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The strategy document (GN-2208-4) was favorably reviewed by the IDB Board of Executive Directors on July 23, 2003.

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Foreword

In response to the challenges facing Latin America and the Caribbean, the various commitments established in recent Summits including the Millennium Development Goals, and the need to ensure development effectiveness, the Inter-American Development Bank (IDB) has elaborated a renovated strategic framework. This is consistent with the Institutional Strategy and the mandates of its most recent Capital Replenishment. Sustainable Economic Growth, and Poverty Reduction and Promotion of Social Equity are defined as the two overarching goals of the Institution. These two goals are advanced through four priority areas of comparative advantage for Bank activity: Modernization of the State, Competitiveness, Social Development, and Regional Integration. In addition, the Environment is considered as crosscutting and is addressed in each area in order to ensure the sustainability and preservation of the natural capital.

To make this new framework operational, the IDB has prepared an integrated and consistent set of seven new strategies (two for the overarching objectives, four for the priority areas, and one for the Environment). Each strategy defines priority lines of activity, which will help to focus Bank actions, enhancing its developmental impact. The strategies take into account the Bank’s leverage and comparative advantages in the region, as well as the lessons learned from past experiences and the current situation of the countries of Latin America and the Caribbean. This renewed strategic framework proposes actions to improve the well being of the region’s people, placing special emphasis on the poorest. It does so within the framework of democratic governance, global competitiveness, social inclusion and cohesion, the new regionalism, and mainstreamed environmental sustainability. The Bank’s comprehensive efforts recognize the double causality between poverty reduction and sustainable economic growth, and the many interrelationships between the priority areas of action being addressed, highlighting the importance of an integrated approach.

The Environment Strategy included in this document is one of the seven new strategies. Its objective is to attain greater effectiveness in the support that the Bank provides to the region to promote the sustainable use of natural capital. The strategy seeks to insert the environmental dimension into broad development objectives, in a balanced and harmonized way across sectors.

This strategy identifies two key and fundamental lines for action, based on the Bank’s comparative advantage to influence improvements at the country and regional level: environmental governance and environmental management. Hence, environmental governance and the development of policy frameworks that create the right set of incentives for environmental management are identified as areas in which the Bank should focus its attention. In addition, the Strategy proposes specific actions for improving overall environmental performance, in terms of Bank’s activity, related to the cycle of programming, design, and implementation of projects.
The strategy addresses the recent pledge the member countries have made to achieve the Millennium Development Goals, particularly in the area of the environment.

For the elaboration and coordination of the new strategies, an Inter-Departmental Working Group was conformed including the Office of the President, the Office of the Executive Vice President, the Regional Operational Departments, the Strategic Planning and Budget Department, the Integration and Regional Programs Department, the Private Sector Department, the Research Department and the Sustainable Development Department (Chair). In turn, for the preparation of each sector strategy document, a specific team was established. In the case of this new Environment Strategy, the team was coordinated by the Environment Division of the Sustainable Development Department (SDS/ENV) and had extensive public consultation.

The implementation of the new strategies offers valuable opportunities to tie with the Country Strategies and with other initiatives seeking to increase development effectiveness. The aim is to fulfill the Bank’s mandates, addressing current challenges and contributing to the development of Latin America and Caribbean Countries.

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### Abbreviations

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<tr>
<td>CDM</td>
<td>Clean Development Mechanism</td>
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<tr>
<td>CESI</td>
<td>Committee on Environmental and Social Impacts</td>
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<td>EIA</td>
<td>Environmental Impact Assessment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GEF</td>
<td>Global Environment Facility</td>
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<td>IDB</td>
<td>Inter-American Development Bank</td>
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<td>FSO</td>
<td>Fund for Special Operations</td>
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<td>MDG</td>
<td>Millennium Development Goals</td>
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<td>MIF</td>
<td>Multilateral Investment Fund</td>
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<td>NGOs</td>
<td>Nongovernmental Organizations</td>
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<td>PRI</td>
<td>Private Sector Department</td>
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<td>SEA</td>
<td>Strategic Environmental Assessment</td>
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<td>SIDA</td>
<td>Swedish International Development Agency</td>
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<td>TC</td>
<td>Technical Cooperation</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNEP</td>
<td>United Nations Environment Programme</td>
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<td>WRI</td>
<td>World Resources Institute</td>
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Executive Summary

OBJECTIVE

The Bank’s Environment Strategy is a guiding instrument whose fundamental objective is to attain greater effectiveness in the support that the Bank offers each of the borrower countries of Latin America and the Caribbean to achieve their sustainable development goals. The Strategy is horizontal and sets forth a new paradigm for Bank action in environmental matters by establishing crosscutting links to all sectors through its focus on governance and the policy and incentive frameworks that affect natural resources and environmental management. The Strategy is linked to the two overarching strategies and the four sector strategies. It seeks to insert the environmental dimension into broad development objectives in a balanced and harmonized way across sectors.

The Strategy has the following specific objectives: (i) to set an overall framework for Bank action in tune with new paradigms, challenges, and opportunities for the insertion of environmental considerations in broad development objectives; (ii) to operationalize the principles of the Bank’s Institutional Strategy and to fully internalize environmental sustainability as an underlying goal linked to its overarching objectives (sustainable economic growth and poverty reduction) and priority areas (modernization of the State, competitiveness, social development and economic integration); and (iii) to identify a set of guiding principles and priority actions to make the Bank’s internal work and procedures more effective.

DIAGNOSIS

The Latin American and Caribbean region is well endowed in terms of its natural resource base and environmental attributes, which, if properly managed, constitute the basis for competitiveness, sustainable economic growth, poverty reduction and the quality of life. The region continues to intensively rely on the services provided by its forest, coastal and marine resources, biodiversity, agricultural soils, and water resources. However, these resources are fragile and in most cases are in a state of deterioration. For example, recent studies from the World Bank about the genuine savings in the National Accounts, which explicitly include the depletion of natural resources and the environmental degradation caused by pollution, show that these rates are lower in Latin America in comparison to other regions, except Africa. Consequently, the formation of net capital, needed for sustainable for economic growth, could be jeopardized due to natural capital depletion. In order to address environmental degradation and generate development opportunities stemming from its vast natural endowment, the region needs to address the main causes of environmental deterioration, including the presence of distorted signals and incentives rooted in market and governance frameworks that are still underdeveloped. Also, poverty reduction and social development need to be acknowledged as key channels for improving environmental performance.

Throughout the last decade, the countries of the region have established institutions, laws, policies, and programs to explicitly address the environmental dimension of development. In addition, significant financial resources have been channeled to specific environmental programs in the region. Notwithstanding these investments in the environment in recent years, environmental management in the region is evolving in a generalized framework of weak institutions that have being transformed very unevenly. The development of environmental management and overall environmental governance in the Region is still an unfinished process that needs to be fostered and strengthened.

LESSONS LEARNED

The Strategy highlights some of the key lessons that cut across environmental issues, particularly those related to strengthening institutional and
managerial capacity, policy and incentive frameworks, the socio-cultural dimension, the role of the private sector, regional environmental management and the Bank’s internal procedures.

It is recognized that having a solid and credible normative and institutional framework at the central level is fundamental. It is also recognized the need to foster inter-sectoral coordination and to increase awareness at the highest level of policy decision-making. Greater support is also needed for local environmental management, as part of viable decentralization processes. As for the choice and implementation of environmental management instruments to achieve targets and compliance, the experience shows that the selection and/or combination of instruments are critical in terms of effectiveness and efficiency. Incentive based instruments are needed to complement traditional command and control mechanisms. Equally important is the need to set targets that are economically, financially and politically realistic and viable. The importance of public participation in environmental management, is underscored, as the experience has shown that the possibilities of success of conservation measures are limited if they are not linked to attention for the needs and aspirations of civil society.

One key lesson is that environmental problems are not resolved solely by passing laws and creating institutions, or by investing in mitigation or remediation works. Rather, economic policies and incentives shape fundamentally the behavior of individuals, firms and institutions. The experience also points to the major need for countries’ fiscal policies to explicitly undertake the financing of environmental public goods, seeking innovative forms of financing consistent with fiscal discipline and macroeconomic stability. Furthermore, the lessons of experience also show that the environment can be good business, and that the driving force of private initiative can contribute to valuing and protecting the environment.

Experiences from the Bank’s internal procedures are also analyzed in the Strategy. Mainstreaming environmental consideration in project design has greatly improved project quality for both, private and public investments. Key lessons for improved environmental performance include: (i) the need to mainstream environmental considerations in programming exercise; (ii) the importance of developing clear guideline and procedures, and enhancing the professional capacities within the Bank; and (iii) the need to foster effectiveness through baseline information, monitoring of indicators, and strengthened capacities for project oversight during execution.

**AREAS FOR BANK ACTION**

The strategy sets forth guiding principles and general priority areas of action that the Bank would promote, on a cross cutting basis, in the context of the pipeline of operations agreed with each borrowing country. This Strategy identifies two key and fundamental principles for action, based on the Bank’s comparative advantage to influence significant improvements at the country and regional level:

*Environmental governance*, defined as the process that links and harmonizes policies, institutions, procedures, tools, and information to make it possible for a wide array of stakeholders (public and private sector, NGOs, local communities) to make fundamental decisions, manage conflicts, seek points of consensus, and be accountable for their actions. It is based on clear public and private responsibilities, respect for and compliance with the laws, and local empowerment; and

*Development of an enhanced policy and incentive framework for environmental management*, which places environmental actions in a truly cross cutting dimension in all spheres of policy decision making, including those which are critical to advance the agenda for the priority areas of the Bank’s Institutional Strategy.

In addition to these principles, the Bank will adhere to key practices and processes for: achieving program and project quality; promoting transparency of information and disclosure, fostering inter-institutional/inter-agency coordination; and adapting to the particular realities of each country.
In setting environmental priorities for Bank support in any particular country, the Strategy recognizes the Country Strategies as the central instruments for decision-making. The Country Strategies place specific considerations on the Bank’s Institutional Strategy and to the Millennium Development Goals (MDGs). Regarding these, it is important to note the advance towards the achievement of the MDGs in three categories involving environmental indicators: reversing the loss, waste, and degradation of natural resources; improving access to sources of safe and clean water, with specific targets to halve by 2015 the proportion of people without sustainable access to safe drinking water; and improving living conditions in marginal areas, with targets and indicators to improve the lives of slum dwellers, improve sanitation and increase access to secure tenure.

In the context of the Bank’s Institutional Strategy, direct links are established between the Environment Strategy and the two Bank’s overarching objectives: Poverty Reduction and Promotion of Social Equity and Sustainable Economic Growth. In terms of poverty/environment linkages it is recognized that environmental degradation places a greater burden on the poor, who in turn are frequently most vulnerable to natural disasters. Also, it is established that economic growth is possible over the long-run only if this growth is environmentally sustainable. The contribution of the environmental dimension has also being internalized in the four Bank priority areas ensuring the adequate treatment of the environmental dimension in each of them:

**Environment and Competitiveness.** Bank programs will seek to preserve and improve the quality and quantity of the natural resource base, recognizing that natural capital must complement human development and financial and physical capital to achieve competitiveness and sustainable economic growth objectives. Areas to focus are: (a) enhancing the productive value of natural resources and their environmental functions and services; (b) facilitating investments and market development and promoting private sector participation in environmental related activities; and (c) tapping global and regional environmental markets.

**Environment and Social Development.** Bank programs will seek to contribute to reducing poverty conditions and increasing overall quality of life, recognizing that investments in environmental improvements as well as natural resources are sources of job creation and improved living conditions. Areas to focus are: (a) health and environment; (b) sustainable rural development; (c) cultural and traditional uses of natural resources in indigenous communities; and (d) prevention of physical vulnerability to natural disasters and environmental risks.

**Environment and Regional Integration.** Bank programs will promote regional economic integration under the framework of regional environmental management. Key areas to focus are: (a) strengthening regional environmental institutions and harmonizing regulatory frameworks; (b) promoting sustainable management of regional environmental public goods and services; and (c) guaranteeing the environmental quality of regional infrastructure initiatives.

**OPTIONS FOR BANK SERVICES AND IMPLEMENTATION GUIDELINES**

This strategy identifies specific actions related to the Bank’s internal work and processes. Lines of action are recommended linked directly to the Bank’s project cycle: programming, design, and implementation.

