

Environment and Safeguards

Compliance Policy

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## Foreword

The new Environment and Safeguards Compliance Policy strengthens the Bank's commitment with environmental sustainability in the region. This Policy consists of a set of directives that will guide the Bank's work towards environmental sustainability through mainstreaming environmental considerations into social and economic development objectives. With this Policy, the Bank will safeguard the environmental quality of all operations and introduce socially and environmentally responsible practices within its own facilities.

This new Policy is part of the implementation of the Bank's Environment Strategy (GN-2208-4) approved by the Board in July of 2003, which identifies key principles and priority actions to improve the effectiveness of internal Bank activities and procedures. The development of the Policy involved a wide collaborative effort that engaged different areas of the Bank, including central and operational departments as well as country offices. This internal review process allowed the mobilization of the best technical capacities available at the Bank and the experience gathered from over 20 years of environmental action in the region. It is important to recognize the valuable orientation and advice provided by all members of the Board of Executive Directors during the Policy revision and approval process.

As part of the consultation process, the Bank opened ample space for discussion, dialogue and validation of different aspects of the Policy. A high-level advisory group of environmental experts, the Blue Ribbon Panel, was formed to advise the Bank Management on how to orient the Bank's leadership to achieve the highest impact in support of sustainability in the region. A wide consultation process, involving electronic and regional and extra-regional consultations with governments, nongovernmental organizations, private sector and multilateral and bilateral development organizations was carried out to review draft versions of the document. Such interaction between stakeholders and the Bank Administration allowed the incorporation of key elements to improve the environmental performance of the Bank's operations and activities.

With this publication, we make this important Bank Policy available to all Bank professionals, executing agencies and interested parties with the expectation that its application will improve the sustainable development impact of the Bank.

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# Acronyms

EA	Environmental Assessments
EIA	Environmental Impact Assessment
EMS	Environmental Management System
ESMP	Environmental and Social Management Plan
FI	Financial Intermediaries
GEF	Global Environmental Facility
GHG	Green House Gases
GRI	Global Reporting Initiative
IDB	Inter-American Development Bank
IPCC	Intergovernmental Panel on Climate Change
IPM	Integrated Pest Management
IRF	Immediate Response Facility
IUCN	The International Union for the Conservation of Nature and Natural Resources
IVM	Integrated Vector Management
MEA	Multilateral Environmental Agreements
MFI	Multilateral Financial Institutions
MIF	Multilateral Investment Fund
OP	Operational Policy
POP	Persistent Organic Pollutants
RAMSAR	The Ramsar convention on Wetlands
SCA	Strategic Cumulative Assessment
SEA	Strategic Environmental Assessment
UN	United Nations
WHO	World Health Organization

# Brief Summary

The Environment and Safeguards Compliance Policy was approved by the IDB's Board of Executive Directors on January 19, 2006. It supersedes the Bank's previous environment policy, which dated to 1979, and reinforces the environmental mandates of the Eighth Capital Replenishment. The Policy will enter into effect six months after Board approval (in July 2006).

## OBJECTIVES OF THE POLICY

The Policy has three specific objectives: (i) to enhance long-term development benefits by integrating environmental sustainability outcomes in all Bank operations and activities and strengthening environmental management capacities in its borrowing member countries; (ii) to ensure that all Bank operations and activities are environmentally sustainable; and (iii) to foster corporate environmental responsibility within the Bank.

## SCOPE OF THE POLICY

The Policy applies to the Inter-American Development Bank (IDB) and the Multilateral Investment Fund (MIF), including financial and non-financial products, public sector and private sector operations, as well as environmental aspects of the Bank's project procurement practices and management of its own facilities.

## POLICY DIRECTIVES

The Policy has two sets of directives, as follows:

- *Environmental Mainstreaming (Directives A.1 thru A.7)*. These policy directives refer to the concept of mainstreaming environmental issues and upstreaming them early on during

the project cycle of the Bank. This implies that starting with the country programming process and strategy development, the Bank will engage with the countries in addressing the environmental priorities that have the greatest impact on their social and economic development. Also, the Policy mandates the Bank to promote corporate environmental responsibility with respect to its own administrative activities and facilities in headquarters and country offices.

