MANAGEMENT REPORT AND RECOMMENDATION
IN RESPONSE TO THE
INSPECTION PANEL INVESTIGATION REPORT

CHINA: WESTERN POVERTY REDUCTION PROJECT
QINGHAI COMPONENT
(CREDIT NO. 3255-CHA; LOAN NO. 4501-CHA)

1. Pursuant to paragraph 23 of the Resolution Establishing the Inspection Panel (IBRD Resolution 93-10 and IDA Resolution 93-6), attached for consideration by Executive Directors is Management's Report and Recommendation in response to the findings set out in the investigation report dated April 28, 2000, of the Inspection Panel on Part C of the captioned Project (Inspection Panel: Request for Inspection: China: Western Poverty Reduction Project – Panel Report and Recommendation (Credit No. 3255-CHA and Loan No. 4501-CHA) (INSP/R2000-4 dated April 28, 2000).

2. Also attached for information of Executive Directors, are:

(a) China: Western Poverty Reduction Project - Qinghai Component - Background Paper on the Management Report and Recommendation In Response to the Inspection Panel Investigation Report; and

(b) Country Focus and Safeguard Policies: Institutional Issues.

3. It is recommended that Executive Directors approve the recommendations set out in paragraphs 7-12 of the attached Report and Recommendation.

James D. Wolfensohn
President

MANAGEMENT REPORT AND RECOMMENDATION
IN RESPONSE TO THE
INSPECTION PANEL INVESTIGATION REPORT

CHINA: WESTERN POVERTY REDUCTION PROJECT
QINGHAI COMPONENT
(CREDIT NO. 3255-CHA; LOAN NO. 4501-CHA)

I. BACKGROUND

1. On August 24, 1999, the Board received a memorandum from the Inspection Panel (the Panel) entitled *Request for Inspection: China - Western Poverty Reduction Project (Credit No. 3255-CHA and Loan No. 4501-CHA).*[1] Annex 2 of that document contained the Management Response dated July 19, 1999 (Management Response) to a request for inspection received previously with respect to Part C of the China: Western Poverty Reduction Project (Qinghai Component). The Management's Response to the Initial Request (July 19, 1999) acknowledged that the Disclosure of Information policy had been violated due to late deposit of Project Documents in the InfoShop, but otherwise was of the opinion that the Project was substantially in compliance.

2. On September 9, 1999, the Board instructed the Panel to conduct an investigation into whether the Bank had violated its operational policies and procedures with respect to the design and appraisal of the Qinghai Component of the Western Poverty Reduction Project.[2] After carrying out the investigation, on April 28, 2000, the Panel submitted to the Board a report entitled: *The Inspection Panel Investigation Report - China: Western Poverty Reduction Project* (Panel Report).[3] On the same day, the Panel delivered copies of the Panel Report to the President.

3. This Management Report and Recommendation in Response to the Inspection Panel Investigation Report (Management Report) is submitted to the Executive Directors pursuant to paragraph 23 of the Resolution Establishing the Inspection Panel (IBRD Resolution 93-10 and IDA Resolution 93-6).[4]

---

1 (INSP/R99-6) dated August 24,1999.

2 Pursuant to paragraph 12 of the Resolution Establishing the Inspection Panel. *Unless the context otherwise requires, references to the "Project" in this document mean Part C of the Project (the Qinghai Component).*

3 Inspection Panel: Request for Inspection: China: Western Poverty Reduction Project - Panel Report and Recommendation (Credit No. 3255-CHA and Loan No. 4501-CHA) (INSP/R2000-4 dated April 28, 2000).

4 "Within six weeks from receiving the Panel's findings, Management will submit to the Executive Directors for their consideration a report indicating its recommendations in response to such findings."

II. FINDINGS OF THE PANEL

4. The Panel Report concludes that Management is "substantially in compliance"[5] with the provisions of Annex B of OD 4.00 (Environmental Policy on Dam and Reservoir Projects);[6] OP/BP 4.37 (Safety of Dams); BP 10.00 (Investment Lending: Identification to Board Presentation); and OD 12.10 (Retroactive Financing).

5. The Panel Report concludes further that Management is "in apparent violation of several provisions"[7] of OD 4.01 (Environmental Assessment); OD 4.20 (Indigenous Peoples); OD 4.30 (Involuntary Resettlement); OP 4.04 (Natural Habitats);[8] OP 4.09 (Pest Management); OP 10.00 (Investment Lending: Identification to Board Presentation); and BP17.50 (Disclosure of Information).[9]

6. The Panel conducted some 10 months of investigation, including a visit to the Qinghai Component site. This was the Panel's first complete investigation of a project, and is especially important because it focuses on a project to improve the livelihoods of some of the world's poorest people. Further, the Qinghai Component involves environmental and social issues, and has aroused considerable international attention. The findings of the Panel have potential implications for the future not only for the Qinghai Component, but for the application of the Bank's safeguard policies both within China and in other countries. Management has carefully considered the Panel's report, both as it applies to this specific Project and to the way the Bank addresses safeguard issues more broadly.

III. RECOMMENDED ACTIONS IN RESPONSE TO THE FINDINGS[10]

7. Management recognized that during Project preparation and appraisal, greater rigor in the application of safeguard standards should have been ensured in light of the special circumstances of this Project. Specifically: (a) more should have been done to ensure the confidentiality and integrity of the consultative process; (b) more could have been done to ensure that there was greater involvement of project affected people, including indigenous groups, in the Project design; (c) a more thorough environmental analysis would have improved Project preparation; (d) documentation on the part of the

---

5 Memorandum dated April 28, 2000 from members of the Panel to the Executive Directors transmitting the Panel Report, paragraph 2.

6 This OD was not specified in the Board's instruction to the Panel referred to above, nor was compliance with this OD discussed in the Management Response.

7 Memorandum dated April 28, 2000 from members of the Panel to the Executive Directors transmitting the Panel Report, paragraph 2.

8 This OP was not mentioned in the instruction from the Board to the Panel, but was addressed in the Management Response of July 19, 1999.

9 Memorandum of the Inspection Panel to the Executive Directors and Alternates, dated April 28, 2000, in (INSP/R2000-4) Inspection Panel: Request for Inspection: China: Western Poverty Reduction Project – Panel Report and Recommendation (Credit No:3255-CHA and Loan No: 4501-CHA) (INSP/R2000-4 dated April 28, 2000).

10 For a fuller discussion and background of this subject see paras 9-11 *et.seq* of the Background Paper.

Bank should have been better; and (e) information on the Project should have been disclosed more promptly.

8. Management had therefore agreed with the Borrower to a more thorough program of analysis and consultations to be undertaken for the Qinghai Component prior to implementation. The Project was presented to the Executive Directors in June 1999 on this basis. In the Management Response of July 19, 1999, Management proposed to expand this program further.

9. In view of the Panel's findings, and building on the already-planned activities, Management recommends that:

(a) Given the special circumstances of this Project, a deeper level of environmental analysis than was provided in the original Environmental Impact Assessment would be conducted. Management has therefore decided that, in order to minimize risks and answer doubts that have been raised, the Qinghai Component will be reclassified henceforth as A under OD 4.01 (Annex E, para 3) and a Supplemental Environmental Impact Assessment (SEIA) will be prepared.[11] The SEIA would not include a full analysis of development alternatives as proposed by the Panel. It would, however, include an overview of technical alternatives.

The Chinese Government maintains the position that a "B" classification should be retained for the Project, including the Qinghai Component, because in its opinion, the criteria and screening procedures which were applied when a B category was assigned in April 1998 still remain appropriate. However, for the Qinghai Component, the Chinese Government has agreed to undertake the environmental and social studies as specified in the Attachment that would be equivalent to the practice under a category A project.

(b) Additional consultations be undertaken with affected people, with specific attention given to the confidentiality and integrity of the process.

(c) A separate Indigenous Peoples Development Plan (termed "Ethnic Communities Development Action Plan" in the Attachment to this document) be prepared and made available in the written language used by each ethnic group; however, five separate plans would not be prepared as proposed by the Panel.

10. The proposed actions are described in the Attachment to this document entitled "Supplemental Environment Impact Assessment and Upgraded Social Plans." This work would be carried out by internationally recognized consultants with terms of reference, qualifications, and experience acceptable to the Bank and the Borrower. In addition, as

[11] Management is treating the Qinghai Component as under preparation for the purposes of reclassification because reclassification is an option available under the Bank's OD 4.01 and OP/BP 4.01 only prior to Board approval. This is justified by the exceptional circumstance of this Component in light of the pause in implementation and Bank financing established by the review of the Component by the Panel. Other parts of the Project will continue to be in EA Category "B." It is not proposed that, as a result of reclassification, any environmental assessment work will be done other than what is summarized in the Attachment.

noted in the Management Response of July 19, 1999, an Environmental and Social Team of Experts (ESTE) would be established to provide the Borrower and the Bank with independent professional advice on the Qinghai Component. A description of the ESTE, its work and composition are further elaborated in Annex 16 of the July 19, 1999 Management Response.

11. Management proposes that other than the Pilot Program (see below), implementation of the Component (including resettlement of people from the Move-out to the Move-in areas under the Pilot Program), will not be initiated until steps, agreed with the Bank, arising from the environmental and social work, including any changes to the Project design, have been taken. These studies would be eligible for Bank disbursement under the Credit/Loan if and when the Executive Directors approve the recommendations in this memorandum. Meanwhile, efforts would be made to find grant financing for these activities. The findings and recommendations of these studies will be made publicly available both locally by Qinghai Province in the Move-out and Move-in areas and by the Bank through the InfoShop. Management will also inform the Executive Directors of the outcome. As a condition of disbursement for all activities under the Qinghai Component, other than the studies, Qinghai Province will have taken the steps in paragraphs 9-11.

12. Qinghai Province expects to begin limited preparation work for the Pilot Program (as defined in the Management Response of July 19, 1999) during the period when the environmental and social work is being conducted and reviewed. This will include limited field-based investigations of soil, water and drainage conditions to further refine cropping patterns, land and water management, monitoring techniques, and necessary land leveling and related minor infrastructure. Costs of this preparatory work would be borne by Qinghai Province and the Borrower until Bank financing becomes available after the disbursement condition is lifted. Bank assistance for the Qinghai Component (including the environmental and social work and the Pilot Program) will be subject to the Legal Agreements being amended to reflect the above.

13. For the information of the Executive Directors a paper entitled “Background Paper on the Management Report and Recommendation in Response to the Inspection Panel Investigation Report” is attached.

IV. Panel Concerns Not Covered By the Recommended Actions

14. The actions recommended by Management differ from those implied by the Panel’s findings in three respects: (a) we propose a more limited analysis of alternatives than the Panel believes necessary; (b) we propose that a single Indigenous Peoples Development Plan covering all ethnic minorities in the Qinghai Component be prepared, not separate ones for each group; and (c) we propose to conduct literature reviews and selected site surveys on ecology and biodiversity, and undertake focused evaluation of induced and regional environmental impacts.

15. ***Analysis of Alternatives.*** The Panel found that the Bank had accepted environmental assessments which "do not make any meaningful analysis of realistic project alternatives as required by Bank policy." [12]

16. Though Management has decided henceforth to reclassify the Qinghai Component, we do not recommend a new or broader study of development alternatives than has already been conducted. The Panel suggests that the environmental assessment should carefully and independently review all feasible alternatives to the Project. Our view is that OD 4.01 is not intended to require the analysis of alternatives that have already been demonstrated not to be viable from the standpoint of reducing poverty in a sustainable manner. Rather, it is the broader process of sector work, strategy formulation and regional planning that should lead to the choice of investment projects, and this burden should not be placed upon a project specific environmental assessment. In the case of this Project, alternatives have been explored at some depth over several years, and found not to be feasible. This is documented in Annex 1 of the attached Background Paper. Nevertheless, we do agree with the Panel that this analysis should have been documented more fully prior to project appraisal, and we propose that this be remedied.

17. ***Indigenous Peoples Development Plans.*** The Panel proposes that there be five separate Indigenous Peoples Development Plans, one for each ethnic group. We believe that such an approach risks overlooking the important potential cross-cultural issues that affect all groups—issues that must be addressed head on if the groups are to preserve their cultural identity while living in close proximity to each other. The proposed single plan would also focus on the issues of individual ethnic groups, thereby achieving the purpose of the individual plans.

18. ***Expanded Environmental Analysis.*** In deciding on the level and depth of new environmental analysis to be undertaken, we have also sought to balance costs with benefits, while erring on the side of thoroughness. In some cases the Panel proposes analytical work which is unlikely to yield additional insights that would influence project design. Thus, for example, while we recommend additional work to summarize the state of knowledge on ecology and biodiversity in the area, we do not recommend detailed scientific research. The same applies to induced and regional environmental impacts, where the degree of analysis recommended by Management is tailored to its usefulness in project design. Nonetheless, we recognize that views may differ on the degree to which "due diligence" by the Bank involves satisfying itself that every possible induced effect has been considered.

---

[12] Reflecting Bank policy in this regard, OP 4.01 on Environmental Assessment calls for a Category A project to be assessed for potential negative and positive environmental impacts and compared "with those of feasible alternatives (including the "without project" situation). The OP notes that a project-specific EA is "normally best suited to the analysis of alternatives within a project concept" (Annex B, footnote 3).

V. COMPARISON OF OPTIONS

19. The estimated cost and time required for the actions recommended by Management are summarized in the middle column of Table 1. The left hand column represents the July 19, 1999 Management Response. The middle column includes the costs of actions proposed in the July 19, 1999 Management Response. In addition, the cost of the full set of actions implied by the Panel Report, are summarized in the right column.

Table 1. Environmental and Social Studies – Comparative Costs

	Management Response to Initial Request (July 1999)		**Recommendations of Management in Response to the Inspection Panel Report**		**Actions to Fully Respond to the Inspection Panel Report**	
	Total Cost-US$	**Months**	**Total Cost-US$**	**Months**	**Total Cost-US$**	**Months**
Supplemental Environmental Impact Assessment	470,000	10-12	830,000	12-15	1,475,000	15-18
Upgraded Social Plans	875,000	10-12	1,120,000	12-15	1,375,000	15-18
Environmental and Social Team of Experts	110,000	10-12	175,000	12-15	220,000	15-18
Total	**$1,455,000**		**$2,125,000**		**$3,070,000**	

VI. ADDITIONAL OBSERVATIONS

20. It is Management's view that Operational Directives, as contrasted with later generation OPs/BPs, contain a mixture of good practice guidance and mandatory requirements. Moreover, both ODs and OPs/BPs provide general operational guidelines intended to apply in different situations within the limits of the flexibility provided in the directives. Many of the Panel's findings appear, however, to be based on an application of elements of each policy as legally binding rules, allowing for little or no flexibility or room for judgment.

21. The Panel Report raises issues of broader relevance for the Bank. These relate in particular to the formulation of safeguard policies, the linkages between environmental and social safeguards, accountabilities and country ownership and hence, the relationship of the Bank to a client country. These are addressed in the attached document *Country Focus and Safeguard Policies: Institutional Issues*.

VII. RECOMMENDATION

22. It is recommended that Executive Directors approve the recommendations set out in paragraphs 7-12 of this Report.

Attachment

SUPPLEMENTAL ENVIRONMENTAL IMPACT ASSESSMENT AND UPGRADED SOCIAL PLANS

1. ***Objective***. The proposed upgrading of the environmental and social work is designed to improve the detailed design, implementation, mitigation and monitoring of the Qinghai Component. This work would proceed substantially within the framework of design elements and legal agreements for the Project as approved by the Executive Directors in June 1999 and described in the Management Response of July 1999. Environmental and social studies and consultations would be conducted in the Move-out area, Move-in area and immediately adjacent areas that may be affected.

2. Management is proposing this work program since it provides an appropriate balance between the need for additional environmental and social work in light of the special circumstances associated with the Project, and the recognition that many development alternatives have already been evaluated by the Borrower and reviewed by the Bank. These studies would be carried out under terms of reference and by consultants whose qualifications and experience are acceptable to the Borrower and the Bank.

3. An Environmental and Social Team of Experts (ESTE) would be established to provide the Borrower and Bank independent professional advice on the Qinghai Component of the Western Poverty Reduction Project. The ESTE members would be selected on the basis of their professional knowledge, academic qualifications, practical work experience with development work, knowledge of the region, and ability to serve as members of an international interdisciplinary team.

Outputs:	Supplemental Environmental Impact Assessment Updated Social Assessment Report Updated Voluntary Settlement Implementation Plan Ethnic Communities Development Action Plan Updated Resettlement Action Plan	
Estimated Cost:	Environmental Studies:	US $ 830,000
	Social Studies:	1,120,000
	Environmental and Social Team of Experts:	175,000
	Total:	US $2,125,000
Duration:	12-15 months	

Supplemental Environmental Impact Assessment ($830,000)

4. A *Supplemental Environmental Impact Assessment* (SEIA) would be prepared, based on which the Environmental Mitigation and Monitoring Plan would be strengthened. The following elements would be included:

(a) Documentation of project alternatives considered by the Borrower during Project identification process.

(b) Review of the environmental conditions in the Move-out area based on studies already undertaken.

(c) Analysis of potential technical alternatives within the Move-out and Move-in areas that would provide a comparative assessment of actions that could be taken within the current Project design.

(d) Conduct of an impact assessment to cover possible environmental effects (i.e. water, energy use, grazing impact) beyond the immediate boundaries of the Project site[13] to determine whether any additional mitigation and monitoring measures may be required.

(e) Examination of potential environmental and economic impacts in the Project area and within Haixi prefecture.

(f) Detailed Design and Implementation Studies: (i) detailed design of the conjunctive water use program and development of ground and surface water monitoring plans; (ii) comprehensive soil surveys; (iii) irrigation system layout; (iv) development of soil monitoring program; (v) farmer training program; and (vi) strengthening of pesticide management within minority communities.

(g) Ecological Studies: (i) assessment of ecological impacts of existing settlements and specification of range management safeguards; (ii) ecological and land use surveys of the Balong Soak; and (iii) additional ecological studies, to include vegetation and natural habitats assessments, to be undertaken based on literature reviews and selected site surveys.

(h) Supplementary Field Reviews: (i) environmental review of existing settlements and irrigated perimeters; (ii) environmental review of water systems, including the dam and canals; and (iii) consideration of information available on cultural resources.

(i) Preparation of additional environmental maps based on existing information, field surveys, and aerial photographs.

(j) Environmental consultations in the Move-out and Move-in areas.

[13] Defined as Dulan County and the Xiangride River Basin.

Upgraded Social Plans ($1,120,000)[14]

5. An Updated Social Assessment Report and an Updated Resettlement Action Plan would be prepared. Based on these, the Voluntary Settlement Implementation Plan would be updated and an Ethnic Communities Development Action Plan would be prepared.

6. The *Updated Voluntary Settlement Implementation Plan* would be based on any identified additional needs and concerns of project affected people, and would allow for any needed refinements in the design of the Pilot Program and the Project itself. Based on the Updated Social Assessment Report, the Local Beneficiaries Action Plan referred to in the Project Agreement would be upgraded to an *Ethnic Communities Development Action Plan* which would provide analysis and recommendations regarding the unique needs, aspirations, and cultural patterns of each of the five minority nationalities. A broad range of fully documented public consultations would inform this process.

(a) The *Updated Social Assessment Report* would be based on Participatory Rural Appraisals (PRAs),[15] a Social Impact Assessment, and a conflict resolution framework to further: (i) promote informed participation of project affected people; (ii) identify and propose any needed adjustments to the Voluntary Settlement Implementation Plan, the Local Beneficiaries Action Plan, and the Pilot Program; (iii) refine the selection criteria by which individuals and communities volunteering to resettle are chosen; and (iv) catalog measures and suggestions for reducing poverty which exist for those individuals, villages, and townships in the Move-out area not selected to participate in the resettlement, and discuss these with the local authorities. The activities would assess the social, economic and cultural impacts of the Project in the three affected prefectures and Dulan County. During the update, additional social data would be collected and used for project planning purposes.

- The PRAs would be conducted in thirteen villages in the settlement area and Project townships of the Move-in area, and six potential settler villages of the Move-out area (Tibetan, Hui, Han, Tu, Salar and one multi-ethnic village).
- A Social Impact Assessment would be prepared based on interviews with local officials and other specialists, and on the Qinghai regional development plan.
- A conflict resolution framework for the Project would be prepared based on national and local legislation and through a consultative process concerning the evolving pastoral and agricultural subsistence strategies of the eastern Qaidam Basin.

(b) The *Updated Resettlement Action Plan* would bring together information regarding impacts, compensation standards and mitigation measures that is located in various Project Documents.