The programming phase defines the strategic framework for Bank’s activities in each country. Therefore, it is at this stage that the Bank’s pri-
priorities should be established and that the horizontal dimension of environmental considerations should be appropriately incorporated, seeking strategic coherence among different sectors and programs. To this end, the Strategy proposes four priority actions that will strengthen the Bank’s capacity to strategically incorporate the environmental dimension at the pre-programming and programming phase, with the subsequent inclusion in country strategy documents: (i) environmental priority setting through sector reviews, diagnosis and stakeholders’ dialogue; (ii) approval of a new Bank environmental policy; (iii) support to effective implementation or development of sector specific strategies; and (iv) strengthening regional environmental dialogue and regional programming exercises.

At the design phase, a significant level of mainstreaming has been achieved at the Bank, as all of the operational departments, including the private sector, have environmental staff and procedures in place. Key actions to strengthen this process include: (i) enhanced environmental quality of Bank operations in priority sectors through state-of-the-art procedures and methodologies; (ii) enhanced expertise on key policy and technical issues and broader environmental dialogue; and (iii) improved effectiveness through the development of studies and methodologies for formulating baseline data and indicators.

At the implementation phase, Bank financing has direct results and impacts in all dimensions, including the environment. Key actions to implement include: (i) strengthening capabilities for monitoring and evaluation in the Bank’s country offices; and to (ii) enhancing operational supervision through local and civil society oversight.

In addition, the Strategy lays out the initial actions to conduct an analysis of existing and new instruments for private sector participation, as well as to design a mechanism for coordination among the private sector window (PRI), the Multilateral Investment Fund (MIF), the Inter-American Investment Corporation (IIC), and the Regional and Central Departments of the Bank. The Bank is well equipped to foster sustainable development objectives through its new flexible lending instruments and facilities (i.e., innovation loans, multi-phase program loans, and preparation facility loans), the private sector windows, the Bank’s direct access to full scale project resources from the Global Environment Facility (GEF), and trust funds and partnership with donor countries. Implementation of the Strategy also depends on the alliances and coordinated efforts that the Bank makes with other institutions, particularly with bilateral donors and multilateral financial agencies.

**MONITORING, EVALUATION AND PERFORMANCE INDICATORS**

The monitoring and evaluation of the strategy will be performed using output, outcome, and impact indicators. Output indicators measure the activity of the Bank in the areas outlined in the strategy in terms of products produced, such as the number of loans and technical assistance operations, number of studies prepared, and guidelines produced. These output indicators are normally included in the annual Bank Reports on Environment. Outcome indicators are generated from the evaluation of Bank projects and are included in the project reports. The Environment Strategy is expected to contribute to achieving poverty reduction and sustainable economic growth objectives through actions that are implemented across the four Bank priority areas. In this regard, the monitoring of impact indicators in the four priority areas is essential. Depending on the information available, basic indicators in these areas will be developed.

Impact indicators for environmental governance and modernization of the state include: the strength of institutions with responsibility for environmental management, the level of participation of civil society, and the quality of environmental information available for decision making. Similar indicators apply to links between environment and regional integration, regarding international development and trade.

Impact indicators for environment and competitiveness include: the state of natural capital (water resources, forest cover, biodiversity and en-
ergy efficiency), the degree of private sector participation in environmentally related investments, and the degree of countries’ participation in environmental markets. Special attention will be given to indicators such as environmentally adjusted GDP and genuine domestic savings.

Impact indicators for environment and social development include: health and environment indicators, vulnerability to natural disasters, preservation of socio-cultural heritage and environmental endowments by traditional communities and indigenous groups, access to sources of water, access to improved sanitation, and security of land tenure.

The sets of indicators presented above include efforts to advance toward achievement of the Millennium Development Goals. Such efforts will be undertaken as part of specific Country Strategies and country environmental profiles, in close coordination with other agencies and donors pursuing such objectives. The evaluation of the strategy will be carried out after five years of its approval.
INTRODUCTION

The Board of Executive Directors approved the recommendations set forth in the document Renewing the Commitment to Development: Report of the Working Group on the Institutional Strategy (GN-2077-1), for the purpose of improving the Bank’s effectiveness in carrying out its institutional mandates. In this context, on January 23, 2002, the Board of Executive Directors approved the document Review of Sector Strategies, Policies and Guidelines (GN-2077-15), and directed that a new set of strategies be prepared for the two fundamental objectives of the Institutional Strategy (Poverty Reduction and Promotion of Social Equity, and Sustainable Economic Growth) and for its four priority areas (Modernization of the State, Competitiveness, Social Development, and Regional Integration). In addition, the preparation of a cross-cutting Environment Strategy was recommended in order to fully internalize environmental sustainability as an underlying goal within the context of the Bank’s Institutional Strategy.

The proposed Environment Strategy builds upon more than two decades of Bank experience and contributions to advance environmental management in the region, which formally began with the approval of the Bank’s Environmental Policy in 1979. The Environment Strategy sets forth guiding principles and general priority areas of action that the Bank would promote through its financial and nonfinancial instruments. In particular, environmental governance and the development of policy frameworks that create the right set of incentives for environmental management are identified as the main areas in which the Bank should focus its attention. The Strategy also identifies areas of support that are consistent with fostering the objectives of the Institutional Strategy and its corresponding priority areas. In addition, the Strategy proposes specific actions for improving overall environmental performance in terms of Bank internal work and procedures, linked to the cycle of programming, design, and implementation.

OBJECTIVES AND JUSTIFICATION

The Bank’s Environment Strategy is a guiding instrument whose fundamental objective is to attain greater effectiveness in the support that the Bank offers each of the borrower countries of Latin America and the Caribbean in terms of achieving their sustainable development goals. The Strategy facilitates the Bank’s dialogue with governments, civil society, and the private sector in the context of the Bank’s financial and nonfinancial portfolio. The specific objectives of the Environment Strategy are: (i) to set an overall framework for Bank action in tune with new development paradigms and current challenges and opportunities; (ii) to operationalize the principles of the Bank’s Institutional Strategy and to fully internalize environmental sustainability as an underlying goal linked to its overarching objectives and priority areas; and (iii) to identify a set of guiding principles and priority actions to make Bank’s internal work and procedures more effective.

In this Strategy the word “environment” is defined in its broad sense, which includes the physical environment (geophysical), the biological environment (biotic), and the human environment (anthropic). Accordingly, environmental management is also a broad concept that encompasses natural resources as well as the quality of the physical environment and its interrelations with society and human behavior. Hence, the Environment Strategy applies to all sectors of Bank financing, seeking to mainstream the environmental dimension in each case. In this way, the environmental dimension is presented on a cross-cutting basis, and not as a separate sector. This new focus will allow the Bank to become more effective in addressing generally the goals of poverty reduction and sustainable economic growth.
The scope of the Environment Strategy involves the entire IDB Group, i.e. the Inter-American Development Bank (IDB) and its instruments for supporting public and private investment; and the Multilateral Investment Fund (MIF). The strategy also contributes to establish coordination linkages with private investment initiatives under the Inter-American Investment Corporation.

Given the challenges for sustainable development that the region faces and the broad array of issues that need to be addressed, having an Environment Strategy to orient and focus the Bank's work is amply justified. With regard to environmental management, the Bank has operated mainly on the basis of the Bank’s 1979 Environment Policy (GP-73-3), and the mandates of the Eighth Replenishment of Capital (1994). In this framework, procedures for environmental and social assessment, and several strategy documents for priority areas (e.g., water resources, coastal resources, energy, and rural poverty reduction) have been prepared, as well as several, guidelines, and good practices papers that have supported Bank’s activities in several areas such as forestry, biodiversity, and watershed management. While this context enabled the Bank to make progress on environment and natural resource management, the Bank requires a strategic approach that is more focused and integrated; will contribute to work towards sustainable development objectives that can be measured and evaluated; responds to new challenges and realities; and addresses clients’ needs more effectively.

CONCEPTUAL FRAMEWORK FOR FORMULATING THE STRATEGY

The Environment Strategy is based on the recognition that environmental quality and the natural resource base constitute the natural capital that sustains economic growth and competitiveness in the long run, and factors that help reduce poverty and improve social well being. Recognizing that the Latin American and Caribbean nations have stated their vision for sustainable development in Summits and official world and regional events, the Bank’s Environment Strategy will seek to help countries reach that vision cost-effectively in the shortest possible term.

The historical context of the principles of sustainable development in Latin America and the Caribbean have been shaped by the 1992 Rio Declaration and Agenda 21; the Santa Cruz Summit on Sustainable Development (1996); the 2000 Millennium Summit and the Millennium Development Goals; the Monterrey Conference on Development Financing; and most recently the Johannesburg World Summit on Sustainable Development (2002). In this context, most countries have taken significant steps to address environmental issues and have signed a series of international agreements and protocols, including, among others, the Biodiversity Convention and the Biosafety Protocol; the Forest Declaration; the Desertification Convention; the Climate Change Convention and the Kyoto Protocol. The Bank’s Strategy will be an important tool to support countries in complying with those international environmental agreements.

A major milestone for fully incorporating the environmental dimension in the Bank is the Rio Declaration and the Agenda 21 principles, which are fully reflected in the mandates of the Bank’s Eighth Replenishment of Capital. The environmental framework of the Eighth Replenishment, on the basis of which the Bank operates, stated the following environmental priority areas: (a) strengthening the environmental, legal and regulatory framework; (b) strengthening environmental institutions; (c) improving the environmental quality of Bank-financed operations; (d) the conservation and efficient use of energy in the Bank’s projects; (e) improving the urban environment; (f) management of natural resources (in all their forms) and protecting biodiversity; (g) giving effective attention to resettlement problems; (h) developing environmental information; and (i) supporting environmental education and training.

The Johannesburg Summit of 2002 reaffirms the principles of the 1992 Rio Declaration while also recognizing the integration of the three components of sustainable development—economic growth, social development, and environmental protection—as three independent yet mutually-reinforcing pillars. The Summit also highlighted the need to fight poverty, and the importance of governance, including public and private alliances as a way to overcome financial
and institutional obstacles in fighting poverty and environmental degradation. In this context, participatory processes, local empowerment, and respect for cultural and ethnic values are becoming increasingly important. The Declaration of Johannesburg also reaffirms the need to attain specific goals in critical areas that affect the health and quality of life of millions of people. It invokes as a principle of sustainability the use of renewable energy and the entry into force of the Kyoto Protocol. The Declaration of Johannesburg further recognizes the importance of addressing trade and the impacts of subsidies and distortions in the real prices of tradable goods.

The principles of the Johannesburg Summit, as well as the agreements at the Monterrey Conference (2002) and the 2000 Millennium Summit and the Millennium Development Goals, seek effective performance-based development, which implies going beyond declarations towards effectively attaining measurable goals and targets overtime. The IDB and the other major regional development banks have jointly declared their commitment and support to these principles.

From the Bank’s perspective, while the mandates of the Bank’s Eighth Replenishment have constituted a sound framework for guiding actions and programs to support sustainable development, these actions could be considered a first phase, acknowledging that developing effective environmental management is a long-term process and that attaining the vision set forth in the 1992 Rio Declaration and recently in Johannesburg (2002) is an unfinished task. Therefore, the Environment Strategy serves to reposition Bank tools and actions for greater effectiveness in supporting the sustainable development objectives of its borrowing member countries.
Effective environmental and natural resources management is recognized as one of the key areas to encourage sustainable development in Latin America and the Caribbean, and one that requires greater attention. The natural wealth and relative abundance of the region’s different ecosystems is an important base for the region’s economic development and overall well being. The long-term sustainability of this base will largely depend on the capacities developed by diverse stakeholders in the public, private, and civil society realms to protect the quality and availability of the natural resource base and the environmental services provided by the ecosystems. Relative to other regions of the world, it is well documented that the Latin American and Caribbean region is well endowed in terms of its natural resource base and environmental attributes, which, if properly managed, constitute the basis for competitiveness, sustainable economic growth, poverty reduction and social development. The region continues to intensively rely on the services provided by its forest, coastal and marine resources, biodiversity, agricultural soils, and water resources. However, these services, which are basic and essential sources for any economic activity required to meet social needs and economic growth, are also fragile and in apparent deterioration in the region, as will be explained later.

The recognition that natural resources and their environmental services are key components in the equations of economic growth and social development and poverty reduction is manifested by the fact that throughout the last decade, the countries of the region, within a democratic framework, have established institutions, laws, policies, and programs to explicitly address the environmental dimension of development. In addition, significant financial resources have been channeled, mainly from nonreimbursable grants and loans from multilateral banks and bilateral donors to specific environmental programs in the region.

