

## **U.S. Position on 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, January 31, 2008**

The U.S. supports strengthened country systems as a core development objective. Thus, we are generally supportive of experimenting with UCS largely because of the opportunity it offers to strengthen safeguard capacity and enhance borrowing country ownership of the safeguards process. Building such capacity and ownership is especially important in those countries where non-MDB lending is growing in relative importance. That said, UCS must be based on mutually verifiable and agreed best practices as well as adequate implementation capacity.

The Bank is now asking to expand the pilot UCS program. We appreciate that Management has conducted an evaluation and returned with a set of recommendations based on an interim evaluation of the UCS to date. We concur with many but not all of the recommendations. Underlying our concerns is that the logical linkage between evaluation findings and some recommendations is not entirely clear; we suspect this is due to the preliminary nature of the evaluation. An added reason for our caution regarding the scaling-up and other proposed changes is that the Bank's UCS program is being used as a model for IDB, ADB, and AfDB – it's critical for the Bank to 'get it right' before others roll UCS out more broadly.

### **Scaling up to National or Subnational Level**

We understand that staff time and travel contribute to high preparation costs for UCS, and that the recommendation to scale up UCS to the national or subnational level is based in part on the finding that fixed costs would be easier to absorb if spread over a number of transactions rather than just one. However, presumably there are also additional fixed and variable costs associated with such a scale-up. Unfortunately, the evaluation findings do not shed light on whether the cost-spreading benefits are worth the incremental costs, nor are data available on the incremental costs to borrowers, nor where funds would be sourced to cover these incremental costs.

### **Flexibility in Determining Equivalence**

We understand that borrowers want the Bank to be more flexible in determining equivalence. According to the evaluation paper (p. 30): "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." Aside from recording borrower perspectives, the evaluation sheds little light on whether this is achievable, or advisable. None of the pilots had undergone a full supervision mission focusing on the implementation of country systems, and, according to the paper, it is too early for tangible outcomes to be fully evaluated. Without data on tangible outcomes, we can't tell how well the safeguard objective was achieved under a given equivalence

determination.

The Bank is contemplating a short-cut approach (no pilot projects required) for EU accession countries, those in which higher environmental standards are to be part of regional trade agreements, and parastatal companies. Following an analysis of equivalence, the Bank would move to full use of country systems for some or all sectors.

The rationale given on p. 31 (based on only one pilot) is that EU accession or trade agreements imply that such countries already have adequate environmental safeguard capacity. The evaluation paper presents no data to support this conclusion, and we would urge a more rigorous and complete analysis before lurching to 'fast-track' determination of equivalence.

### **Flexibility in Gap-Filling**

We do not see how the evaluation findings as presented support greater flexibility in gap-filling. Given that a key goal of UCS is to strengthen long term country capacity, we would have thought that more attention would be devoted to determining the extent to which gaps were filled on the basis of laws or published regulations based on rulemaking processes versus temporary guidelines that may not be enforceable beyond the Bank operation in question. This flexibility does not seem relevant to a transition to national level UCS. If anything, a move to national level pilots should be accompanied by a move to require permanent capacity-building measures that can be implemented ahead of individual operations.

The Bank would like to adopt the approach that those safeguard provisions for which there is not a country counterpart (such as prohibition on conversion of critical habitat) do not require gap-filling. Again, this proposal does not appear based on empirical evaluation findings but rather on stakeholder perceptions. Our view is that the World Bank's safeguard policies represent a model of international good practice, and that specific provisions exist not just to protect the Bank from reputational risk but because they promote sustainable development. We are concerned that such flexibility in gap-filling would undermine the UCS goal of strengthening country capacity.

We understand that OP4.00 allows gaps in equivalence to be filled through administrative measures undertaken at the project level preferably prior to approval when feasible and during early project implementation where it makes sense to do so. In its response to one of our questions, the Bank acknowledged that "not all gap-filling measures necessary for compliance with OP4.00 can reasonably be expected to be completed prior to Board approval." We are concerned that 1) there is no publicly available deadline as to when gaps must be filled, 2) it is unclear what standards prevail in the interim, and 3) the incentive to fill gaps after a project is approved diminishes, especially given uncertainty about how to cover the incremental costs of implementation and supervision, to both the borrower and Bank. Also, this sequencing flexibility seems geared to project-level UCS; scaling up to country-level UCS would seem to preclude the application of temporary measures.

## **Clarify Costs and Benefits**

We are disturbed by the Evaluation's assertion (p. 33) that, this far into the UCS program, the benefits from UCS are not clear to country and sector managers. Providing a clear road map of the potential benefits (i.e., enhanced borrower capacity, more effective risk management, and ownership of the safeguards process) will help build support for the UCS approach among country and sector managers, if lack of clarity is merely a function of communicating these benefits more effectively. Unfortunately, the evaluation does not indicate whether this is the case or whether the presumed benefits themselves are, in fact, illusory.

## **Conclusion**

The transition to full use of country systems must be underpinned by best practice and sufficient implementation capacity at the country level. The pilot program for environmental and social safeguards is a step in the right direction, but we believe it has not yet yielded sufficiently robust data and findings to justify all of the recommended changes at this time. Rather, we recommend the following:

We would prefer to see this pilot phase extended, by a period of 9 or 12 months, if not longer, in order for a more robust set of findings and conclusions to emerge, rather than rushing to scaling-up prematurely.

If and when UCS is scaled up to the national or subnational level, we suggest that the Bank publish the methods and criteria for conducting each Safeguard Diagnostic Review, the findings on equivalence, and the gap-filling measures to be required.

We would welcome input from the Inspection Panel regarding the evaluation of the pilot, given their earlier input to the formulation of OP4.00.

Finally, we would welcome an IEG review after two years.