---

[14] Project Agreement, December 30, 1999; Schedule 2, Section B.

[15] Five to seven days would be spent by a team of qualified social science researchers (both international and Chinese) in each village conducting a variety of focus group and social mapping exercises and confidential interviews.

Environmental and Social Team of Experts ($175,000)

7. An Environmental and Social Team of Experts (ESTE) would be established to provide the Borrower and the Bank with independent professional advice on the Qinghai Component of the Western Poverty Reduction Project.

8. ***Team Selection***. The ESTE would consist of four members with expertise in environmental aspects of land and water management; resettlement; and Chinese minority peoples (Tibetan and Mongol in particular). The team would have the authority to appoint short-term specialists, as may be required, for specific assignments, subject to the prior consent of the Borrower. As described in Annex 16 of the July 19, 1999 Management Response, the team, would include internationally recognized experts, who would be selected and employed by the Borrower and be acceptable to the Bank, under terms of reference agreed between the Borrower and the Bank. The ESTE members would be selected on the basis of their professional knowledge, academic qualifications, practical experience with development work, knowledge of the region, and proven ability to serve as members of an international interdisciplinary team.

9. ***Mode of Operation***. The ESTE would have two functions: (a) to provide advice on preparation of the Supplemental Environmental Impact Assessment and Upgraded Social Plans, assist in their review and provide recommendations to the Borrower and Bank on these matters; and (b) to provide advisory support for implementation and monitoring of the environmental and social aspects of the Project, once under implementation. It is estimated that during the study phase (12-15 months), each member would work about 3 months. This would include field visits and desk reviews of reports.

10. ***Scope of Activities.*** The ESTE would provide support for:

(a) Study Phase: Review of terms of reference for studies, and draft and final reports.

(b) Pilot Program Implementation: Conduct of field reviews during the implementation of the Pilot Program to assess the results of this activity. Emphasis would be given to assessment of the potential for moving to full-scale implementation of the Qinghai Component.

(c) Full-Scale Implementation: Monitor Project implementation. In this process, the ESTE would provide overviews of the progress of the Project in addressing environmental and social issues and make recommendations to enhance implementation and suggest modifications if any.

11. ***Key Tasks***. The ESTE would review and provide advice concerning:

(a) Detailed terms of reference for the Supplemental Environmental Impact Assessment and Upgraded Social Plans to be supported under the Project.

(b) Implementation of the Pilot Program, including incorporation of the results of the environmental and social studies into the Project.

(c) Implementation of the Environmental Mitigation and Monitoring Plan for the Project.

(d) Implementation of the Voluntary Settlement Implementation Plan.

(e) Implementation of the Ethnic Communities Development Action Plan.

(f) Implementation of the Resettlement Action Plan.

(g) Unanticipated environmental and social aspects of the Project that may arise during the implementation phase.

12. ***Reporting***. The ESTE would prepare a report of its findings and recommendations for each review. Detailed briefings would be given at the end of each review to: (a) Qinghai Provincial Leading Group; (b) the Leading Group for Poverty Reduction and Development of the State Council; and (c) the Beijing office of the World Bank. The reports of the ESTE would provide an overview of the status of environmental and social issues, identify possible concerns that need to be addressed, and make specific recommendations for further actions. These reports are technical reports providing concrete recommendations for improvements, wherever needed. In order to provide an opportunity to all parties to fairly and objectively clarify issues and provide additional information if needed, draft reports will be discussed with the Borrower and the Bank for comments. These reports will be transmitted to the Bank by the Borrower and then made publicly available as part of the environmental assessment process, in a timely manner in the Project area and by the Bank, consistent with Bank policy for disclosure of environmental assessments (OD 4.01 para 2 (OP 4.01 para 1, footnote 1); OD 4.01 para 21 and BP 17.50 para 12).

13. The Chinese Government maintains that existing guidelines do not provide clear guidance on the disclosure of “expert team” reports. However, to facilitate successful implementation of this Project, the Borrower has informed Management that it has no objection to disclosing the ESTE reports.

China: Western Poverty Reduction Project

Qinghai Component

Background Paper

on the

Management Report and Recommendation

in Response to the Inspection Panel

Investigation Report

June 12, 2000

BACKGROUND PAPER ON THE MANAGEMENT REPORT AND RECOMMENDATION IN RESPONSE TO THE INSPECTION PANEL INVESTIGATION REPORT

CONTENTS

Currency Equivalent

RMB 1.0 = US$ .121
US$ 1 = RMB 8.28

Measures

1 hectare = 2.471 acres
1 meter = 3.28 feet
1 kilometer = .6214 miles

Abbreviations and Acronyms

ARPP	Annual Review of Portfolio Performance
CAS	Country Assistance Strategy
CODE	Committee on Operational Development Effectiveness
DO	Development Objectives
EIA	Environmental Impact Assessment
FAO	United Nations Food and Agricultural Organization
FY	Fiscal Year
Ha	hectare
ICBP	BirdLife International
IFAD	International Fund for Agricultural Development
IP	Implementation Performance
IPDP	Indigenous Peoples Development Plan
IUCN	World Conservation Union
IWWRB	International Waterfowl and Wetlands Research Bureau
Km	kilometer
NEPA	National Environmental Protection Agency
OD	Operational Directive
OED	Operations Evaluation Department
PRA	Participatory Rural Appraisal
QAG	Quality Assurance Group
RAP	Resettlement Action Plan
SEIA	Supplemental Environmental Impact Assessment
UNDP	United Nations Development Programme
VSIP	Voluntary Settlement Implementation Plan
WFP	World Food Program
WWF	World Wide Fund for Nature

China: Western Poverty Reduction Project – Qinghai Component

Background Paper on the Management Report and Recommendation in Response to the Inspection Panel Investigation Report

I. INTRODUCTION AND OVERVIEW

1. The Inspection Panel has found the World Bank to be in "apparent violation" of seven out of the ten policies it examined for the Qinghai Component of the China Western Poverty Reduction Project.[1] This finding warrants serious analysis and action by the Bank. Its significance is amplified in light of the fact that the Project involves environmental and social issues, and has aroused considerable international attention. The findings have potential implications for the future not only for this Project, but for the application of the Bank's safeguard policies both within China and in other countries. Management has carefully considered the Panel's report, both as it applies to this specific Project and to the way the Bank addresses safeguard issues more broadly.

2. This document is provided as a background to and explanation of the Management Report and Recommendation In Response to the Inspection Panel Investigation Report, where we laid out Management's recommendations to the Executive Directors of the World Bank in response to the Panel's findings. Here we discuss the Panel's substantive findings in more detail, so as to ensure that its findings are appropriately internalized in the next steps for this Project, and that any institutional lessons are learned and acted upon. It is also important that Management respond fully to the major specific findings of the Panel's report. Though this is not required under the rules governing the Panel's work, we feel it essential, given the seriousness of the findings.

3. Management recognizes that during Project preparation and appraisal, greater rigor in the application of safeguard standards should have been ensured in light of the special circumstances of this Project. Specifically: (a) more should have been done to ensure the confidentiality and integrity of the consultative process; (b) more could have been done to ensure that there was greater involvement of project affected people, including indigenous groups, in the Project design; (c) a more thorough environmental analysis would have improved Project preparation; (d) documentation on the part of the Bank should have been better; and (e) information on the Project should have been disclosed more promptly.

4. A number of these weaknesses were recognized in last year's (July 19, 1999) Management Response to the Initial Request for Inspection, which laid out an augmented program of analysis and consultation to be undertaken prior to Project start-up. A number

[1] Henceforth, in this document when we refer to "the Project" we refer to the Qinghai Component of the Western Poverty Reduction Project, which comprises three separate components for Qinghai, Inner Mongolia and Gansu.

of these measures had been incorporated in the strengthened Project Documents as agreed with the Borrower in May 1999, prior to Board consideration of the Project. In light of the Panel's findings and in view of the specific circumstances of this Project, Management recommends that, building on the already-planned activities: (a) environmental work be undertaken to bring the depth and coverage of the analysis up to the standard of a Category "A" project; (b) additional consultations with affected peoples be carried out, with specific attention given to the confidentiality and integrity of the process; and (c) a separate Indigenous Peoples Development Plan (IPDP) be prepared to ensure that the full requirements of the Bank's Indigenous People's policy are met. These activities are described in detail in the Management Report and Recommendation in Response to the Inspection Panel Investigation Report.

5. We believe these measures will meet most of the concerns raised by the Panel. However, there are areas in which our recommendations differ from those of the Panel. The treatment of Project alternatives is the most important example. The Panel suggests that the environmental assessment should carefully and independently review all feasible alternatives to the Project. Our view is that OD 4.01 is not intended to require the analysis of alternatives that have already been demonstrated not to be viable from the standpoint of reducing poverty in a sustainable manner. Rather, it is the broader process of sector work, strategy formulation and regional planning that should lead to the choice of investment projects, and this burden should not be placed upon a project specific environmental assessment. In the case of this Project, alternatives have been explored at some depth over several years, and found not to be feasible. This is documented in Annex 1 to this paper. Nevertheless, we agree with the Panel that this analysis should have been documented more fully prior to project appraisal, and we propose that this be remedied.

6. In addition to Project-specific measures, the Panel Report raises issues of broader relevance for the Bank's treatment of safeguard policies. These relate in particular to the formulation of safeguard policies, the linkages between environmental and social safeguards, accountabilities, and country ownership (and hence, the relationship of the Bank to a client country), and are addressed in the attached document "Country Focus and Safeguard Policies: Institutional Issues."

7. We wish to address some of the Panel's findings with which we do not agree, and some of the facts, upon which the findings are based, which we believe to be incorrect. Specifically, we wish to: (a) note that the Panel's Report did not give due consideration and weight to the augmented measures contained in last year's Management Response, (b) question the Panel's interpretation of some Bank policies, and (c) correct some factual errors. This is critical to enable the Executive Directors to evaluate the Panel's Report and the Management Report and Recommendation, and to make their judgment regarding this Project. While the purpose of this document is not to rebut the findings of the Panel Report, staff and Management believe that facts and the staff's view points have not been fully elaborated in the Panel report[2].

---

[2] Since this was the first full investigation of the Panel, it is understandable that the process was not perfect, and it would perhaps be useful for the Executive Directors to review some of the procedural issues involved. We would recommend, for example, that in the future, opportunity be provided to

8. This document thus seeks to provide a balanced assessment on the substantive findings of the Panel—where we agree and where we feel the facts do not support the Panel's findings. It begins with a brief description of the Project and country context to place the Panel's findings in perspective. This is followed by an assessment of the Panel's findings in each of the major areas it addressed. Annex 1 provides details on Project identification and a review of alternatives.

II. THE PROJECT AND COUNTRY CONTEXT

9. The Panel Report concludes that Management is "substantially in compliance" with the provisions of Annex B of OD 4.00 (Environmental Policy on Dam and Reservoir Projects); OP/BP 4.37 (Safety of Dams); BP 10.00 (Investment Lending: Identification to Board Presentation); and OD 12.10 (Retroactive Financing). The Panel Report concludes further that Management is "in apparent violation of several provisions" of OD 4.01 (Environmental Assessment); OD 4.20 (Indigenous Peoples); OD 4.30 (Involuntary Resettlement); OP 4.04 (Natural Habitats)[3]; OP 4.09 (Pest Management); OP 10.00 (Investment Lending: Identification to Board Presentation); and BP17.50 (Disclosure of Information). The Management's Response to the Initial Request (July 19, 1999) acknowledged that the Disclosure of Information policy had been violated due to late deposit of Project Documents in the Infoshop, but otherwise was of the opinion that the Project was substantially in compliance.

10. The disconnect between Management and the Panel warrants careful analysis. How could this situation arise, whereby the professional staff and management of the Bank conclude that the Project is in compliance with policies, while the Panel concludes that it is not? In answering the question, the starting point is a recognition that, what it means to be "in compliance," depends on the interpretation of key words and phrases. Phrases such as "meaningful consultation" (OD 4.20), "significant, irreversible and sector-wide impacts" (OD 4.01) and "illustrative only" (OD 4.01), which are fundamental to choices made in the implementation of the safeguard policies, are obviously open to interpretation.

11. In this case, Bank staff and Management believed the preparation of this Project to be substantially in compliance because of their interpretation of these phrases, and because they were confident of the quality of this Project and its environmental and social safeguards. Two extra points were taken into account in reaching this judgment: (a) China's strong record on project preparation and implementation, poverty reduction and resettlement; and (b) a set of measures that had been added in the April-July 1999 period on both environmental and social issues, that would substantially raise the standards of analysis, verification and documentation for the Project. The Panel on the other hand establishes a rigorous definition of compliance, without acknowledging the measures

---

Management to check on facts before reports are issued. The Panel's investigation process also raises issues about the Bank's internal deliberative process.

[3] Not mentioned in the instruction from the Board to the Panel; but addressed in the Management Response of July 19, 1999.

added April – July 1999, and seems to regard China's record as largely irrelevant to the question of compliance.

12. In order to place these issues in perspective, and clarify Management's position with regard to safeguards in the case of this Project, this section reviews (a) the Project rationale and history, (b) China's record on poverty reduction, resettlement and safeguards, and (c) the quality improvements made to the Project in April-June 1999.

A. Project Rationale, Preparation and Development Alternatives

13. In several parts of the Panel Report, the authors express the view that not enough rigor entered the decision-making process of the Bank or the Borrower in the design of the Project. These concerns are expressed in the context of the analysis of alternatives and in the Panel's view that the Project came to the Bank for financing after much of its design had been completed. These concerns raise fundamental questions for the way the Bank does business, and for our growing emphasis on country ownership and project preparation. Management believes that where there is a strong track record of achievement at the program level, and where there is demonstrable analysis and professionalism in design at the project level, we should encourage the strong degree of national and provincial ownership, as embedded in this Project. The Panel is right to note that due diligence on the part of the Bank requires that Task Teams document the process by which a project is identified and prepared, including the analysis of alternatives. In the case of this Project, there were weaknesses. However, it is a quite different matter to imply that the substantive rationale for the Project is weak. This section briefly reviews the process of Project identification and preparation within the broader context of poverty reduction programs in China. Annex 1 gives more detail.

14. ***The Chinese Government's Poverty Program***. The Chinese Government has designed and implemented an ambitious poverty reduction program over the last two decades, which in turn has made a major contribution in reducing absolute poverty from more than 30 percent of the rural population in 1978 to less than 5 percent at the end of 1998, or from about 280 million people to about 42 million in the past decade.[4] At the same time, an increasing share of the remaining poor are now concentrated in China's western provinces, mostly in remote and mountainous, resource poor areas. Although these upland poor have land rights, in most cases the land is of such low quality that it is not possible to achieve subsistence levels of crop production, let alone increase their net income. In many years, these poor people must consume grain and other subsistence foods beyond their own production levels, leading them into a downward spiral of poverty. Ethnic minorities are particularly affected since they tend to live in upland areas in poor counties. While ethnic minority counties account for less than 9 percent of the national total, they account for more than 40 percent of the nationally designated poor counties.[5] The Move-out counties visited by the Inspection Panel belong to these

---

4 "China - Overcoming Rural Poverty," Leading Group for Poverty Reduction, UNDP, World Bank, May 2000.

5 China: State Ethnic Affairs Commission.

nationally designated poor counties with a large portion of ethnic minorities, located in the remote and inaccessible area of eastern Qinghai province, in western China.

15. Poverty Reduction Through Voluntary Resettlement.[6] The severity of the poverty and environmental destruction of many of the western uplands is extreme and overwhelming. The upland population greatly exceeds the carrying capacity of these lands (para 19) and, in most years, the population simply would not survive without government assistance and relief grants. Therefore, voluntary resettlement of people from the most severely affected upland areas has become an increasingly important poverty reduction method in China and is now an important element in its poverty reduction strategy. Many provinces have already carried out voluntary settlement successfully (e.g. Ningxia, Gansu, Guangdong, Guangxi, Hebei, Zhejiang, and Shandong), with Bank support (paras 17-18).

16. Participants in the voluntary settlement programs originate from upland areas where people have the greatest difficulty in maintaining a sustainable livelihood because of the limiting environmental conditions. The central government reviews and provides partial funding support for provincial plans for poverty reduction through voluntary resettlement, and the provincial governments take responsibility for detailed planning, funding and implementation. Whenever possible, local resettlement is preferred to long-distance resettlement. Resettlement is on a voluntary basis and, in practice, the number of households wishing to resettle greatly exceeds the available slots, as is the case in this Project. Particularly after villagers become aware of neighbors who have benefited from resettlement, selection often becomes very competitive. Settler families typically retain rights to use their old rainfed lands for the first two or three years after relocation, and regulations most often allow them to reverse their decision and return to those lands at any time during this initial period. Surveys based on other resettlement programs show that the average settler enjoys a substantial increase in income within the first three years of relocation, and most have few regrets about having made the move.

17. ***World Bank Assistance in China's Poverty Reduction***. The World Bank has supported China's goal of reducing chronic poverty for almost two decades. To date, the Bank has been involved in 28 provinces, providing US $5.5 billion for 31 ongoing agricultural and rural development projects. In recent years, the Bank's support has focused on targeted poverty reduction operations in remote, resource-deficient areas of western China. The Project is the fourth in a series of such operations. In these programs, the Bank works closely with China's other development partners, including international organizations (such as IFAD, FAO, UNDP and WFP) and various bilateral organizations (including Australia, Canada, Japan, and New Zealand and others).

18. The Bank has also been heavily engaged in the analysis of poverty reduction strategies in China over the last decade, through systematic studies as well as frequent discussions with the Government and other development partners. More than ten years of Bank research, analysis, and direct project experience in China has confirmed that viable

---

[6] For further reading on the subject, see "China - Overcoming Rural Poverty," Leading Group for Poverty Reduction, UNDP, World Bank, May 2000.

schemes for voluntary resettlement should be considered as one of the best opportunities for reducing poverty. The Bank's 1992 Report "China: Strategies for Reducing Poverty in the 1990s," noting the success of China's voluntary resettlement programs, identified a number of measures including expanded voluntary resettlement to newly irrigated areas. Additional Bank analysis in 1996 ("China's Poverty Reduction Through Voluntary Resettlement Program") also concluded that "where suitable conditions exist, voluntary resettlement to newly irrigated lands remains the most reliable and cost effective means of reducing absolute poverty in China's worst affected areas." This finding is confirmed in the draft report "China: Overcoming Rural Poverty" (May 2000) which was discussed at a multi-donor Poverty Conference in Beijing in May 2000. When a targeted poverty reduction project is under design, a large number of possible strategies are considered, ranging from integrated sets of in situ activities to activities promoting labor mobility and voluntary resettlement. This was also the case for this Project (see Annex 1).

19. ***Qinghai Province Poverty Reduction Program***. Qinghai has benefitted from various national poverty programs, but remains one of the poorest provinces in China with the number of absolute poor in 1996 at about 669,000, or about 13 percent of the total provincial population. About 27 percent of the provincial total population, including over 60 percent of the province's absolute poor, live in the Project's six Move-out counties in the eastern mountainous area of the province, which comprises 1.6 percent of the Province's total land area. At RMB 1,174, the per capita income of Qinghai's rural population is about 40 percent of the national average.

20. Qinghai Province has a well-defined poverty reduction strategy based on about 40 studies on the natural, social and economic conditions of various areas of the province (Annex 1, Table 1). These studies were carried out in the 1980s and 1990s to develop alternative poverty reduction strategies for the varying social and natural resource conditions in Qinghai. Basically, the strategy is differentiated according to the three sub-regions of the Province: (a) in the south, where Tibetan herders are the predominant population, the strategy is to improve pastures; (b) in the east, where there is potential for in situ development, government supported and donor-assisted integrated development activities are taking place[7] (Annex 1, Table 2). During the identification period of this Project, the Bank made site visits to these projects and had detailed discussions with Qinghai Province and the foreign funding partners on lessons learned; and (c) in the east, where there are no options for in situ development, voluntary resettlement, such as this Project, has been proposed.[8]

---

[7] Australian Aid, IFAD and the World Food Program have provided assistance to Qinghai in counties where there is potential for development *in situ*. These have been very small-scale programs, capitalizing on local opportunities where they were available, which have generally not been able to address the underlying problem of over-population in the upland areas that results in serious environmental degradation. Thus many of these activities may have questionable long-term sustainability, a concern expressed by the agencies themselves during meetings with the Bank.

[8] The World Food Programme Project 3557 has a resettlement component, where 1,600 households from Ledu, Huangyan and Huzhu Counties in Haidong Prefecture were settled in two new villages, east and west of Keke Town in Wulan County of Haixi Mongol and Tibetan Autonomous Prefecture.