- *Safeguarding Directives (Directives B.1 thru B.16)*. The Policy establishes a set of environmental safeguards that will allow the Bank adopt a more effective and efficient risk management framework. The Policy has specific safeguard directives that address screening and classification, environmental assessment requirements, consultation, supervision and compliance, trans-boundary impacts, natural habitats and cultural sites, hazardous materials and pollution prevention and abatement. The Policy also has provisions referring to projects under construction, noninvestment lending and other flexible loan instruments, policy-based loans, multiple-phase and repeat loans, cofinancing, in-country systems and procurement.

## POLICY IMPLEMENTATION

This Policy will be accompanied by guidelines, approved by IDB Management, that will provide Bank staff and executing agencies specific procedures to assist them during its implementation. The experience with the implementation of this Policy will be evaluated within a period of three years after entering into effect.

# I. Introduction

The proposed Environment and Safeguards Compliance Policy builds upon past and recent Bank experience on environment, and seeks to position the Bank to effectively support environmental sustainability goals in the Latin American and Caribbean region. The Inter-American Development Bank was the first Multilateral Development Bank to adopt an Environment Policy in 1979 (OP-703), 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 of sustainable development leading to the Rio 92 Declaration on the Environment. As a result, the 1994 Eighth Capital Replenishment declared the Environment, together with poverty reduction and social equity, as priority areas for Bank support and included a number of specific environmental mandates that have guided Bank work up to the present. These mandates included provisions for: (i) strengthening environmental legal and regulatory frameworks; (ii) strengthening environmental institutions; (iii) improving the environmental quality of operations financed by the Bank; (iv) promoting the conservation and efficient use of energy in the Bank's projects; (v) improving the urban environment; (vi) promoting sustainable management of natural resources with specific references to environmentally sustainable practices for water resources, forestry, biological diversity, marine resources, and agriculture; (vii) addressing issues of transparency and access to environmental information, and stakeholder consultation; (viii) quality control and environmental impact assessments (EIAs); and (ix) fostering environmental education and training.

In 2003, the Board of Executive Directors endorsed the new Environment Strategy (GN-2208-4, 2003), 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. In this context, the Bank's Environment Strategy was developed to support the Bank's two overarching objectives: achieving sustainable economic growth and reducing poverty and inequality. The Environment and Safeguards Compliance Policy is intended to provide the necessary directives to put into operation and reinforce key priorities stated in the Bank's Environment Strategy and the Eighth Replenishment. The resulting Policy, once approved, will replace in its entirety the Bank's Environment Policy (OP-703).

This Policy takes into account current changes and realities that influence environmental sustainability, which include the positive development of institutional capacities among borrowing member countries; the increased role of civil society participation in the context of democratic processes; the process of convergence of policies and harmonization among multilateral and bilateral development institutions; the need to enhance development effectiveness; the increased role of private sector investments and public/private partnerships; the sustainability commitments of leading private-sector financial institutions to the Equator Principles; and the growing importance of global and regional challenges and opportunities. This Policy also considers the links that exist between poverty and environmental management. It recognizes the need to enhance conditions for social and economic development and the important role that sound management of natural resources and the environment plays in this process.

## II. Scope

The Environment and Safeguards Compliance Policy applies to the Inter-American Development Bank (IDB) and the Multilateral Investment Fund (MIF), including financial and nonfinancial products, public sector and private sector operations, as well as environmental aspects of the Bank's project procurement practices and management of its own facilities. The directives of this Policy will apply to Bank operations and activities in accordance with the provisions of section V of the Policy. Its mandates are not retroactive. Loans under the *Immediate Response Facility for Emergencies Caused by Natural and Unexpected Disasters* (IRF) are exempt from the requirements of this policy.

This Policy will be supplemented by guidelines approved by Management. These guidelines will be publicly available according to the Disclosure of Information Policy (OP-102) and will provide Bank staff with specific procedures to assist in complying with these directives. Management may modify the guidelines from time to time as necessary.