Notwithstanding the interest in the environment in recent years, environmental management in the region is evolving in a generalized framework of weak and underfunded institutions that have developed very unevenly. Many of the environmental institutions have been established by laws that assign them major responsibilities, yet they do not have the technical or financial resources they need to adequately fulfill their most basic mandates. In some cases, these institutions have the lowest budget allocations of any public-sector agency and depend mainly on international grants. To a large extent, these grant resources reflect priorities of the donor agencies and may deflect the attention of recipient institutions from their basic responsibilities.

One of the major institutional challenges for environmental management has been the tendency to regard the environment as a sector and not as a crosscutting dimension with shared responsibilities at different levels of policy decision making. This limits the capacity of environmental institutions, broadly defined, to step into national dialogues on fiscal and economic policy, and to be constructive participants in discussions on sector reform, integration, foreign trade, and other significant topics in development. Furthermore, environmental management is affected by cross-cutting factors that have an impact on the quality and efficiency of public management and governance in general. These factors include respect for the rule of law, citizen participation, transparency, and the processes of effective decentralization, among others. While it is important to acknowledge the advances in the region with respect to the environment, mainly in terms
of developing a greater awareness of the issue, it
should be noted that this is just the beginning of
a process that will take many years to mature.

**THE CURRENT STATUS OF
THE ENVIRONMENT AND
NATURAL RESOURCES**

A description of the environment and natural
resources in Latin America and the Caribbean
can be presented in terms of opportunities and
benefits, as well as in terms of the challenges
and problems that the region faces. The context
of opportunities and benefits is addressed in the
framework of the priority areas of Bank support
and the links between environment and sustain-
able economic growth and poverty reduction,
discussed in the fourth section and Annex 1.
This section emphasizes the challenges and
problems that the region faces, because these
problems currently affect the livelihood of mil-
lions of people and affect the economic per-
formance of the region. Negative environmental
trends are observed throughout the region, which
are to a large extent the result of long historical
patterns of growth obtained in part through non-
sustainable consumption of natural resources.

The region, with a population of 523 million
(2001), and a population growth rate greater
than the world average (1.6 percent compared to
1.4 percent during the period 1990-2001) ex-
periences mounting pressures on natural re-
sources.\(^1\) Trend indicators point to severe envi-
ronmental degradation and the depreciation of
natural capital, in all its forms, which in turn is
manifested in poorer health, declines in produc-
tivity and income, physical vulnerability and
diminished quality of life. Recent studies by the
World Bank on the genuine savings rate in na-
tional accounts, which explicitly incorporates
the depletion of natural resources and environ-
mental damage caused by pollution in National
Income Accounts, show that these rates are
lower for the Latin American region than for any
other region of the world except Africa. In terms
of genuine savings rates, four countries of the
region have negative net rates, which indicates
that net capital formation, required for sustain-
able economic growth, may be compromised.

The major environmental challenges facing the
region have been extensively documented in
various regional sources.\(^2\) Such sources reveal
that, although the region has channeled consid-
erable efforts to diminish environmental pres-
ures, the action of governments, the private sec-
tor, and civil society have not yet sufficed to
mitigate the negative impacts of development
and reverse the process of environmental degra-
dation. This can be observed in the evolution of
the main environmental indicators, as described
below.

*Forest resources, soil, and biodiversity.* The re-

region is experiencing continuing deforestation,
soil degradation, and loss of biodiversity. It is
estimated that in only one decade (the 1990s),
the region lost some 4.7 million hectares of for-
est per year, with the greatest losses in Brazil
(2.3 million hectares per year) and the highest
annual deforestation rates in Nicaragua (3.0 per-
cent) and El Salvador (4.6 percent).\(^3\) The de-
struction of forests and the process of converting
land to agricultural and urban uses have contrib-
uted to worsening soil erosion, loss of biodiver-
sity and genetic resources, and a growing num-
ber of endangered species. In the face of these
problems, responses have been forthcoming
from national authorities, creating institutions
and mechanisms geared to control and conserva-
tion of resources, such as designating protected
natural areas and biological corridors. Nonethe-
less, the effective management of protected ar-
areas continues to pose a challenge, and one that
should be addressed on a priority basis, as such
areas lack institutional, technical, and financial
support.

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\(^2\) Some of the general references include: UNEP/GRID, Global Resource Information Data-
base, 2000; UNEP, Geo: Latin America and the Car-
ibbean Environment Outlook 2000, 2000; WRI,
UNEP, UNDP, and World Bank, World Resources
1998; World Bank, 2000: World Development Indi-
cators CD-ROM; WRI, Environmental indicators on
selected topics in Latin America and the Caribbean,

\(^3\) Food and Agriculture Organization of the United
Nations. 2000. *Forest Resources Assessment*. Web-
site: http://www.fao.org/forestry/fo/fra/index.jsp
Energy resources and the environment. Driven by the fuel needs of transportation, industry, trade, and households, production and consumption of energy in the region experienced a rapid growth rate during the 1990s, which put additional burdens on the environment. The environmental impacts of fossil fuels consumption by the transportation sector are especially important. This sector consumes over 32 percent of primary energy and 55 percent of oil derivatives in the region. Transportation is the major culprit behind the rapid deterioration of air quality experienced in the large cities of the region (PM$_{10}$, CO, NOx, and SO$_2$) and is responsible for 36 percent of greenhouse gas emissions. While penetration of clean natural gas to meet final energy demands (other than electricity) has been significant in the region and it has become the fuel of choice in electricity, comparative advantages have remained low for alternative energy sources (solar, wind, and others). The power sector contributed only about 14 percent of Latin America and Caribbean CO$_2$ emissions at the end of last century. This was lower than in other regions because of the large hydroelectric component (68 percent) and the growing share of natural gas used in the new generation of efficient gas turbines. As for the use of energy by the production sectors, there has been an increase in the consumption of gasoline and diesel in the transportation sector, and of diesel in industry, which in the 1990s generated an increase of more than 50 percent in CO$_2$ emissions. In rural areas, the use of fuelwood in isolated rural sectors still persists in many countries of the region. The impact on deforestation and indoor pollution derived from such combustion is significant in those countries.

Water resources. Water availability and water quality issues are among the main concerns from a social and environmental perspective, which makes it necessary to search for integrated approaches to water resources management. The region faces increasing limitations on water supply, with 15 percent of the population (76 million people) lacking any access to safe water; in rural areas this figure reaches 30 percent.$^4$ Of the urban and rural households with water connection, 60 percent do not have continuous water service. In terms of wastewater service, less than half of the population is connected to conventional sewage lines, and one third of the population relies on individual "in situ" waste collection systems (latrines and septic tanks).$^5$ Disposal of raw wastewater effluents continues to be a critical problem in the region. Only 14 percent of the collected sewage effluents in the region are treated; only 4 percent of the total municipal and industrial effluents generated in Central America undergo some form of treatment.$^6$ Poor water and sanitation services have proved to be a direct cause of deteriorating health conditions in the region, and a major cause of environmentally induced diseases such as gastrointestinal infections, premature mortality especially among infants, and years of life lost as a result of illness in the adult population.$^7$ In most cases, the water problem in the region can be traced to lack of an adequate legal, institutional, and regulatory framework, gross price distortions, and subsidized services that benefit the better off segment of societies to the detriment of the poor.

Coastal-marine resources. Latin America and the Caribbean have large extensions of coastline, estuaries and other coastal ecosystems, as well as continental shelf and marine resources that offer extensive opportunities for developing sectors such as tourism, aquaculture, fishing, and maritime transportation in the region. Although coastal areas still support 60 of the region’s 77 largest cities and nearly 75 percent of its inhabitants,$^8$ many coastal and maritime zones of the region have experienced diminished productivity and quality due to accelerated rates of development, conflicts among sectors, and an inade-

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$^5$ Los desafíos de la seguridad hídrica en las Américas. Foro Agua para las Américas en el Siglo XXI. Mexico, October 8-11, 2002 (SEMARNAT-CNA).


$^7$ Meeting of the Health and Environment Ministers of the Americas, Ottawa, March 4-5, 2002 (PAHO).

$^8$ Environmental Indicators on Selected Issues for Latin America. IDB/World Resources Institute, February 2002.
quate response on the part of the various actors involved. The destruction of mangroves and coral reefs, the loss of fishing resources due to overfishing, coastal pollution due to polluting effluents and solid waste, and high risks of flooding and erosion are examples of the high impact caused by unregulated human activity in coastal and marine areas.

**Urban air pollution.** With rapid urbanization, air pollution levels in major urban centers in Latin America have become acute. Air pollutants from vehicular and industrial sources have increased significantly, including carbon monoxide, particulates (including fine particulate matter – PM$_{10}$), ozone, sulphur oxides, nitrogen oxides, lead, and airborne toxics. The transport sector is responsible for 75 to 90 percent of all CO and NOx emissions, and for close to 50 percent of PM$_{10}$ and more than 35 percent of volatile organic compounds (VOCs) in such cities as Mexico City, Santiago de Chile and Sao Paulo. Major causes of transport pollution include a growing yet aging vehicle fleet, low quality of gasoline, lack of emission controls, congestion on the roadways, and deficient public transportation. Industrial activities contribute to growing SOx emissions and other pollutants, as a result of continuing reliance on high-polluting fuels and lack of emission controls in industry. The health impacts of high air pollution levels are staggering. More than 100 million people in the region are exposed to levels of urban air pollutants that exceed WHO recommended ambient air quality standards, and more than 100,000 deaths occur from exposure to vehicular emissions alone each year. Acute respiratory infections are the third leading cause of death in Latin America, and more than half of these deaths occur in children under five years of age. It is estimated that the health burden of air pollution in our region over the next two decades will amount to an average of 140,000 premature deaths per year.

**Deficient solid waste management.** The collection and disposal of solid waste is a critical problem in Latin America and the Caribbean. In several public opinion surveys carried out in IDB projects, solid waste often appears as the first problem that the population would like to see resolved. As the population grows and the size of urban centers increases, the solid waste problem increases in magnitude and complexity. Most countries, with the exception of Chile, still have below 85 percent collection coverage in urban areas, with some still below 30 percent (Honduras and Haiti). Very few cities have adequate sanitary landfill operations, and many cities still dispose of their waste in an uncontrolled fashion. Vast natural areas are affected by uncontrolled waste disposal, affecting entire watersheds, streams and coastal areas. The environmental and social effects of deficient solid waste management in the region are numerous, ranging from severe soil and water pollution from inadequate disposal, to severe health impacts on poor communities involved in informal waste collection and recycling at dump sites, where children and women are among the most affected by these activities.

**Threat of and vulnerability to natural phenomena.** The region is constantly threatened by natural phenomena (earthquakes, floods, fires, tropical storms and hurricanes, drought, and landslides) that cause large-scale economic and environmental damage. The region experienced a total of 40.7 disasters/year between 1990 and 1998, with total direct and indirect economic losses that amount to close to US$20 billion. The earthquakes that have besieged the region, especially those originating along the tectonic plates of the Pacific coast, have had devastating consequences.

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effects. The hurricanes that have lashed the Caribbean and Central America (Gilbert, Georges, Mitch), and the floods that the region suffers constantly, have inflicted large-scale loss of life, left thousands without a home, and caused huge material losses. Hurricane Mitch caused, in Honduras alone, the death of close to 15,000 people, and outbreaks of multiple infections and vector-borne diseases such as cholera, malaria, and dengue, among others. When natural disasters occur, the poor segments of the population are the most affected due to their precarious living conditions and vulnerability. Unfortunately, most countries still lack appropriate prevention mechanisms and rational land use planning and environmental codes do not exist or are not enforced.

Climate change and global environmental threats. Vulnerability phenomena linked to global warming, such as changes in precipitation levels, rising sea levels, poses a potential threat to many countries in the region. As stated in the Framework Convention on Climate Change and the Kyoto Protocol, developed countries are to undertake initial efforts to reduce emissions and provide resources that facilitate developing countries to face the challenges of adaptation to these changes and to undertake amelioration measures of its own. The region can help itself by reducing the rate of growth in the use of fossil fuels, deforestation, and the expansion of the agricultural frontier as well as by promoting alternative sources of energy to diminish environmental pressures. However, these efforts may come at a substantial economic cost without the judicious use of international cooperation mechanisms, such as the Clean Development Mechanism of the Kyoto Protocol.