21. To meet the needs of these three different areas, three key programs were developed in 1996: (a) the "Feeding and Clothing" Program for the Southern Qinghai Livestock Area Program; (b) the Integrated Development of the Eastern Qinghai Dry Mountainous Area; and (c) the Voluntary Resettlement Program. Qinghai and the Borrower have sought support from a number of donors in implementing these programs. International credit/loan funding from the Bank was requested for the Voluntary Resettlement Program based on the experience of previous programs that demonstrate the financial viability and long-term economic sustainability of these schemes. This would enable beneficiary participation in the repayment of the loan, which is the common practice for World Bank loans and credits in China.

22. ***The Qinghai Component of the Project***. The Project forms an integral part of the broader national and provincial poverty reduction program where the Bank is only a small player. Consistent with the principles of the Comprehensive Development Framework, both China's central government and the Qinghai Government have full ownership of the design and implementation of their poverty reduction activities. Thus, the Project concept was presented to the Bank, and a request made for financing.

23. The scope and design of the Project was defined by Qinghai Province based on its poverty reduction strategy ("Seven-Year Poverty Reduction Plan of Qinghai Province, 1993"), supported by the numerous studies as mentioned earlier. This Project, the only stand-alone Bank-supported project in Qinghai, was designed to reduce the incidence of absolute poverty in remote and inaccessible villages in the Project areas, with little potential for in situ activities, through a voluntary resettlement program. We would like to emphasize that the Project was not designed to benefit the population in the Move-out area at large. Rather, the focus was on the moving-out population and the affected population in the Move-in area. Other government and donor-funded activities are and will be focused on the population remaining in the Move-out areas. When fully implemented, the Project would enable its beneficiaries to meet basic needs of food and clothing and, in many cases, earn cash income from a marketable surplus to enable continuous income growth.

24. The six participating Move-out counties are nationally designated poverty counties constrained by the fragility of the environment. The resource base of the counties has been depleted as a result of a combination of population pressures, intensive cultivation, and over grazing. The average density of population is about 114 persons/km2 (compared to less than 1 person/km2 in the Move-in area). Crop yields are low due to poor soil quality and recurrent drought. Many households in the Move-out counties do not produce adequate food grain supplies for their own subsistence and have to borrow from relatives or better-off neighbors to supplement the limited welfare ration provided by local governments. With steadily increasing population pressure, more unsuitable land will be cultivated, thus accelerating environmental degradation. Even with the use of improved technologies and systems, the population pressure would prevent the achievement of even the most basic living standards. Through a number of

studies[9] carried out by Qinghai, it has been established that the areas selected for the Project offer little or no development opportunities and that the only sustainable alternative is to contain cultivation of the degraded lands and assist the local population to voluntarily seek opportunities elsewhere. The Project targets only villages with no *in situ* development opportunities. In sum, this Project was designed as part of a province-wide program for poverty reduction. It was built upon a serious analytical base, and project alternatives were considered. We share the Panel's view that this process could have been better documented by the Bank, but not that the process itself was weak.

B. China's Record on Poverty Reduction and Safeguards

25. The Panel Report makes much of the phrase "in China, things are done differently", which it apparently heard from a number of individuals it interviewed. The Panel uses this to imply that the Bank applies its policies differently in China, suggesting a special relationship. In this, we believe the Panel Report misreads the Bank's record. Policies are not applied differently for different borrowers. Rather, we use a risk-management approach that tailors the amount of detail and analysis required at appraisal and supervision to the risks of the Project, importantly including general implementation risks and other risks that are country specific. China's strong track record on project preparation and implementation, including those aspects applying to resettlement and the environment, means that we often need to do less detailed work in ensuring due diligence than with some other borrowers. This section briefly reviews China's performance and provides information that we feel justifies this approach. The purpose here is not to argue that the Bank's Task Team and Management should in any way apply a softer standard in applying due diligence, but rather that less detailed work is required to provide confidence that standards are high. In this case, given the sensitivity and level of interest in the Project, we recognize that more should have been done by the Bank to document the design process.

26. China has consistently managed its portfolio of Bank-assisted projects very well. This is summarized in the 1998 CAS Progress Report, for example:

> "The quality of the China portfolio continues to be high, with only 6% of projects evaluated by OED over the past five years considered unsatisfactory. According to the most recent Annual Review of Development Effectiveness, the China portfolio was ranked first Bank-wide in terms of the rewards, even when adjusted for risk. This is due primarily to the very high level of Government ownership and commitment to ensuring successful implementation, combined with generally strong local implementation capacity. Incentives at the local level are heightened by the fact that the beneficiaries are responsible in most cases for repayment of loans and credits. China's highly effective approach to involuntary resettlement is noted in a recent OED study where the Chinese projects were cited as "best practice" in terms of income restoration and "show what can be done to make resettlement work."

[9] For example, see: "Conditions on Agriculture and Natural Resources, and Agricultural Zoning of Datong, Huangyuan, Hualong, Xunhua, Minhe and Ping'an counties, during the period of 1980-1989," "Land Resources of Qinghai, 1991: "Social and Economic Statistics of Poverty Stricken Areas of Qinghai Province, 1994-1996." A full list of studies and documentation on which the Qinghai Province based the design of the Project can be found in Table 1 of Annex 1.

27. The OED and QAG consistently give the China portfolio high marks. OED findings show that, in terms of Borrower performance for the period of FY87-97, China comes in near the top when compared to similar countries, and is the top performer in terms of preparation. In the Annual Review of Portfolio Performance (ARPP), China's scores for implementation performance (IP) and achievement of development objectives (DO) are 90 and 95 percent for FY98 and FY99.[10]

28. On safeguard policy performance China also rates highly. According to QAG, for example:

> "By comparison with most developing countries, China's policies on environmental assessment and resettlement reflect a longstanding policy commitment as well as a history of competent implementation. Environmental assessments for investment became mandatory in China in 1979, ten years before the Bank introduced OD 4.01. China's record in other areas of social and economic safeguards has also been strong. Experience with involuntary resettlement in China has been assessed as "best practice" by OED. Recent thematic supervisions of resettlement, agro-processing and thermal power projects confirm the quality of implementation of safeguard policies.

29. In March 1998, OED completed its review of resettlement, finding that China was uniquely best practice because of its commitment to using resettlement as a development opportunity and because of its competence in design and implementation of programs. OED spelled out the lessons for the Bank and other borrowers from China's strong performance. CODE discussed this report on April 28, 1998. The minutes state:[11]

> "**Borrower Ownership.** Speakers underscored the vital importance of borrower ownership, commitment, and capacity to implement resettlement policies and the need for the Bank to work with the borrowers to help address performance constraints and build capacity. Some of them pointed to the successful experience in China as a fine example of strong borrower ownership, commitment, and capacity. China also provided interesting comments on the report, which confirmed the country's high level of ownership of resettlement as a development imperative."

30. While the above discussion establishes the fact that China has been a top performer on projects, it is also clear that performance was better in some areas than in others and that Bank due diligence at appraisal and supervision still has an important role to play. A forthcoming QAG report will note this.

C. Project Improvements in May 1999 and Management Response of July 19, 1999

31. While arguing that the Bank was substantially in compliance with its own policies in the processing of this Project, the Management Response to the Initial Request (July 19, 1999) noted that the coverage and quality of some of the preparatory work on social and environmental issues could have been better. To remedy this, the Project was revised in May 1999, prior to Board consideration, and the Management Response of July 19, 1999 provided details on the additional work that would be required. The Borrower supported the inclusion of this additional work and the associated cost and delay of

---

[10] See *Annual Report on Portfolio Performance (ARPP), Fiscal Year* 1999 (CODE) 99-80), October 13, 1999.

[11] See CODE minutes, CODE/M98-6, March 22, 1998.

Project start-up. Management and the Borrower viewed this additional preparatory work as an important element in ensuring that the Project would be implemented to high environmental and social standards. In summary, the measures discussed below were already included in the Management Response of July 1999.

32. ***Environmental Studies***. The following program of Supplemental Environmental Studies were included:

(a) *Detailed Design and Implementation Studies*: Detailed design of the conjunctive water use program and development of ground and surface water monitoring plans; soil mapping; irrigation system layout; development of soil monitoring program; farmer training program; strengthening of pesticide management within minority communities.

(b) *Ecological Studies*: Assessment of ecological impacts of existing settlements and specification of range management safeguards, ecological and land use surveys of the Balong Soak.

(c) *Supplementary Field Review*: An environmental review of existing settlements and irrigated perimeters, environmental review of water systems, including the dam and canals, and cultural resource survey.

Based on the above activities, the Environmental Mitigation and Monitoring Program was to be strengthened, and consultations were to be held among affected people. Improved technical maps were to be prepared.

33. ***Social Studies***. A series of social assessment studies, as outlined in the Project Agreement,[12] were to be prepared, including:

(a) *An Updated Social Assessment Summary Report* based on Participatory Rural Appraisals to: (a) promote informed participation of project affected people; (b) identify and propose any needed adjustments to the Voluntary Settlement Implementation Plan (VSIP), the Local Beneficiaries Action Plans, and the Pilot Program; (c) refine the selection criteria by which individuals and communities volunteering to resettle are chosen; and (d) review alternative poverty alleviation strategies which exist for those individuals, villages, and townships in the Move-out area not selected to participate in the resettlement. During the update, additional social data were to be collected and relevant maps would be prepared.

(b) *An Updated Voluntary Settlement Implementation Plan* based on needs and concerns of project affected people identified during consultations allowing for refinements in the design of the Project if any, including the Pilot Program (as defined in the Management Response of July 19, 1999).

(c) *Updated Local Beneficiaries Action Plan* based on the needs and concerns identified during the social assessment process to provide a meaningful participation framework for all project affected people, and would allow for refinements in the design of the Project, if any.

---

[12] Project Agreement, December 30, 1999; Schedule 2, Section B.

34. ***An Independent Team of Experts***. A team, now referred to as the Environment and Social Team of Experts, consisting of both international and local specialists was to provide advice on preparation of the Environmental and Social Studies, assist in their review and provide recommendations to the Borrower and the Bank on these matters. The Team was also to provide support and monitoring to the Borrower during the full period of Project implementation.

35. The above measures, incorporated into the improved Project design in May and June 1999 were not a major focus of the Panel's work. The Inspection Panel Report noted that these improvements made it more complex for the Panel to assess compliance issues, since it required them to choose whether to focus on compliance at the time of the start of Project implementation or at Project appraisal. The Panel chose to focus primarily on the period up to appraisal.

36. In the next two sections, addressing environmental and social safeguards respectively, we examine the findings of the Panel, and ask whether, looking forward, their concerns can be responsibly addressed by the measures already agreed with the Borrower last year, or whether additional measures will be required. In summary, we conclude that the measures proposed and agreed with the Borrower last year (costing around US $1.5 million) will address many of the concerns raised by the Panel. But in light of the Panel's findings and our decision to reclassify the Project henceforth as Category A, we are now recommending some additional activities (costing an additional US $670,000), that will be required to deepen the verification of earlier findings, and will be brought together in a Supplemental Environmental Impact Assessment (SEIA) and Upgraded Social Plans (including a separate Indigenous Peoples Development Plan). However, as discussed earlier, Management's proposals differ from those of the Panel in a few key aspects.

III. ENVIRONMENTAL SAFEGUARDS

37. This section reviews the Panel's findings as they apply to environmental safeguards. Specifically, the Panel finds weaknesses in: (a) the initial environmental screening process; (b) the analysis of alternatives; (c) the area of Project influence including treatment of induced and multiplier effects; and (d) the depth of environmental analysis and the preparation of mitigation and monitoring plans.

A. Initial Environmental Screening Process

38. The initial screening of a project is the time when the Task Team undertakes a broad stocktaking of the potential significant impacts of the project, assigns it an environmental category and agrees on terms of reference for the environmental assessment work. In the Panel's judgment this Project should have been placed in Category A, requiring a fuller environmental analysis. A major reason for this opinion was that Annex E to OD 4.01 gives an illustrative list of activities that are likely to require a detailed analysis consistent with Category A: these include dams and reservoirs, irrigation and flood control, land clearance and leveling, and resettlement, all of which are included in the Project.

39. This is a central finding of the Panel, in that many other findings stem from this judgment, including analysis of alternatives and examination of potential direct and indirect environmental impacts. The Management Response of July 19, 1999 noted that this is an issue on which professionals could differ in judgment. It noted that OD 4.01 states that a full environmental assessment is required where *"a project is likely to have significant adverse impacts that may be sensitive, irreversible and diverse. The impacts are likely to be comprehensive, broad, sector-wide, or precedent setting"(Paragraph 5, Annex E).* In this case, a B Category was assigned in accordance with screening procedures in April 1998 following a site visit by an international consultant. This was confirmed by the Regional Environment Department in accordance with procedures enforced at the time. It was anticipated that the potential direct impacts would be limited in their scope and could be addressed through mitigation measures that had previously been used successfully in other projects. The potential indirect impacts were viewed as restricted in both their intensity and in their area of influence on the basis of Chinese experience. It is correct that Annex E to OD 4.01 provides a list of project types that would generally be placed in Category A, and that this Project contains several components (including a medium sized dam,[13] resettlement and irrigation) that are included in this list. However, in the Management Response of July 19, 1999 it was noted that OD 4.01 specifically states that "this list is illustrative only", and Bank professionals and Management have systematically opposed a "checklist" approach to environmental categorization.

40. Notwithstanding the procedural issues surrounding the original screening process, Management recognizes that given the special circumstances of this Project, it would be beneficial to conduct a deeper level of environmental analysis than was provided in the original Environmental Impact Assessment. Management has therefore decided that, in order to minimize risks and answer doubts that have been raised, the Project will be recategorized henceforth as A, and a SEIA will be prepared. The details of the SEIA are provided in the Management Report and Recommendation in Response to the Inspection Panel Investigation Report.

B. Analysis of Alternatives

41. OD 4.01 requires that for Category A projects the Environmental Impact Assessment (EIA) should analyze alternatives in the design of the project from an environmental standpoint to ensure that environmental costs and benefits are factored into the choice of project design. In the Panel's view the Project entered the Bank's portfolio too late for the Bank to have a major influence on project design, and alternatives were not well addressed in the EIA. In particular these include the alternatives of staying on site in the Move-out area, different locations for new development, and alternative development options for the Move-in area such as agro-pastoralism and sedentary pastoralism.

42. This finding raises an important principle regarding analysis of alternatives. In Management's view, OD 4.01 was not intended to require the analysis of alternatives that

[13] Contrary to the Panel's assertion, seismicity was addressed in the design of the dam.

are not economically or developmentally viable. Sound project identification and preparation requires that alternatives be considered carefully. This was undertaken in this Project within the context of broader sector work and project planning at the national and provincial level. We agree that this work should have been better documented. We also agree that more analysis needs to be done to assess the technical alternatives to support detailed design of the Project.

43. We do not believe that it would be productive to undertake much additional work on some of the alternatives proposed by the Panel. The *in situ* development option, for example, has already been explored by Chinese and World Bank specialists. The Bank Task Team reviewed the experiences of many of the ongoing programs in the Move-out areas, held discussions with government and donors, reviewed many studies, made overnight field visits to remote areas and met with local farmers and herders. The unanimous view of the Task Team was that *in situ* development options, while worthwhile to pursue on a small scale, did not present a cost effective way of sustainably raising living standards for a large number of people. The other options proposed by the Panel, agro-pastoralism and sedentary pastoralism, are indeed offered to the existing population in the Move-in area. These options however, are not viable for the Move-out population who are farmers, not herders.

44. The Panel's opinion that the Project appeared on the Bank's "radar screen" too late to be influenced in design is not correct. Based upon review of soil and water availability and an analysis of carrying capacity, the size of the irrigation area was substantially reduced (from 26,000 hectares to 19,000 hectares), as were the number of settlers (from 100,000 to less than 60,000). Nonetheless, looking forward, we agree that it is valuable to undertake an examination of alternative technical designs within the Move-in and Move-out areas. We also agree that it is useful to document the full range of development options that were evaluated by the Chinese authorities. The proposed SEIA would therefore include both of these elements.

45. At the same time, it is the view of Management that this finding of the Panel attributes to environmental assessments and complementary methods of analyzing social aspects of projects, a much greater role than was intended when these instruments were developed and approved for use by the Bank and its Borrowers. Careful thought will need to be given by Management and the Executive Directors as to how to honor the intention of the policies—which is to ensure that due diligence has been done and that design of the Project to be supported has been informed by a careful analysis of environmental and social aspects—while at the same time respecting the Borrower's vision and ownership of the development program.

C. Area of Project Influence

46. In assessing potential environmental impacts, it is necessary to consider impacts that may be indirect or may occur outside the Project area. In the view of the Panel the EIA should have more clearly defined the Project area and analyzed "induced" and "multiplier" impacts in more detail, and should have defined the area of Project influence more broadly.

47. The EIA prepared for the Project did describe the Project area and evaluate potential indirect and induced effects, but in a more limited manner than has been recommended by the Panel. This analysis was based on 20 years of Bank experience in China, which indicates that the potential for induced development in this type of setting is minimal. This is based on factors such as household expenditure patterns in rural China (it is estimated that only about US$12-17 per person per year will be spent in the local economy after Move-in), and by the way construction is undertaken, with either dedicated crews who export their earnings or through self-help approaches involving the beneficiaries as the main source of labor. These conditions, in the view of the Bank, significantly reduce the risk of induced environmental impacts through the local economy and of "boomtown" effects that often are associated with major construction programs in other countries.

48. Nonetheless, we recognize that in light of questions raised there is merit in providing a better description of the Project area and evaluating environmental impacts more broadly. We therefore recommend an analysis of potential direct and indirect environmental impacts as described in the Management Report and Recommendation in Response to the Inspection Panel Investigation Report.

D. Environmental Analysis, Mitigation and Monitoring

49. The Panel raises additional questions concerning the depth of environmental analysis and the preparation of mitigation and monitoring plans. Have the potential environmental impacts of this Project been analyzed appropriately to give confidence that mitigation measures are adequate? Are the mitigation and monitoring plans well designed and adequate? Were photographs and maps effectively used in the environmental studies?

50. ***Environmental Mitigation Plans.*** In the Panel's judgment there are a number of areas in which the design of mitigation measures should have been taken further prior to appraisal of the Project. Examples cited by the Panel include: (a) crossing problems at the irrigation and bulk water canals that could block the passage of local residents and herders; (b) provision of transit corridors for livestock through the Balong Irrigation Sub-District; (c) management and disposal of wastes from new towns and villages; (d) issues related to use of electricity for heating and appliances; and (e) concerns about oil and mineral development in the region, including drilling operations.

51. It is of course important that these issues be addressed. These normally would be, and will be in this case, an integral part of detailed design as the Project proceeds. In each of the cases raised by the Panel, a clear framework exists for moving forward, and will be documented in the proposed updated Environmental Mitigation and Monitoring Plan:

(a) *Crossing Bulk Water Supply Canals.* The Panel is correct in noting that canal crossings can be an issue of concern. This is an issue that was taken into account by the Water Resources Bureau staff, who have budgeted for 15 engineered bridges, the location of which will be fixed during the final design stage on the basis of consultations with relevant affected people.

(b) *Transit Corridors for Livestock.* The need for livestock corridors was identified as part of the consultations undertaken for the purposes of the environmental and social assessment. As mentioned in the July 19, 1999 Management Response, they have been included in the design as feasibility level provisions, but more work needs to be done to specify them fully. This includes defining their width, based on consultations with herders and more detailed analysis of stock numbers, movement times and soil capability.

(c) *Management and Disposal of Wastes.* Throughout rural China, the overwhelming majority of animal and human wastes, particularly in poor areas where farmers have insufficient funds to purchase artificial fertilizers, are disposed of on farmers' fields or to a lesser extent used as fuel. Regarding the disposal of other wastes, the quantities are not large due to the very low material consumption of poor farmers although there is a generic problem throughout China regarding the adverse visual effects of inadequately disposed of plastic film and plastic bags.

(d) *Electrical Heating and Appliances.* The low income levels of the beneficiaries restrict their household use of electricity to lighting, some low consumption purposes such as radios and in exceptional circumstances, television. The cost of using electricity for heating would be completely beyond the financial capacity of the average participating family now and for the foreseeable future.

(e) *Oil and Mineral Development.* The drilling rig observed by the Panel members is understood to have been undertaking hydro-geological investigations pursuant to the recommendations made in the mathematical modeling study for water resources done as part of the preparatory work for the Project. To the best of Management's knowledge, the only oil development in the Qaidam Basin is a small refinery located approximately 200 km from the Project site. There is also a natural gas pipeline connecting Lhasa with Geermu, which is about 90 km from the site.