This Policy is grounded in the principles of sustainable development as set out in the Declaration of Rio 92, Agenda 21, and most recently reinforced in the World Summit on Sustainable Development in Johannesburg. Sustainability goals, in this context, depend on the alignment of social and economic development goals with long-term environmental sustainability. The word "environment" as used in this Policy is defined in its broad sense, which includes physical/chemical factors (geophysical), biological factors (biotic), and associated social factors (anthropic). This Policy encompasses social, cultural and economic aspects to the extent that these aspects are derived from geophysical and/or biotic changes associated with a particular operation. Also, this policy identifies environment as a dimension of development to be mainstreamed and internalized across all sectors. In addition, this Policy sets forth the Bank's commitment to adopt measures that promote corporate environmental responsibility.



### III. Objectives

The goal of this Policy is to advance the Bank's mission in Latin America and the Caribbean toward achieving sustainable economic growth and poverty reduction goals consistent with long-term environmental sustainability. The specific objectives of the Policy are: (i) to enhance long-term development benefits to its members countries by integrating environmental sustainability outcomes in all Bank operations and activities and strengthening environmental management capacities in its

borrowing member countries; (ii) to ensure that all Bank operations and activities are environmentally sustainable as defined in this Policy; and (iii) to foster corporate environmental responsibility within the Bank. The Bank will act to achieve these specific objectives by adopting measures to mainstream the environment into overall economic and social development, and to safeguard the environment in all Bank activities.

## IV. Policy Directives

The Policy Directives are structured under two major categories: (a) environmental mainstreaming; and (b) environmental safeguards. These two categories are essential for environmental sustainability and complement and reinforce each other. The mainstreaming directives apply to Bank programming activities, which by their nature predominantly focus on the Bank's public sector activities. These policy directives are proactive in nature and seek to enhance the incentive framework to foster environmental opportunities, new business opportunities for the Bank, and greater development benefits for the countries. On the other hand, the safeguard directives establish procedures and standards to ensure the quality and the environmental sustainability of both public and private sector operations.

### A. MAINSTREAMING ENVIRONMENT

The Bank will mainstream environmental considerations as an integral aspect of economic and social development. The concept of environmental mainstreaming as used in this Policy refers to addressing environmental issues strategically as a cross-cutting dimension of development. The main objective of environmental mainstreaming is to strengthen country focus by strategically addressing environmental issues and opportunities in the context of each country's development priorities. This strategic approach begins at the level of the Bank's pre-programming and programming processes and addresses issues of governance, policy, incentives and priority setting for sound environmental and natural resources management, including the mutually supportive interface between environment and socioeconomic development drivers across sectors. The Bank will support mainstreaming efforts in its borrowing member countries through actions that:

- Enhance social development and increase the overall quality of life, recognizing that investments in environment and natural resources management are sources of jobs, sus-

tainable income, improved health and better living conditions, particularly for the poor.

- Strengthen good governance by developing effective environmental management frameworks and transparent governance mechanisms that strengthen institutional capacity building, civil society participation, public access to information, the rule of law, the use of market-based instruments, and policy development.
- Enhance the country's competitiveness by improving and promoting the conservation of the region's natural capital, enhancing the value of environmental goods and services,<sup>1</sup> as well as encouraging and facilitating private sector participation and investments in environment-related activities.
- Strengthen regional integration, by supporting regional capacities to protect and manage regional environmental goods and services.

The following Policy Directives for environmental mainstreaming are defined in relation to the Bank's country strategies and programming processes; the design and execution of operations; and the Bank's corporate social responsibility.

#### A.1. Mainstreaming Environment in Country Programming and Strategies

As part of its programming process, the Bank will undertake country analytical work to identify the main potential environmental opportunities and risks associated with key areas of social and economic development, assess the state of enabling conditions for environmental management, and establish a set of strategic priorities for Bank action, if any. In particular, this country analytical work will be reflected in the development of Country Strategy Papers and will inform the pro-

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<sup>1</sup> See definition of *environmental goods and services* in section VI.

gramming process. Private sector development strategies and diagnosis may contribute to and to be part of this strategic and programmatic phase. Also, cross-sector dialogue with government, private sector, and other relevant interested parties should be an integral part of this process.

