams.

³ When used in this policy statement "country systems" means a country's legal and institutional framework, consisting of its national, subnational, or sectoral implementing institutions and applicable laws, regulations, rules, and procedures.

⁴ As the applicable statement for the pilots, this OP and BP will apply only to those areas where the Bank has determined equivalence. The Bank's environmental and social safeguard policies will apply to the areas which the Bank has determined not to be equivalent to its applicable policy framework and will continue to apply to all projects that are not part of the pilot program. Pilot projects will be subject to all other applicable policies and procedures.

equivalence take account of measures to improve the borrower's system. Similarly if the borrower has to fill gaps in implementation practices and capacity to achieve acceptability and is committed to doing so, the Bank may, when determining acceptability, take account of measures to strengthen borrower implementation practices and capacity. Such measures are to be carried out before the borrower undertakes implementation of the relevant project activities, and may include Bank-supported efforts to strengthen relevant capacity, incentives and methods for implementation.

4. Borrower Role and Obligations. The borrower is responsible for achieving and maintaining equivalence as well as acceptable implementation practices, track record, and capacity, in accordance with the Bank's assessment. For each project, the borrower identifies those provisions of the country system that are necessary to ensure that the requirements of [Table A1](#) are met. These provisions may vary from project to project, depending on such factors as the structure of the country's system and the type of operation. In all cases, the specific provisions of the country system and any additional actions that the borrower needs to undertake to achieve and maintain equivalence and acceptable implementation become part of the borrower's contractual obligations to the Bank, subject to the Bank's normal contractual remedies (e.g., suspension of disbursements).

5. Bank Responsibility. The Bank is responsible for determining the equivalence and acceptability of borrower systems, and for appraising and supervising pilot projects that use these systems. The Bank carries out its responsibility, including supervision⁵ of borrower implementation practices, track record, and capacity, in a manner proportional to potential impacts and risks. The Bank may explore with the borrower (and, as appropriate, third-parties) the feasibility of arrangements to strengthen ownership and country capacity to implement specific operational principles in [Table A1](#). Without limitation to its responsibility under this paragraph, the Bank may also explore with the borrower (and, as appropriate, third-parties) the feasibility of establishing alternative monitoring arrangements for overseeing the implementation of the project.

6. Changes in Borrower Systems and Bank Remedies. If, during project implementation, there are changes in applicable legislation, regulations, rules or procedures, the Bank assesses the effect of those changes and discusses them with the borrower. If, in the judgment of the Bank, the changes reflect a further improvement in the country systems, and if the borrower so requests, the Bank may agree to revise the legal framework applicable to the operation to reflect these improvements, and to amend the legal agreement as necessary. Management documents, explains, and justifies any changes to such framework, and submits them for Board approval (normally on an absence of objection basis). If the country system is changed in a manner inconsistent with the legal framework agreed with the Bank, the Bank's contractual remedies apply.

7. Disclosure. To promote transparency and facilitate accountability, the Bank makes public through the PID early in the project cycle its intent to use country systems in a proposed pilot operation. It updates this information as project development proceeds. At a later stage, but prior to beginning appraisal, the Bank makes publicly available its analysis of equivalence of borrower systems and Bank requirements and its assessment of the acceptability of borrower implementation practices, track record, and capacity (including a description of the applicable borrower systems and of actions that would achieve and sustain equivalence and acceptability). In addition, the Bank ensures that relevant project-related environmental and social safeguard documents (see [Table A1](#)), including the procedures prepared for projects involving subprojects, are disclosed in a timely manner before project appraisal formally begins, in an accessible place and understandable form and language to key stakeholders.

⁵ OP/BP 13.05, Project Supervision, applies to pilot projects.