52. ***Natural Habitats and Biodiversity.*** The Panel finds the Project to be in contravention of OD 4.04, "Natural Habitats." Specifically, it suggests that the information provided in the EIA is not sufficient to assert with confidence that the area is not critical for rare, vulnerable, migratory or endangered species.

53. In fact, a large number of expert analyses were consulted in reaching judgments associated with the status of biodiversity. In accordance with the provisions of the OD, Chinese and Bank specialists consulted authoritative sources of information on current protected areas and priority areas for conservation to determine the potential impact of Project supported activities on natural habitats and biodiversity. Sources include the Biodiversity Review of China (WWF International), Biodiversity Action Plan for China (NEPA), and the Directory of Asian Wetlands (WWF, IUCN, ICBP and IWWRB). These sources indicate that while important natural habitats exist within Qinghai Province as a whole, the priority conservation areas are far from the sites to be developed and will not be affected by the Project. According to the technical studies undertaken as part of Project design, the only potential indirect impact of the Project on natural habitats would be in an area extending about one kilometer northeast of the main irrigation area. This area of seasonally waterlogged land was referred to, for convenience, as the "Balong

Soak." Mathematical modeling showed that the groundwater table in this area could be seasonally lowered by between 0.1 and 0.5 meters. Funding is already provided in the Project for monitoring and land use surveys that would form the basis for a management plan. On the basis of investigations undertaken by Chinese specialists, it was not anticipated that the Project would have significant indirect adverse impacts on other areas of ecological significance in the area of influence as originally defined.

54. Although Management considers it unlikely that the area is critical for rare, vulnerable, migratory or endangered species, the Borrower has agreed that the proposed SEIA would evaluate potential direct and indirect impacts on natural habitats and biodiversity by Project-supported activities; assess technical alternatives that may reduce potential impacts; and identify management, mitigation and monitoring measures. This would include the assessment of ecological impacts of existing settlements and specification of range management safeguards, ecological and land use surveys of the Balong Soak and additional literature reviews and reconnaissance studies of the fauna and flora in the Project area and the greater area of influence. This analysis would be supported by photographs to show representative habitats, maps would be prepared to show distribution of major natural habitats, and relevant scientific literature and unpublished sources of information would be reviewed. The Environmental Mitigation and Monitoring Plan would be updated, if necessary, to include additional mitigation measures and monitoring actions to address the conservation of natural habitats and biodiversity.

55. ***Pest Management***. While Bank funds will not be used for pesticide purchases, the Panel noted that since counterpart funds will be used, a Pest Management Plan should have been prepared and documented under OD 4.09.

56. It is true that the Project does not include a freestanding Pest Management Plan. However, pest management issues were evaluated in the original Environmental Impact Assessment and the Project design provides support for agricultural extension and training activities to address this matter. In addition, a formal agreement exists with Chinese authorities that all pesticides procured with counterpart funds will be restricted to World Health Organization Class II and III types, consistent with existing policy.

57. Management agrees that these actions would be more easily accessible if consolidated in the form of a Pest Management Plan. Therefore, a freestanding Pest Management Plan would be prepared as an element of the SEIA. The Plan would provide a consolidated analysis of the potential pest management issues associated with the Project, review pesticide screening procedures and a list of proposed pesticides, describe the training programs for extension personnel and farmers, and outline planned monitoring actions. In addition, it would include detailed information concerning the technical assistance program under the Project that will develop awareness programs for pesticide transport, storage, application and container disposal. It would also outline the elements of the Project-supported activity for "Strengthening Pesticide Management in Minority Communities."

58. ***Maps and Documentation***. The Panel also finds that the documents for the Project, including the EIA, do not include adequate use of photographs and maps.

Although the maps were adequate for the purposes of Project preparation, this finding is accepted and recognized as a weakness in the presentation of the EIA and associated documents. However, the range of maps used in Project preparation was much richer than suggested by the Panel, including satellite imaging for soil investigations and environmental analysis (Global Panchromatic Spot Satellite Image Map). The SEIA would include the extensive use of photographs and maps that illustrate physical, biological and socio-economic conditions in the Project area.

IV. SOCIAL SAFEGUARDS

A. Indigenous Peoples

59. Issues relating to indigenous peoples lie at the heart of the controversy surrounding this Project. The majority of Project beneficiaries and all involuntarily resettled people are ethnic minorities. The poor people from the Move-out counties will be drawn from a variety of ethnic groups: Tibetans, the Tu, the Muslim Hui and Salar peoples, and the Chinese majority ethnic group, the Han. The Move-in area is also a multi-ethnic area with Mongols predominating but with substantial Han, Tibetan, and Hui populations. The Task Team acknowledged the complexities of designing a Project suitable for all ethnicities and reached agreement with Qinghai and the Borrower that detailed social assessments should be undertaken before designing a Voluntary Settlement Implementation Plan (VSIP) and the Resettlement Action Plan (RAP) for involuntary resettlement. Both the resulting Social Assessment and VSIP included analyses of the cultural backgrounds and needs of the various involved ethnic groups and suggested a series of measures to maintain inter-ethnic cooperation and the equal distribution of Project benefits. After the controversies around this Project arose, the Bank revisited the detailed design of these activities in order to assure itself that the concerns that were raised had been taken into consideration.

60. As a result, a number of clarifications and improvements were agreed upon with the Borrower, and included in the Project design. These improvements were reflected in the Project Appraisal Document presented to the Board in June 1999. Multi-cultural and multi-lingual education facilities in primary and secondary schools, ethno-medical health care delivery facilities, ethnic cultural centers, and other culturally appropriate measures were agreed upon for implementation in both the Move-in and Move-out areas. A series of additional social studies (Participatory Rural Appraisals) were also planned to verify and validate the results of previous studies, ensure the confidential input of project affected people, and explore possible additional improvements of both the Pilot stage of the Project and the Project itself.

61. The Inspection Panel asserted that these supplemental studies presented problems for them in assessing compliance. After reflection they chose to give little weight to the additional studies on the grounds that they were to be completed after appraisal, and thus found the Project to be out of compliance with OD 4.20 (Indigenous Peoples) for four principal reasons: (a) there are no separate Indigenous Peoples Development Plans (IPDP); (b) the consultations carried out were not confidential, and therefore they could not constitute “meaningful participation,” i.e. people did not feel free to voice their

personal opinions; (c) the consultations carried out were too narrow in scope, excluding possibly adversely affected local Tibetan and Mongol groups; and (d) the unique ethnic lifestyles and ways of life of the local Tibetan and Mongol groups, specifically their pastoralist subsistence strategy, was not sufficiently taken into account while considering the Project.

62. ***Separate Indigenous Peoples Development Plans***. The Panel's view is that the Bank misread OD 4.20 when it concluded that no Indigenous Peoples Development Plan was necessary because the Project design itself is the Indigenous Peoples Plan. In the Panel's view, a separate IPDP should be prepared for each ethnic group.

63. In light of questions raised, we acknowledge that indigenous peoples' issues could have been better addressed in a separate IPDP, which is now recommended. Preparation of a separate plan would encompass consultations with the various ethnic groups and would enable ethnic specific adjustments to the Project. The IPDP would build upon, and supercede, plans for enhancing local ethnic cultures already included in the agreed upon Local Beneficiaries Action Plan. The Project design and its relevance to the indigenous groups would be presented in the written languages of these groups.

64. This said, the Panel's finding that it is inappropriate to consider the Project as a whole as a proper IPDP substitute is more a comment on the OD rather than a critique of this particular Project. The OD is clear that treating the entire Project as an IPDP is warranted in the case where the bulk of those who benefit from the Project are indigenous peoples. Indeed many experts within the Bank and Bank Management maintain that full integration can promote a more thorough approach to planning and help mainstream minorities' concerns into the design of the Project. The Panel's view, furthermore, that a *separate* IPDP should be prepared for *each* ethnic group is also not required under the OD. Whether individual IPDPs add value to the quality of the project design and ownership is debated among the professional community. Some would argue that separate plans help ensure that each group's concerns are adequately reflected in project design, while others argue that inter-ethnic and pan-ethnic issues argue for one comprehensive plan or indeed inclusion in the project design as a whole, as the OD allows.

65. ***Meaningful Participation***. The Panel finds that the Bank failed to ensure meaningful consultation among the affected ethnic populations. Central to this finding is the failure to ensure confidentiality of the participatory process.

66. We agree that more should have been done to maintain confidentiality and integrity of the consultation process. The Management Response of July 19, 1999 described the extensive consultations that were held, but also agreed that there should have been greater efforts made to facilitate confidentiality of the discussions. For this reason the Management Response of July 19, 1999 included a series of additional Participatory Rural Appraisals (PRAs), that would be held without officials present so as to increase confidentiality and preserve anonymity. However, the Panel's assertion that "Bank staff has a responsibility to guarantee confidentiality of the respondent" (paragraph 29, Executive Summary of the Inspection Panel Report) expands the interpretation of "full and informed consultation" (OD 4.20). OD 4.20 does not provide

specific standards for ensuring "informed participation" and recognizes that there are "no foolproof methods…to guarantee full local-level participation." We would like to reiterate that while much can be done to try to ensure confidentiality, the operational difficulties are considerable, not least because the Borrower undertakes such work, and not the Bank. In this context, we would like to note that despite the imperfections in the social consultations, the Social Assessment revealed some negative views toward the Project, and discussed possible mitigation suggestions recommended by Mongol and Tibetan herders and farmers in the Move-in area, which were included in the Project design.

67. ***Coverage of Consultations*.** The Panel finds that an inadequate number of affected people were consulted**.** Specifically, the Panel claims that no survey was carried out among the 289 nomadic pastoralist households who pass through the Project area twice a year, and that only three Tibetan households were consulted. In addition, the Panel claims that eight Mongol villages in the Move-in area were overlooked by the Bank and not included in the 4,000 project affected people.

68. Here the Panel's facts are incorrect. The Panel states that the largest group of affected people, the nomadic pastoralists, were not surveyed or consulted. In fact thirty such households were surveyed and consulted (a 10 percent sampling). Similarly 58 (instead of the Panel's three) Tibetan households were surveyed. And the eight Mongol villages were not overlooked by the Project. They are included in the 4,000 affected people, but seem to have been double counted by the Panel (see below).

69. Nonetheless, we agree with the Panel that a broader geographic coverage is needed to cover a wider group of local people who may be affected by the Project beyond the immediate settlement area. For description of this expanded series of social studies see the Management Report and Recommendation in Response to the Inspection Panel Investigation Report. In the Move-in area, social assessments will be conducted for the settlement area and its encompassing Project townships of Balong, Zongjia, and Xiangride, and also for the designated Project affected areas farther afield. For the Move-out area, social assessments will be conducted not only in the villages from which settlers will move out, but also in the local Project affected areas.

70. ***Tailoring the Project to Ethnic Differences***. The Panel finds that the unique ethnic lifestyles and ways of life of the local Tibetan and Mongol groups, specifically their pastoralist subsistence strategy, were not sufficiently taken into account while considering the Project.

71. Prior to the Board presentation of the Project, but after appraisal, the Bank acknowledged that more work was needed to tailor Project benefits and mitigation measures to the needs of different ethnic groups. This included a series of measures, including a Pilot period preceded by extensive additional social studies, and consultations with beneficiaries and affected groups during the Project period. The Management Response of July 19, 1999 noted that culturally appropriate activities such as multicultural education and training programs in Mongolian and Tibetan as well as the provision of culturally diverse health care delivery systems (specialists and pharmacologies) are included in the Project Agreement (as part of the Local Beneficiaries

Action Plan). The needs of Muslim Hui and Salar to live apart from "non-believers" was recognized so as to maintain dietary customs; the culturally and linguistically compatible Tu and Mongols will live in contiguous communities; and local Tibetan and Mongol religious and cultural needs are respected. New economic opportunities will be offered to local Mongols and Tibetans who *choose* to take advantage of Project benefits. Furthermore, the social studies prior to the Pilot will specifically use PRA activities to ascertain the further social and cultural needs and desires of local Mongols and Tibetans in the Project area.

72. The Panel's statement that pastoralism is not being supported by the Project is inaccurate. Herders were consulted and their suggestions (for grazing corridors and the option of a mixed herding-farming lifestyle) were incorporated into a Project design that enables pastoralism to continue. The Social Assessment revealed that most Mongol herders in the Move-in area have already begun a semi-herding, semi-farming subsistence lifestyle, and so the Project design allows for participation in agriculture and access to fixed sources of water and empowers the herders themselves to decide on their economic alternatives. They can continue their current mix of pastoralism and agriculture or can adjust as they like.

B. Resettlement

73. The Panel declared the Project to be out of compliance with OD 4.30 (Involuntary Resettlement) for three main reasons: (a) the number of affected persons identified for compensation was underestimated; (b) the project affected people will not be appropriately compensated for their losses; and (c) the preparation of the RAP did not adhere to all the procedural requirements of OD 4.30.

74. ***Coverage of the Resettlement Plan.*** The Panel claims that the Bank missed many of the villages in the general Project area and that it underestimated the area affected by irrigation canals. The first claim is incorrect. The eight villages that the Panel claims have not been included in the "Project area" are eight of the ten Balong Township villages (Wulasitai, Nuomuhong, Hatu, Xiatu, Buluoge, Tuotuo, Keri, and Yikegaoli). The Panel appears to have mistakenly double counted them in the total number of people in the immediate Project-area, arriving at a larger number of directly affected people. Documentation supplied to the Panel, however, might have been inadequate on this point, and may account for the error.

75. It is correct that possible resettlement due to construction of the canals has not yet been exactly determined. At the time of appraisal, the RAP could not establish how many people, if any, would be affected by canal works because canal siting had not yet been determined. Instead, a policy framework was prepared to establish principles and standards for any resettlement eventually caused. This practice is consistent with OD 4.30, and it has been followed in a number of Bank projects. The Revised RAP will include any people affected by the canal works' siting. The requirements to implement appropriate remedies to resettlement-related impacts associated with the canal works would be enforceable under the Project Agreement.

76. ***The Compensation Package***. The Panel finds that the project affected people have not been appropriately compensated for their losses, as not all impacts have been addressed. The specific bases for the finding are that the RAP failed to compensate for the full range of potential disruptions to resource access, for changes that would occur in social organization or social relationships, and for future risks and eventualities. OD 4.30 explicitly states that not all losses or future eventualities can be subject to valuation and cash compensation, and that income restoration is the objective of the RAP. Management believes the RAP provides substantial forms of assistance that, taken together, will allow affected persons to improve, or at least restore, both incomes and living standards. It should be noted that losses are relatively slight: partial loss of pastureland for 63 herder households, loss of farmland in a defunct irrigation scheme for 248 households, and partially disrupted migration patterns for 289 herder households. In return, all affected households receive free house-plots and a small settlement grant, and those losing farmland or pastureland receive irrigated land as a replacement. Residence in the settlement also provides access to new or improved services (e.g., schools, clinics) and opportunities to participate in, or benefit from, other aspects of the program.

77. ***The Resettlement Action Plan***. The Panel finds that the RAP itself was inadequate because it did not include all of the planning elements that OD 4.30 requires. But all of the essential policy elements of a RAP were prepared and incorporated into the VSIP, which Management considered to be appropriate given the very close linkage between the voluntary settlement program and the resettlement preferences of those persons involuntarily affected. Although details regarding survey results, planning decisions and technical justifications were not specifically presented in the RAP annex to the VSIP, all of the substantive work required was undertaken. It should be noted that no separate time bound implementation schedule is possible, because the timing of involuntary resettlement-related activities is specifically contingent on accomplishment of specified objectives in the VSIP.

Annex 1
China: Western Poverty Reduction Project – Qinghai Component

Project Identification and Review of Alternatives

I. OVERVIEW

1. ***Introduction***. This Annex responds to the Panel's concerns that the planning process failed to adequately consider alternatives to the project. It provides information on the process used for Project design, which was identified and prepared by the Borrower with the assistance of the Bank. It summarizes the development and site alternatives that were reviewed by the Borrower. On the basis of this process, a decision was made to voluntarily settle 57,775 persons from the Move-out area in Datong, Huangyuan, Hualong, Xunhua, Minhe and Ping'an Counties in the eastern portion of the Qinghai Province to the Move-in area planned Project site in Dulan County in the east central portion of the Province.

2. Section II summarizes the poverty reduction strategies and development options that were considered by Qinghai Province, leading to selection of a program based on the concept of voluntary settlement. Section III describes the alternative sites that were considered for the Project. Section IV summarizes options that were considered for development of the preferred site at Xiangride-Balong.

II. POVERTY REDUCTION IN QINGHAI

3. ***Provincial Strategy***. As noted previously in this document, the Project is part of a Provincial poverty reduction strategy formulated over the past decade and validated through a large volume of serious analyses at various levels. Over a number of years, the Province analyzed alternative poverty reduction strategies suitable to its specific natural, social and economic conditions. The Province defined its poverty reduction strategy based on an impressive number of studies carried out in the 1980s and 1990s (Table 1).

4. In summary, Qinghai's poverty reduction strategy is differentiated regarding three areas in the Province: (a) in the south where Tibetan herders are the predominant population, the strategy is to improve pastures, in accordance with the expressed desire of the herders; (b) in the east where there is potential for *in situ* development, government supported and donor assisted integrated development activities are taking place; and (c) in the east where there are very limited options for *in situ* development, voluntary settlement, such as this Project, has been proposed.[14]

5. ***Three Complementary Programs***. To implement the Province's poverty reduction strategy, three programs, supplemented by donor funded activities (Table 2) were developed in 1996:

---

[14] The World Food Programme Project 3557 has a resettlement component, where 1,600 households from Ledu, Huangyuan and Huzhu Counties in Haidong Prefecture were settled in two new villages, east and west of Keke Town in Wulan County of Haixi Mongol and Tibetan Autonomous Prefecture.

(a) *Feeding and Clothing Program for the Southern Qinghai Livestock Area*. This program aims at improving living and production conditions for about 45,700 herder households through construction of settlement sites, animal sheds, fenced pastures and improved fodder production base. The program is to be completed in 2002.

(b) *Integrated Development of the Eastern Qinghai Dry Mountainous Area*. The program is to benefit about 1.5 million people in 151 poor townships of 14 counties in the eastern mountainous area of Qinghai. It focuses on integrated *in situ* development through soil and water conservation and watershed development to improve the ecological environment and production conditions. The first phase of the program will be completed this year and the second phase is estimated to take 10 years starting in 2001.

(c) *Voluntary Resettlement Program* (of which this Project is a part). International credit/loan funding from the World Bank was requested for this Program based on the experience of previous programs that demonstrate the financial viability and long-term economic sustainability of these schemes. This would enable beneficiary participation in the repayment of the loan, which is the common practice in China for World Bank loans and credits.

6. ***Eastern Qinghai – The Move-out Counties***. The six participating Move-out counties are nationally designated poverty counties constrained by the fragility of the environment. The resource base of the counties has been depleted as a result of a combination of population pressures, intensive cultivation, and overgrazing. The average density of population is about 114 people/km^2. The area is physically located in the transitional zone between the Loess Plateau and the Qinghai Plateau at an elevation of 1,700 - 3,250 meters comprising deep valleys separated by very steep hills. Between 60 - 85 percent of the land is hillside, and more than one third of the land being farmed has slopes in excess of 25^o. Average rainfall is in the range of 320-520 millimeters per year, solar radiation is very high and average temperatures are low. Water resources are ample in the valleys but very limited on the slopes and hilltops due to geological and soil conditions. Drinking water is derived from rainfall storage cisterns dug into the ground, water supplies for farm animals are very limited and irrigation is almost impossible.

7. The hillsides, from which the settlers originate, are very eroded. About 75 percent of Ping'an County is classified as "eroded" of which about 50 percent is classified as "highly eroded" or "extremely highly eroded." To add to difficulties imposed by lack of water, the area is also subject to weather induced disasters including drought, high winds and periodic flash floods, the impact of which is worsened by the widespread deforestation throughout the area. Crop yields are low due to poor soil quality and recurrent droughts. Many households do not produce adequate food grain for their own subsistence and have to borrow from relatives or better-off neighbors to supplement the limited welfare ration provided by local governments. Based on extensive research, it has been determined that the area offers little or no development opportunities and that the only sustainable alternative is to contain cultivation of the degraded lands and assist the local population to voluntarily seek opportunities elsewhere.

