

The Inter-American Development Bank
Blue Ribbon Panel on the Environment
Final Report of Recommendations

February 23, 2005

The Inter-American Development Bank Blue Ribbon Panel on the Environment Final Report

Foreword

The IDB Blue Ribbon Panel on the Environment is pleased to present its report to President Iglesias. The Panel would like to thank the IDB staff whose exceptional efforts in preparing papers and providing us with information, clarification and support have allowed us to complete our task efficiently. Many other senior IDB staff also took part in discussions with us, particularly during our second meeting. We thank them for their time, wisdom and help. We would also thank the NGO staff with whom we spoke who gave freely their ideas and expertise.

Our task has been complex but we feel it has been exceptionally important. Environmental, social and cultural sustainability issues lay at the heart of so many development dilemmas in the world today. They require new perspectives and new approaches and we have sought to reflect carefully on that during our deliberations. We have been impressed by the contribution already made by the IDB, but the challenge in Latin America and the Caribbean is substantial and so much remains to be done.

We have been forthright in our views – as we know you would want us to be – but we endeavor to be constructive and clear in our recommendations and in what we believe this institution can achieve. We are pleased to submit our report and welcome further engagement with the Bank as it sets out on this journey.

Introduction

The IDB wishes to position itself as a leader amongst multilateral development banks in pursuing sustainability in its operations and in promoting development that is environmentally and socially sound in Latin America and the Caribbean. An important component of this process is the development of the Environment and Safeguards Compliance Policy¹ that will implement the Bank's Environmental Strategy approved in 2003. The Draft Policy is currently under public consultation. In 2004, a nine-member advisory group, known as the Blue Ribbon Panel on Environment, was created by IDB President Enrique V. Iglesias to advise on the Bank's new Environment and Safeguards Compliance Policy, and the broader perspective of increasing the Bank's role in supporting countries in the Region to achieve sustainable development. The Panel's terms of reference are set out in Annex 1. Brief Biographies of the Panel Members are provided in Annex 2.

Blue Ribbon Panel Members

Chaired by former U.S. Secretary of the Interior Bruce Babbitt, the Panel includes: José Goldemberg, Environment Secretary for the State of São Paulo; Stephen Green, HSBC Group Chief Executive; Lynn Holowesko, former Ambassador for the Environment and Chair of the Bahamas Environment, Science and Technology Commission; Yolanda Kakabadse, former IUCN President; Thomas Lovejoy, President, the H. John Heinz III Center for Science, Economics and the Environment; Juan Mayr Maldonado former Minister of the Environment for Colombia; William Reilly, former EPA Administrator; and Maurice Strong, Special Advisor to the Secretary General of the United Nations. A consultant, Glen Armstrong from Sustainable Finance Ltd, has assisted and supported the Panel throughout its deliberations.

Environmental and Social Sustainability at the IDB

The IDB was the first Multilateral Development Bank to adopt an Environment Policy in 1979 (OP-703)², broadly mandating the institution to ensure the environmental quality of its operations and support environmental projects in the region. During the late 1980s and early 1990s the Bank actively supported and embraced the principles leading to the 1992 Rio Declaration on Environment and Development, in Member countries, through the preparation of a joint IDB and UNDP report “Our Own Agenda”³ As a result, the 1994 Eighth Replenishment of Capital declared the environment a priority for Bank support and included a number of specific environmental mandates that have guided Bank work up to the present. In 2003, the Board of Executive Directors endorsed the new Environment Strategy⁴, which set forth a course of action for enhancing sustainability outcomes, particularly by mainstreaming environment as a cross-cutting dimension of social and sustainable development. A decision was taken to prepare a new Environment Policy that would replace the outdated 1979 OP-703 Policy. The resulting proposed Environment and Safeguards Compliance Policy builds upon the Banks experience on environment and includes the necessary directives to put into operation the key priorities set out in the Bank’s Environment Strategy. .