Table A1 of OP 4.00, Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects

<i>Objectives</i>	<i>Operational Principles</i>
A. Environmental Assessment	
<p>To help ensure the environmental and social soundness and sustainability of investment projects.</p> <p>To support integration of environmental and social aspects of projects into the decision making process.</p>	<ol style="list-style-type: none"> 1. Use a screening process for each proposed project, as early as possible, to determine the appropriate extent and type of environmental assessment (EA) so that appropriate studies are undertaken proportional to potential risks and to direct, and, as relevant, indirect, cumulative, and associated impacts. Use sectoral or regional environmental assessment when appropriate. 2. Assess potential impacts of the proposed project on physical, biological, socio-economic and physical cultural resources, including trans-boundary and global concerns, and potential impacts on human health and safety. 3. Assess the adequacy of the applicable legal and institutional framework, including applicable international environmental agreements, and confirm that they provide that the cooperating government does not finance project activities that would contravene such international obligations. 4. Provide for assessment of feasible investment, technical, and siting alternatives, including the "no action" alternative, potential impacts, feasibility of mitigating these impacts, their capital and recurrent costs, their suitability under local conditions, and their institutional, training and monitoring requirements associated with them. 5. Where applicable to the type of project being supported, normally apply the Pollution Prevention and Abatement Handbook (PPAH). Justify deviations when alternatives to measures set forth in the PPAH are selected. 6. Prevent and, where not possible to prevent, at least minimize, or compensate for adverse project impacts and enhance positive impacts through environmental management and planning that includes the proposed mitigation measures, monitoring, institutional capacity development and training measures, an implementation schedule, and cost estimates. 7. Involve stakeholders, including project-affected groups and local nongovernmental organizations, as early as possible, in the preparation process and ensure that their views and concerns are made known to decision makers and taken into account. Continue consultations throughout project implementation as necessary to address EA-related issues that affect them. 8. Use independent expertise in the preparation of EA where appropriate. Use independent advisory panels during preparation and implementation of projects that are highly risky or contentious or that involve serious and multi-dimensional environmental and/or social concerns. 9. Provide measures to link the environmental assessment process and findings with studies of economic, financial, institutional, social and technical analyses of a proposed project. 10. Provide for application of the principles in this Table to subprojects

under investment and financial intermediary activities.

11. Disclose draft EA in a timely manner, before appraisal formally begins, in an accessible place and in a form and language understandable to key stakeholders.

<i>Objectives</i>	<i>Operational Principles</i>
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B. Natural Habitats

To promote environmentally sustainable development by supporting the protection, conservation, maintenance, and rehabilitation of natural habitats and their functions.

1. Use a precautionary approach to natural resources management to ensure opportunities for environmentally sustainable development. Determine if project benefits substantially outweigh potential environmental costs.
2. Avoid significant conversion or degradation of critical natural habitats, including those habitats that are (a) legally protected, (b) officially proposed for protection, (c) identified by authoritative sources for their high conservation value, or (d) recognized as protected by traditional local communities.
3. Where projects adversely affect non-critical natural habitats, proceed only if viable alternatives are not available, and if appropriate conservation and mitigation measures, including those required to maintain ecological services they provide, are in place. Include also mitigation measures that minimize habitat loss and establish and maintain an ecologically similar protected area.
4. Whenever feasible, give preference to siting projects on lands already converted.
5. Consult key stakeholders, including local nongovernmental organizations and local communities, and involve such people in design, implementation, monitoring, and evaluation of projects, including mitigation planning.
6. Provide for the use of appropriate expertise for the design and implementation of mitigation and monitoring plans.
7. Disclose draft mitigation plan in a timely manner, before appraisal formally begins, in an accessible place and in a form and language understandable to key stakeholders.

<i>Objectives</i>	<i>Operational Principles</i>
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C. Pest Management [This text refers to Integrated Pest Management (IPM) as defined in OP 4.09].

To minimize and manage the environmental and health risks associated with pesticide use and promote and support safe, effective, and environmentally sound pest management.

1. Promote use of demand driven, ecologically based biological or environmental pest management practices (Integrated Pest Management [IPM] in agricultural projects and Integrated Vector Management [IVM] in public health projects) and reduce reliance on synthetic chemical pesticides. Include assessment of pest management issues, impacts and risks in the EA process.
2. Procure pesticides contingent on an assessment of the nature and degree of associated risks, taking into account the proposed use and intended users. Do not procure formulated products that are in WHO

Classes IA and IB, or formulations of products in Class II unless there are restrictions that are likely to deny use or access to lay personnel and others without training or proper equipment Reference: WHO's "Recommended Classification of Pesticides by Hazard and Guidelines to Classification" (IOMC, 2000-2002).

3. Follow the recommendations and minimum standards as described in the United Nations Food and Agriculture Organization (FAO) International Code of Conduct on the Distribution and Use of Pesticides (Rome, 2003) and procure only pesticides that are manufactured, labeled, handled, stored, applied and disposed of according to acceptable standards as described in FAO Pesticide Guidelines on Storage, Labeling, and Disposal (Rome, 1985).

4. Support policy reform and institutional capacity development to (a) enhance implementation of IPM- and IVM-based pest management, and (b) regulate and monitor the distribution and use of pesticides.

5. Disclose draft mitigation plan in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders.

Objectives

Operational Principles

D. Involuntary Resettlement

To avoid or minimize involuntary resettlement and, where this is not feasible, to assist displaced persons in improving or at least restoring their livelihoods and standards of living in real terms relative to pre-displacement levels or to levels prevailing prior to the beginning of project implementation, whichever is higher.

1. Assess all viable alternative project designs to avoid, where feasible, or minimize involuntary resettlement.

2. Through census and socio-economic surveys of the affected population, identify, assess, and address the potential economic and social impacts of the project that are caused by involuntary taking of land (e.g., relocation or loss of shelter, loss of assets or access to assets, loss of income sources or means of livelihood, whether or not the affected person must move to another location) or involuntary restriction of access to legally designated parks and protected areas.