MAIN CAUSES OF ENVIRONMENTAL DETERIORATION

It can be argued that most of the environmental problems described above are rooted in human activities and behavior that respond to distorted sets of incentives and signals. Historically, the region has depended on natural resource extraction as the basis of much of its economic development. In this context, however, natural resources and the environment have been considered open access resources with no economic value assigned to their scarcity or quality. Therefore, public and private investment, often led by short-term financial and rent-seeking considerations, have led a process of continuous environmental deterioration, with little or no provisions for managing and conserving natural capital. Hence, at the core of the environmental problems are essentially pervasive market failures that distort asset investment choice and resources allocation to the detriment of natural capital.

There are arrays of market failures in the context of property rights and externalities that affects the quality, availability and distribution of natural resources in all their dimensions (e.g., water, land, air, soil). Correcting these market imperfections requires decisive public intervention and effective policy tools, which are just beginning to appear in the countries of the region.

It can also be argued that coupled with market failures there is low capacity of governments to develop and sustain credible environmental institutions, and pass and enforce effective laws and regulations. Although there has been substantial progress in the past ten years, as mentioned before, there is still much more to be done. It needs to be recognized that the governments’ past policy and institutional shortcomings may not necessarily be the product of lack of understanding or information. Rather, at the root of such government shortcomings is often the interplay of powerful political-economic interests that induce biased policies favoring the interest of those who have greater political and economic power to the detriment of the rest of society, and particularly the poor, whose fate largely depends on human and natural capital. This situation fuels poverty conditions and sets in motion a cycle of poverty and environmental degradation, which is evident throughout the region. Policy changes resulting in sustainable and equitable development may not take place unless such deep political imbalances are corrected within a framework of strengthened democratic process, effective civil society participation, and the modernization of the State. Therefore, market failures and government
structures need to be corrected within a framework of transparent and participatory governance in which the right types of institutions and policy instruments are developed. This by itself will allow the region to establish the basis for economic growth that is environmentally sustainable.

It should also be recognized that achieving environmentally sustainable development may require the progressive elimination of environmentally destructive subsidies and the use of resources to deal with market failures by increasing public investments in human and natural capital. In essence, there is a need to incorporate the environmental dimension in all spheres of public policy decision making, by establishing explicit linkages to environmental considerations in fiscal and sector specific priorities.

Finally, it needs to be emphasized that poverty reduction and social development are key determinants of environmental performance, and in the case of most countries in the region the poverty/environment links are evident, given the fact that the poor are the most affected by pollution, deficient basic services, lack of land security, and low levels of education, among others. Therefore, human capital and social development investments coupled with appropriate investments in natural capital should be part of the formula to increase productivity, income, and social well being. This will eventually increase the value that society places on environmental goods and services.
Lessons Learned

Several specific lessons can be drawn from the results of the Bank’s programs and the overall performance of the countries in environmental and natural resources management. This section highlights some of the key lessons that cut across environmental issues, particularly those that have to do with institutional strengthening and the creation of managerial capacity; policy and incentive frameworks; the socio-cultural dimension; the role of the private sector; regional environmental management; and the Bank’s internal procedures.

INSTITUTIONAL STRENGTHENING FOR ENVIRONMENTAL MANAGEMENT

The lessons learned regarding environmental management can be summarized in four broad areas in which greater effectiveness is needed: (i) environmental institutions, including the legal and regulatory frameworks; (ii) participatory processes and involvement of civil society; (iii) the choice and implementation of management instruments; and (iv) the regional dimension of environmental action, requiring trans-boundary institutional coordination. In essence, environmental management and natural resources management cannot be isolated from the national processes of modernization of the State that the Bank has identified as a priority area and which call for, among others, transparency, compliance with and respect for the rule of law, democratic representation, and suitable public and private roles in the delivery of services.

As for the environmental institutions, it is recognized that having a solid and credible normative and institutional framework at the central level is fundamental. Although that framework exists in practically all the countries of Latin America and the Caribbean, its capacities are still weak, particularly for key functions such as monitoring, oversight and compliance. It is also recognized that there is a need to foster inter-sectoral coordination (i.e. incorporating environmental capacities and linkages in productive sectors addressed by other ministries or agencies) and to increase awareness at the highest level of policy decision making. Greater support is also needed for local environmental management, as part of viable decentralization processes, so that the sub-national entities promote and implement actions in keeping with their local needs and aspirations. The weaknesses in environmental management and the capacities to manage natural resources locally constitute one of the main bottlenecks in many of the countries, which points to substantial needs for strengthening activities at this level. In any event, the lessons from Bank projects in institutional strengthening show that programs should support a longer term reform process, and Bank financing should strengthen the development of clear functions, as opposed to simply staffing and providing equipment. This should be done in line with the countries’ capacities and attainable goals in the short to medium term, avoiding over-ambitious scenarios.

As for the importance of participatory processes in environmental management, special attention should be paid to integrating all relevant stakeholders and civil society in activities for the design and implementation of plans and programs. Decision-making processes imposed from above still prevail in the region, offering little in the way of opportunities for participation. More active participation of civil society in the environmental management process generally increases the chances of success with environmental policies and the implementation of natural resources management programs, including those aimed at protected areas and biodiversity conservation or at promoting clean production technologies among medium and small size industries. Local environmental committees or councils in the region have shown how participatory processes can successfully incorporate the public sector,
NGOs and civil society in environmental decision making.

Environmental education has been considered one of the key management instruments; accordingly, the Bank has incorporated this element in relevant support programs. While these efforts in education in many cases have contributed to raising public awareness, the lessons show that it is possible to be more cost effective when such activities are designed in connection with a specific purpose or goal than when done on a broad and generic basis, which may give rise to unfocused and relatively ineffective spending. The same problem arises with investments in other instruments such as environmental information and monitoring systems, when they are not designed around real demands and capacities for their use and assimilation.

As for the choice and implementation of environmental management instruments to achieve targets and compliance, the experience in the region shows how critical the selection and/or combination of instruments is for attaining effectiveness in environmental management. Equally or more important is the need to set targets that are economically, financially and politically realistic and viable. At present, the countries’ major needs are in creating capacities for setting rational environmental targets and implementing effective management tools for achieving them. For example, many countries have declared areas for ecological protection, but lack the minimum instruments needed to achieve effective management. In addition, even if environmental ambient quality standards are defined at a realistic level, there is often a lack of instruments or political will for implementing them. In general, command-and-control instruments (e.g., penalties, licenses, auditing) have dominated the environmental agenda in the region, but with limited success. Economic and market-based instruments (fees, taxes, tax incentives, tradable permits, etc.) are gaining more acceptance and understanding in the region and should be considered necessary complements for attaining effectiveness and efficiency in management. The latter is also critical to address issues of financial sustainability, which is a major bottleneck in environmental institutional development.

From an institutional perspective, it is also worth noting that the trends towards economic integration among countries show that regional environmental mechanisms and institutions need to be developed and strengthened. Environmental issues are becoming central themes in initiatives for economic integration and regional trade agreements. The challenges for region-wide integrated environmental management need to be adequately addressed.

POLICY FRAMEWORK AND INCENTIVES

One key lesson is that environmental problems are not resolved solely by passing laws and creating institutions, or by investing in mitigation or remediation works. Rather, economic policies and incentives shape fundamentally the behavior of individuals, firms and institutions. As discussed previously, at the heart of the environmental problem is the lack of effective incentives for environmental protection and natural resource management. Therefore, rational economic policies need to adequately internalize environmental issues which require a greater level of dialogue and objective understanding between decision makers in the economic and environmental arenas. These considerations are critical from the perspective of competitiveness and sustainable economic growth as well as the environment, since the systematic deterioration of natural capital eventually acts to slow productivity. Therefore, a more systematic approach is needed to fiscal, economic, and sectoral policies that adequately incorporate environmental benefits and costs and the real economic value of resources.

In relation to the above, the experience with investments in natural resource management shows that these investments often fail to attain sustainable goals, since the countries do not advance sufficiently in correcting key policy problems in areas such as land markets, credit markets, and agricultural subsidies, among others. To the extent that the prices of key resources, such as water and energy, do not reflect their real value, sector reforms can entail an environmentally inadequate and unsustainable use of these resources. The foregoing confirms the need to gradually advance and create technical
and institutional capabilities in the countries for the design of viable environmental policy instruments, including diverse types of economic instruments adapted to institutional capacities in the regions. The experience of recent years in environmental management also points to the major need for countries’ fiscal policies to explicitly undertake the financing of environmental public goods, seeking innovative forms of financing consistent with fiscal discipline and macroeconomic stability. In some cases, it may be a matter of increasing efficiency in public spending and inter-sectoral synergies. It is not uncommon to see duplication of project financing and tasks among ministries and government agencies.

SOCIAL AND CULTURAL DIMENSIONS

Environmental quality and the sustainable management of natural resources go hand-in-hand with social development, and therefore this relationship is at the core of the concept of sustainable development. A large part of natural resource management programs have a strong social focus, either seeking better health indicators or fostering income generation and improved living conditions among small producers. Experience has shown that the possibilities of success of conservation measures are limited (including biodiversity conservation) if they are not linked to attention for the needs of the social and human environment. For example, indigenous peoples have demonstrated how their culture, traditional knowledge, and ancestral rights are linked to the sustainability of the natural resources on which they depend. In addition, the empowerment of small rural communities and small farmers increases the potential for sustainability when they participate actively in the processes and perceive the benefits of conservation and development. Finally, the role of women in both rural and urban development programs has proved essential for guaranteeing community involvement and long-term commitment to the environment.

The social and cultural dimension has proved to be essential when directing resources to specific areas or watersheds, both in rural and peri-urban settings. By promoting integrated, socially-inclusive local watershed management projects, communities throughout the region have been able to improve their environmental sustainability, while increasing community participation and awareness. Through these programs, issues related to gender and the role of women in natural resource management and conservation have been recognized as essential for long-term sustainability. The importance of social inclusion has been equally tested in urban neighborhoods, where local participation, community awareness, participation by women and integration of cultural values have been key to success of urban renewal and environmental quality enhancement programs.

PRIVATE SECTOR PARTICIPATION AND NONGOVERNMENTAL ORGANIZATIONS (NGOS)

Private investment, including NGOs, plays an increasingly important role in the countries’ economies. Thus it is essential that the private sector internalize the environmental costs of its actions as part of an efficient decision-making process. Furthermore, the lessons of experience also show that the environment can be good business, and that the driving force of private initiative and investment can contribute to valuing and protecting the environment. The role of the private sector and NGOs has proved to be fundamental and effective in areas such as: (i) environmental markets associated with agricultural production; (ii) markets for environmental services associated with forestry, biodiversity, renewable energy; (iii) ecotourism, as an important and promising activity that directly enhances the value of natural resources and environmental attributes; (iv) concessions for the private management of environmental components (protected areas, wastewater treatment); and (v) investments in industrial decontamination, integrated waste management, and clean production processes. As part of the processes of environmental management, it is important to strengthen these positive aspects of private initiative, business development and NGO activities, including actions that generate capacities in associations, chambers of commerce, and other stakeholder groups that could make environmental management more effective. A critical aspect for private sector involvement in environmentally sustainable projects is the promo-
tion of clear rules, transparency, oversight and accountability. Any improvement of private sector performance will depend on how successfully these factors are addressed.

EFFECTIVENESS OF THE BANK’S INTERNAL PROCEDURES

Preparation and design. The environmental review process has evolved in the Bank. Since the late 1980s, the Bank has adopted an environmentally responsible and cautious view in selecting and designing its operations. The environmental impact assessments (EIAs) required for complex and environmentally-relevant projects include the evaluation of alternative designs, the identification of negative impacts, and the determination of adequate measures to protect the environment prior to the review and possible approval of the operation by the Bank. Additional work needs to be done to incorporate environmental concerns at the policy or program level, using methodologies such as Strategic Environmental Assessment (SEA). This effort is important to address up front social and environmental issues related to broad regional development programs and policy loans. The proper application of SEAs coupled with good project level environmental impact assessments are necessary in the development and review of large infrastructure projects, given the complexity of operations, their indirect impacts, the need to establish a constructive dialogue with the affected stakeholders, their bi-national or regional dimensions, and the often-fragmented institutional framework and scant resources available in many cases. Special attention should be given to collaborative mechanisms within the Bank to provide backing to the teams that design and monitor such projects. The active collaboration among bank departments, country offices and the central divisions can help address the direct and indirect impacts of complex operations, both public and private, and enhance the overall environmental, social and economic sustainability of the areas influenced by projects. Several lessons have emerged from this process that show:

- The importance of integrating the social dimension in evaluating project impacts, which is reflected in the composition of the Committee on Environment and Social Impacts (CESI). Integrating the social and environmental dimension in operations also makes it possible to provide significant added value to Bank operations from their conception.