8. ***Consideration of Alternative Poverty Reduction Strategies.*** The Bank Project Team's consideration of alternative poverty reduction strategies and project alternatives, carried out during the identification stage, consisted of a series of discussions with the Ministry of Finance, the Leading Group for Poverty Reduction, various levels of government in Qinghai and donor organizations. These discussions concerned China's poverty alleviation strategies, policies and efforts in general, as well as detailed discussions about the Project concept. The Project Team held meetings with IFAD in Rome, UNDP, WFP, EU in Beijing and AusAid in Qinghai. These discussions were concentrated on lessons learned from their field activities in Qinghai in counties where there is potential for *in situ* development (Table 2). These have been very small-scale programs, capitalizing on local opportunities where they were available and have generally not been able to address the underlying problem of over-population in the upland areas, which results in serious environmental degradation. Thus many of these activities may have questionable long-term sustainability, a concern expressed by some the agencies during meetings with the Bank.

9. The discussions were complemented by field visits in the Move-out and Move-in areas and review of relevant data and other information. The field visits included overnight stays in remote villages, discussions with farmers and herders, and meetings with local technical bureaus to discuss the information obtained at the provincial level. Chinese speaking Bank staff and consultants reviewed some of the original studies (Table 1). This documentation consists of numerous studies and research programs commissioned by the Provincial Government before the Project was proposed to the Central Government.

10. The purpose of the identification phase of the Project was to identify a development strategy that would provide a sustainable basis for long-term poverty reduction of the target population. To this end, basically three main strategies were considered: (a) *in situ* improvement and intensification of agriculture; (b) alternative employment schemes; and (c) agricultural development combined with voluntary resettlement for the target beneficiaries:

(a) *In Situ Improvement and Intensification of Agriculture*. Based on lessons learned and review of the situation in the Move-out counties, *in situ* improvement and intensification of agriculture was not considered a sustainable option. The unsuitable natural conditions, severe environmental degradation, excessive population pressure, extreme difficulties in providing any basic infrastructure (safe drinking water, roads, electricity) combine to make large scale *in situ* development impossible (Table 3).

While it is technically possible to build terraces in areas with heavy erosion, steep slopes and depleted soils, it is not economically feasible due to the high costs involved compared with the minimal increase in yield from terracing in an area with such a low rainfall. Terraces are not a feasible option in these areas of less than 300 mm of annual rainfall. These conditions also reduce the scope for diversification of agricultural production systems such as introduction of major new crops and/or expanded production of livestock and poultry. While some scope for these activities was identified in villages on less steep hills, it was deemed insufficient to meet the needs of a larger population. Such *in situ*

activities will instead be taken up as measures to enhance the livelihoods and incomes of those who remain in the Move-out areas.

Large scale *in situ* development is possible in areas like the Loess Plateau with a lower population density (about 80 per km^2) and higher annual precipitation (about 500 mm). In neighboring Gansu Province and Ningxia Hui Autonomous Region with similar conditions, voluntary resettlement has also been established as the only feasible alternative for larger scale assistance in other Bank-supported projects (e.g. Gansu-Hexi Corridor Project, Northern Irrigation Project).

(b) *Alternative Employment Schemes*. Possibilities were reviewed for alternative employment generation schemes in the Move-out areas that would create local employment in small-scale enterprises. Based on previous Bank support to such schemes elsewhere in China, these interventions were assessed as having limited scope and would not provide an adequate basis for a substantial poverty reduction strategy.

Also, similar to the Bank supported Southwest Poverty Reduction Project, Qinba Mountains Poverty Reduction Project and Gansu Hexi Corridor Project, the possibility of an organized labor mobility program was considered. Three main constraints in the Move-out areas ruled out this option: (i) Qinghai lacks in-province urban employment opportunities for rural populations. The Province is still one of the least developed in China with a weak urban economy that provides very limited urban employment opportunities for rural populations. Since 1985, the urban population has remained stable at about 34 percent; (ii) about 55 percent of the population in the Move-out areas is semi-literate or illiterate. This makes any surplus rural laborers from these areas less competitive as sources of labor mobility to other parts of the country; and (iii) there has been a very limited number of rural laborers going to other parts of the country from the Move-out areas. Four of the six Move-out counties are minority autonomous counties and over half the total population is composed of ethnic minorities. Minority populations in the Move-out areas are traditionally engaged in agricultural activities.

(c) *Voluntary Resettlement*.[15] The severity of the poverty and environmental destruction on many of the western uplands is extreme and overwhelming. The upland population greatly exceeds the carrying capacity of these lands and, in most years, the population simply would not survive without government assistance and relief grants. Therefore, voluntary resettlement of people from the most severely affected upland areas has become an increasingly important poverty reduction method in China and is now an important element in China's poverty reduction strategy. Many provinces have already carried out such activities quite successfully (e.g., Ningxia, Gansu, Guangdong, Guangxi, Hebei, Zhejiang, and Shandong), with Bank support (Table 4). Based on the Bank's previous experience in China, voluntary resettlement was considered as a potentially very useful tool for effective poverty reduction in the Move-out areas where the population greatly exceeded the carrying capacity of the land.

[15] For further reading on the subject, see China Overcoming Rural Poverty, Leading Group for Poverty Reduction, UNDP, World Bank, May 2000.

III. SITE ALTERNATIVES

11. ***Analysis of Alternative Sites***. Having determined that a voluntary settlement program would best meet the needs of the target beneficiaries in the six counties, the next analysis of alternatives related to the identification of sites suitable for development of a sustainable agricultural system to support the settlers from economic and social points of view. The two most critical factors impinging on site selection are:

(a) Water must be available to support irrigated agriculture. It would not be feasible to base the development on a rainfed agricultural system due to the generally low rainfalls throughout the Province.

(b) Soils must have physical and chemical characteristics suitable for irrigated agricultural development; the main requirements are good physical characteristics (loams, sandy loams, loamy sands), low to moderate salt content (generally less than 5 percent) and reasonable nutrient status (particularly organic matter content).

12. The next most important criteria were:

(a) To the extent possible, the development site should not be permanently occupied or subject to substantial usage rights.

(b) The proposed developments should have minimal direct and indirect adverse environmental and social impacts.

(c) Basic infrastructure, particularly electricity, should be available or within reasonable proximity to reduce development costs.

(d) Access to the site(s) should be reasonable and include all weather access roads.

(e) Overall development costs should be acceptable.

13. ***Alternative Sites Reviewed***. The first two criteria defined four alternative development areas located in the two main hydrological basins of Qinghai Province; (a) (Yellow River) Gonghe Basin (with one potential development area) and (b) the Qaidam Basin (with three potential development areas in West, North and East).

(a) *(Yellow River) Gonghe Basin*. The potential development area, the Gonghe Basin, is a sub-basin of the Yellow River, located approximately 160 kilometers west of the Move-out area. The Basin extends over a distance of about 210 kilometers under the jurisdiction of Hainan Tibetan Autonomous Prefecture (Gonghe, Guinan and Xinghai counties).

The Yellow River flows from the southwest, dividing the Basin into two large sections, Talatan in the northwest and Mugetan in the southeast. Together these areas contain about 175,000 ha of land suitable for reclamation, of which 600 ha is Class I land (best suited), 27,000 ha is Class II land, and 147,400 ha is Class III land. The best concentration of land suitable for development is in Talatan, which contains a total of about 73,000 hectares of potentially developable land located in a reasonably compact area. Of this land, only about 27,000 ha has been developed (for livestock purposes) due to the very high costs required for irrigation works

and other facilities. The current population of the Talatan area is about 20,000 people of whom about 50 percent are minorities, principally Tibetans.

The main advantages of this area are:

- Annual Rainfall: Average annual rainfall is relatively high (250-330 mm) which would potentially require less water per irrigated unit of developed land.
- Close to Move-out Area: The area is also the closest of the alternative sites to the Move-out area, which would reduce relocation costs.
- Close to Urban Centers: The proximity to the Provincial capital, Xining (about 160 km away) would make provision of basic infrastructure relatively easy and also potentially provide a good outlet for produce.

The main disadvantages of this area are:

- Existing Grazing Leases: All of the land suitable for development is already the subject of grazing leases. Due to the relatively high rainfall, Talatan has been providing good grazing grounds in the winter and spring and the entire area has been contracted to local herders. For the Project to proceed, there would have to be substantial revocation of leases and a considerable proportion of the total investment would have to be devoted to compensating the affected people in an acceptable way.
- Desertification: The area is subject to quite severe desertification due to high winds and overgrazing. Drifting sands and dunes are spreading in the region at a rate of about 500 hectares per year. Another contributing factor to the land degradation problem is that soils throughout the area are light and quite sandy which also means that they are not ideally suited for irrigation. The herders in this area have expressed their wish to improve the grassland by ceasing production activities in order to improve the ecological conditions. Measures include gradual control of grazing pressures combined with other actions to promote reestablishment of ground cover.
- High Development Cost: The development costs of the irrigation system would be too high to achieve economic sustainability of the proposed investment. The main surface water source in the area is the Yellow River but it is difficult to utilize due to the fact that it is confined to deep valleys about 500-600 meters below the general ground surface. The underground water resources are also deep. Irrigation development would require construction of a medium size reservoir about 90 kilometers away from the existing Longyangxia Power Station. A ten stage lift pumping system would be required to get water from the reservoir to the development site. The total cost for development of the irrigation system would be in the order of RMB 1.16 billion (US$6,300/ha) with an annual operating cost of around RMB 20 million, making the development unacceptably expensive.

(b) *Qaidam Basin*. The potential development area in the Qaidam Basin runs diagonally, southeast-northwest, through the center of Qinghai at an average

altitude of 2,600-3,300 meters. The Basin has a total area of about 25.6 million ha under the jurisdiction of Haixi Mongolian and Tibetan Autonomous Prefecture (5 counties and 3 administrative commissions) of which about 303,000 ha or about 1.2 percent of the Basin's total area is potentially suitable for development.[16] All potential development areas are located on slopes at the foot of the surrounding mountain ranges. Currently, the area of developed land is less than 47,400 ha, mainly concentrated in Nuomuhong and Xiangride of Dulan county, Chachaxiangka and Saishike of Wulan county and Delingha City. The three alternative development areas in the Qaidam Basin are:

(i) West Qaidam Basin: There are two potential development areas located in the vicinity of the Narim Gol River (also referred to as the Nalinggele River), approximately 600 kilometers west of the Move-out area. The total land suitable for agricultural development is about 68,000 ha, including 23,000 ha in Geermu town and 45,000 ha in Big/Small Zaohuo and Wutumeiren. All land in Geermu has been developed since the 1970s except 3,300 ha available arable land adjacent to Chaerhan Salt Lake (where most land is seriously salinized and cannot be cultivated), an area which is too small for any meaningful development. The land in Big/Small Zaohuo and Wutumeiren area consists of two separate locations, neither of which is particularly attractive for development. There are no obvious advantages of these locations. The main disadvantages are:

- Soil Quality: The soil has poor organic content, requiring intensive soil improvement before the land can be used for any agricultural development. In addition, the soil is highly saline (with over two-thirds of the area covered by soils with salt content greater than 5 percent), requiring several years of leaching before any cultivation can commence.
- Water Supply: The only water source available for development in this area is Nalinggele River, approximately 100 km away in a remote and inaccessible location, which would mean high delivery costs. The estimated cost of the water conveyance and storage facilities is on the order of RMB 700 million.
- Site Access: The site is very remote from the Move-out area and has no road access or power supply.

(ii) North Qaidam Basin: There are two potential development areas located at widely separated locations on the northern side of the Basin and about 800 kilometers west-northwest of the Move-out area. This area has a total of 34,000 ha of land suitable for development including Dachaidan Zhen (28,000 hectares) and Lenghu Zhen (6,000 hectares). But the areas are widely scattered and there are virtually none that are consolidated enough to be suitable for the scale of development envisaged. This area is considered as suitable for limited fodder development.

[16] The major portion of the Basin comprises either steep mountain land or low-lying saline swampy land, neither of which has potential for agricultural development.

(iii) East Qaidam Basin: This area, located about 450 km west of the Move-out area has a total of 201,000 ha of land suitable for agricultural development of which 8,000 hectares is in Wulan County, 89,000 ha in Delingha City and 104,000 ha in Dulan County, predominantly in the Xiangride-Balong area.

With implementation of the World Food Program Project No. 3557 (with voluntary resettlement) basically all suitable land has been developed in Wulan County. In Delingha City, only about 31,000 ha of land has already been developed for irrigated agriculture; the remaining land is unable to be developed due to serious water shortages. The Xiangride-Balong area (in Balong and Zongjia townships) in Dulan County has a large area of reclaimable land available.[17]

The main advantages of the Xiangride-Balong area are:

- Relatively sound economic basis.
- Moderate climate.
- Low population density (0.2 person per km2).
- Reasonably rich water and land resources. Soils in the area have good development potential with reasonable structure, moisture holding capacity and organic matter content. Saline and sodic soils are present although salinities are generally acceptable (predominantly less than 5 percent);
- Reasonably good level of basic infrastructure (closeness to roads and electricity).
- Previous experience demonstrating successful oasis development in the area indicating that the Project is technically feasible.

The main disadvantages of this area are:

- The further distance (compared with Gonghe Basin) from the Move-out area, increasing the relocation costs.
- Produce outlets are not as accessible as for the other sites (with proximity to Xining and Geermu, the major population centers in or close to the Qaidam Basin).

14. ***Final Selection of Site***. Of the four possible development areas, the final decision rested on a comparison between a development in Gonghe Basin and a development at Xiangride-Balong in the East Qaidam Basin. Gonghe Basin was favored by its availability of infrastructure, relatively better climate, and closer proximity to the Move-out area, and to a major population center such as Xining. It was disadvantaged by the fact that all suitable development areas are already leased to local Tibetan herders for grazing purposes, the high cost of water resources development and the already existing environmental problems in the area.

[17] Public lands without private leases.

15. A development at Xiangride-Balong was favored by its large availability of reclaimable land, low population density, the availability of adequate water and soil resources, infrastructure availability and its comparatively low development cost. It was disadvantaged by its greater distance from the Move-out area and less favorable access to produce markets.

IV. DEVELOPMENT OPTIONS WITHIN XIANGRIDE-BALONG AREA

16. A major concern in site selection was minimizing the cost of water supply, which could be achieved by locating the development area as close to the Xiangride River as possible. However, site selection is also governed by the location of soils suited to irrigation development in terms of structure and chemical composition and occurrence in sufficient areas to justify the cost of water delivery. An extensive soil mapping program indicated that the soils meeting these criteria were located predominantly in the Balong area, the center of which is located about 70 kilometers from the Xiangride River. Consideration of the availability of soil resources was the main factor that led to a reduction in the scale of the development in terms of both development area, which was reduced from 26,000 ha to 19,000 ha, and the number of people to be accommodated, which was reduced from 100,000 people to less than 60,000 people.

17. The need for sufficient water to service the irrigated area while maintaining an acceptable flow in the Xiangride River to satisfy downstream uses was also a consideration. Within that context, there were a wide range of options as to the balance proposed between the use of surface water and groundwater. During Project preparation, five options were evaluated using mathematical modeling techniques,[18] ranging from total reliance on groundwater (requiring no reservoir construction) to total reliance on surface water (requiring no borehole development). The recommended option involved a balanced (conjunctive use) approach intended to provide an optimum balance among three considerations: meeting water demands, preventing secondary salinization (by controlling the level of the groundwater table) and minimizing changes to water tables in the swampy areas north of the irrigation area.

[18] Dong, X. Preliminary Study and Report on Analysis Result of Groundwater Modeling for Balong. Report prepared by Xinjiang Agricultural University, October 1998, 22 pp. Plus maps, Annexes.

Table 1. Studies and Documentation Available

I. NATURAL RESOURCE CONDITIONS	
Geographical Features	• Land Resources of Qinghai, 1991, by Qinghai Provincial Committee • Conditions on Agricultural Natural Resources and Agricultural Zoning of the Move-out counties during the period of 1980-1989; 1980-1989 by Related Counties* • Qinghai Manual, 1989 by Qinghai Agricultural Engineering Society
Climate	• Agricultural and Livestock Climate Resources Analysis of Qinghai and Their Zoning, 1985 by Qinghai Research Institute of Meteorology Sciences • Climate Observation Information, 1990-1996
Hydrology	• Soil and Water Conservation Program of the Typical Watersheds in Loess Plateau Area of East Qinghai, 1986, by Qinghai Provincial Water Conservancy Department* • Qinghai State Land Resources (Water Conservancy Part), 1989, by Lao Chuntai • Hydrology Observation Information, 1990-1996 • Rational Utilization of Soil and Water Resources while Engaging in Integrated Agricultural Development of Qaidam Basin in Qinghai, 1986**
Land Resources	• Land Resources and its Utilization in Qinghai, 1989, by Xiang Liping and published by Qinghai People's Publishing House • Social and Economic Statistics in Poverty – Stricken Areas of Qinghai Province, 1994-1996* • Soil Type Map of Qinghai, 1989, published by Science Publishing House • Livestock Resources and Zoning in Qinghai, 1987, by Livestock Zoning Group of Qinghai provincial Livestock Department • State Land Programming in Qaidam Basin, 1988, by Provincial Planning Committee** • Land Resources Assessment and Research on Land Program by Areas 1994, by Qinghai Plateau and Geography Institute • Land Evaluation and Research on Land Utilization by Areas 1994, 1996, by Qinghai Plateau and Geography Institute • Qinghai Soil Survey Data Bank, 1993, by Qinghai Plateau and Geography Institute
II. SOCIAL CONDITIONS	
Population	• Qinghai Social and Economic Statistics, 1996 • Social and Economic Bulletin of the Provincial Poverty-Stricken Area, 1996 (Provincial Poverty Reduction Office Internal Document) • On Population, 1992, by Wang Jiahua, Hai Guisheng, Liu Baomin and Yao Huimin and published by Qinghai People's Publishing House • 1% Population Sample Survey Nationwide (Qinghai Part), 1995 • Population Carrying Capacity and Population Migration, 1993, by Zhang Zhiliang, published by Gansu Science and Technology Publishing House
Nationalities	• On Population, 1992, by Wang Jianhua Hai Guisheng, Liu Baomin and Yao Huimin and published by Qinghai People's Publishing House • 1% Population Sample Survey Nationwide (Qinghai Part), 1995 • Qinghai Ethnic Minorities, 1987, by Ethnic Minority Research Institute of Qinghai College of Nationalities, and published by Qinghai People's Publishing House • Qinghai Ethnic Minorities, 1987, by Ethnic Minority Research Institute of Qinghai College of Nationalities, and published by Qinghai People's Publishing House
Religious	• Qinghai Manual, 1989, by Qinghai Agricultural Engineering Society • Temples of Qinghai, 1986, by Qinghai Cultural Relics Management Office

* - information relate to Move-out areas only.
** - information relate to Move in area only.
All other information relate to both Move-out and Move-in areas.