3. Identify and address impacts also if they result from other activities that are (a) directly and significantly related to the proposed project, (b) necessary to achieve its objectives, and (c) carried out or planned to be carried out contemporaneously with the project.

4. Consult project-affected persons, host communities and local nongovernmental organizations, as appropriate. Provide them opportunities to participate in the planning, implementation, and monitoring of the resettlement program, especially in the process of developing and implementing the procedures for determining eligibility for compensation benefits and development assistance (as documented in a resettlement plan), and for establishing appropriate and accessible grievance mechanisms. Pay particular attention to the needs of vulnerable groups among those displaced, especially those below the poverty line, the landless, the elderly, women and children, Indigenous Peoples, ethnic minorities, or other displaced persons who may not be protected through national land compensation legislation.

5. Inform displaced persons of their rights, consult them on options, and provide them with technically and economically feasible resettlement alternatives and needed assistance, including (a) prompt compensation at full replacement cost for loss of assets attributable to the project; (b) if there is relocation, assistance during relocation, and residential housing, or

housing sites, or agricultural sites of equivalent productive potential, as required; (c) transitional support and development assistance, such as land preparation, credit facilities, training or job opportunities as required, in addition to compensation measures; (d) cash compensation for land when the impact of land acquisition on livelihoods is minor; and (e) provision of civic infrastructure and community services as required.

6. Give preference to land-based resettlement strategies for displaced persons whose livelihoods are land-based.

7. For those without formal legal rights to lands or claims to such land that could be recognized under the laws of the country, provide resettlement assistance in lieu of compensation for land to help improve or at least restore their livelihoods.

8. Disclose draft resettlement plans, including documentation of the consultation process, in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders.

9. Apply the principles described in the involuntary resettlement section of this Table, as applicable and relevant, to subprojects requiring land acquisition.

10. Design, document, and disclose before appraisal of projects involving involuntary restriction of access to legally designated parks and protected areas, a participatory process for: (a) preparing and implementing project components; (b) establishing eligibility criteria; (c) agreeing on mitigation measures that help improve or restore livelihoods in a manner that maintains the sustainability of the park or protected area; (d) resolving conflicts; and (e) monitoring implementation.

11. Implement all relevant resettlement plans before project completion and provide resettlement entitlements before displacement or restriction of access. For projects involving restrictions of access, impose the restrictions in accordance with the timetable in the plan of actions.

12. Assess whether the objectives of the resettlement instrument have been achieved, upon completion of the project, taking account of the baseline conditions and the results of resettlement monitoring.

Objectives

Operational Principles

E. Indigenous Peoples

To design and implement projects in a way that fosters full respect for Indigenous Peoples' dignity, human rights, and cultural uniqueness and so that they: (a) receive culturally compatible social and economic benefits; and (b) do not suffer adverse effects during the development process.

1. Screen early to determine whether Indigenous Peoples are present in, or have collective attachment to, the project area. Indigenous Peoples are identified as possessing the following characteristics in varying degrees: self-identification and recognition of this identity by others; collective attachment to geographically distinct habitats or ancestral territories and to the natural resources in these habitats and territories; presence of distinct customary cultural, economic, social or political institutions; and indigenous language.

2. Undertake free, prior and informed consultation with affected Indigenous Peoples to ascertain their broad community support for projects affecting them and to solicit their participation: (a) in designing, implementing, and monitoring measures to avoid adverse impacts, or, when avoidance is not

feasible, to minimize, mitigate, or compensate for such effects; and (b) in tailoring benefits in a culturally appropriate manner.

3. Undertake social assessment or use similar methods to assess potential project impacts, both positive and adverse, on Indigenous Peoples. Give full consideration to options preferred by the affected Indigenous Peoples in the provision of benefits and design of mitigation measures. Identify social and economic benefits for Indigenous Peoples that are culturally appropriate, and gender and inter-generationally inclusive and develop measures to avoid, minimize and/or mitigate adverse impacts on Indigenous Peoples.

4. Where restriction of access of Indigenous Peoples to parks and protected areas is not avoidable, ensure that the affected Indigenous Peoples' communities participate in the design, implementation, monitoring and evaluation of management plans for such parks and protected areas and share equitably in benefits from the parks and protected areas.

5. Put in place an action plan for the legal recognition of customary rights to lands and territories, when the project involves: (a) activities that are contingent on establishing legally recognized rights to lands and territories that Indigenous Peoples traditionally owned, or customarily used or occupied; or (b) the acquisition of such lands.

6. Do not undertake commercial development of cultural resources or knowledge of Indigenous Peoples without obtaining their prior agreement to such development.