- The need to hold the project teams accountable for their environmental and social obligations, accompanied by a rigorous framework for environmental and social review that guarantees operations will be of high quality.

- The importance of having competent and trained environmental professionals on the project teams and in the operations divisions, exploiting environmental opportunities and minimizing the social and environmental problems in the programming, design and implementation of operations.

- The need to facilitate the work of project teams with up to date technical guidelines, procedures and instruments for good practices.

- The importance of establishing a constructive dialogue with the communities that benefit from or are affected by an operation, and with civil society in general. Such a dialogue makes it possible to inform and consult with the population, analyze the importance of the impacts in light of local values, establish priorities that reflect specific needs, and integrate cultural and gender dimensions in the design of the operation.

Implementation and monitoring. The quality of the implementation of operations by the executing agencies in the borrower countries continues to be an area in need of attention. Several Bank studies confirm that there is variable quality in implementing the environmental dimension of projects, a dimension which needs to be properly evaluated. During project execution there are risks that the contractual environmental obligations will not be met, either for internal reasons—lack of training or resources—or for external reasons, such as a difficult socio-political context. The Bank’s capacity to identify and respond to an environmental problem in an operation under way also depends on strengthened
local capacities, including the role of the Bank’s Country Offices. Therefore, mechanisms for ensuring environmental quality and effective performance during project execution need to be strengthened. Some experiences have shown that operational environmental supervision coupled with local oversight and civil society participation can facilitate and make more effective the work of the Bank’s country offices. This aspect can be anticipated as part of loan financing.

Private Sector Investments. By their nature, private sector projects pose challenges that differ from their public sector equivalents. For example, the problem referred to above, associated with transferring responsibilities from the design to the implementation phase of operations, does not occur in the private-sector projects of the Bank. Private sector operations are designed, implemented and monitored by the same PRI team based at headquarters. Other challenges, however, may be caused by the lack of a clear division of responsibilities between the private sector and governments, or in difficulties in handling such issues as pre-existing liabilities, or in mitigating indirect impacts of an investment which may entail shared responsibilities. The frequent lack of clear environmental regulations, or their consistent application may also cause difficulties for the private sector. In this regard, in addition to current PRI efforts to ensure the incorporation of appropriate environmental health and safety clauses into project legal documents, a coordinated effort should be carried out with regional departments to support countries in developing and strengthening their own capacities, so that the issues at hand could be addressed with any type of financing.

OVERVIEW OF THE SCOPE OF THE BANK’S RESPONSE AND ROLE IN THE LAST DECADE

Environmental issues at the Bank were explicitly recognized over twenty years ago. In 1979, the Bank adopted its Environment Policy mandating the need to protect environmental quality in Bank operations. Since 1990 the Bank has adopted formal procedures on environmental issues to respond to the countries’ demands and to strengthen the performance of the Bank’s operations. Then, fostered by the Eighth Replenishment (1994), the Bank’s environmental portfolio climbed in the 1990s to US$964 million per year, accounting for about 15 percent of all Bank operations during the decade. The Bank’s new project pipeline reflects the wider diversity and scope of environmental issues addressed, as it has come to include projects for natural resource management and environmental quality in a more coherent and integrated fashion.

The Bank’s environmental activities have concentrated on three fronts: (i) environmental quality control of its entire operations through internal review procedures; (ii) financing environmentally targeted operations; and (iii) developing nonfinancial products to support the countries’ capacities to address environmental problems, through technical cooperation and studies, capacity building, and policy dialogues, among others. A detailed report on lending and nonlending operations to support the environmental needs of the region can be found in the Bank document “Facing the Challenges of Development: The IDB and the Environment, 1992-2002.”

Environmental quality control in Bank operations. The Bank has developed an internal process of environmental evaluation, which is applied to all Bank programs and operations. This process ensures that consideration is given to issues of social and environmental feasibility during the design and implementation of environmental and nonenvironmental operations. Through its environmental supervision procedures, the Bank has sought to internalize environmental management in its operations, and to ensure the environmental feasibility of each operation. In addition, the Bank ensures that its own policies on resettlement, rights of indigenous groups, women in development, and public health are complied with.

Environmentally targeted operations. The Bank’s environmental operations have been channeled to various priority areas in response to requests from the borrower countries. Although a large part of the lending resources in the environmental area have been channeled to potable water and sanitation projects (approximately 57 percent in the last 10 years), the project portfolio has been diversified in recent years to incorpo-
rate areas that bring together broader aspects of development, such as watershed management, sustainable regional development, sustainable energy, protected areas and biodiversity, and natural resource management. Throughout the past decade, loans in the areas of institutional strengthening, environmental management, pollution control, rural development have also held an important place in the project portfolio, while new areas such as ecotourism, coastal resource management, and disaster prevention and mitigation are receiving increasing attention.

**Technical cooperation and non financial products.** In addition to its loan portfolio, the Bank has supported environmental and natural resources management through numerous technical cooperation (TCs), financed by nonreimbursable funds through its Fund for Special Operations (FSO) or Donor’s Trust Funds. The volume of resources in TCs directed to the environment and natural resources initiatives over the last 10 years (1992-2001) reached nearly US$200 million. In 2000 alone, the Bank financed 67 technical operations in the environmental area for an amount of approximately US$30 million, which accounted for 45 percent of all TCs financed by the Bank that year.

**Private sector financing in environmental areas.** As part of its strategy for the private sector on environmental matters (2000), the Bank, through the MIF, has financed programs to support environmental management systems (e.g., ISO 14001 certification), as well as the creation of investment funds for the adoption of clean technology, environmental services, and sustainable uses of renewable energy sources. These programs are aimed mainly at small and medium enterprises, which generate the largest number of jobs in the industrial and commercial sectors in the region. In addition to the MIF, the Bank’s Private Sector Department (PRI) has developed environmental, social, health and safety management and supervision mechanisms in its operations, adding environmental staff to the PRI, preparing guidelines for borrowers and staff, offering training, ensuring mitigation of impacts and risks and promoting environmental enhancement measures in private sector investments. The PRI has also directly financed private sector projects related to water supply and wastewater treatment, renewable energy, and efficient energy generation, transmission and distribution.

**Advances on social and indigenous issues.** The Bank has made significant advances in addressing indigenous issues recognizing the needs of indigenous groups for preserving their socio-cultural values and ancestral rights to their land and their natural resources. An increasing number of operations are centered on these groups’ needs, and specific methodologies have been created to incorporate socio-cultural dimensions and the traditional knowledge of indigenous communities throughout the different stages of project preparation, design and implementation. Specific communities and regions that have benefited from this intervention include the Darien in Panama, the Garifuna and Miskito communities in Honduras, and the Andean communities in Ecuador.
Areas for Bank Action

This section sets forth guiding principles and general priority areas of action that the Bank would promote or support through financial and nonfinancial instruments in the context of the pipeline of operations agreed with each borrowing country. In particular, this section sets the overall framework in which the Bank would foster the environmental agenda on a cross-cutting basis, without being prescriptive, the framework would provide an orientation for carrying out actions flexibly on a country by country basis. In the fifth section of this Strategy document, specific priority actions for Bank internal work and procedures are presented.

This Strategy identifies, from an environmental perspective, two key and fundamental areas that on a cross-cutting basis will contribute to addressing the main causes of environmental problems in the region. These two inter-related areas are environmental governance, and enhanced policy integration for the development of an appropriate incentive framework for environmental management.

Environmental governance is a fundamental element for attaining adequate conditions for environmental management. In its broad definition, “environmental governance” is the process that links and harmonizes policies, institutions, procedures, tools, and information to make it possible for a wide array of stakeholders (public and private sector, NGOs, local communities) to make fundamental decisions, manage conflicts, seek points of consensus, and be accountable for their actions. It is based on clear public and private responsibilities, respect for and compliance with the laws, and local empowerment.

Enhanced policy integration and the development of an appropriate incentive framework for environmental management places environmental actions in a truly cross-cutting dimension in all spheres of policy decision making, particularly those which are critical to advance the agenda for the priority areas of the Bank’s Institutional Strategy (i.e., modernization of the State, competitiveness, social development, and economic integration).

In addition to these principles, the important underlying processes that the Bank will adhere to, are: (i) achieving program and project quality, reaffirming the Bank’s commitment to the effectiveness and overall quality of its project portfolio; (ii) transparency, information and disclosure, reflecting a principle that recognizes the importance of all actors being informed and/or having easy access to information on processes that they impact or are impacted by, directly or indirectly, (iii) inter-institutional/inter-agency coordination, acknowledging that the Bank is one of the many actors supporting the countries’ initiatives, which makes it necessary to pool efforts and create synergies to obtain effective development objectives; and (iv) adapting to the particular realities of each country, recognizing that each country is unique and that environmental management models adopted should be in line with development strategies reflecting local, national, and regional realities, with priority given to the integration with national initiatives for poverty reduction.

In setting environmental priorities for Bank support in a particular country, specific considerations will be given to the Bank’s Institutional Strategy, the Millennium Development Goals (MDGs), and the Bank’s Country Strategies.

The Bank’s Institutional Strategy. The nature and scope of the Bank’s support to borrowing countries in the environment area also should be oriented by the priority areas defined by the Bank’s Institutional Strategy, particularly the need to reduce poverty and promote sustainable economic growth. The environmental dimension is included horizontally in the implementation of
the Institutional Strategy by establishing specific links to the four priority areas. Therefore, the framework for prioritization set forth in the Environment Strategy is essentially institution-wide, and can be applied to any specific sector. Annex 1 summarizes how the Environment Strategy, through these links, relates to the overarching objectives of poverty reduction and sustainable economic growth.

The Millennium Development Goals (MDGs). The MDGs were adopted by the 189 members of the United Nations General Assembly in the 2000 Millennium Declaration. The declaration sets forth the main challenges humankind faces, defining responses and specific measures for gauging results in light of development commitments. The MDGs are grouped into eight categories, each with their own objectives, goals, and indicators. Three of these categories relate directly to environmental considerations. In the context of specific Country Strategies, the Bank will assess and consider ways to support countries in fulfilling their commitments regarding the MDGs. In this regard, references will be made as to how each country is advancing to meeting the MDGs in three categories involving environmental indicators: (i) reversing the loss, waste, and degradation of natural resources, for which goals and indicators must be specified for forest cover, biodiversity protection, energy efficiency, and CO₂ emission reductions; (ii) improving access to sources of safe and clean water, with specific targets to halve by 2015 the proportion of people without sustainable access to safe drinking water; and (iii) improving living conditions in marginal areas, with targets and indicators to improve the lives of slum dwellers, improve sanitation and increase access to secure tenure.

The Bank’s Country Strategies. The key programming instrument with which the Bank establishes a dialogue and formally agrees with each country on a specific project pipeline is the Bank’s Country Strategy, guidelines for which were recently approved by the Board of Executive Directors (GN-2020-6). It is in this phase that the cross-cutting dimension of the environment should be appropriately incorporated, seeking strategic coherence among sectors, and targeting to define the right priorities. Such prioritization should be done in the context of specific studies and assessments at the local, national, and regional levels, to strategically set the framework of the Bank’s environmental support in each country. The Country Strategies need to take into account both the Bank’s Institutional Strategy and the MDGs, as well as the importance of supporting countries to comply with international environmental agreements to which they have signed.

Taking into account the stage of institutional development and challenges in the region, as well as the Bank’s comparative advantage, it is recommended that the Bank focus its attention on addressing environmental governance and the development of policy frameworks that create the right set of incentives for environmental management, making specific links to the four priority areas of the Bank’s Institutional Strategy.

ENVIRONMENT AND MODERNIZATION OF THE STATE

Environmental Governance, as presented in this Strategy, is fully consistent with the principles of the Strategy for Modernization of the State. The actions proposed in the Strategy for Modernization of the State include: establishing adequate institutional capacities, legal and regulatory frameworks, and justice systems; promoting representative democracies; decentralizing political power, democratizing the sub-national governments, and strengthening local management capacities; creating adequate organs for oversight, inspection, and supervision to ensure transparency in public administration; fostering the participation of civil society in designing and implementing public policies; and taking advantage of information systems that promote connectivity among stakeholders, as well as transparency. These actions are consistent with the needs and limitations addressed in the overall diagnosis and lessons learned for the Environment Strategy.

In terms of environmental governance, Bank programs will seek to develop and consolidate a framework for environmental management that is transparent, participatory and one that will lead to set the right priorities for the sustainable
management of natural capital and the quality of the environment. In this regard, it is recommended to focus on three areas: (a) strengthening institutions and civil society participation; (b) strengthening regulatory frameworks; and (c) developing effective sets of environmental management instruments.