III. ECONOMIC CONDITIONS (STRUCTURE, OUTPUT AND INCOME)
• Qinghai Social and Economic Statistics, 1994-1996 • Social and Economic Bulletin of the Provincial Poverty-Stricken Area, 1996 (Provincial Poverty Reduction Office Internal Document) • Compilation of Documents Related to Economic Development of Poverty-Stricken Areas in Qinghai Province, by Provincial Leading Group for Economic Development in Poor Areas (internal document) • Seven Year Poverty Reduction Program of Qinghai, 1994, released at the provincial Poverty Reduction Working Conference • General Program of Agricultural Development in Haixi Prefecture, 1996, by Qinghai Plateau and Geography Institute**
IV. SITE SELECTION STUDIES
• Rational Utilization of Soil and Water Resources in Agricultural Development of Qaidam Basin, a joint research carried out in 1985 by China Agricultural Engineering Research and Designing Institute, Qinghai Provincial Planning Committee, Provincial Departments of Water Conservancy, Agriculture and Forestry, Livestock, Mining, and Provincial Academy of Agricultural Sciences, etc. • Research on Qaidam Basin, carried out in 1990 by Provincial Science and Technology Committee, Qinghai Plateau and Geography Institute, Geography Department of Lanzhou University and Provincial Planning Committee (State Land Department) • Feasibility Study on Developing Agriculture in Xiangride-Balong of Qinghai Province in 1990 by Qinghai Provincial Water and Electric Power Designing Institute • Report on Talatan Water Conservancy Program in Gonghe County of Hainan Tibetan Prefecture, carried out in 1984 by Qinghai Provincial Water and Electric Power Designing Institute • Integrated Agricultural and Livestock Development Program of Gonghe County of Hainan Tibetan Prefecture in 1986 by Agriculture and Livestock Zoning Office of Gonghe County • Report on Talatan Barren Land Survey of Gonghe Prefecture of Hainan Tibetan Prefecture in 1978 by Provincial Department of Agriculture and Forestry

Table 2. Major Investment Projects Supported by International Donors in Qinghai

(A) Southern Qinghai - Livestock Development

Project	Major Activities	Financier	Implementation Period	Project Location
Clothing the Population of the Southern Qinghai Livestock Area	Livestock infrastructure	Central Government	1996-2002	Southern Qinghai
IFAD Project	Livestock, agriculture, forestry, irrigation, rural industry, support services, special credit for women etc.	IFAD	1995-2000	Hainan prefecture
Livestock Development	Research and extension on livestock and pastureland	EU	1995-2001	Guoluo prefecture
Livestock Wintering	Livestock infrastructure	Japan	2000-2004	Guoluo prefecture

(B) Eastern Qinghai - *in situ* Development

Project	Major Activities	Financier	Implementation Period	Project Location
Integrated Development of the Eastern Qinghai Dry Mountainous Area	Rural infrastructure - water and soil conservation, watershed development	Central Government	1996-2000 phase one 2001-2010 phase two	14 counties in eastern Qinghai
WFP5717/IFAD424	Rural infrastructure	WFP/IFAD	1997-2000	Xunhua, Hualong, Ping'an counties
Potato Development	Potato breeding	EU	1998-2001	Provincial Research Institute for Agriculture and Forestry, Ledu, Huangzhong, Minhe counties
Rape Seed Improvement	Strengthening of production system and producers' skills	UNDP	1997-1999	Huzhu county
Basic Education (III)	School building, teaching equipment	World Bank	1996-2001	All 14 nationally-designated poverty counties
Poverty Reduction and Sustainable Development of Human Resources	Equipment, TA, training, micro credit	UNDP	1997-2000	Guide, Tongren, Huangyuan counties

(C) Eastern Qinghai - Voluntary Resettlement

Project	Major Activities	Financier	Implementation Period	Project Location
WFP3557	Irrigation	WFP	1989-1995	Wulan county in Haixi prefecture
Voluntary Resettlement Program	Comprehensive development in Move-in area	World Bank		Datong, Hualong, Ping'an, Xunhua, Huangyuan, Minhe in east Qinghai & Dulan county in Haixi prefecture

Table 3. Move-out Counties - Development Constraints

Natural Resources

Parameters	Incidence
Annual precipitation	320-530 mm*
Annual evaporation	1740-2220 mm*
Per capita water resources	Less than one third of the national average*
Per ha. water resources	Less than one fourth of the national average*
Incidence of drought	Once every 1.8 years*
Per capita cultivated land	0.16 ha (which is decreasing with population expansion)
Irrigated land	22 percent of the total cultivated land
Land above 25 degree slope	About 30 percent

Population Pressure

Parameters	Incidence
Population density – 1996	114 person//km^2
Total population below poverty line (poverty line in 1996 prices is RMB 580/person in agricultural areas and RMB 680/person in herding areas.	30.1 percent

Other Constraints

Parameters	Incidence
Per capita grain availability	320 kg
Per capita annual net income	RMB 795 (68 percent of the provincial average)
Illiterate or Semi-literate	About 55 percent
Population without access to adequate drinking water	150,000 (about 11 percent of the total population)
Animals without adequate access to water	177,440 (about 12 percent of the total animals)
Number of villages without electricity	71 (about 5 percent of the total villages)
Number of villages without road access	150 (about 11 percent of the total villages)

* Figures are from eastern part of Qinghai Province, which is generally representative of the Move-out Counties.

Table 4. China: World Bank Agricultural and Rural Development Projects Containing Resettlement

FY	Project	Summary Rating		Type of Resettlement	Resettlement Area (within)	Inhabitants Affected	Reason for Relocation	Alteration of Minority Population in			Province
		DO[1]	RSet[2]					Minority involved	Move-in Area	Move-out Area	
1999	Anning Valley Agricultural Development	S	S	Involuntary	County	2,638	Canal etc.	None	No	no	Sichuan
1998	Tarim Basin II	S	S	Voluntary	county and a non-Bank financed activity	10,000	for better and irrigated land	Uygur, Kirghiz, Hui (100% of total)	non-populated desert land	no	Xinjiang
1997	Qinba Mountains Poverty Reduction	S	S	Involuntary	no physical resettlement is expected	2,750	land acquisition	Hui (250 persons)	No	no	Sichuan, Shaanxi, Ningxia
1996	Gansu Hexi Corridor	S	S	Voluntary	Province	200,000	Poverty alleviation	Dongxiang (22,600), Hui (23,400), Tibetan (4,000)	yes	yes	Gansu
				Involuntary	County	566	Reservoir	None	No	no	
1995	Yangtze Basin Water Resources	S	S	Involuntary	Province	12,587	Dam	None	No	no	Hunan, Hubei
1995	Southwest Poverty Reduction	HS	S	Involuntary	no physical resettlement is expected	several thousand	land acquisition	Zhuang, Miao, Yao, Yi, Buyi (50% of total)	No	no	Guangxi, Yunnan, Guizhou
1994	Xiaolangdi Resettlement	S	S	Involuntary	Province	180,000	Dam	None	No	no	Henan
1993	Taihu Basin Flood Cont.	S	S	Involuntary	Province	13,100	Flood control	None	No	no	Jiangsu, Zhejiang, Shanghai
1988	Northern Irrigation [3]	HS	HS	Voluntary	Province	54,384	Poverty alleviation	Hui (majority)	yes	yes	Ningxia

Note 1/ DO = Development Objectives
Note 2/ RSet = Resettlement
Note 3/ Project was closed in 1998

Country Focus and Safeguard Policies:
INSTITUTIONAL ISSUES

June 12, 2000

COUNTRY FOCUS AND SAFEGUARD POLICIES: INSTITUTIONAL ISSUES

CONTENTS

ACRONYMS

AFR	Africa Region
APL	Adaptable Program Loan
BP	Bank Procedures Statement
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CODE	Committee on Development Effectiveness
EA	Environmental Assessment
EAP	East Asia and Pacific Region
ECA	Europe and Central Asia Region
ENV	Environment Department
ESSD	Environmentally and Socially Sustainable Development Network
GP	Good Practice Statement
IFC	International Finance Corporation
IPDP	Indigenous Peoples Development Plan
ISG	Information Solutions Group
LCR	Latin America and the Caribbean Region
LEG	Legal Department
MDB	Multilateral Development Bank
MNA	Middle East and North Africa Region
OD	Operational Directive
OED	Operations Evaluation Department
OMS	Operational Manual Statement
OP	Operational Policy Statement
OPC	Operational Policy Committee
OPN	Operational Policy Note
OPS	Operations Policy and Strategy
OVP	Operational Vice President
PAD	Project Appraisal Document
PID	Project Information Document
PRSP	Poverty Reduction Strategy Paper
QACU	Quality Assurance and Compliance Unit
QAG	Quality Assurance Group
RDV	Rural Development Department
RED	Regional Environment Division
RESU	Regional Environment Sector Unit
RVP	Regional Vice President
SAP	Systems Application Program
SAR	South Asia Region
SDV	Social Development Department
SEA	Sectoral Environmental Assessment
SECAL	Sector Adjustment Loan
WBI	World Bank Institute

Country Focus and Safeguard Policies: Institutional Issues

I. INTRODUCTION

1. Throughout its history, the World Bank has evolved in line with the changing needs of its clients. The Bank's early operations helped Europe to rebuild after World War II. As Europe recovered, and the independence movement swept the globe, the Bank turned to a different, but related, set of issues and challenges—the needs of developing countries. As these needs changed over the years—in response to the oil crisis of the 1970s, the debt crisis of the 1980s, the transition crisis of the 1990s—the Bank adapted, while retaining its primary focus on development finance and advice. In recent years, of course, the Bank has sharpened its focus on poverty reduction as the overarching goal of all its work.

2. ***Safeguard Policies.*** Coinciding with this sharpened focus on poverty reduction was the increasing recognition of the importance of the environmental and social impacts of donor-supported development projects. The Bank responded to these concerns by, among other things, addressing its own policies—articulating more precisely what is required of the Bank and its borrowers in preparing and implementing projects, and distinguishing what is mandatory from what is advisory. By the late 1990s, the Bank began grouping its long-standing environmental and social policies—which it recognized as being particularly important in its operational framework—under the term "safeguard policies." It was also at this time that the Bank began to focus on compliance issues as a special operational priority. These events marked the beginning of "operational policy reform," a Bankwide work program that continues today and is now reaching out to partners in the context of policy modernization and harmonization.

3. ***Country Ownership.*** Meanwhile, the development assistance paradigm itself has evolved. At its core is the shift from the development project to the country as the unit of account, and the growing recognition that country-owned policies and institutions are the key to sustained development impact. The Comprehensive Development Framework (CDF) exemplifies this evolution, with its emphasis on development programs rather than projects, and on country ownership of development rather than the imposition of ideas and conditions by donor agencies. Poverty Reduction Strategy Papers (PRSPs) build on this approach. Both the CDF and the PRSP also highlight the importance of results, reinforcing the Bank's attention to implementation issues and outcomes.

4. ***Institutional Issues.*** There are some tensions between these two trends—toward clearer articulation and better implementation of project-based safeguard policies on the one hand and toward greater focus on country programs and capacity building on the other—in part because they reflect different development assistance models. But to date, those tensions have not clearly surfaced in a systematic way, nor have they been resolved. Recent developments in country programs and in discussions of lending instruments and operational policy implementation suggest that there would be considerable benefits to looking at these trends together, with a view to promoting synthesis and synergies. Indeed, several issues warrant full debate and discussion with and within the Board,

especially in view of their important strategic and sizable resource implications both for the Bank and for borrowers. They include the following:

- How should the Bank balance its responsibility for due diligence with respect to the implementation of the safeguard policies in specific investment projects, against the proven importance of building country ownership of policy and institutional directions for sustained development impact? How can we increase the development impact of our safeguard policies?

- How should we manage the linkages between the Bank's environmental safeguards and the social safeguards? Should we consolidate the existing system of environmental assessments, resettlement plans, and indigenous peoples development plans into a simpler and more coherent framework for "safeguard assessments" and disclosure? Should we develop an integrative social assessment, paralleling the environmental assessment?

- What should be the minimum acceptable standards for compliance with the safeguard policies? What would be the resource implications for the Bank and its borrowers if standards are raised? How can we ensure the continuing adaptation of the roles and accountabilities in the Bank's current matrix structure to ensure satisfactory outcomes?

5. ***Strategic Implications.*** The answers to these questions will have major implications for the Bank's strategic directions, in light of the important resource trade-offs they imply. Some are very straightforward, such as the need to simplify, consolidate, and harmonize our safeguard and disclosure policies to facilitate understanding and compliance. But others are more far-reaching. A new social assessment mandate and higher quality standards could bring benefits, but would also entail major implementation costs—requiring either more resources or redeployment from other activities. More seriously, they would raise the cost to borrowers of doing business with the Bank and could dissuade them from engaging on projects in which such issues are likely to arise—with the possible result that *less* attention would be paid to environmental and social issues. But the most far-reaching implication relates to the strategic choice between tougher social and environmental standards for individual projects, requiring, for example, "best possible practice" as suggested by the Inspection Panel, versus greater emphasis on building country capacity and ownership of environmental and social policies, via sectoral environmental and other safeguard assessments. While in principle the approaches are complementary, in practice—especially with fixed resources—there are trade-offs. They must be carefully considered as a basis for corporate decision-making and strategy. They will shape the direction of the Bank for many years to come.

6. ***Organization of the Paper.*** Against this background, this paper is structured around three themes—the Bank's environmental and social safeguard policies, their implementation, and their country focus. Section II considers the evolution of the Bank's social and environmental safeguards, the balance between them, and relevant disclosure policies. Section III looks at accountabilities and resources for safeguard policies. Section IV looks at country issues and the consistency of the safeguard approach with enhanced country focus.

II. WORLD BANK ENVIRONMENTAL AND SOCIAL SAFEGUARD POLICIES

7. This section summarizes the evolution of the Bank's environmental and social safeguard policies. It then discusses one area where the Bank's operational policy framework is not well understood—environmental categorization and assessment in projects where the predominant issues are social—and one area, social policy, where some feel that our framework is incomplete. It briefly discusses disclosure requirements for environmental assessments (EAs), indigenous peoples development plans (IPDPs), and resettlement plans, an area in which the existing policy framework is unclear and needs to be amended.

A. Evolution of Environmental and Social Safeguard Policies

8. The Operational Manual[1] contains the Bank's operational policy and procedural instructions to staff. The Manual has existed since the 1960s, albeit in different forms. (Annex A summarizes its evolving vocabulary.) As currently structured, the Manual groups operational policy statements by function.[2] Along with the fiduciary policies, which cover procurement and financial management, priority is given to the environmental and social policies—which (along with two legal policies) are known as "safeguard policies" (see Box 1).

Box 1. World Bank Safeguard Policies

The term "safeguard policies" was first used in the 1997 Cost Effectiveness Review Report.[a] It comprises ten policies, of which seven are in the environmental and social areas. The safeguard policies are:

OP 4.01	*Environmental Assessment*	OPN 11.03	*Cultural Property*
OP 4.04	*Natural Habitats*	OP 4.36	*Forestry*
OP 4.09	*Pest Management*	OP 4.37	*Safety of Dams*
OD 4.20	*Indigenous Peoples*	OP 7.50	*Projects on International Waterways*
OD 4.30	*Involuntary Resettlement*	OP 7.60	*Projects in Disputed Areas*

Four of the safeguard policies relate to environmental issues—environmental assessment, natural habitats, forestry, and pest management; and two relate to social issues—indigenous peoples and involuntary resettlement. An additional statement deals with the closely related area of cultural property.

[a] See *Report on the Cost Effectiveness Review* (R97-231), October 14, 1997.

9. ***Pre-1987 Operational Manual.*** The Bank's concern with the environmental and social impacts of its operations dates back at least 30 years. Operational Manual Statement (OMS) 2.36, *Environmental Aspects of Bank Work*, was issued in May 1984, but it reflected a long-standing concern: "Since 1970 the Bank has steadily increased its attention to the environmental opportunities and risks introduced by the development process" (para. 2). This OMS set out the principles on which it was based: that projects

[1] The Operational Manual is available at the following website: http://wbln0011.worldbank.org/Institutional/Manuals/OpManual.nsf/.

[2] Operational policy reform was discussed in *World Bank Operational Policies: Lessons of Experience and Future Directions* (CODE97-73), November 20, 1997; *World Bank Operational Policy Reform: Progress Report* (CODE98-13), March 5, 1998; and *World Bank Operational Policy Reform: Content, Communications, and Compliance* (CODE98-48), July 24, 1998.

not "exceed the regenerative capacities of the environment, … cause severe or irreversible environmental deterioration, … compromise the public's health and safety, …" and so on. These principles connected environmental effects with social effects: the Bank "will not finance projects that displace people or seriously disadvantage certain vulnerable groups without undertaking mitigatory measures acceptable to the Bank" (para. 9). The OMS referred readers to OMS 2.33, *Social Issues Associated with Involuntary Resettlement in Bank-Financed Projects* (issued in February 1980), and OMS 2.34, *Tribal People in Bank-Financed Projects* (issued in February 1982). In October 1986, Operational Policy Note (OPN) 10.08, *Operations Policy Issues in the Treatment of Involuntary Resettlement in Bank-Financed Projects*, reviewed the Bank's record on involuntary resettlement and gave further guidance in the area. Other OPNs were issued at about the same time: OPNs 11.01 on pesticides (March 1985), 11.2 on wildlands (June 1986), and 11.03 on the management of cultural property (September 1986).

10. ***Post-1987 Operational Manual.*** Beginning in 1987, many of these documents were revised as Operational Directives (ODs). OMS 2.36 became OD 4.00, Annex A, *Environmental Assessment*, in September 1989; and in October 1991, it became OD 4.01. OD 4.20, *Indigenous Peoples*, was issued in September 1991, replacing the OMS on tribal peoples. OD 4.30, *Involuntary Resettlement*, issued in June 1990, replaced the earlier documents on that subject. OD 4.03, *Agricultural Pest Management*, was issued in June 1992. During this period, as social and environmental issues were increasingly understood to be central to the development paradigm, they assumed a greater profile in Bank policies. This period also coincided with the growing interest in Bank-supported projects by civil society, which was often critical of the Bank for not observing its own policies in some high-profile projects. The perceived disconnect between the Bank's policy statements and their actual implementation was very large, mirroring broader concerns about the quality of Bank operations that were detailed in the Wapenhans Report[3] and other internal and external assessments.

11**.** ***Conversions to OP/BP Format***. Part of the Bank's response to these and other concerns was to introduce a new kind of operational statement, designed to distinguish Board-approved policies from mandatory procedures and advisory material—Operational Policies, Bank Procedures, and Good Practice (OP/BP/GP) statements. The aim was not to change the policy content of the statements, but to present it in a more precise way—distinguishing among Board-approved policies, mandatory procedures, and advisory material—so that Bank staff, borrowers, and external parties would know exactly what the Bank requires. The ODs, which had been issued in the late 1980s and early 1990s (and the OPNs and OMSs that remained from the 1980s), had not had to meet the test of legal exactitude that was now required, engendering much debate both inside and outside the Bank about what each clause was meant to say. And, of course, the intervening years had seen changes in thinking and practice that also needed to be taken into account. The bottom line is that for the safeguard policies, the conversion process has not been simple and is still ongoing. Some of the environmental and social ODs have been converted to the new format—for example, OD 4.01, *Environmental Assessment*, became OP/BP 4.01

[3] See *Effective Implementation: Key to Development Impact*, Report of the World Bank's Portfolio Management Task Force, November 3, 1992 (the Wapenhans Report).

and was issued in January 1999. Some of the earlier documents, like OPN 11.2 on wildlands (which became OP/BP 4.04, *Natural Habitats*, in September 1995) went directly to the OP/BP format without having been ODs first. The remaining safeguard policy statements are scheduled for conversion in FY01; these are OD 4.20, *Indigenous Peoples,* OD 4.30, *Involuntary Resettlement,* and OPN 11.03, *Cultural Property*.

B. Environmental Assessment and Social Policies

12. As noted above, environmental and social impacts were historically closely linked in the Bank's portfolio—for example, in large dam projects. As a result, when the Bank adopted the policy on environmental assessment in 1989, many saw environmental screening, categorization, and assessment as the umbrella for the full spectrum of environmental and social policies. During the 1990s, however, the portfolio evolved away from the kinds of projects in which resettlement and environment issues were closely intertwined. And at the same time social development came into its own as a development priority.[4] The confluence of these two changes has meant that environmental assessment has become less and less appropriate as an umbrella vehicle for categorizing projects with major social issues but relatively minor environmental issues.[5]

13. ***Environmental Assessment.*** This evolution is most evident in the progression of the EA instructions. The 1984 OMS 2.36 had explicitly linked the social and environmental impacts of projects. In the 1991 OD 4.01, the link was still recognized, but was much less explicit: para. 1 of Annex E stated that "the classification of each proposed project depends on the type, location, sensitivity, and scale of the proposed project, as well as the nature and magnitude of its potential impacts." A footnote to this statement defined "sensitivity" as referring to "issues such as impacts that are irreversible, affect vulnerable ethnic minorities, or involve involuntary resettlement." The 1999 conversion to the OP/BP format states that "a proposed project is classified as Category A if it is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented"; and the related footnote 10 explains that "a potential impact is considered 'sensitive' if it may be irreversible (e.g., lead to loss of major natural habitat) or raise issues covered by OD 4.20, *Indigenous Peoples;* OP 4.04, *Natural Habitats*; OP 4.11, *Safeguarding Cultural Property in Bank-Financed Projects* (forthcoming); or OP 4.12, *Involuntary Resettlement* (forthcoming)." This has been read by some to suggest that the existence of resettlement issues automatically makes a project an A. However, current Bank practice is quite different, interpreting footnote 10 as: "A potential impact is considered 'sensitive'…if it may raise [environmental] issues covered by…." In other words, a resettlement project is considered *environmentally* sensitive only if the resettlement raises *environmental* issues.

---

4 See *Task Group Report on Social Development and Results on the Ground* (SecM96-1063), October 16, 1996; and *Follow-up to the Recommendations of the Social Development Task Force* (CODE97-11), February 24, 1997.

5 However, this ongoing shift is not without controversy. Indeed, the balance between social and environmental sensitivities was an important factor in the debate within the Bank on the environmental category of the China Western Poverty Project. Hence, from an institutional perspective, critical issues are the Bank's operating rules and standards—both what they are and what they should be.