Whilst the IDB has undertaken a range of projects that have included leading-edge sustainability components such as the strategic environmental assessment and participatory approaches in the Darien⁵ and Puerto Suarez⁶ investments, it has, nonetheless, suffered criticism and reputational damage in recent years due to allegations that a number of funded projects did not meet adequate environmental and social standards. The IDB perspective has sometimes been to assert that the project would have taken place anyway and that the environmental and social issues have been improved by its presence. This may well be the case, however that perspective is weakened, in our opinion, by an environmental and social policy framework and guidelines which have lagged behind those of comparable organizations (such as the World Bank) and the absence of consistent and robust risk assessment, operational implementation and post project evaluation procedures.

A Changing Risk Landscape

In addition to the criticisms that IDB has suffered regarding its environmental and social standards, a number of challenges confront the Bank:

- The IDB raises a significant proportion of its capital in the financial markets – and rating agencies, asset managers and pension funds are increasingly cognizant of environmental and social performance - driven by dramatically increased consumer preference for environmentally and socially sustainable investment. This trend may well impact IDB access to and cost of capital in the medium term. The IDB (along with other Development Banks) is also faced with calls to boycott its bonds based on environmental and social performance. The impacts of these campaigns are, at present, minimal but will increase with time and require significant senior staff attention.
- Dramatic changes have taken place over the last year in the environmental and social risk management landscape within private sector financial institutions. Over 25 major financial institutions have now adopted the ‘Equator Principles’⁷, representing over 75 percent of the global market for project finance. The significance of environmental and social issues in syndications with these Banks will invariably rise over time and the IDB’s ability/acceptability to act as lead arranger may be impacted. If the IDB does not raise its standards, to internationally accepted levels or beyond, there may be a risk to its ability to work with private and public sector investment partners. This will be critical to many of the major infrastructure projects envisaged.
- The significant demand for infrastructure investment in Latin America and the Caribbean will, at times, appear to be in direct conflict with conservation and sustainable development strategies. The IDB will need significant skills and resolve to navigate this complex landscape and retain credibility with all its key stakeholders. In the absence of a well developed capacity to achieve this, the IDB will face real threats to its operating capability.
- The diminution of human capital caused by staff de-motivation and loss and the inability to attract high caliber individuals, further reducing the capacity of the institution to respond to the challenges, risks and opportunities at play, may pose a risk to the IDB.

While these risks may not be acute in nature, we believe that this trajectory of accumulating reputational damage and operational weakness will chronically undermine the Institution’s ability to deliver on its core developmental mandate. The question must be posed as to whether this is an acceptable scenario for an institution which holds poverty reduction and sustainable economic growth central to its objectives; is a crucial regional catalyst in the achievement of the Millennium Development Goals; and underpins a significant amount of the institutional change taking place within the Region to support democratic progress, good governance and social inclusion. With this in mind,

a huge opportunity exists for the IDB to change the current trajectory and position itself as a leader in sustainability amongst the multilateral lending community.

Mission / Objectives

The purpose of the Panel was to provide advice to President Iglesias on how the IDB can best position itself as a positive force and leader in sustainability in the region through its new Environment Policy. Specifically the Panel was asked to provide advice on: the Draft Environment Policy; ways in which the Bank can make greater contributions to achieving sustainability in the Region; and priority areas for the Bank to develop capacity and strengths to implement the policy.

Process and Output

The Panel first convened in September, 2004 for a closed session of discussions. During this session the Panel received a scoping study based on internal and external stakeholder inputs. The Panel discussed and identified current challenges confronting the Bank, potential risks to its operations and opportunities to enhance and operationalize sustainability. The focus of work of the Panel was defined into a series of key issues and an inter-sessional work program was set out by Chairman Bruce Babbitt which would involve interim inputs by the IDB and analysis by individual Panel members.

The second session took place on January 12 and 13, 2005, and involved a closed discussion session and at the Panel's request, a half-day working retreat with IDB Senior Management and environmental experts. The discussions focused on some specific issues including: harmonization of standards, moving sustainability analysis upstream into programmatic lending and Country strategies, civil society engagement, and capacity, systems and resources. The meeting ended with a closed briefing with President Iglesias to discuss the current thinking of the Panel.