**Strengthening institutions and civil society participation.** Special attention should be given to the following: (i) strengthening the countries’ capabilities to undertake key institutional functions and seek ways to guarantee technical and financial sustainability of environmental institutions, including opening up opportunities for generating adequate financial resources for environmental management; (ii) strengthening processes for local environmental management at different levels (municipal, watershed; indigenous communities); and (iii) developing mechanisms for empowering civil society participation in decision making processes, including the use of environmental education tools to change individual and community behavior in favor of the environment.

**Strengthening regulatory frameworks.** A key area of Bank support should be to strengthen central and local governments to exercise credible and transparent regulatory and standard-setting functions, with an emphasis on monitoring, oversight, enforcement, and conflict resolution. Special attention will be given to local organizations that have a direct and preponderant role in natural resources management, recognizing that sub-national entities and local governments, both urban and rural, perceive the problems first-hand and can act on them directly. In addition, monitoring and follow-up mechanisms should be strengthened, including the role of the universities and academic centers, chambers of commerce, centers of clean production, NGOs, and others in areas where they have comparative advantages for promoting sound environmental management.

**Developing effective sets of environmental management instrument.** The diagnosis shows that the biggest management challenge in many counties is the lack of proper management instruments to effectively achieve targets and goals. Special attention will be given to the need to mainstream environmental education and awareness in social development programs. Other important instruments that need to be strengthened and/or developed include environmental and natural resource information systems; land use planning with special focus on preventing physical vulnerability; and an array of command and control and incentive based economic instruments. It is essential that the countries develop capacities to adopt different types of instruments, based on specific goals and objectives, which the Bank can support selectively, in association with clear indicators of results.

**ENVIRONMENT AND COMPETITIVENESS**

The Bank’s Competitiveness Strategy indicates that improving competitiveness and productivity should be the main drivers of economic growth, which is only sustainable if it leads to preserving and improving the natural resource base. The quality and quantity of the natural resource base are key elements of the conditions needed for sustainable economic growth and competitiveness, as it constitutes a form of capital (natural capital) that complements human capital as well as financial and physical capital. This section delineates three areas which, from the environmental perspective, are fundamental for fostering competitiveness: (a) enhancing the productive value of natural resources and their environmental function and services; (b) facilitating investments and market development and promoting private sector participation in environmental related activities; and (c) tapping global and regional environmental markets.

**Enhancing the productive value of natural resources and their environmental function and services.** The long-term competitiveness of the countries will be strengthened by actions that preserve the productive capacities of natural resources and guarantee their sustainability. In this context, priority actions that are consistent with competitiveness, from an environmental perspective, include: (i) income-generation and the development of rural economies based on the sustainable and efficient management of their natural resources and watersheds, including forestry and the management of protected areas; (ii)
developing ecologically-sustainable tourism, capitalizing on the environmental attributes that make it more attractive and economically valuable; (iii) rational management of surface and groundwater resources; (iv) rational management of coastal marine resources; (v) financially sustainable management of protected areas, biodiversity protection and biogenetic research and development, guaranteeing benefits and patent rights to local indigenous communities; and (vi) environmentally sound land-use management, taking into account the management and preservation of green areas, cultural and historical heritage and reducing physical vulnerability.

Facilitating investments and market development. At present, several productive sectors (public as well as private), and especially those in the export sector, may be at a relative disadvantage in world markets, as they do not have access to support mechanisms, information, or clear standards and procedures for environmental issues, limiting their access to foreign markets for various products. The Bank, also in line with activities linked to environmental governance, can contribute to the development of environmental instruments and processes that will facilitate business development, private investments related to environmental goods and services, ecotourism, certification and licensing mechanisms, and dissemination of relevant market information.

The participation of the private sector in environmental management activities has a potential that must be utilized. Various forms of management, including concessions, service contracts, or joint ventures in the context of private public partnerships may be applicable to various aspects of environmental management. These include the delivery of public services like potable water and sanitation and solid waste management, administration of protected areas, sustainable ecotourism, and the management of forests. Furthermore, from an environmental perspective, small and medium sized enterprises have a major opportunity to improve their competitiveness and at the same time contribute to improving environmental and health conditions by adopting those cleaner production processes which can also cut production costs due to more efficient use of energy, water, and other inputs. This is an area of action that is complementary with initiatives such as: (i) establishing systems of certification, accreditation, and regional environmental supervision and incentives; (ii) supporting the dissemination and implementation of the ISO 14000 standards; and (iii) supporting the business sector to take on the challenges posed in the environmental agenda of the World Trade Organization. The lines of action of the MIF point in this direction, and the Bank can capitalize on lessons learned and successful cases, to support greater and more effective participation of the private sector.

Global and regional environmental markets. The global and regional dimension of environmental policy is receiving greater attention, and the countries of the region need to be prepared to take on the new challenges and opportunities this represents and to capitalize on global and regional opportunities. For example, the Clean Development Mechanism (CDM) is a flexible mechanism for meeting developed countries’ greenhouse gas emission reduction targets established under the Kyoto Protocol. The CDM will make it possible to implement carbon-mitigation activities and to promote increased use of alternative energy sources. The region has some comparative advantages for participating in these regional and global processes, and the Bank can offer support for designing and developing specific policy instruments and supporting capacity building. As described in the Environment and Regional Integration priority area below, the strategy ties the application of these mechanisms to specific actions in a regional context (such as managing watersheds, reducing vulnerability in border areas, management of rivers and aquifers, protecting biodiversity in regional biological corridors, managing forest resources, and developing cleaner energy resources).

ENVIRONMENT AND SOCIAL DEVELOPMENT

Environmental degradation takes its toll mainly among the poor (urban and rural), and therefore addressing the links between environmental management and social development is of utmost importance. Through these links, environment and natural resources management should
contribute to reducing poverty conditions and increasing overall quality of life, recognizing that investments in environmental improvements as well as natural resources are sources of job creation, sustainable income, and improved living conditions. From an environmental perspective, four specific areas that require priority targeting in a social development context are: (a) health and environment; (b) rural development; (c) indigenous communities and gender; and (d) physical vulnerability to natural disasters and environmental risks.

**Health and environment.** Water and air pollution, unsafe disposal of solid waste, soil and food contamination are major sources of diseases, increased mortality rates and degraded living conditions for millions of urban and rural dwellers. In this context, special priority should be given to addressing these problems by reducing their environmental causes. Consistent with this priority are programs that seek to create conditions for clean, safe and healthy urban and rural environments through actions that improve access and coverage of basic services, particularly water and sanitation services, as well as programs that reduce overall air, water, and soil pollution. Of growing importance for the Bank is the need to address in a more integrated manner urban development issues under the concept of livable cities, which includes sustainable urban transport, ecologically-viable land uses, open space programs, historic preservation, and urban up-grading of city centers, among others.

**Rural development and natural resources.** Sustainable rural development and natural resources management are part of the same coin. It is also in the context of rural settings that greater needs for social development arise. Therefore, Bank programs should respond to challenges and opportunities for sustainable rural development in such a way that standards of living and quality of life of rural communities are improved. Proper attention should be given to legal and institutional reforms, the implementation of integrated watershed management practices, the introduction of conservation practices, the design of instrument to compensate farmers for environmental services, and the need to strengthen the management of protected areas.

**Indigenous communities and their natural resources.** The Bank will continue to make progress in addressing the particular needs and problems of indigenous communities. The objectives for conservation and integrated development of territories should be based on two fundamental aspects: (i) traditional knowledge; and (ii) cultural uses of the territory, which is the way indigenous communities manage and regulate their natural resources. Bank projects will also promote social inclusion and intercultural dialogue by applying socio cultural guidelines and “ethno engineering” methodologies currently being developed at the Bank.

**Vulnerability to disasters and environmental risks.** The Bank will continue to play a proactive role in emphasizing reducing vulnerability, mitigating and reducing the impact of disasters, and creating hazard insurance schemes, with particular attention to the needs of the poor and marginalized communities. As described in the diagnosis, vulnerability to natural phenomena is fueled by environmental degradation, particularly through inadequate land use management. A special priority is the updating of the Bank’s Natural Disaster Action Plan. The Plan places the Bank at the service of the countries in designing and implementing Integrated Prevention and Mitigation Systems, and in comprehensive risk management.

**ENVIRONMENT AND REGIONAL INTEGRATION**

The Bank has defined regional integration as one of its priority areas of action, acknowledging the strategic need for the region to be well-positioned in the global economy and the opportunities offered by trade and the opening of markets. The Regional Integration strategy identifies four major areas of action, which are: regional infrastructure; consolidating market access; institutional strengthening; and functional cooperation in the creation of regional public goods. The environmental dimension should be inserted in each of these areas of action. The environmental context should not be limited only to mitigating environmental impacts but should also encompass protecting the existing resource base and generating new opportunities based on the environmental attributes and natural re-
sources. Priority areas for Bank support include: (a) regional environmental institutions; (b) management of regional public goods; and (c) environmental quality of regional infrastructure initiatives.

Supporting regional environmental management, institutions, and processes. The objectives of increasing trade and integrating physical infrastructure require immediate and decisive actions for the countries to have a harmonized framework of environmental rules and procedures. These are basic elements that should be seen as facilitators of integration and not as obstacles, since in the medium and long term the absence of such elements could become a formidable obstacle to integration. Therefore, the Bank can play an active role, seeking early-on in the process to ensure that the harmonization of instruments and procedures for environmental management is a central part of the integration processes being promoted, along with the development of regional environmental information sharing mechanisms. This will require a regional institutional development effort, which to date has been limited. In addition, the Bank may provide the necessary technical assistance to the countries, as required, so that the environmental and natural resources implications of international trade agreements are fully understood.

As part of regional institutional development, specific areas that deserve special interest include the needs for small island states of the Caribbean, which require support for addressing unique environmental conditions; and needs that arise in the context of the collective rights of indigenous groups in biological corridors that do not recognize political boundaries, or where protected areas intersect with indigenous territories.

Management and use of regional public goods. Many countries are naturally interrelated by their transboundary river basins, other shared natural resources, the location of ethnic groups, biological corridors, and economically interdependent cross-border areas. In this context, a series of regional public goods and externalities are generated that merit the attention of two or more countries. The Bank, in the context of implementing the integration strategy, will identify priority niches and actions in relation to regional public goods. These will be supported as requested by the regions or countries, giving special priority to the following: (i) preventing and reducing physical and social vulnerability, as a result of possible natural phenomena; (ii) protecting and respecting cultural and ethnic values not governed by political boundaries, and which depend essentially on the group’s relationship with its natural environment; (iii) protecting biodiversity and endangered species, as well as fragile natural areas and ecosystems that provide regional environmental services; (iv) promoting the sustainable development of cross-border areas, incorporating the integrated approach to watersheds and participation in decision-making; (v) addressing multinational issues related to coastal and marine resources; and (vi) promoting innovative opportunities for capitalizing on markets for environmental services.

Environmental quality for regional infrastructure. Regional integration opens up opportunities to foster initiatives for physical integration of roadways, power and water supply, flood protection, and other areas that require major investments in infrastructure. The Bank will selectively support these processes, ensuring that they are accompanied and preceded by environmental and natural resources management components, such as: (i) transparent processes of consultation involving broad sectors of society, as well as population groups affected directly or indirectly by projects; (ii) environmental impact studies that show both the direct and indirect impacts, benefits and costs, as well as analysis of the economic and social impact of alternatives; (iii) actions for institutional strengthening in each country, as needed; and (iv) environmental evaluation, forecasting and monitoring systems.
Options for Bank Services and Implementation Guidelines

While the previous section describes principles and priority areas that will be promoted in the context of loan operations, both public and private, as well as technical assistance to countries, this section identifies specific actions related to the Bank’s internal work and processes. A set of recommended priority actions for improving overall environmental performance is presented, with lines of action linked directly to the Bank’s project cycle: programming, design, and implementation. Included in this is a specific line of action to enhance the environmental role of the private sector of the Bank.

The purpose of these proposed actions is to strengthen the processes of environmental mainstreaming, such that the cross-cutting and horizontal nature of environmental issues is fully established, as well as to strengthen and improve activities that ensure that all Bank financed investments, public and private, are consistent with sound environmental practices. The priority actions proposed in this section are incorporated in the Integrated Plan for the Implementation of the Strategies which inter-relates the execution of all of the strategies under the framework of the Bank’s Institutional Strategy.