14. ***Evolving Bank Practice on Environmental Categorization.*** Operations with important social issues but relatively less important environmental issues are now classified as Category B. For these projects, the safeguard focus has thus shifted from EA to the resettlement plan. Indeed, an ESSD analysis last year showed that the majority of operations with resettlement are environmental Bs, not As; this practice is the same across all Regions; and it reflects the changing nature of the portfolio and particularly the kinds of projects for which resettlement is an issue.[6] A Management note to CODE, attaching the draft conversion of OD 4.30, *Involuntary Resettlement*, into OP/BP 4.12, highlighted the growing portfolio with substantial resettlement but more limited environmental impacts. It suggested the need to formally "de-link" resettlement from OP/BP 4.01.[7] CODE's reaction was cautious, discouraging staff from moving too quickly on the "de-linking" clarification.[8]

15. ***Current Draft OP/BP 4.12.*** Meanwhile, the changing nature of Bank projects involving resettlement is reflected in the evolution of the Bank's operational policy statements on resettlement. Para. 20 of OD 4.30, *Involuntary Resettlement*, which was issued in June 1990, states: "The screening process for an environmental assessment (EA) normally classifies projects involving involuntary resettlement as Category A." However, reflecting the evolving practice during the 1990s, the latest draft of OP/BP 4.12, *Involuntary Resettlement*, contains no mention of any such presumption. Nor were any issues related to the environmental categorization raised in last year's consultations with external stakeholders.

16. ***Board Discussion of Category B Projects.*** One shareholder has frequently requested Board discussions of Category B projects with resettlement, arguing that resettlement *per se* should imply an A categorization. One example came on January 21, 1999, when the Board discussed the China Anning Valley Agricultural Development Project, which was categorized as a B. During the discussion the task team leader defended the categorization on the grounds that the environmental impacts of the proposed project would be limited. This position was supported by Regional environmental staff, the Social Development Sector Board Chair, and the Environment Sector Chair, acting for ESDVP. The staff clarifications were welcomed, and it was noted that they appeared to fully address the issues raised.

17. ***From Environmental to Safeguard Assessment.*** Clearly, the current policy on environmental assessment needs clarification. Neither experts nor practitioners believe that social impacts should be analyzed through environmental assessment.[9] All agree that social impacts should be analyzed through tools designed for the task. To this end, following initial consultations with the Executive Directors, Management intends to develop a proposal that would broaden the current approach to project screening and categorization, looking at safeguard policy and impact, rather than exclusively at environmental impact (see Box 2). On this approach, a project would be screened and

---

6 See *Inventory of Projects with Involuntary Resettlement* (CODE99-48/1), June 15, 1999.

7 See *Draft OP/BP 4.12, Involuntary Resettlement* (CODE99-48), June 7, 1999.

8 See *Draft OP/BP 4.12 Involuntary Resettlement*, Report from CODE (CODE99-78), October 6, 1999.

9 There also are issues with respect to the analysis of alternatives and classification of project components that need to be clarified.

categorized as a "safeguard A" or "safeguard B," for example, and all such projects would follow the same standards for consultation and disclosure as are currently required for environmental A or B projects.

Box 2. Safeguard Assessment

Under the proposal, projects would be categorized as A, B, or C, depending on the seriousness of their impacts when judged against the seven environmental, social, and cultural safeguards.

Safeguard categorization:

- Environmental Assessment
- Pest Management
- Forestry
- Natural Habitats
- Involuntary Resettlement
- Indigenous Peoples
- Cultural Property

A safeguard assessment would be required for Category A or B projects, focusing on the particular safeguard(s) (environment, indigenous peoples, resettlement, and so on) that the project raises. All Bank disclosure and consultation principles that currently apply to EA would apply to the screening and assessment process; this is in line with the proposals of the Disclosure Policy Review. A separate category (FI) would continue to be used for projects involving financial intermediaries, with each subproject screened and categorized as a safeguard A, B, or C.

18. ***A New Social Assessment Mandate?*** Introducing a safeguard assessment would correct the problems with the fragmented and inconsistent nature of our environmental and social policies. But there still is an issue of balance between them. For the environment, we have separate policies on pest management, forestry, and natural habitats as well as environmental assessment, which looks across the various environmental impacts and seeks ways to minimize and mitigate them. On the social side, however, we have operational polices on involuntary resettlement and indigenous peoples, but no overarching framework for a broad social assessment that would look across these *and other social impacts*, with a view to identifying ways to minimize and mitigate adverse impacts. Assessing whether our current safeguard policies add up to the right environmental/social policy balance is thus an issue—but one that must be addressed with great caution. Adding a new social assessment *requirement* that would go beyond current substantive requirements on resettlement and indigenous peoples would be a large undertaking, with major strategic and resource implications for the Bank and its borrowers; This topic warrants thorough discussion by the Executive Directors in due course.

C. Disclosure Policy

19. The intricacies of the Bank's disclosure policy are another source of complexity and confusion. As Box 3 shows, the rules are different for the disclosure of environmental assessment, depending on whether the project is an A or B—with differences between IDA Bs and IBRD Bs. And the rules are even less straightforward for resettlement plans and indigenous peoples development plans. This complicates the task of complying with disclosure requirements and undermines effective implementation.

Box 3. Disclosure Requirements for Safeguard Policies

Document	***Disclosure Policy Requirement***		
	Format	***Placement***	***Timing***
Category A EA	Separate document	Freestanding	Disclosed locally and received by Bank before appraisal. Once received by Bank, sent to InfoShop unless, in exceptional circumstances, borrower objects.
IBRD Category B EA	Separate document or section in PAD	Annexed to the PID	If a separate document, once received by the Bank, sent to InfoShop unless, in exceptional circumstances, borrower objects.
IDA Category B EA	Separate document or section in PAD	Annexed to the PID	If a separate document, disclosed locally and received by Bank before appraisal. Once received by Bank, sent to InfoShop unless, in exceptional circumstances, borrower objects.
Resettlement plan and IPDP (with separate EA)	"Incorporate" in EA	Unclear: in EA or annexed to EA	When EA is disclosed.
Resettlement plan and IPDP (with no separate EA, e.g., some Category B)	----------Disclosure not required----------		

20. ***Environmental Assessment.*** The rules for disclosure of EAs for Category A projects are the clearest. There must be a satisfactory freestanding EA report; it must be disclosed locally and received by the Bank prior to appraisal; it must be then sent to the InfoShop.[10] For Category B projects, there may or may not be a freestanding EA report; if there is, depending on whether the project is IDA or IBRD, the EA may or may not need to be received by appraisal. In essence, an EA report for an IDA-funded Category B project is treated in the same way as a Category A project: both have to be released locally and submitted to the InfoShop. Ultimately, however, the difference between the IDA and IBRD Category B requirements is small—the Bank must receive the EA report for an IDA project before appraisal begins, while it may receive the EA report for an IBRD project at any time. Hence, in the interests of clarity and simplicity, it would be desirable to be able to treat all Bank-funded Category B projects in the same way, regardless of the funding source. In addition, it would be desirable for EAs for Category B projects—whether IBRD or IDA—to be separate documents (however short), rather than attached to Project Information Documents (PIDs), and to be catalogued as such. These changes, discussed in the Disclosure Policy Review,[11] would require Board approval.

[10] Unless in exceptional circumstances, the borrower objects. Bank policy dictates that for IDA projects, project processing stops in such situations. For IBRD projects, continuation of project processing is decided by the Board.

[11] See *Disclosure Policy Review* (CODE 2000-13), April 24, 2000. The most recent version of the disclosure policy was published as a booklet, *The World Bank Policy on the Disclosure of Information* (Washington, D.C.: World Bank), 1994. The presumption of disclosure is in the original

21. ***Resettlement Plans and Indigenous Peoples Development Plans.*** The disclosure requirements for these reports[12] are closely linked to the classification of projects for EAs, but are very unclear. At present, there is flexibility: EA reports are to "incorporate" the resettlement plans and the IPDPs, "wherever relevant."[13] However, this flexibility leads to confusion as to whether these development plans must be included within the main EA report, or whether they can be attached as an annex. Recent practice with IPDPs has been to build them into social assessments, which provide an iterative process to determine project objectives, identify all stakeholders, identify social impacts and opportunities, develop mitigation plans, and undertake participatory monitoring for results. One practical difficulty that emerges from this confusion is that even though the plans may have been "disclosed," they may not be easy to find because they are neither in EAs—where many InfoShop users expect to find them—nor logged in separately, which would make them easier to locate. In many cases, recent practice for Category A and B projects has been to prepare EA reports and these other plans separately, but with appropriate collaboration and cross-referencing, and then to disclose them like EA reports, according to the project category. This practice would seem to meet the spirit of the disclosure policy, which should be amended for clarity. Another practical difficulty is that when a Category B project does not result in a separate EA report,[14] there is no requirement to disclose the resettlement plans or IPDPs, and no easy way for interested persons to determine whether such a plan has been prepared.

22. ***Management Actions.*** Reflecting these concerns, Management proposes to harmonize the Bank's disclosure requirements governing the assessments associated with safeguard policies, per the discussion in the Disclosure Policy Review. Meanwhile, ESSD's Quality Assurance and Compliance Unit (QACU) has recently added to its training program a component specifically addressing the existing disclosure requirements. In February 2000, ESSD and ISG issued a form on which staff clearly specify where the EA report, resettlement plan, or IPDP is located in the package of project documents. ESSD also is designing systems for EA reports, resettlement plans, and IPDPs to prevent further project processing if the InfoShop is unable to confirm receipt of the required document. These features—along with compliance monitoring arrangements similar to systems under development for PIDs—are expected to be in place by September 2000.

Administrative Manual Statements (1985 and 1989). See also BP 17.50, *Disclosure of Operational Information*, September 1993, and *Expanding Access to Bank Information* (SecM93-927), August 31, 1993.

12 Resettlement plans are required by OD 4.30, *Involuntary Resettlement*; see also *Draft OP 4.12, Involuntary Resettlement* (CODE99-48), June 7, 1999. Indigenous peoples development plans are required by OD 4.20, *Indigenous Peoples*. Draft OP 4.12, para. 20, states that resettlement instruments must be disclosed as a condition of appraisal. Draft BP 4.10, *Indigenous Peoples*, paras. 12-16, states that a draft indigenous peoples action plan (IPAP) or strategy must be sent to the Bank, approved, and disclosed. If these become freestanding requirements, then the discussion of their context within the EA process becomes less important.

13 The *World Bank Policy on the Disclosure of Information*, footnote 10.

14 OP 4.01, *Environmental Assessment*, does not require a separate EA report for Category B projects. Instead, it states that "the findings and results of Category B EA are described in the project documentation (Project Appraisal Document and Project Information Document)."

III. IMPLEMENTATION OF SAFEGUARD POLICIES

23. Policies, no matter how carefully drafted, can be subject to very different interpretations and standards of implementation. Thus it is essential to establish clearly what the minimum standards are, who is in charge of interpretive work, what their roles and accountabilities are, and what resources are required both for carrying out the work and for meeting the standards. These compliance issues have been central to Management's focus throughout the Bank's renewal process.

24. ***Focus on Implementation***. This section summarizes ESSD's standard-setting work and then turns to compliance issues. It traces the Bank's "journey" from highly decentralized Regional accountability to greater empowerment of Regional ESSD units, and greater recognition of the role of the ESSD Sector Boards and Anchors in setting standards for compliance and validating quality assurance. It summarizes the evolving Board and institutional dialogue on compliance over the last two years and outlines recent changes in the accountability structure to "rebalance the matrix." It also summarizes the available information on resources devoted to compliance with the safeguard policies.

A. Interpretation of Policies

25. Judgment in interpreting the safeguard policies is essential. Given the many different situations in which Bank policies must be applied, there must be an authoritative source of guidance on their interpretation. Every project comes with a set of considerations that must be taken into account during the environmental and social screening process. What is the scale of the environmental and social impacts—both in magnitude and severity? And what is their significance—both to directly affected stakeholders and to those with an indirect interest? As it is very difficult to specify everything in advance, a critical question for operational governance is the degree of staff discretion in applying judgment, and the source and amount of guidance provided. Setting standards and interpreting policies is clearly central to the job of the ESSD Network.

26. ***Safeguard Technical Committee***. To oversee the standard-setting process, in FY99 ESSD established a Safeguard Technical Committee comprising senior specialists for each of the safeguard policies. Staff serving on the committee are responsible for providing advice on the application and interpretation of each of the policies, monitoring the compliance of the Bank's lending portfolio, advising senior management on specific compliance issues, and serving as a focal point for external and internal inquiries. Recent portfolio compliance reviews include a Bankwide review of environmental categorization (under OP 4.01), and compliance reviews of OP 4.37, *Safety of Dams*, OP 4.09, *Pest Management*, and OD 4.30, *Involuntary Resettlement*. These internal reviews offer guidance to Regional staff on priority issues and promote the consistent application of the policies across Regions. The Safeguard Technical Committee also oversees preparation of training materials, supports QAG in its desk reviews of quality at entry and supervision, and works closely with QACU.

27. ***ESSD Sourcebooks***. An important source of guidance to operational staff is the Bank's sourcebooks on safeguard policies—in particular the Environmental Assessment Sourcebook, the electronic Resettlement Guidebook, and the Participation Sourcebook.[15] They offer technical advice on a wide range of issues and are used by Bank staff, borrowers, cofinanciers, and suppliers of goods and services under Bank projects. The Environmental Assessment Sourcebook (including 26 updates) and the electronic Resettlement Guidebook have recently been made available on CD-ROMs and widely distributed to headquarters and field staff, as well as to clients.

28. ***Staff Training***. Safeguard training is key to ensuring that operational staff are familiar with the safeguard policies and their interpretation in project-specific contexts. A new training program on safeguards was developed in FY99 and launched in FY00. To date, 33 courses have been delivered, reaching more than 450 operational staff. Safeguard training is included in World Bank Institute (WBI) hub training, and by the end of FY00 will have been delivered in all Regions. Safeguard sessions are part of the ESSD annual fora, and are included in orientation programs for new staff. Training on interpretation and implementation of safeguard policies is also delivered to clients through active programs in all Regions, particularly in AFR, MNA, and EAP. In addition, to facilitate compliance, ESSD has developed a reference matrix that clarifies the objectives and triggers of each of the safeguards and summarizes their consultation and disclosure requirements.

B. Compliance with Policies

29. As noted earlier, the focus on compliance is an initiative of fairly recent origin, a key part of operational policy reform, which was launched with the articulation of the safeguard policies in late 1997. The evolving management matrix—and in particular the roles of the ESSD Anchors and Sector Boards vis-à-vis Regional staff in assessing compliance—has been much debated over the past few years, with successive measures to increase ESSD responsibility and accountability for compliance. This section briefly recaps that debate.

30. ***Who Does What?*** Responsibility and accountability for compliance with the Bank's environmental and social requirements have long been vested in the Regions. OD 4.01, *Environmental Assessment,* issued in 1991, assigned specific duties to the Bank's task managers and the REDs (Regional Environment Divisions), and set out a purely advisory role for the Environment Department. OP/BP 4.01, the successor policy statements to OD 4.01 issued in January 1999, assigned to the task team the role formerly assigned to the task manager, and assigned the responsibilities of the RED to the Regional Environment Sector Unit (RESU). BP 4.01 confirmed the continuing advisory role of the Environment Department but also set out a new responsibility for compliance: "ENV carries out project audits to help ensure compliance with the Bank's EA policy,

---

[15] *Environmental Assessment Sourcebook,* World Bank, 1991, and *The World Bank Participation Sourcebook,* World Bank, 1996. *The Resettlement Guidebook* is available from the InfoShop on CD-ROM, as well as on the Bank's intranet. See also *Pollution Prevention and Abatement Handbook,* World Bank, 1998; and *Toward Cleaner Production,* World Bank, 1998.

and it conducts periodic reviews of the Bank's EA experience to identify and disseminate good practice and develop further guidance in this area."

31. ***Clarification of Accountabilities***. Though the rules were clarified by OP/BP 4.01, there had been a period of flux in early 1998 about the roles and accountabilities for safeguard policies under matrix management, as Management discussed with CODE on several occasions. On April 29, 1998, for example, during the CODE meeting on OED's report on resettlement,[16] the Managing Director, Operations, said that the Regions would remain responsible for compliance with the safeguard policies; dedicated resources would be provided to the Regional environmental and social units, to the ENV, SDV, and RDV Anchors, and to LEG, to strengthen their review, advisory, and monitoring activities through, among other things, project audits; ESSD would provide increased training; and Management would increase its oversight.[17] Immediately following the CODE meeting, the Managing Directors issued an official memorandum to Operational Vice Presidents (OVPs) launching the new compliance system.[18]

32. ***Continuing Debate.*** Over the next 18 months there was much internal debate about the appropriate balance of responsibilities and accountabilities across Regional units, Sector Boards, and Network Anchors. This debate also involved CODE, in the context of the discussion of OED reports and the Management plan to consult externally on the draft OP/BP 4.12, *Involuntary Resettlement*. CODE and OED have generally taken the view that central Network clearance is essential for the effectiveness of the Bank's safeguard policies.[19] CODE's note to the Executive Directors stressed the need to strengthen the Bank's quality assurance and risk management processes. They welcomed Management's commitment to implementing the safeguard and fiduciary policies and confirmed that CODE will continue to monitor the impact of matrix management on accountability for quality.[20]

33. ***Rebalancing the Matrix.*** The latest round of discussions on matrix rebalancing commenced in October 1999, when the Managing Directors communicated to all operational staff the broad approach being followed.[21] More recently, the Managing Directors endorsed the recommendations of the Joint Regional/Network Action Team to enhance Regional/Sector Board collaboration on quality and compliance. These recommendations focus on procedures for identifying operations subject to high safeguard risks and for ensuring ESSD Sector Board sign-off on them. Overall, the

---

16 See *Recent Experience with Involuntary Resettlement* (CODE 98-20), April 20, 1998.

17 See *Operational Policy Reform and Compliance*, statement by Caio Koch-Weser (CODE98-25), May 6, 1998.

18 See note to OVPs, "Operational Policy Reform: Compliance with Safeguard Policies," Sven Sandström and Caio Koch-Weser, May 20, 1998.

19 See *1999 Annual Report on Operations Evaluation (*R99-217), November 23, 1999. See also *Draft Management Response to 1999 Annual Report on Operations Evaluation* (CODE99-98), December 15, 1999; and *Managing for Quality and Development Effectiveness* (SecM2000-10), January 10, 2000.

20 See *Meeting of Executive Directors – January 11, 2000: Managing Development Effectiveness: An Overview of FY99 Apex Evaluation Reports – Chairperson's Statement* (CODE2000-1), January 10, 2000.

21 See note to operations staff, "Making the Matrix Work Better," Sven Sandström and Shengman Zhang, October 12, 1999.

matrix rebalancing exercise recognized some deficiencies of the previous system—lack of common corporate practices, weak risk management, and insufficient independence of environmental staff in applying judgment. Three actions were therefore taken to implement the new structure:

- Off-the-top resources for compliance monitoring, independent of country budgets, have been allocated in all Regions.

- New roles and responsibilities for compliance have been defined: (a) environmental and social development units in the Regions are now responsible for categorization, and (b) the ESSD Sector Boards are now independently responsible for the consistency of ratings, and certification of actual compliance for high risk-projects.

- New roles and responsibilities have been assigned to the ESSD Anchors, primarily to support the Sector Boards in providing corporate sign-off for the high-risk projects, and other safeguard support work, including clarification of the standards to be applied.

Management is keeping a close watch on all of these measures to ensure their adequacy. Particular attention is being given to implementation, including ensuring that firewalls are built into the compliance system, to minimize actual and perceived conflicts of interest in compliance monitoring and management.