7. Prepare an Indigenous Peoples Plan that is based on the social assessment and draws on indigenous knowledge, in consultation with the affected Indigenous Peoples' communities and using qualified professionals. Normally, this plan would include a framework for continued consultation with the affected communities during project implementation; specify measures to ensure that Indigenous Peoples receive culturally appropriate benefits, and identify measures to avoid, minimize, mitigate or compensate for any adverse effects; and include grievance procedures, monitoring and evaluation arrangements, and the budget for implementing the planned measures.

8. Disclose the draft Indigenous Peoples Plan, including documentation of the consultation process, in a timely manner before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders.

9. Monitor implementation of the Indigenous Peoples Plan, using experienced social scientists.

Objectives

Operational Principles

F. Forests

To realize the potential of forests to reduce poverty in a sustainable manner, integrate forests effectively into sustainable economic development, and protect the vital local and global environmental services and

1. Screen as early as possible for potential impacts on forest health and quality and on the rights and welfare of the people who depend on them. As appropriate, evaluate the prospects for new markets and marketing arrangements.

2. Do not finance projects that would involve significant conversion or degradation of critical forest areas or related critical natural habitats, or that would contravene applicable international environmental agreements.

values of forests.

3. Do not finance natural forest harvesting or plantation development that would involve any conversion or degradation of critical forest areas or related critical natural habitats.
4. Support projects that adversely impact non-critical natural forests or related natural habitats only if viable alternatives to the project are not available and only if appropriate conservation and mitigation measures are in place.
5. Support commercial, industrial-scale forest harvesting only when the operation is certified, under an independent forest certification system, as meeting, or having a time-bound action plan to meet, internationally recognized standards of responsible forest management and use.
6. Ensure that forest restoration projects maintain or enhance biodiversity and ecosystem functionality and that all plantation projects are environmentally appropriate, socially beneficial and economically viable.
7. Give preference to small-scale community-level management approaches where they best reduce poverty in a sustainable manner.
8. Support commercial harvesting by small-scale landholders, local communities or entities under joint forest management where monitoring with the meaningful participation of local communities demonstrates that these operations achieve a standard of forest management consistent with internationally recognized standards of responsible forest use or that they are adhering to an approved time-bound plan to meet these standards.
9. Use forest certification systems that require: (a) compliance with relevant laws; (b) recognition of, and respect for, legal or customary land tenure and use rights as well as the rights of Indigenous Peoples and workers; (c) measures to enhance sound community relations; (d) conservation of biological diversity and ecological functions; (e) measures to maintain or enhance environmentally sound multiple benefits from the forest; (f) prevention or minimization of environmental impacts; (g) effective forest management planning; (h) active monitoring and assessment of relevant forest management areas; and (i) independent, cost effective, third-party assessment of forest management performance against measurable performance standards defined at the national level and compatible with internationally accepted principles and criteria of sustainable forest management through decision making procedures that are fair, transparent, independent, designed to avoid conflict of interest and involve the meaningful participation of key stakeholders, including the private sector, Indigenous Peoples, and local communities.
10. Disclose any time-bound action plans in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders.

Objectives

Operational Principles

G. Physical Cultural Resources

To assist in preserving physical cultural resources and avoiding their destruction or damage. PCR includes resources of archaeological, paleontological,

1. Use an environmental assessment (EA) or equivalent process to identify PCR and prevent or minimize or compensate for adverse impacts and enhance positive impacts on PCR through site selection and design.
2. As part of the EA, as appropriate, conduct field based surveys, using

historical, architectural, religious (including graveyards and burial sites), aesthetic, or other cultural significance.

qualified specialists.

3. Consult concerned government authorities, relevant non-governmental organizations, relevant experts and local people in documenting the presence and significance of PCR, assessing the nature and extent of potential impacts on these resources, and designing and implementing mitigation plans.

4. For materials that may be discovered during project implementation, provide for the use of “chance find” procedures in the context of the PCR management plan or PCR component of the environmental management plan.

5. Disclose draft mitigation plans as part of the EA or equivalent process, in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders.

Objectives

Operational Principles

H. Safety of Dams

To assure quality and safety in the design and construction of new dams and the rehabilitation of existing dams, and in carrying out activities that may be affected by an existing dam.

1. Identify existing dams and dams under construction that can influence the performance of the project and implement necessary safety measures/remedial works.

2. Use experienced and competent professionals to design and supervise the construction, operation, and maintenance of dams and associated works.

3. Develop detailed plans, including for construction supervision, instrumentation, operation and maintenance and emergency preparedness.

4. Use independent advice on the verification of design, construction, and operational procedures and appoint independent panels of experts for large or high hazard dams.

5. Use contractors that are qualified and experienced to undertake planned construction activities.

6. Carry out periodic safety inspections of new/rehabilitated dams after completion of construction/rehabilitation, review/monitor implementation of detailed plans and take appropriate action as needed.