The final recommendations of the Panel reflect the careful study of both internal and external materials and other inputs provided to the Panel during their deliberations. These include specific information and analysis requested from IDB staff, interviews and meetings with President Iglesias, Vice President Flannery and Senior Management and inputs from the NGO community, both in Washington D.C. and in the Region. The Panel consulted with several different sectors of civil society and at the same time received various written comments from civil society organizations, which served as an input into the deliberations of the Panel. In particular two briefings were held by the Panel with NGO groups, the first in Washington D.C. in November, 2004 and the second in Quito in January, 2005.

Blue Ribbon Panel – Recommendations

There are huge developmental challenges confronting the Latin America and Caribbean region, many of them significantly influenced by underlying environmental, social and cultural issues. We believe that sustainability represents a significant opportunity for the IDB to assert leadership in supporting its client countries to meet those challenges.

Sustainability in our view is a broad concept that includes not only environmental but also the entire spectrum of economic, social and political issues associated with development lending. Sustainability is a way of thinking about projects and how to engage from the earliest stages, which also anticipates the long-range effects. It will require new and innovative thinking on the part of the organization to develop new lending products, build new relationships with client countries and other stakeholders and find new mechanisms to promote sustainability within its public and private sector lending.

IDB leadership will need to develop clear and consistent messages establishing sustainability as a crucial development issue for the IDB and a potential differentiator in key business areas. Enhanced environmental, social and cultural sustainability performance should be clearly positioned as a valued outcome within IDB projects. Similarly the myth that it simply constitutes a transaction cost should be clearly refuted, as no convincing evidence was provided that it would divert business to lower cost competitors. We believe that the IDB can become a leader and a 'point of reference' on sustainability issues within Latin America and the Caribbean. We have set out our recommendations along the four themes developed during our second meeting.

1. Standards and harmonization;
2. Moving sustainability analysis upstream;
3. Civil society engagement;
4. Capacity, systems and resources.

Standards and Harmonization

Context: In recent years development lending institutions, public and private, have begun to converge toward standards of sustainability embodied in International Finance Corporation and World Bank Group policies and the private sector equivalent: the Equator Principles. Most recently several significant Brazilian Banks have adopted the Equator Principles demonstrating relevance to national banks within Latin America and the Caribbean and to Southern emerging economies as well as those in the North.

New proposals to develop these standards further for private sector investments are currently under consultation by the International Finance Corporation, and will almost certainly become the new good practice benchmark when they become operational on 1st January 2006. Internal analysis identifies that there remain areas where the IDB proposed policy on environment and safeguards will not achieve equivalence. While the IDB has participated in this convergence it should now move to a leadership position.

We recommend:

- That the environmental, social and cultural standards utilized by the IDB should be consistent with and we strongly believe - in advance of - those used by the World Bank and the International Finance Corporation and the Equator Principles.

- The proposed Environment and Safeguards Compliance Policy should be appropriately revised to achieve this and to take into account changes envisaged in the new International Finance Corporation standards. The Panel believes that a failure to achieve this will significantly constrain the IDB's ability to work with other progressive private sector banks.
- Environment, indigenous and other relevant policies should be integrated into a coherent suite of safeguards.
- IDB should use its influence and outreach to support the convergence of environmental and social investment standards amongst sub-regional banks and financial and governmental institutions operating within Latin America and the Caribbean. The ability of the IDB to influence evolving harmonized standards will depend upon the Bank itself setting an example.
- Management should commit to reporting publicly on key aspects of sustainability objectives and outcomes based on these standards, in its operations – positive and negative. A “Sustainability Report” should be published and key information integrated into the Annual Report. A timeline for the first report should be set – we would suggest no later than June 2006). Guidelines for the report should be set in advance with key reporting parameters agreed through a process of public consultation and with reference to relevant emerging standards such as the Global Reporting Initiative (GRI)⁸.
- IDB must ensure appropriate management and monitoring of its own environmental performance with respect to its internal operations. An individual or nominated group should be assigned responsibility to manage the sustainability impacts of its own physical operations. However, the message should remain clear that the impact of IDB lending operations is where the most profound impacts are to be found. Where possible common standards for resource intensity and efficiency should be used, such as those under development by the Global Reporting Initiative (GRI). An action plan for implementation should be prepared within six months.