C. Resources for Safeguard Policies

34. The May 1998 note from the Managing Directors to the OVPs on the safeguard policies also gave instructions on resources for compliance. It stated that resources were to be provided to Regional "environmental and social units, and to the ENV, SDV, and RDV Anchors, and LEG, to strengthen their review, advisory, and monitoring activities." It instructed ESSD to "strengthen support for quality assurance, including technical support for project preparation and implementation, and advice on policy issues…and to disseminate good practice information to Bank Group staff and clients, and identify, publicize, and reward best practice."[22]

35. ***Resources for Safeguard Policies.*** Most spending for safeguard policy compliance is embedded in individual task budgets. And with current systems it is difficult to separate spending on compliance from other project expenses. That said, staff are very much aware of the need to focus on compliance, and rising project costs reflect this increased focus. Indeed, in February 2000, the Task Force on OP/BP Compliance presented its preliminary finding that the cost of improved compliance with safeguard policies (including upgraded supervision) would translate into an annual incremental need of $15 million for the next two fiscal years, falling to $8 million thereafter. The detailed allocations and sources of funding are still been worked out, but part of the increment is expected to be provided "off the top" for enhanced compliance assessment

[22] See Sandström and Koch-Weser note to OVPs, op. cit.

and monitoring, and for tasks for which risks are perceived to be high or there is a backlog of unmet supervision obligations. The other part is expected to be for increased budgets for lending tasks as well as for safeguard ESW tasks in country programs. For the former, the Regional estimates for FY01 so far total $4.8 million; including the funding for the ESSD Anchor, the amount specifically earmarked for compliance activities in FY01 totals $6.8 million.[23]. For the latter, most Regions have included additional funds in Work Program Agreements as part of their efforts to mainstream accountability for safeguard (and fiduciary) compliance (thereby contributing to the rise in unit costs of project preparation and supervision). However, as of this writing, the breakdowns are not yet available. Careful Management attention will be needed to ensure that the resources provided are adequate and that they are spent as intended.

36. ***Management Actions.*** The Managing Directors are giving special attention to the implementation of the safeguard (and fiduciary) policies, which are a central topic of their business reviews with the OVPs. The Regions and Networks are closely monitoring their safeguard programs, particularly their high-risk tasks. All of the Regions regularly monitor their high-risk portfolios and projects under preparation, with periodic reviews by the RVPs. ESSD, as noted earlier, is keeping a close watch on compliance issues, through its anchors, Sector Boards, and newly recruited technical expertise in QACU. Centrally, system improvements in SAP to monitor all safeguard compliance expenditures are being developed.

IV. COUNTRY FOCUS

37. These increases in the attention that Management has paid to accountabilities and resources for compliance with the safeguard policies have coincided with the stronger recognition of country ownership of policies and institutions as the critical ingredient of sustained development impact. This section briefly reviews the evolution of these developments and the implications for the Bank's safeguard policies.

A. Increased Country Focus

38. For many years, the Bank's focus has been shifting toward a more integrated and comprehensive country-based approach to development assistance. This broader approach reflects the findings from research on aid effectiveness,[24] as well as the accumulated lessons of experience analyzed by OED[25] and QAG[26]—all of which point to the crucial importance of country ownership and coordinated donor support of the

---

23 Data based on business plan submissions received by Corporate Resource Management from units.

24 See, for example, Dollar, David, and Lant Pritchett, *Assessing Aid: What Works, What Doesn't, And Why*, World Bank Policy Research Report, 1998.

25 See *1999 Annual Review of Development Effectiveness*, OED, November 1999. See also Johnson, John H., and Sulaiman S. Wasfy, *Borrower Ownership of Adjustment Programs and the Political Economy of Reform*, World Bank Discussion Paper, OED, 1993.

26 See *Annual Report on Portfolio Performance (ARPP)—Fiscal Year 1999* (R99-212), November 18, 1999; and *Annual Report on Portfolio Performance (ARPP)—Fiscal Year 1998* (R8-281), November 24, 1998. See also *Supervision Quality in FY99: A QAG Assessment* (CODE99-81), October 14, 1999, and *Supervision Quality in FY98: A QAG Assessment* (RSA2) (CODE98-53), September 17, 1998.

country's program. This evidence underpins the shift in the development assistance paradigm from the development project to the country as the unit of account.

39. ***Role of CAS.*** The CAS, introduced in 1990, has helped Bank programs to intermediate countrywide challenges into project-level interventions. As the latest CAS Retrospective[27] demonstrates, CASs increasingly focus on country ownership and commitment: some 80 percent of the FY98-99 CASs contain a substantial discussion of government priorities (compared with 60 percent of FY97-98 CASs), and all CASs are now prepared in consultation with the government. Almost all CASs base the development of a broad integrated program of Bank support on an assessment of the overall social and political economy context. Diagnosis of the overall situation, dialogue with the government, and straight talk about remaining differences increasingly characterize good CASs.

40. ***CDF Pilots and PRSPs.*** The pilots for implementing the CDF and the PRSP program, although in their early stages, also reflect the shift to a comprehensive country-focused approach to development that goes beyond individual projects. The CDF explicitly relies on strong country ownership of a single comprehensive program of development that can be supported by donors and partners. It encourages the use of instruments and approaches that emphasize long-term goals in entire sectors or groups of sectors, rather than one-off or short-term activities. PRSPs, which are grounded in the CDF principles, are prepared and fully owned by the government and are a reflection of its own poverty reduction priorities that cut across many sectors.

B. Trends in Lending

41. In parallel with the increase in country focus, Bank lending itself has undergone important changes in composition and orientation.[28] It has evolved away from hardware to software—from projects that finance bricks and mortar, to programs that address the policy and institutional foundations of a healthy and stable private sector and social development. Investment in the power sector, for example, which accounted for 21 percent of Bank lending in 1980, is today largely in the private sector and thus accounts for only 2 percent of Bank lending; and that 2 percent focuses much more on public policies and institutions than on machinery and equipment. By contrast, lending for multisector, social sector, and public sector issues has expanded more than fourfold—from 9 percent of lending in 1980 to over 40 percent in 1999.

42. ***Sectoral and Programmatic Investment Lending.*** Sectoral and programmatic lending approaches are also becoming increasingly common and have now been applied

---

[27] See *Country Assistance Strategies: Retrospective and Implications and Note on "Enhancing Board Discussion of Country Assistance Strategies"* (R99-228/2), May 22, 2000. See also *Country Assistance Strategies: Retrospective and Outlook* (SecM98-242), March 30, 1998; *Enhancing Board Discussion of Country Assistance Strategies* (R98-199) July 16, 1998; *Country Assistance Strategies: Board Seminar* (R97-73), February 13, 1997; and *Enhancing the Board's Discussion of Country Assistance Strategies* (R97-73), April 18, 1997.

[28] See *Lending Retrospective: Volume and Instruments Issues Paper* (SecM99-512/1), November 16, 1999.

to a variety of lending instruments in a wide range of sectors in all six Regions.[29] For example, in the 1990s, the Africa Region introduced the Sector Investment Program (SIP) to help address development issues comprehensively and coherently, in cooperation with other donors. The SIP adapted a traditional lending instrument, the sector investment and maintenance loan (SIM), to support longer-term reform programs owned by the government. Among sectoral lending approaches, some simply combine several "retail" investment operations under one "wholesale" umbrella. Others go beyond a collection of individual projects and take an integrated approach to investments, policies, and institution building in the sector as a whole, and may involve financing a slice of an entire government program, often in partnership with other donors. They may also involve a series of operations adaptable over time to changing country circumstances, as in the case of adaptable program loans. With all these approaches, experience to date reinforces the importance of country ownership and commitment, and the emphasis on building local capacity.

C. Safeguard Policies and Programmatic Lending

43. The safeguard policies were initially designed to apply to specific investment projects. However, like other externally promoted initiatives, when applied exclusively at the individual project level, they may do little to build sustainable borrower capacity to manage programs. In other words, their broader development impact is limited. A critical question is thus how to balance the need to ensure Bank's due diligence in the operations we finance with capacity building to maximize development impact? How can we best promote and support systemic improvements in environmental and social performance at the sector or country level—through sectoral and programmatic approaches, *inter alia*?

44. ***Sectoral Environmental Assessment.*** The challenge is to see how the Bank's safeguard policies can be scaled up and applied to sectorwide or countrywide programs. To a large extent, the solution already exists—through the sectoral environmental assessment (SEA), which is explicitly recognized in OP 4.01. While project-specific EAs focus on the potential impacts of specific investments and often treat sector-specific strategic issues as given, SEAs provide sectorwide environmental analysis before investment priorities have been determined. They also support integrating environmental concerns into long-term development and investment planning.[30] SEAs have most often been used in the context of sector investment programs involving multiple subprojects. But there are also several examples of operations with a programmatic and sectoral focus in which a SEA has been carried out, in line with OP 4.01.[31] More recently, the focus has

---

[29] The following projects provide examples: Mozambique: Agricultural Sector Public Expenditure Program (1999), India: Andhra Pradesh State Highways Project (1997), Tanzania: Health Sector Development Project (2000), Algeria: Social Safety Net Support Project (1996), Armenia: Education Financing and Management Reform Project (1997), China: State Farm Commercialization Project (1998), India: Third National Highways Project (2000), Mexico: Agricultural Productivity Improvement Project (1998), and Zambia: Health Sector Support Project (1995).

[30] See *Environmental Assessment Sourcebook Update No.4: Sectoral Environmental Assessments*, World Bank, 1993.

[31] Examples include the Thailand Power Sector EA (Report No. E235, July 2, 1998) undertaken as part of the Thailand EGAT Investment Program Support Project (R98-223), August 25, 1998.

been on assessing environmental capacity and compliance with safeguards at the country level.[32] OP 4.01 also applies to sectoral adjustment loans (SECALs);[33] a recent example is the Indonesia Water Sector Adjustment Loan to support water policy improvements.[34]

45. ***Adaptation of Safeguard Policies to Programmatic Lending.*** ESSD and OPS are leading efforts to explore how existing safeguard policies can best be applied to programmatic investment lending,[35] using the SEA and other sectoral or countrywide safeguard assessments. The issue is to move beyond safeguarding the expenditures associated with specific Bank-financed projects to supporting systemic improvements in the borrower's own safeguard policies and institutions. This will involve a much greater emphasis on capacity building and—taking ownership seriously—a shift of primary accountability for monitoring and evaluating compliance from the Bank to the borrower (see Box 4). Clearly the SEA—and equivalent sectoral or countrywide assessments for the other safeguard policies—holds the key. But the critical issue is standards. Setting them too low would have the obvious problem of not ensuring the desired performance. On the other hand, setting standards that are too high would also be counterproductive; too few countries would pass, and we would remain in a project world, forgoing the sustained development impact that broad country ownership can bring. The challenge will be to specify the standards for countries' safeguard policies and institutional arrangements—and of support for programs to strengthen countries' institutions—that will warrant the prudent and effective use of programmatic approaches.

---

32 The forthcoming Philippines Portfolio Review is a countrywide exercise examining risks in projects under implementation.

33 Since January 1999, there have been 29 SECALs, of which 2 were categorized as Bs and the remainder as Cs; operations rated C do not require any further EA action. OP 4.01 does not apply to structural adjustment operations.

34 See Indonesia: Water Sector Adjustment Loan Project (R99-65), April 27, 1999; and Indonesia: Water Sector Adjustment Loan Project, Sectoral Environmental Assessment (Report No. E267), March 1, 1999, available at http:/www-wds.worldbank.org/.

35 See *Lending Retrospective: Volume and Instruments Issues Paper* (SecM99-512/1), November 16, 1999. See also *CDF: Internal Guidance Note* (SecM99-244), April 12, 1999, and *PRSP: Internal Guidance Note* (R99-239/1), January 19, 2000.

Box 4. Capacity Building for Resettlement

The Bank's resettlement capacity-building efforts have been most notable in South and East Asia (the Regions with almost 80 percent of the resettlement in the Bank's portfolio), though more recently we have extended them to other Regions of the Bank. Since 1995, we have carried out more than 50 resettlement workshops for project staff and policymakers in about 15 countries. Our efforts have been most concentrated in India (about 25 workshops), China (10), Vietnam (4), Bangladesh (3), Brazil (3), and the Philippines (2).

We also have collaborated with the Asian Development Bank (ADB) on a number of capacity-building initiatives. Many of our workshops have been organized jointly, and we are also working together on a major initiative to improve resettlement policy and institutional frameworks in seven Asian countries (Bangladesh, China, Indonesia, Nepal, Pakistan, Philippines, and Vietnam).

Starting in 1993 with an annual headquarters-based training program, we have increasingly decentralized the resettlement capacity-building initiative. Most of our current efforts are concentrated on promoting in-country capacity-building programs. Between 1995 and 1999, we have conducted almost 40 such programs, most in Asia. The latest element of our capacity-building effort in India is a resettlement "distance learning program," to be conducted in collaboration with a university in New Delhi. This program, which will be open to local project staff, consultants, and students, will have a positive development impact far beyond the projects the Bank supports in India.

Local project staff working on resettlement issues are encouraged to participate in Bank-sponsored training initiatives, where they interact with staff working on similar issues in other projects. This has promoted a better understanding of resettlement issues among project staff, which, in turn, has helped improve resettlement implementation substantially. For example, interaction of Bank and borrower staff in the India Transport Sector resettlement discussions led to innovative solutions for dealing with the resettlement of squatters and encroachers, otherwise a very difficult issue. Similarly, the use of local consultants trained in Bank capacity-building programs in China has significantly improved the quality of resettlement plans and implementation. For example, one of the earlier projects in the transport sector, the Shanghai-Zhejiang Expressway Project, faced considerable delays in processing because borrower staff lacked understanding of resettlement issues; however, more recent transport projects are prepared without any delays on account of resettlement.

Resettlement capacity in the Bank's field offices has also been strengthened. The number of resettlement staff in field offices has grown from 3 in 1995 to 20 today. This growth has also had a major impact on improving the quality of resettlement preparation and outcomes on the ground.

46. ***Harmonization of Policies.*** This discussion also highlights the need to agree on standards more broadly with clients and other donors. Work is ongoing to explore how the Bank and its partners might achieve convergence in the requirements, interpretation, and application of their safeguard policies. Action on this front will help to reduce the costs and increase the overall effectiveness of development assistance.[36] The multilateral development banks (MDBs) have made some progress in harmonizing aspects of

[36] A recent OED evaluation reported that many recipients of development assistance believe that reducing operational policy differences through coordination and harmonization is the first action needed to significantly improve aid coordination and effectiveness (see *The Drive to Partnership: Aid Coordination and the World Bank*, OED, November 16, 1999). Other development partners are coming to a similar conclusion as they seek to construct a new development architecture that emphasizes client government ownership and capacity building, partnership, and results (Joint Statement by OECD/DAC, World Bank, and UNDP, following the jointly organized Development Partnership Forum, *From Aid Co-ordination to Development Partnership*, Paris, December 7-8, 1999.) See also Jean-Claude Faure, *On Common Ground: Converging Views on Development and Development Co-operation at the Turn of the Century* and *Making Partnerships Work on the Ground*, Ministry of Foreign Affairs, Stockholm, Sweden, Workshop Report, August 1999.

procurement policy.[37] Building on this experience, further discussions are under way between the Bank and other MDBs to move the harmonization agenda forward across a range of operational policies. IFC also is having a similar dialogue with international financial institutions, including export credit agencies. Important challenges going forward will include agreeing on the standards (international or otherwise) at which these policies should be harmonized, their relationship to client-owned standards and implementation capacity, and the extension of the harmonization process to bilateral agencies.

V. CONCLUSIONS

47. This paper has considered institutional issues in three areas—the Bank's safeguard policies, their implementation, and their country focus—that all are undergoing change. The bottom line:

- *Policies.* Going forward, Management intends to build on previous discussions with the Executive Directors and develop a proposal for Board consideration that would consolidate the currently fragmented treatment of the Bank's environmental, social, and cultural safeguards into a more coherent approach—centered on a safeguard assessment process—with uniform disclosure and other procedural requirements. The objective is to simplify the framework to promote better implementation.

- *Implementation.* Management has recently taken steps to rebalance the matrix and continues to keep a close watch, clarifying the respective accountabilities of the ESDVP and the RVPs for compliance with the safeguard policies. Current systems will be reviewed in one year to see if further clarification and/or rebalancing is needed. In the meantime, ESSD is upgrading its monitoring, auditing, and training systems—under the leadership of QACU's new Senior Advisor—and the Regions are closely managing implementation and increasing the level of resources dedicated to risk management and safeguard policy implementation.

- *Country Focus.* Management intends to encourage the development and use of sectoral environmental assessment, sectoral resettlement plans, and sectoral indigenous peoples development plans—and, in due course, strategic safeguard assessments—as vehicles for underpinning sector investment loans and other programmatic lending instruments. A critical issue for discussion will be the appropriate level of standards for such sectoral assessments.

48. ***Strategic Issues.*** Looming beyond these issues and actions are bigger and more strategic issues that go to the heart of the development paradigm. They warrant full debate and discussion with and within the Board, especially in view of their important

[37] The agreement pertains to a common master bidding document for MDBs to use in the procurement of goods. This document covers about 80 percent of all contracts financed by MDBs.

strategic and sizable resource implications for the Bank and borrowers. They include the following:

- Do we have the right set of safeguard policies? What would be the costs and benefits of adopting an integrative social policy or mandated social assessment, paralleling the environmental assessment?

- Are the minimum standards for compliance with the safeguard policies sufficiently clear? Is there consensus around them? How does current practice compare with these standards? What would be the implications of raising the standards, for the Bank and our borrowers?

- How should the Bank balance its own responsibility for due diligence with respect to the implementation of the safeguard policies in projects, against the proven importance of building country ownership of policy and institutional directions for sustained development impact? How should this balance affect the level of standards required by Bank-supported programs and projects?

49. ***Strategic Implications***. The answers to these questions will have major implications for the Bank's strategic directions, in light of the important trade-offs they embody. A new social policy and/or social assessment mandate and higher performance standards would bring benefits, and also costs—for the Bank as well as for borrowers; thus careful analysis and debate are needed. But the most far-reaching implication of this discussion relates to the strategic choice between a focus on social and environmental due diligence for individual projects, using, for example, "best possible practice" as suggested by the Inspection Panel, versus a shift to building countries' capacity for and ownership of environmental and social policies. While in principle the approaches are complementary, in practice—especially with fixed resources—there are trade-offs. Hence the critical issue is the level of acceptable standards. In terms of both Bank and borrower resources, should best practice be the level we *require* of all the projects we support? Or should we set the acceptable standards bar at a level that well-performing clients can meet and sustain in their development programs, and encourage (but not require) better and best practice through capacity building efforts? These issues must be carefully analyzed and debated in view of their strategic importance for the Bank and its future.

Annex A
Operational Statements—The Evolving Vocabulary

1. During the 1970s and 1980s, the Bank periodically issued ***Operational Manual Statements*** (OMSs), which were intended to "describe the operational policies and procedures of the Bank and IDA with respect to lending, project, economic and other activities."

2. During the same period, ***Operational Policy Notes*** (OPNs) discussed methodology, good practice, and points not covered in OMSs. Usually they referred to existing OMSs, but some OPNs were issued without a parent OMS.

3. ***Operational Memoranda*** were—and continue to be—ad hoc discussions of new policies or procedures, or clarifications of existing policies, that convey instructions to staff when it is not practical to issue a new Operational Manual statement. Once the material in such a memorandum is covered in any revision of the parent statement, the memorandum is retired.

4. At the time of the Bank's 1987 reorganization, the different instructions to staff filled three volumes. ***Operational Directives*** (ODs) were conceived as a means to consolidate all the instructions on each subject into one rational presentation. They presented background and included discussions of policy, instructions about procedures, and suggestions on carrying out the intent of the policy.

5. By 1992, the Bank's increasing concern with compliance and accountability led to designing a system that would clearly separate policies, mandatory procedures, and advisory material: the OP/BP/GP system.

- ***Operational Policies*** (OPs) are short, focused statements of policy that follow from the Articles of Agreement, the General Conditions, existing Operational Manual statements (ODs, OMSs, and OPNs), and new or amended policies approved by the Board.[43] Within the limits set by such documents, OPs establish the parameters for the conduct of Bank operations. Compliance with OPs is mandatory. OPs are expressed in declarative wording such as "the Bank does" or "does not," or "the Bank requires." Exhortative or advisory wording such as "the Bank expects" or "the Bank encourages" is seldom used; it lacks objectivity in the sense that it is difficult to define standards to be met, measure compliance, and assess accountability.
- ***Bank Procedures*** (BPs) inform staff how to carry out the policies set out in the OPs, describing the actions, standard documentation, and clearances that are required centrally. Like OPs, BPs are mandatory, and are designed to ensure consistency across Regions and operations.

---

[43] "Operational Policies and Procedures: The New System," memorandum from HROVP to staff, February 1, 1993.

- ***Good Practice*** statements (GPs) contain all other information—such as the history of the policy, sectoral context, or best-practice examples—that Bank staff should find useful in carrying out the policies and procedures in OPs and BPs, as they apply to different country circumstances. By default, all operational material of advice and interest to staff but not OP or BP in nature falls into the GP category. However, with the advent of the World Wide Web and Knowledge Management, GPs are being phased out, with the material being transferred to the relevant Network websites.