



The Use of Country Systems in World Bank Lending:

A Summary of Lessons from the Pilot Projects and Recommendations for a Better Approach

In 2005, the Executive Directors of the World Bank (Bank) authorized the use of country systems (CS), to be governed by OP 4.00, “Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects.” Under this approach, the Bank relies on the borrower country’s “system,” i.e. its laws and institutions, instead of the full suite of current Bank safeguard policies, procedures and institutional units to help avoid, mitigate or minimize adverse impacts of Bank supported projects.

The Bank is currently conducting a series of low-risk CS pilot projects. Some of these have received Board approval and are analyzed in a longer CIEL report. The Bank conducts a Safeguard Diagnostic Review (SDR) for each project to determine whether the relevant legal framework is “equivalent” to principles of the Bank’s safeguard policies, and to assess whether the country’s institutional capacity and implementation track record are “acceptable.”

We ask three fundamental questions about each pilot project. First, are the environmental and social safeguards approved for use under the country systems approach as strong as the existing Bank safeguard policies? Second, is the use of CS facilitating enduring, legally-binding improvements in the borrower countries’ systems that will apply to future projects? Finally, will accountability of the Bank to communities be as effective under a CS approach as it is under the current Bank approach to safeguards?

Our evaluation of the experience thus far reveals serious risks and unclear benefits. Most significantly, with minor exceptions, the use of CS in the pilot projects has *not* achieved (and likely will not achieve) permanent improvements in the safeguard systems of the borrower countries. The current CS approach fails, therefore, to secure a key pledge proffered by Bank management - that risks of reduced environmental and social standards associated with this approach would be offset by benefits secured through long-term strengthening of a country’s laws, policies, rules and procedures and implementation capacities. One such benefit is stronger standards for all future projects in a country, not just those funded by the Bank. Moreover, while offered as a means to securing key objectives of the Paris Declaration on Aid, including “alignment of aid with country partner countries’ priorities, systems and procedures,” the current CS approach has opened the door for weakening of safeguards. Finally, our evaluation highlights additional risks inherent in the CS approach, including lack of transparency and new hurdles for communities who wish to use the Bank’s IP accountability mechanism.

Yet the Bank is nonetheless rushing to accelerate the use of a CS approach, and has proposed the launch of a “country-wide” pilot program in which those country systems deemed equivalent to Bank standards would govern future Bank-funded projects. Given that the current Bank approach to addressing shortcomings in country systems in pilot projects does not emphasize or require changes in laws or policies that are mandatory beyond the life of a given project, it seems highly unlikely that the Bank can guarantee that a country-wide approach to country systems will be sufficiently robust to ensure high environmental and social safeguard standards in future projects.

Since the use of CS presents significant risks without clearly achievable benefits, an independent public review is needed urgently. The review should assess whether or not the use of CS in the pilot projects has resulted in weakened Bank environmental and social safeguard systems, whether borrower country systems have been effectively strengthened, and whether the ability of local communities to secure accountability has been reduced. The review should also provide recommendations on whether the CS program should go forward, and if so, what measures are needed, including improved disclosure, transparency and public participation, to ensure that Bank safeguard standards and accountability for these standards are not weakened.

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**Major Concerns about the Use of Country Systems  
and  
Recommendations for a Better Approach to Safeguard Communities and the  
Environment**

**1. Permanent, legally binding improvements in borrower country safeguard systems and standards are *not* being achieved.**

Virtually no enduring, legally-binding improvements in country systems are being achieved in the pilot projects. Measures to address identified gaps largely include short-term fixes, such as non-permanent guidelines, that are mandatory only in the context of a given project as loan agreement requirements. Moreover, specific timeframes for implementation of these measures as well as processes for transparent monitoring and evaluation of the effectiveness of these measures are unclear or do not exist.

***A Better Approach***

- Where no enduring, legally-binding improvement in the country system can be achieved, the original Bank safeguard policies should be applied to the project.
- Increase information available to the public for evaluation of the SDR, including, for example, the laws, rules, policies, etc. examined by Bank staff and a clear identification of timeframes for implementation of gap-filling measures, and increase opportunities for public participation in development of the SDR.

- Require timely, open and transparent monitoring, especially of the gap-filling measures, to determine whether the use of CS is effectively maintaining the original Bank safeguards and achieving permanent strengthening of country systems.
- 2. The use of CS weakens the environmental social safeguard standards applied to Bank-funded projects.**

Our evaluation of the CS approach highlights that it can (and in the pilot projects does) weaken safeguard standards in several important ways: (1) when the “principle” used to implement the CS approach requires less than the original environmental or social standard; and (2) when the country’s system embraced by the bank is not truly “equivalent” to the standard or when measures endorsed for filling “gaps” are inadequate. Additionally, the operational effectiveness of the standards can be reduced when the timeframe for implementation of gap-filling measures is unclear and/or inadequate.

***A Better Approach***

- Open the SDR to public participation and ensure full transparency as it is developed. This would bring more information and expertise to the process, and help ensure that the environmental and social safeguards deemed equivalent under the country systems approach are in fact as strong as the existing Bank safeguard policies.
- Require that agreed gap-filling measures be adopted by a specific date and made publicly available to all interested stakeholders in English as well as the local language(s).
- Until such time as the country system is brought into full equivalence (i.e. enduring, legally bind improvement adopted and publicly disclosed to communities and interested stakeholders) the original Bank safeguard standards should be applied to Bank-funded projects.

**3. Lack of transparency**

The Bank does not require public disclosure of required gap-filling measures when country system safeguard standards are determined not to be equivalent with Bank safeguard principles and thus unacceptable. There is no public disclosure of the monitoring methodology or evaluation of effectiveness of country safeguards systems. There is no published methodology for conducting the SDR, and no mandatory public access to the full suite of country laws and other information on institutional capacity and implementation track record, that is reviewed in the SDR.