Moving Sustainability Analysis Upstream

Context: The Draft Environment and Safeguards Policy appropriately emphasizes the need to mainstream environment at a more strategic level into programmatic lending and Country plans. Environmental, social and cultural sustainability issues should be central and integral to Country level programming and based on robust analysis and consultation. We believe that if successful, it will ensure that sustainability issues will be addressed at the earliest opportunity in the development of major projects. We also believe that it should form the basis of a new engagement with client Countries and new constituencies within those client Countries, including the private finance sector. If IDB can develop leadership in the application of sustainability analysis to complex project situations it will underpin its role working with the private sector and allow the Bank to develop new services and products.

We recommend:

- The Bank must allocate adequate resources to ensure the mainstreaming of environmental, social and cultural sustainability into its programmatic lending and Country strategies.
- The IDB should support the building of capacity in regional and Country institutions, where necessary with the support of concessional funding. This should include support in valuing environmental and social resources in broader decision making. Explicitly, the IDB as a Development Bank must address key decision makers including finance ministries within client Countries on the necessity to integrate sustainability issues and to demonstrate their cost effectiveness. IDB analysis at the Country level must adequately assess the commitment, capacity and track record of its members and borrowers in implementation and enforcement when deciding whether to go ahead with loans and envisage a scenario where lending might be refused on such a basis.
- The IDB should engage in strategic infrastructure plans such as IIRSA⁹ to ensure that sustainability factors are addressed upstream and adequately address cumulative and secondary economic, social, cultural and environmental impacts early in the process. This will make engagement in later stages of the project and component projects more straightforward and consistent with these sustainability principles.
- The IDB should develop new analytical tools, which can be used to ‘measure’ the contribution of programmatic or project lending (including, for example, the contribution to meeting the Millennium Development Goals¹⁰) to sustainability (i.e. beyond safeguards).
- Management should commission work on developing internal incentive structures (in alignment with other work on incentives) which reward sustainable outcomes from programmatic and project lending across all staff groups which can be implemented in parallel with policy implementation. This would include the requirement for specific assessment of performance in these areas in staff assessments and promotions, in assessing candidates for positions within the Bank and in remuneration and bonuses, if applicable. Development related issues such as these should become central to the measurement of performance across all dimensions, many of which in the past have tended towards a focus on investment volume.
- The IDB should develop specific targets for certain types of ‘environmental’ lending, which it believes will become more prevalent in future and which will stimulate the development of specific expertise and business understanding more widely within the Bank. This would include, but not be limited to, water, renewable energy, biodiversity based development activity and ecosystems services. The IDB should exploit the opportunity to support Governments and the private sector in their responsibilities and commitments to the Convention on Biological Diversity, the Framework Convention on Climate Change and the Kyoto Protocol which came into effect on February 16, 2005. The IDB should

develop a view on the financial institution impacts for Latin America and the Caribbean.

Civil Society Engagement

Context: Civil society engagement and specifically well designed mechanisms for consultation and inclusion in project design, at the earliest stages of project development is central to and a pre-requisite of sustainable outcomes. When undertaken effectively it can avert resource-based conflict and support efficient project processing and implementation. Indeed IDB has had specific project experience (e.g. Darien) where such methodologies have been utilized to good effect.

We recommend:

- The IDB should develop innovative participatory approaches, new methodologies and instruments for civil society engagement and inclusion in project design and execution placing it at the leading edge of sustainability analysis. A framework should be developed for guiding project and programmatic consultation and information disclosure processes which also sets out when independent monitoring and means of redress should be designed into the project. Whilst we acknowledge progress with the Independent Investigation Mechanism¹¹, we recommend full consideration be given to establishing an Ombudsman process which can respond constructively to complaints and seek to resolve disputes.
- Civil society should be increasingly integral to the independent monitoring of project implementation. The IDB should robustly support the disclosure and dissemination of project preparation and monitoring information in a place, style, form and language, meaningful to affected parties and which allows them to constructively engage and for their views to be heard. We recommend that policies be developed by reference to Principle 10¹² of the Rio Declaration on Environment and Development.
- We recommend a program of staff exchanges between the Bank and NGO groups to improve recognition and understanding of the constraints, dilemmas and pressures confronted by all the parties in development projects.

