

## **MANAGEMENT RESPONSE TO THE SPECIAL EVALUATION STUDY ON ENVIRONMENTAL SAFEGUARDS**

On 22 September 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

### **I. General Comments**

1. Management greatly appreciates OED's efforts to respond expeditiously to the Development Effectiveness Committee's request for an evaluation of the environment safeguard elements of ADB's 2002 Environment Policy as an input to ADB's safeguard policy update.

2. We are aware that the Special Evaluation Study (SES) has significant limitations, which need to be taken into account when considering its findings and recommendations (paras. 22-25 of SES). In view of the research methodology, the narrow country coverage of the study, and the limited range of case studies reviewed, Management believes that there is a mismatch between the data and analysis provided in the SES and the sweeping nature of its findings, some of which are presented in rather definitive and generalized terms. We also note that the SES is specifically focused on the safeguard element of the environment policy, and therefore it has not reviewed ADB's wider efforts at mainstreaming the environment in its operations.<sup>1</sup>

3. The SES nevertheless raises a number of important issues, which are relevant to ADB's safeguard policy update. Management believes that the ongoing policy update process, including the planned consultations with a wide range of stakeholders, provides an appropriate vehicle for further examining the report and addressing the relevant recommendations of the study. The current status and timeline of the safeguard policy update is provided on <http://www.adb.org/Safeguards/policy.asp>.

### **II. Comments on Recommendations**

#### **A. Review of the 2002 Environment Policy and Potential Refinement (paras. 195–207)**

4. The SES suggests that there is a need to refocus efforts "from front-end loan processing and approval to results delivery, and from safeguards to enhancement" (paras. 196–199). Management fully agrees that ADB's safeguard policies and procedures need to be outcome oriented. In this regard, Management would emphasize the importance of achieving an appropriate balance between front-end processing and implementation to ensure effective delivery of results. A key issue for the safeguard policy update is to identify (i) front-end processing requirements that are needed to ensure improved

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<sup>1</sup> The Environment Policy is only partially concerned with environment safeguards, which it addresses through the environment assessment process. The policy also addresses environment as a thematic crosscutting issue.

delivery of results, such as upstream environment assessment to influence project design, formulation of environmental management plans (EMPs), and appropriate specification of loan covenants; and (ii) specific measures that will ensure that the environment assessment process translates into action during implementation, such as updating of EMPs after detailed design, incorporation of EMPs into tender documents and civil works contracts, monitoring and reporting, and appropriate supervision of environmental management measures.

5. With regard to SES proposals to refocus from “safeguards to environmental enhancement”, we would note again that ADB’s activities to address the wider, non-safeguard elements of the environment policy were not reviewed in the SES. Management would like to point out that ADB is already pursuing a broader environment sustainability agenda through an active program of environment oriented loans, technical assistance, knowledge products and policy dialogue. This thrust has most recently been reconfirmed in the Medium-Term Strategy II, which accords a prominent role to environmental management as a strategic priority for ADB. Management has also appointed Director General, RSDD as Special Advisor on Clean Energy and the Environment to further advance ADB efforts in this area. We therefore assume that the SES is referring to the role of environment assessment in promoting environment enhancement at the project level, and we agree that this should be emphasized in the safeguard policy update.

6. We note the SES recommendation on “integration with national procedures” (paras. 200-204). We agree that ADB needs to pay due attention to the respective policy and institutional contexts in which ADB’s safeguard policies are to be applied. While several developing member countries (DMCs) have developed environment assessment systems, often with the assistance of ADB and the World Bank that meet or approach international standards of practice, the issue of enforcement at the level of projects remains a crucial consideration. Since all ADB projects must comply with both ADB policies and each DMC’s own environment assessment requirements, there is a clear need to ensure alignment in the delivery of these requirements. This is dealt with further in section E below in the context of country safeguard systems.

7. The SES recommends that ADB should broaden the focus of its safeguard activities from “the project” to “environmental capacity” (paras. 205–206). The SES suggests that attention paid to project compliance with safeguard requirements has come at the cost of broader safeguard capacity building efforts at country or sector level. If we understand the text correctly, the suggestion is that efforts at broader capacity building may substitute for attention to safeguards at project level. Our experience is that both project compliance and broader capacity building are important and that they are complementary. To the extent that a trade-off exists in the allocation of scarce resources, we would need to continue to ensure procedural and substantive compliance of individual projects with ADB’s safeguard policies. At the project level, this includes capacity building in the context of environmental management plans.

8. We note the SES recommendation on “integrating environmental and social safeguards” (para. 207). The SES does not explain what it means by integration nor does it appear to have studied or presented substantive findings

on the issue of integration. However, Management agrees that there is merit in ensuring consistency and synergies across the safeguard policies and procedures. This will be considered in the context of the safeguard policy update.

## **B. Strengthening Organizational Effectiveness (paras. 208–211)**

9. The SES recognizes that safeguard compliance has improved as a result of the 2002 reorganization, including the establishment of an environment and social safeguards division (RSES) and the appointment of a Chief Compliance Officer, as well as through the subsequent adoption of the 2002 Environment Policy. As noted in the SES, the more recent 2005 reorganization within RSDD has formalized the expansion of RSES's mandate to serve both as an environment division and a safeguard division. We agree that this clarifies ADB's corporate "home" for environment as a crosscutting theme as well as for environment safeguards.