**ACTIONS TO STRENGTHEN THE BANK’S PROGRAMMING PHASE**

The programming phase defines the strategic framework for Bank’s activities in each country. Therefore, it is at this stage that the Bank’s priorities should be established and that the horizontal dimension of environmental considerations should be appropriately incorporated, seeking strategic coherence among different sectors and programs. The key-programming instrument is the Bank’s Country Strategy, whose guidelines were recently approved by the Board of Executive Directors (GN-2020-6). Following these guidelines, it is important to accurately identify the demand for environmental actions across sectors in this phase, properly weighing the objectives of environmental protection and economic growth. It is at this stage that the Bank also can properly and in timely fashion screen projects to promote environmentally sound pipeline of projects.

To this end, the Environment Strategy proposes priority actions that will strengthen the Bank’s capacity to strategically incorporate the environmental dimension at the pre-programming and programming phase. These actions are meant to feed into and enhance preprogramming processes and provide improved information and coordination mechanisms for better decision making. The proposed actions are: (i) environmental priority setting through country environmental analysis, sector reviews, diagnosis and stakeholders’ dialogue; (ii) approval of a new Bank environmental policy; (iii) support to effective implementation of sector strategies; and (iv) strengthening regional environmental dialogue and regional programming exercises.

*Environmental priority setting in pre-programming and programming exercises.* The objectives of these activities are to undertake relevant sector reviews and diagnosis related to environment and natural resources in a particular country; to promote participatory processes and broad stakeholder feedback in priority setting; and to facilitate cross-sectoral policy dialogue, particularly between environmental institutions and economic and finance ministries. Out of this process, a more focused and strategic role for Bank action, in terms of supporting both public and private investment, should result. The process also should define the direction and desirable targets to be achieved, taking into account this Strategy’s basic principles (i.e., environmental governance and policy development); its relationship with the Bank’s Institutional Strategy; and the Millennium Development Goals in a country-specific context. In some countries, such
as Ecuador and Guyana, the Bank has already supported country-level environmental strategies consistent with the proposed approach. The key is to establish the appropriate incentives to make this process relevant to final decision making in country programming negotiations and approval.

Approval of a new Bank environmental policy. A Bank policy establishes specific mandates for Bank action. Therefore, given that the current Bank’s environment policy dates from 1979, a new policy will facilitate the process of Bank/country dialogue and will provide enhanced transparency and accountability in the cycle of identification, design, and implementation of Bank projects. Because of the importance of this policy, its approval should be accomplished during the first year of the Strategy implementation.

Support to the effective implementation of Bank sector strategies. Several sector level strategies have been independently developed over the years, mainly in the areas of energy, water resources, coastal/marine resources, and rural poverty reduction. A coordinated implementation of their recommendations and action plans will be promoted, including the development of a framework for new sector strategies. This will help to orient project teams and executing agencies to adopt best practices on a sector by sector basis. These strategies should also help set the basis for key policy dialogues and policy reforms. Special attention and support will be given to the development of the Strategy for Rural Economic Development and its links with sustainable natural resources management.

Strengthening regional environmental dialogue. Given the increasing importance of regional economic integration, and the fact that the Bank has had limited exposure to regional initiatives from an environmental perspective, it is important to promote a more systematic dialogue to strengthen the Bank’s regional programming exercise, including its links to country-level programming. These dialogues will contribute to developing regional understanding and knowledge on issues such as: strategic environmental management for transnational investment projects; harmonizing norms, policies, and standards; managing regional public goods; trade and environment; biological corridors; and global challenges. An important instrument that will be strengthened within the Bank, in its capacity as implementing agency, is the Global Environment Facility (GEF).

Actions to strengthen program design

Traditionally, the most important part of the Bank’s efforts has been directed towards program and project design. This is also reflected in the environmental arena, in which the Bank has a well developed mechanism for addressing quality control issues at the design level. Significant level of mainstreaming also has been achieved, as all of the departments, including the private sector, have environmental staff and procedures in place. Nevertheless, there is room for improvement, and this strategy has identified priority activities in three areas: (i) strengthening environmental quality of Bank operations; (ii) strengthening environmental dialogue and expertise on key policy and technical issues; and (iii) development of studies and methodologies for formulating baseline data and indicators for product, result, and impact indicators.

Strengthening environmental quality of Bank operations. To strengthen environmental quality, this Strategy proposes the development of specific operational guidelines, good practice studies, in-house training, help desks and information services. The main objective is to facilitate and provide project teams, both for public and private operations, with tools to develop environmentally sound projects and programs. This process will start by addressing at least one sector during the first year in an integrated manner followed by other sectors in the next two years. Special priority will be given to promoting intersectoral linkages to effectively internalize environmental considerations in issues such as the national/regional impacts that generally stem from sector policy reforms; large physical infrastructure projects, including those based on the extraction of natural resources; and infrastructure projects that are part of regional integration initiatives. In this context, the Bank will seek to assure the appropriate application of both upstream environmental assessment (strategic environmental assessment) as well as downstream
environmental impact assessment at the specific project level. Special attention will be given to needs and issues related to private sector financing, including the microenterprise, and the importance that loans include specific financing mechanisms for oversight and monitoring.

**Strengthening environmental dialogue and expertise on key policy and technical issues.** The purpose of these activities is to keep the Bank abreast of know-how on critical issues and to contribute with state-of-the-art studies to advancing the discussion of relevant policy issues. Of specific relevance are those activities that seek to improve governance and the development of key environmental management instruments, particularly the application of effective compliance mechanisms and economic instruments to enrich program design. During the implementation of the strategy special priority will be given to the following areas: institutional environmental management, water resources; rural development; watershed management; coastal and marine resources; biodiversity; forestry; sustainable energy; climate change; urban environment; regional public goods; and disaster prevention.

**Development of studies and methodologies for formulating baseline data and measuring product, result, and impact indicators.** In project design, the procedures and methodologies that should be used in obtaining baseline data and measuring the various types of project level indicators will be spelled out and included in the project financing. It is important that the Bank’s central and operational departments develop appropriate capacities in this regard. This will require implementing the following activities: (i) developing guidelines and methodologies for designing environmental and natural resources related baselines; formulating indicators; and quantifying impacts to be incorporated into the design and implementation of Bank programs, (ii) strengthening the institution’s professional capacity, and (iii) designing and maintaining an adequate information system on the environmental performance of the operations.

**ACTIONS TO STRENGTHEN PROGRAM IMPLEMENTATION PHASE**

Within the Bank’s project cycle, the implementation phase is perhaps the most important one, given that at this stage Bank financing has direct results and impacts in all dimensions (i.e., institutional, social, economic and environmental). The country offices and their environmental specialists have an enormous responsibility in project oversight. In this context, the Environment Strategy proposes to implement actions to strengthen: (i) the capacities for monitoring and evaluation in the Bank’s country offices; and (ii) the processes of local oversight.

**Strengthening environmental monitoring and evaluation capacities at the country offices.** The Strategy recognizes that at present, serious time and resource limitations affect the work of the environmental specialists in the country offices, which limits the possibility of improving project performance while in execution. In addition to verifying specific environmental mitigation loan clauses, it is necessary to strengthen monitoring capacities for follow up and overall environmental assessment. The strategy recommends to carryout, as a first step, a capacity- and needs-assessment for environmental supervision at the country office level, taking into account the scope of their project portfolio. During the following two years, specific strengthening activities for capacity building will be implemented, on a case by case basis, taking into account cost implications and sources of funding.

**Operational environmental supervision and local and civil society oversight.** Complementing the above, it is also recommended to enhance capacities for environmental supervision based on local and civil society oversight. This mechanism should be designed to improve overall project performance while in execution. As a first step, a methodological approach for strengthening such a system should be prepared jointly by SDS, the Legal Department and the Regional Departments, including the Country Offices, for approval by the CESI, with the view of providing guidelines and best practices for project execution.
ACTIONS TO ENHANCE THE ENVIRONMENTAL ROLE OF THE PRIVATE SECTOR OF THE BANK

In the fourth section of this Strategy, in particular in the area of competitiveness, a number of areas are identified in which the private sector of the Bank can have an important role to play. In order to enhance the role of the private sector in the area of environment, the Strategy proposes to initiate during the first year of its implementation the preparation of a formal evaluation of existing and new instruments for private sector participation, as well as a mechanism for coordinated actions among the private sector window (PRI), the Multilateral Investment Fund (MIF), the Inter-American Investment Corporation (IIC), and the Regional and Central Departments of the Bank.

In particular, new financial products will be identified to address specific private sector environmental opportunities. The types of projects which could be financed with existing or new private sector instruments are, for example: (i) potential forms of financial and other incentives for private sector companies to implement more stringent environmental and social controls and to invest in local community environmental and social programs, such as poverty reduction, health and education; (ii) use of capital markets to address environmental issues, such as environmental bonds, or guarantees for carbon credits; (iii) use of infrastructure funds to finance environmental projects such as renewable energy, solid waste management/disposal and waste water treatment for industrial parks; and (iv) private and public partnerships financed by IDB private sector and public sector departments to ensure all direct and indirect impacts are adequately mitigated and to help ensure a portion of the project benefits, such as private sector royalties paid to the government, are returned to local community investments and programs.

IMPLEMENTATION PLAN

The Integrated Plan for Strategy Implementation, incorporates the priority actions described in this chapter and establishes target and specific activities, as well as responsibilities and implementation time-frameworks. The environmental priority actions require various activities to be carried out within a three year period (2003-2005). Some of these activities may be undertaken under current budgetary allocation, while others could be supported by trust funds or partnerships. Activities that may require a reallocation of administrative resources include, for instance, the strengthening of Bank capacity to monitor performance indicators, to develop technical guidelines and to improve the overall process of programming and execution.

The Environment Strategy will be implemented within the Bank’s existing organizational framework. Several actions proposed are already being carried out, and need to be further systematized and coordinated. Nonetheless, some others are new and/or require internal strengthening and capacity building. Furthermore, there is a need to strengthen processes based on greater internal coordination efforts for which Bank management should send clear signals and incentives.

In terms of fostering the principles and priority areas of Bank support, as described in the fourth section, the implementation of the Strategy relies on allocating financial and nonfinancial resources in the context of the Bank’s agreed pipeline on country by country and regional basis. In this regard, Bank loans and technical assistance will continue to promote specific environmental projects that can make significant contributions to enhance and protect the natural resources base and environmental quality, while contributing to achieving poverty reduction and sustainable economic growth goals. Furthermore, the Strategy foresees that all of the projects financed by the Bank in different sectors will have a clear environmental sustainability dimension, which should spur a broad array of new environmental initiatives.

The Bank is well equipped to foster sustainable development objectives and environmental management, as proposed in the fourth section, particularly through its new flexible lending instruments (i.e., innovation loans, multi-phase program loans, and preparation facility loans), which make it possible to insert the environmental dimension into broad development processes in a flexible manner. Moreover, as the
Bank has recently been granted direct access to full scale project resources from the Global Environment Facility (GEF), this financing instrument should be an effective tool to advance regional and global environmental issues in the region. In addition, the Emergency Reconstruction Facility, which has become a sector facility for loans that provides financial support for disaster prevention and mitigation, is closely tied to actions involving good practices in environmental and natural resources management.

From the private sector perspective, the financial instruments of the Multilateral Investment Fund (MIF) will continue to be essential to promote innovative environmental activities, particularly those that encourage the private sector to adopt eco-efficient processes and technologies. Similarly, the Private Sector Department (PRI) and the Inter American Investment Corporation, as stated before in this chapter have the potential to enhance their role and financing of various environment related operations.

Nonreimbursable technical cooperations, through trust funds of donor countries, as well as the fund for C and D countries (i.e., those with relatively slower economic development), and partnerships, make it possible to finance specific environmental initiatives. Nonetheless, these resources are relatively limited. Among the current instruments that can support specific aspects of the Environment Strategy are: The Netherlands/IDB Partnership on the Environment, the Netherlands/IDB Partnership to Promote the Water Agenda in Latin America and the Caribbean; and the Regional Environmental Partnership for Central America involving the IDB and the Swedish International Development Agency (SIDA). In each case, the areas of support result from agreements and shared interests with the donors.