Capacity, Systems and Resources

Context: As commercial banks have demonstrated in the application of the Equator Principles, sustainability issues and their integration into IDB operations are, in our view, entirely consistent with the institutions developmental and business objectives. The Panel believes that many of the recommended actions contained within this report can, and should be, ‘mapped’ into existing initiatives already planned or in progress within the IDB in areas such as retooling and procurement, etc., demonstrating their cross cutting and integrating nature. Nonetheless, we believe that this will require increases in, or reassignment of, capacity and changes in organization and operational systems to achieve the desired outcomes.

We recommend:

- Systems should be developed to publicize examples of good practice around the institution through seminars, briefings, etc., with Senior Management taking an active role. Difficult, as well as successful, projects where problems are encountered should similarly be assessed and lessons learned communicated to staff. We believe that a comparative review of the IDB role in projects such as Camisea¹³ and Darien and how it might learn from the experience – including a comparative analysis with the approaches taken in other macro projects on this scale, such as Chad-Cameroon and Baku-Tblisi-Ceyhan pipeline projects, could very helpfully inform future procedural development. Development of case analyses, which demonstrate and monitor the lessons to be learned for use in training programs, should be undertaken.
- Environmental, social and cultural risk management procedures need to be more robust and more consistently applied. Project risk – through the A,B,C categorization system and client risk – their capacity, commitment and track record, should be rigorously assessed and the interaction between these risks adequately considered in the design of the due diligence. Clear operational procedures should be developed for each core product type – recognizing the different points of engagement and leverage. Procedures should explicitly preclude investments where there is a high sustainability project risk and the client cannot demonstrate the commitment, capacity and track record to adequately implement.
- Procedures and training should clearly specify that accountability for project environmental, social and cultural performance rests within the business line. The role of the Committee on Environmental and Social Impact (CESI)¹⁴ in providing clear advice to project teams based on client and project risk analysis should be formalized and effectively resourced. This requires that the constitution of CESI is specifically nominated, with specialists who have the necessary expertise in risk management and are given the necessary time to review the documentation and participate consistently in the Committee, providing continuity and institutional memory. A dedicated Secretariat should be established. Categorization of projects should take place within the operational departments, but these should be forwarded to CESI for ratification. All category A projects should require CESI sign off in advance of Loan Committee consideration. Staff assigned to CESI should be suitably qualified to enable rigorous analysis of public, private and joint projects expeditiously at the concept and approval stage and to monitor and ensure the adequate allocation of resources at the project level. CESI recommendations should be explicitly endorsed by the Loan Committee.
- We recommend that the Bank's ex-post monitoring of project outcomes be significantly strengthened and undertaken independent of the business line, probably through the central Sustainable Development Department and operations

- evaluation, specifically against the core development objectives of the project. Countries should be supported in undertaking their own ex-post monitoring of project sustainability outcomes.
- Comprehensive analysis of resource requirements at central operational department and Country Office levels to fully implement the policy mainstreaming should be completed. We believe additional resources will be required in a number of areas including:
 - Increase in core environmental, social and cultural development staff and capacity at central, country and regional levels;
 - Specific professional support in developing operational procedures and risk management processes;
 - Specific resources to be applied to the monitoring and supervision of projects during execution;
 - Enhanced training to develop new skill sets in existing environmental, social and cultural staff to meet new strategic commitments;
 - Development of a sustainability-training program which engages together all the professional groups working on investments within the Institution, so that understanding amongst the teams is consistent and mutually supportive. This program should then be progressively provided to all staff. The IDB should explore the possibility of providing such training in collaboration with private sector financial institutions, some of whom have already expressed an interest in such collaboration;
 - Development of a supportive skills network throughout the institution, which can be drawn upon to provide input on specialist issues;
 - Flexible consulting resources, which can be deployed to support internal capacity or provide specialist input.

Progress in Implementation

We believe that it is important that management signal its intent clearly to the Institution. Indeed, without consistent high level management support we believe it will be impossible for the IDB to integrate environmental, social and cultural sustainability issues more effectively into its operations. We believe that one way to emphasize the importance it attaches to the Panel's recommendations is to ensure that progress is monitored and reported upon, and we, therefore, propose that an independent review of progress be undertaken six months after submission of this report, or at an alternative appropriate time in 2005. A report should be prepared by the Bank on progress achieved, which can be independently reviewed with both the report and the review released into the public domain.