10. The SES proposes to consolidate regional department environment specialists in the sector divisions within a safeguard unit under the regional department director general. Management believes that arrangements within operations departments need not adopt a "one size fits all" approach. Operations departments are responsible for implementation of ADB's safeguard requirements as well as the broader environment agenda in their regions and DMCs. They need the flexibility to tailor their arrangements to the needs of their clients. Furthermore, all environment specialists perform a mix of safeguard and non-safeguard functions, and placing them within a safeguard unit would limit the role of operations departments in mainstreaming environment in ADB operations. The proposals to strengthen Resident Missions with environment specialist expertise certainly merit serious consideration.

## **C. Improving the Quality of ADB's Environment Assessment Process and Lowering Transactions Costs to Make it More Cost Effective (paras. 212–217)**

11. The SES makes several suggestions to strengthen ADB's environment assessment process and recommends that these be reviewed in the context of ADB's safeguard policy update. In particular, we agree with the suggestions to review environmentally sensitive Category B project classification, opportunities to reduce transaction costs included for sector loan sub-projects, and the need to improve monitoring. We also agree that ADB should not shy away from environmentally sensitive projects, where appropriate capacity exists to address the environmental impacts. We recognize that the quality of environment assessment has varied across projects, ranging from high quality assessments for complex and sensitive projects to more basic assessments for routine subprojects in sector loans, and we are seeking to improve both procedural compliance and substantive quality through ADB's safeguard compliance system. The peer reviews of EIAs now organized by the Environment Community of Practice are also seeking to ensure ADB-wide consistency and quality. We are also committed to continuing to seek to promote international best practice through ADB projects, and together with the World Bank and other MFIs, we have developed common principles for environment assessment in the context of harmonization efforts. In this regard, we would note the increasing application of

strategic environment assessment, assessment of cumulative and induced impacts, and third party monitoring especially in the context of complex and sensitive projects. Regular training programs are also being provided to ensure that environment specialist and mission leaders are abreast of evolving environment assessment practice. Management agrees that the suggestions made by the SES should be reviewed in the safeguard policy update.

**D. Improving the Effectiveness of Public Disclosure and Partnerships with Nongovernment Organizations and Civil Society on the Environment (paras. 218–223)**

12. The SES appears to highlight three issues in this section (paras. 218–223). Firstly, the SES recommends that ADB revisit the rule that summary environmental impact assessments (SEIAs) are disclosed 120 days before Board consideration of a category A project. Management agrees that the timing of disclosure of SEIAs should be reviewed, and that there may be merit in shortening the disclosure period. It is noted that, in addition to subsequent disclosure of SEIAs, Category A projects also require consultation with affected people at least twice during the environment assessment process, including disclosure of information in a form and language that they can readily understand.

13. Second (para. 222), the SES states that the “involvement of the environment specialists within the project team directly responsible for gaining approval has compromised the perceived independence of the (environment assessment) process.” Management believes that involvement of operations department environment specialists in project teams is crucial to successful integration of environmental concerns in ADB projects. We also believe that ADB’s safeguard compliance system led by ADB’s Chief Compliance Officer provides appropriate independent review of environment assessments.

14. Third (para. 223), the SES makes a suggestion that “ways of constructively engaging with nongovernment organizations in monitoring and implementation should be explored in RSDD’s review of the environment policy”. Management agrees with this suggestion.

**E. Moving Towards Adoption of Improved Country Systems and Harmonization with Other Development Partners in Selected DMCs (paras. 224–228)**

15. Management agrees that the strengthening of country safeguard systems is an important development objective, and ADB should continue to support DMCs in this regard. We are pleased that the final version of the SES has taken into account earlier internal comments on the need for a cautious and phased approach to any proposals for wide application of country systems for ADB projects. Such proposals would need to be based on a transparent and rigorous assessment of the commonalities between a country’s system and ADB safeguard policy requirements, and also the capacity within countries to deliver and enforce their own safeguard requirements. Such assessments should also take into account the complexities of country systems, including the reality that the nature and robustness of environment assessment processes vary across

sector and sub-national levels. The individual country assessments undertaken within the scope of the SES were not able to respond to these considerations probably because of time and resource constraints (para. 201) and therefore are not a basis for categorizing countries in various groups (as suggested in para. 226). *TA 6285-REG: Strengthening Country Systems* is currently reviewing country systems in selected DMCs and identifying possible approaches to be considered in the safeguard policy update.

16. With regard to proposed harmonization with other partners, we would like to note that close consultation is already taking place with the World Bank on its pilot application of country systems for safeguards, both in the context of the MFI working group on environment and at country level. We agree that lessons from the World Bank experience will be relevant, including those on the incremental costs of upstream due diligence and downstream supervision.

**F. Developing an Action Plan to Implement the Revised Environment Policy (para. 229)**

17. Management agrees that an action plan will be required to implement the updated policy on environment safeguards, which should include a realistic assessment of required resources. Management, however, does not share the view that ADB should consider a dilution of its safeguard policy objectives and principles [para. 229 (ii)]. The safeguard policy update will instead explore more efficient and effective delivery mechanisms of these policy objectives and principles.