***A Better Approach***

- The Bank should publish its SDR methodology and adopt procedures to assure SDRs are conducted in an open, transparent and participatory manner. All borrower country laws, regulations policies and procedures reviewed in the “equivalency determination,” as well as documentation for other projects reviewed for “acceptability assessment” should be publicly accessible.

- An independent evaluation of the current pilot projects should be conducted *before* the Bank decides whether or not to continue to the CS pilot program.

#### **4. Communities face increased hurdles to holding the Bank accountable for adverse impacts of projects it funds.**

Under the current approach, communities will have a much more difficult time determining when a policy has been violated, and, thus, a more difficult time using the Inspection Panel to hold the Bank accountable. The principles provide only the general standards applicable to a project. The host country's laws, policies, and procedures flesh out and give greater definition to these general standards. Measures to fill gaps in these laws, policies and procedures further define these standards. Accessing and understanding these laws, policies, and procedures and any gap-filling measures – as well as knowing when they are to be applied – is very difficult under the current CS approach. Communities will have a much more difficult time identifying the exact standards that apply to a project, or to challenge a flawed SDR. This situation creates a significant barrier to timely, effective use of the Inspection Panel accountability mechanism.

Simply put, the principles do not provide the 'full picture' to communities of the standards applicable to a project. A community can file a claim for an apparent violation of a principle, but in the absence of clear information about what the World Bank has embraced in satisfaction of that principle – either the existing laws, policies and procedures or the gap-filling measures – it will be difficult for a community to know if a given activity is acceptable or not. In the absence of this knowledge, a community might be wasting its time, energy, and resources in pursuing a complaint; it cannot assess the likelihood of success with such a claim until it knows how the World Bank interprets the principle. Alternatively, in the absence of this knowledge, a community might be dissuaded from filing a complaint.

#### ***A Better Approach***

- Determine through an independent audit whether communities will have a more difficult time securing accountability under the current CS approach.
- All relevant country system laws, regulations, policies and procedures should be publicly disclosed via the internet, as well as provided in hard copy to potentially affected communities, both in local languages and in English.
- Gap filling measures should be in place and disclosed by a specified date, so that communities and interested stakeholders know precisely which country system standards the Bank and borrower country have agreed will apply to the project in order to satisfy Bank safeguard policies.
- Ensure through consultations before project approval that communities understand the standards that exist for a given project and are aware of recourse mechanisms.
- Communities must be able to use the Inspection Panel process to challenge a potentially-flawed SDR even when adverse impacts are not clear.

## **5. National capacities to implement safeguards may not be sufficient – and are not realistically addressed by the Bank**

The Acceptability Assessments of relevant institutional capacities and implementation track records are weak in all of the pilot projects. Moreover, the SDRs reflect that most of the identified weaknesses are not addressed, even though capacity development is a critical objective of the use of the CS approach as stated in the Paris Declaration. On the contrary, the SDRs suggest, for example, that an extra staff person in the department whose activity is triggered by the safeguard is sufficient to protect communities and the environment, wholly out of context of the capacity of the rest of the institution. There is no assessment of critical components of the borrower country's foundational country system, e.g. independent judiciary, free press, or access to information, that are critical for effective functioning of all other critical components. The review of implementation track records is exceedingly limited (to one or two other projects) or, for some pilot projects, non-existent. Moreover, no information is provided about the projects reviewed to determine track record. Finally, it is difficult or impossible for communities or other interested stakeholders to review and comment on the SDR assessments since no information about the relevant institution's budget and staffing is made available in the SDR and there is no process for public comment.

### ***A Better Approach***

- SDR assessments of institutional capacity and implementation track record should be conducted in an open, transparent and participatory manner. The Bank should publicly disclose all documentation reviewed to assess institutional capacity and projects reviews to determine implementation track record. Communities and interested stakeholders should be invited to comment on implementation effectiveness.
- Where lack of institutional capacity is identified, a long-term strategy for capacity development should be articulated in the SDR.
- The SDR assessment of institutional capacity should be broadened to include an evaluation of the effectiveness of the relevant institution(s) generally (not just the specific department), and of the foundational capacities in the country and how they might affect safeguard implementation.

## **6. The Bank's plan to accelerate the use of CS through "country-wide" pilot projects is premature given the severity of risks involved.**

Under the Bank's proposed country-wide approach, once a borrower's country system is approved (i.e., deemed equivalent), it will apply to future Bank funded projects in the country, including projects that could have enormous impacts on communities and the environment. The current group of low-risk CS pilot projects does not give the Bank sufficient experience upon which to base a decision to accelerate the CS approach to a "country-wide" program. The first seven pilot projects have not yet been implemented fully much less evaluated by the Bank. The premature rush to pilot the country-wide CS approach will expose communities, the environment and the Bank to unnecessary and costly risks.

### ***A Better Approach***

Before moving to pilot country-wide country systems, the Bank should:

- Commit not to use the CS approach for high-risk or Category A projects.
- Significantly improve public participation and transparency. Safeguard Diagnostic Reviews (SDRs) should be conducted through an open, public process. This should include: developing and publicly disclosing SDR methodologies; ensuring that all relevant borrower country laws and other information upon which the SDR was based are publicly available, both in English and local language(s); developing a public consultation process so that communities and interested stakeholders may participate in the development of the SDRs as well as in monitoring pilot projects; and, ensuring that gap filling measures and CS project evaluations are publicly disclosed in a timely fashion.
- The scope of the SDR should be expanded to include assessment of the foundational country system components (independent judiciary, rule of law culture, free press, access to information) critical to effective implementation of country safeguard systems.

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