Annex 1.
Terms of Reference of the Blue Ribbon Panel

Background

The IDB is developing a new Environment and Safeguards Compliance Policy as part of an overall effort to reposition itself as a leader among multilateral development banks in pursuing sustainability through its operations and in promoting development that is environmentally and socially sound.

Objectives

The purpose of the Panel is to provide advice to President Iglesias on how the IDB can best position itself as a positive force and leader in sustainability in the region through its new environment policy. Specifically the panel is asked to provide advice on:

- the draft environment policy;
- ways in which the Bank can make greater contributions to achieving sustainability in the region; and
- priority areas for the Bank to develop capacity and strengths to implement the policy.

Membership

Mr. Bruce Bobbitt
Mr. Jose Goldemberg
Mr. Stephen Green
Ms. Lynn Holowesko
Ms. Yolanda Kakabadse
Mr. Tom Lovejoy
Mr. Juan Mayr Maldonado
Mr. William Reilly
Mr. Maurice Strong

Process

Meetings: The Panel will meet twice. First to provide exchange points of view and initial comments (September 7, 2004). Then again to finalize draft report to President Iglesias (January 12/13).

Secretary: SDS/ENV would act as Secretary. A consultant could be hired to draft report for the consideration of the Panel to maintain some independence from the Bank staff.

Chair: Bruce Babbitt

Annex 2.

Blue Ribbon Panel Members

Mr. Bruce Babbitt

Latham & Watkins;

Former US Secretary of Interior, Governor of Arizona and Attorney General of Arizona.

Mr. José Goldemberg

Secretary of Environment of the State of Sao Paulo, Brazil; Formerly Secretary of State of Science and Technology of the Federal Government; Minister of State of Education of the Federal Government; and Member of the National Council for Energy Policy of Brazil.

Mr. Stephen Green

Chief Executive Officer, HSBC Group, London.

Ms. Lynn Holowesko

Former Senator, Bahamas; Ambassador for the Environment; Chairman, Bahamas Environment, Science & Technology Commission; and President of the Bahamas National Trust.

Ms. Yolanda Kakabadse

Executive Director, Fundación Natura, Ecuador; Former Minister of Environment; Former President of World Conservation Union (IUCN).

Mr. Thomas Lovejoy

President, The H. John Heinz III Center for Science Economics and the Environment; Former Chief Biodiversity Advisor to the World Bank; Chief Scientist and Counselor at the Smithsonian Institution; and Science Advisor to the Secretary of the Interior.

Mr. Juan Mayr Maldonado

Former Minister of Environment, Colombia; Member of the UN Secretary General Panel of Eminent Persons on UN-Civil Society Relationships; and Member of the National Commission for Conciliation in Colombia.

Mr. William Reilly

Chairman, World Wildlife Fund; Former Administrator of United States Environmental Protection Agency.

Mr. Maurice Strong

Special Advisor to Kofi Annan and Under-Secretary General of the United Nations; Formerly Senior Advisor to the President of the World Bank; Chairman and Chief Executive Officer of Ontario Hydro, North America's largest utility; and Secretary General of the 1992 United Nations Conference on Environment and Development (the Earth Summit).

¹ The *Draft Environment and Safeguards Compliance Policy* or *Draft Policy* as it is also referred to in the document, is currently undergoing consultations. The Policy will establish the necessary directives to mainstream environment in Bank programming activities, and to safeguard the environment and manage risks. A copy of the draft policy, the Implementation Guidelines that accompany it, as well as information about the process and consultation meetings may be found at http://www.iadb.org/sds/env/site_5512_e.htm

² The broad objectives of the IDB *Environmental Policy (OP-703)* from 1979 were: to assure that in all projects financed by the Bank environmental aspects are considered and that appropriate measures are taken to avoid adverse environmental impact, with due attention to economic and social costs and benefits; to cooperate with member countries through loans and technical cooperation for the financing of projects designed to improve or preserve the environment; to assist member countries in identifying environmental problems and finding solutions to them, as well as developing projects to improve the environment; and to assist in the development, transfer and utilization of science and technology in the field of environmental management and to help strengthen national institutions in environmental management. OP-703 will be replaced by the Environment and Safeguards Compliance Policy currently under consultation.