The importance of inter-agency coordination. Implementation of the Strategy also depends on the alliances and coordinated efforts that the Bank makes with other institutions, particularly with bilateral donors and multilateral financial agencies. The Bank will strengthen and continue collaborating with international financial institutions, exchanging information associated with the processes of environmental management. In particular, the Bank will continue participating and contributing to harmonization efforts, seeking points of convergence among the multilateral banks for co-financed projects, training, preparing environmental impact assessments and strategic environmental evaluations and studying opportunities for green procurement in these institutions. The Bank also will continue supporting specialized technical and policy bodies, such as the Forum of Ministers of the Environment of Latin America and the Caribbean.
Monitoring, Evaluation and Performance Indicators

The monitoring and evaluation of the strategy will be performed through indicators at two levels: (a) those related to the countries’ sustainable development objectives, framed within the priority actions or areas described in the fourth section; and (b) those related to the implementation of the strategy in terms of the Bank’s internal work and procedures, as described in the fifth section. The indicators to be monitored and evaluated will be grouped into three types: product indicators, outcome indicators, and impact indicators.

Product indicators: These indicators measure the Bank’s activity in the area covered by the Strategy, in terms of the products delivered such as: number of loans, technical assistance provided, number of studies produced, events, reports, guidelines, etc. These indicators normally have been incorporated in the Bank’s environment annual reports.

Outcome indicators: These will be obtained from the evaluation of Bank operations.

Impact indicators: At this level, the intention is to measure progress in achieving the objective of the Strategy. In this regard, it will be of interest the progress made in the areas defined in the fourth section, and in turn in reducing poverty and increasing conditions for sustainable economic growth. It is clear that the impact of Bank operations cannot be isolated from the country’s overall development initiatives, in which the Bank is one among many actors.

To establish impact indicators, it is necessary to consider the known relationships between problems and their causes, starting always from a baseline or starting point and an ideal or desirable framework as a basis of comparison. Not enough data and capacity are presently available, either within the Bank and the borrowing member countries, to universally do this. Therefore, in the fifth section of the Strategy it is proposed to build up these capacities and it is recommended that Bank projects contribute to collect baseline information using a consistent methodological framework. In addition, Bank programs should also strive for countries to develop their own capabilities to systematically monitor impacts and links between environmental and natural resources management and poverty reduction and economic growth.

Within the overall Bank framework to promote development effectiveness, the Environment Strategy recommends building capacities and methodologies to measure and report product, outcome and impact indicators, in the specific context of project design and execution. Following the two fundamental priority areas for this strategy (i.e., environmental governance and policy development/incentive framework), the Bank will seek to develop indicators in the context of the programming exercises with each country. This process should define and characterize the current status of environmental governance and environmental policy development and evaluate changes and developments in those areas. Given that the implementation of the Environment Strategy is expected to contribute to achieving poverty reduction and sustainable economic growth through actions that are implemented across the four Bank priority areas, the indicators to be reported will follow the priority areas recommended in the fourth section.

Impact indicators linked to Modernization of the State. Relevant indicators will be related to the following categories: (i) stage of development and capacities of institutions with primary responsibility for environmental management; (ii) conditions for civil society participation; (iii) development of regulatory frameworks, with special reference to capabilities for monitoring, oversight and enforcement; (iv) effectiveness of policies and economic incentives that affect natural resource use and environmental quality;
(v) quality of environmental information available for decision making.

**Impact indicators linked to Competitiveness.** Relevant indicators linking environment and competitiveness will consider the following categories: (i) the state of natural capital (quality and availability), as it relates to specific programs and projects and key resources under consideration (e.g., water, biodiversity, forest, soil, marine resources, etc); (ii) environmental instruments, norms and procedures to facilitate foreign and domestic private investment; (iii) private sector participation in environmental related investments; (iv) level of countries’ preparedness to participate in environmental global and regional markets, with special reference to carbon mitigation as well as biological and genetic resources. Special attention will be given to indicators such as environmentally adjusted GDP and genuine domestic savings.

**Impact indicators linked to Social Development.** Relevant indicators will be developed and monitored considering the following categories: (i) health and environment, with special reference to mortality and morbidity rates linked to environmental factors, both in rural and urban settings; (ii) sustainable rural development, in terms of income indicators and quality of natural resources, with special reference to conditions of quality of life among small farmers and rural communities; (iii) preservation of socio-cultural wealth and biodiversity, with reference to needs and well being of indigenous groups; and (iv) physical vulnerability to natural disasters, with special reference to needs and conditions of poor and marginalized groups.

**Impact indicators linked to Regional Integration.** Key indicators that link the Environment Strategy with regional integration include: (i) strength and capabilities of regional environmental institutions; and (ii) availability and degree of application of regional environmental procedures, standards, norms and policies.

**Monitoring in the context of Millennium Development Goals.** As stated in the fourth section, in the context of developing Country Strategies references will be made as to how each country is advancing to meeting the MDGs. In terms of the MDG’s there are three categories involving environmental indicators, which need to be followed as part of the four links described above: (i) reversing the loss, waste, and degradation of natural resources, with links to competitiveness and regional integration(goals and indicators must be specified for forest cover, biodiversity protection, energy efficiency, and CO$_2$ emission reductions); (ii) improving access to sources of safe and clean water, with links to social development(indicators on water coverage); and (iii) improving living conditions in marginal areas, with links to social development (indicators for sanitation coverage and security of land tenure).

The actions identified in the fifth section will be evaluated in terms of the specific activities that were implemented, products achieved, results obtained and impacts with regard to improved Banks internal work and effectiveness. The evaluation of the Environment Strategy will be carried out five years after its approval.
## Annex 1

### Areas of Action for the Bank and their Relation to the Sustainable Economic Growth and Poverty Reduction Strategies

<table>
<thead>
<tr>
<th>Areas of Action</th>
<th>Relationship to the Sustainable Economic Growth Strategy</th>
<th>Relationship to the Poverty Reduction Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. ENVIRONMENTAL GOVERNANCE AND MODERNIZATION OF THE STATE</strong></td>
<td>Effective Mainstreaming of Environmental Policies and Regulations to Facilitate Sustainable Development</td>
<td>Effective Social Inclusion and Participation in Environmental and Natural Resource Issues</td>
</tr>
</tbody>
</table>

Objective: Develop and consolidate a framework for environmental governance, that is transparent, participatory and effective for preserving the natural capital and the quality of the environment.

a) Strengthen institutions and policy framework

- Support to central and local governments through environmental institutional development, policies and programs. Support intersectoral coordination, particularly in the areas of economic development, public finance and infrastructure.
- Promote capacity building for local environmental management and effective mechanisms for community participation.

b) Strengthen regulatory frameworks

- Strengthening functions for monitoring, oversight compliance and conflict resolutions. Set clear norms standards, procedures and guidelines to guarantee environmental quality of public and private investment.
- Support rural local governments and small municipalities to adopt and implement regulations.

c) Environmental management instruments

- Develop of effective instruments for environmental management, including incentive and market based instruments. Improve access to environmental information at all levels to facilitate decision making.
- Development of local instruments to empower local governments and communities to manage and protect their natural resources. Promote public awareness and education.
### Areas of Action

| 2. ENVIRONMENTAL AND NATURAL RESOURCES MANAGEMENT AND COMPETITIVENESS |
|---|---|---|
| **Objective:** Enhance and manage on a sustainable basis the natural assets as source of development, competitiveness and well being. | **Objective:** Foster the region’s competitiveness by protecting and managing their environmental attributes and rich natural base. | **Objective:** Create conditions for increased income opportunities and productivity, on sustainable basis, in rural and indigenous communities. |
| a) Enhancing the sustainable use of natural capital | • Promote the conservation of natural resources as a source of economic growth and competitiveness and increase investment for protecting ecological functions and environmental services. | • Promote the sustainable use of natural resources to be managed by rural communities and indigenous groups, and the protection of biodiversity of which they depend. |
| b) Facilitating investments and market development and Private sector participation in environmental related activities | • Promote access to environmental markets, certification mechanisms, information and procedures to enable private sector investment. Promote clean technologies and processes and involve the private sector in providing services for environmental management. | • Provide assistant to small farmers, communities and grass root organizations to develop markets opportunities and sustainable income. Strengthen rural and urban micro-enterprises develop environmental initiatives. |
| c) Environmental markets | • Tap opportunities to access markets for global environmental services such a carbon sequestration. | • Make indigenous groups and rural communities participants/beneficiaries of initiative such as biogenetic research and development. |

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<td><strong>Objective:</strong> Enhance and manage on a sustainable basis the natural assets as source of development, competitiveness and well being.</td>
<td>Enhanced Value of Natural Resources and Ecological Services as Natural Assets</td>
<td>Opportunities for Improved Development and Well Being of Local Communities</td>
</tr>
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**a) Enhancing the sustainable use of natural capital**

- Promote the conservation of natural resources as a source of economic growth and competitiveness and increase investment for protecting ecological functions and environmental services.

**b) Facilitating investments and market development and Private sector participation in environmental related activities**

- Promote access to environmental markets, certification mechanisms, information and procedures to enable private sector investment. Promote clean technologies and processes and involve the private sector in providing services for environmental management.

**c) Environmental markets**

- Tap opportunities to access markets for global environmental services such as carbon sequestration.
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<td>3. ENVIRONMENT, NATURAL RESOURCES MANAGEMENT AND SOCIAL DEVELOPMENT</td>
<td><strong>Increased Quality of Life and Long Term Labor Productivity/Protection of Human and Physical Capital</strong></td>
<td><strong>Increased Quality of Life for Poor and Marginalized Groups</strong></td>
</tr>
<tr>
<td>Objective: Establish the close link between social development and environmental management and prioritize environmental related activities to improve social conditions.</td>
<td><strong>Objective: Reduce environmental degradation that in turns affects human and physical capital, therefore avoiding loses and costs to the economy.</strong></td>
<td><strong>Objective: Improve the quality of life of poor and marginalized groups who suffer the direct consequences of environmental degradation.</strong></td>
</tr>
<tr>
<td>a) Health and environment</td>
<td>• Reduce incidence of illnesses and mortality associated to environmental health, and improve overall quality of life.</td>
<td>• Target the poor and marginalized people in urban and rural areas to improve their environment and health conditions, as they are the groups directly affected by degraded environments.</td>
</tr>
<tr>
<td>b) Rural development and natural resources</td>
<td>• Foster rural development initiatives based on the quality and sustainable use of soil, water, and forest resources.</td>
<td>• Target initiatives to small farmers, hill side agriculture, upper watersheds, and communities around protected areas to adopt sustainable development.</td>
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<tr>
<td>c) Indigenous communities and their natural resources</td>
<td>• Make indigenous communities active beneficiaries of markets, such as ethno tourism, biotechnology.</td>
<td>• Assure the respect for cultural traditions.</td>
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<tr>
<td>d) Physical vulnerability to natural disasters and environmental risks</td>
<td>• Adopt adequate land use planning, risk management, and prevention mechanisms to protect human lives and vital physical infrastructure.</td>
<td>• Prioritize the poor and marginalized groups that are vulnerable to disasters in prevention initiatives. Promote environmental awareness and education.</td>
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<tr>
<td>4. ENVIRONMENT AND REGIONAL INTEGRATION</td>
<td>Development of Economic Opportunities from Regional Public Goods and Environmental Services</td>
<td>Development of Opportunities of Poor and Economically Depressed Transboundary Regions</td>
</tr>
<tr>
<td>Objective: Foster regional economic integration, by recognizing that countries are naturally integrated by shared environments that need to be managed regionally.</td>
<td>Objective: Promote sustainable economic development on a regional scale, on the basis of shared natural resources that need to be protected and managed adequately.</td>
<td>Objective: Protect and enhance the economic basis and means of livelihood to border populations and communities, that are often the most marginalized.</td>
</tr>
<tr>
<td>a) Regional environmental institutions</td>
<td>• Strengthen regional institutions to effectively address and coordinate issues of environmental management, including regional investments, free trade negotiations, and harmonization of key environmental standard and procedures.</td>
<td>• Promote capacity building for local environmental management and effective coordination mechanisms among border communities and indigenous groups, based on consultation processes to address needs of border communities.</td>
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<tr>
<td>b) Investments in regional environmental public goods</td>
<td>• Promote regional sustainable development in critical transboundary areas, particularly in watersheds and biological corridors.</td>
<td>• Develop regional environmental public goods, with wide community participation and agreements between groups and stakeholder, with impact on poor areas.</td>
</tr>
<tr>
<td>c) Environmental quality for regional infrastructure</td>
<td>• Adopt sound strategic environmental impact assessment to guarantee economic, social and environmental viability of large infrastructure projects.</td>
<td>• Include consultation process to address needs of border communities and empower them to be effective participants and beneficiaries of projects.</td>
</tr>
</tbody>
</table>