³ *Our Own Agenda* (Report of the Latin American & Caribbean Commission on Development and Environment) was jointly published by IADB and UNDP in 1990 to assist the region in preparing for the UN Conference on Environment and Development in Rio de Janeiro in 1992.

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

⁵ *Darien* refers to the *Darien Sustainable Development Program* (PN0116) a \$70.4 million IDB loan to Panama (total \$88 million) approved in 1998. Widely referred to as an example of good practice, the loan transformed a project for the renovation of the Bayano-Yaviza highway, in Darien, into a sustainable and participatory development project aimed at creating the conditions for land use planning and for improving the living conditions of the local population.

⁶ *Puerto Suarez* refers to the *Integration Corridor Santa Cruz-Puerto Suarez* (BO0036) \$75 million loan for the improvement of infrastructure in Bolivia. Environmental strengthening and mitigating measures are being carried out at the same time under a separate program financed in its entirety by the Bank: *Environmental and Social Protection Project for the Santa Cruz-Puerto Suarez Corridor* (BO-0033).

⁷ The IFC convened a meeting of banks in London in October 2002 to discuss environmental and social issues in project finance. At that meeting, the banks present decided to try to develop a banking industry framework for addressing environmental and social risks in project financing. This led to the drafting of the *Equator Principles*. 28 Banks have now adopted the Principles.

⁸ *Global Reporting Initiative (GRI)* is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labor organizations from around the world. Started in 1997, GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Program (UNEP) and works in cooperation with UN Secretary-General Kofi Annan's Global Compact.

⁹ *IIRSA* (The Initiative for Regional Infrastructure Integration in South America) was launched in the year 2000 by the presidents of twelve South American Countries (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela.) during the First Meeting of South American Presidents (Brasilia, Brazil).

¹⁰ *The Millennium Development Goals* commit the international community to an expanded vision of development, one that vigorously promotes human development as the key to sustaining social and economic progress in all countries, and recognizes the importance of creating a global partnership for development. The goals have been commonly accepted as a framework for measuring development progress. There are 7 goals and objectives and 48 indicators

¹¹ *The Independent Investigation Mechanism* (IIM), established in 1994, affords people whose lives stand to be affected by projects financed by the IDB a means to ensure that due diligence has been exercised by the Bank in the design, analysis and negotiation of those projects. The Mechanism permits accredited representatives of affected populations to file Requests for Investigation aimed at determining whether the Bank has followed its own operational policies during the preparation and implementation of projects. Following a review for eligibility for application of the policy, Requests are submitted to the Bank's Board of Executive Directors for consideration. Since early 2004, the IDB has been developing certain key enhancements to the Bank's existing IIM. The Draft Policy and Operating Guidelines for the Consultation and Compliance Review Mechanism of the IDB are currently undergoing public consultation.

¹² *Principle 10* of the Rio Declaration on Environment and Development states that “*Environmental issues are best handled with the participation of all concerned citizens, at the relevant level. At the national level, each individual shall have appropriate access to information concerning the environment that is held by public authorities, including information on hazardous materials and activities in their communities, and the opportunity to participate in decision-making processes. States shall facilitate and encourage public awareness and participation by making information widely available. Effective access to judicial and administrative proceedings, including redress and remedy, shall be provided*”.

¹³ *The Camisea Project* (PE0222), an IDB Private Sector loan which consists of an approximately US\$600 million natural gas field development (“Upstream Project”), an approximately US\$800 million natural gas and liquids pipeline (“Transportation Project”) and an approximately US\$50 million natural gas distribution network in Lima and Callao (“Distribution Project”). This loan is accompanied by a Public Sector Loan Institutional *Environmental and Social Strengthening of the Camisea Project* (PE0233) (\$5 million IDB, \$2.2 million Peru).

¹⁴ *CESI* (*Committee on Environmental and Social Impact*) is a cross departmental sub-committee of the Loan Committee charged with reviewing and providing advice on project level sustainability and compliance during project preparation.