Country-level environmental analysis will be a principal tool to generate relevant information and to support the development of programming documents. This country-level environmental analysis should be strategic in nature and focused on targeted sectors or areas that are likely to be highly relevant in the overall Bank's engagement with the country. In this context, this analytical work will consider relevant aspects such as: (i) the identification and analysis of environmental priority issues and opportunities across sectors, including their links to social and economic drivers, and poverty reduction objectives, as well as their regional and global implications; (ii) the state of environmental governance (e.g., level of institutional development, civil society participation, access to information, adequacy of the legal, policy, and regulatory framework, the level of enforcement and compliance with environmental standards, and public sector capacity for environmental management); (iii) past and on-going actions of the Bank and other multilateral financial institutions (MFIs) and agencies; (iv) the identification of strategic priorities for Bank action, including opportunities and challenges for public and private sector financing; and (v) relevant environmental performance and trend indicators.

The Bank will discuss with the borrowing member country strategic objectives and possible actions to address key environmental and related social issues in a cross-sectoral manner. Relevant programming documents should reflect the agreements achieved between the Bank and the government resulting from the programming process. Policy Directives A.2 through A.6 follow from the required analytical and strategic work stated in this Directive.

## **A.2. Supporting Environmental and Natural Resources Management Operations**

The Bank will proactively support borrowing member countries and clients in identifying and

financing operations designed specifically to: (i) enhance environmental governance, policy development and institutional capacity building; (ii) reverse environmental deterioration; and (iii) promote the conservation and sustainable use of natural resources and ecological services. Such operations may include, without limitation, activities that: enhance environmental legislation and regulations, strengthen institutions, promote environmental training and education, and environmental governance at all levels. Also, on the basis of strategic priorities agreed with the borrower, Bank operations may include targeted investments to restore environmental quality; promote renewable energy and the efficient and clean use of energy resources; improve and restore urban environmental quality, including solid waste management; contribute to the sustainable management of land- and marine-based natural resources; protect biodiversity and fragile ecological systems, including the sustainable financing and management of protected areas; protect cultural sites; combat desertification; reverse soil, water and air degradation; improve management of water resources; and promote carbon sequestration activities and the reduction and control of greenhouse gases emissions. In this context, the Bank will support countries to develop innovative financial and market based instruments to enhance the value of environmental goods and services and to facilitate sustainable flows of financial resources earmarked for the conservation and management of these goods and services. These operations must be guided by principles and criteria of environmental sustainability, as well as consider financial, socio-economic and institutional viability to maximize long-term development impacts.

## **A.3. Mainstreaming Environment Across Sectors**

The Bank, as requested by borrowing member countries, will finance environmental and natural resources management components or activities across different sectors, with loans and technical assistance, beyond required environmental mitigation actions to increase value added and long-term sustainability. The Bank will seek to enhance environmental sustainability through appropriate public and private operations across sectors, such as agriculture, tourism, social development, urban

development, transportation and road infrastructure, energy, and agriculture, among others. Technical assistance and innovative financing options will be discussed and agreed with the borrower as appropriate. Where such components or activities for environmental enhancement are included, relevant indicators should be added to the operation's design for measuring the project's contribution toward agreed environmental sustainability outcomes.

#### **A.4. Supporting Regional Initiatives and International Agreements**

The Bank will support regional and transboundary environmental and natural resources management initiatives, including those addressing global and regional environmental public goods and services. Also, the Bank will assist borrowing countries, at their request, to meet their agreed national obligations under ratified international environmental agreements. The Bank may support, *inter alia*: investments for managing international watersheds, regional and transboundary biological corridors and protected areas, and shared coastal and marine resources, among others; national assessments and reporting requirements, such as those defined in the Kyoto Protocol; and compliance with commitments under regional agreements to strengthen environmental protection. The Bank will provide, as appropriate, technical and financial support through regional technical cooperation activities on specific issues, particularly those associated with local or international investment efforts, as well as national-level lending and capacity development activities. The Bank will work with bilateral partnerships and multilateral funding sources, including the Global Environment Facility (GEF), in supporting the implementation of this Directive.

#### **A.5. Tracking Environmental Sustainability Indicators**

Bank Country Strategies or other relevant programming documents will incorporate, as applicable, relevant indicators to track the Bank's effectiveness in pursuing environmental goals as well as general country-level environmental performance. In the context of the country-level environmental analysis, relevant environmental informa-

tion on selected trend indicators, in coordination or harmonized with specialized national and international agencies will be collected and updated in subsequent programming documents and/or Country Strategies, when applicable. Particular attention should be given to tracking performance on the state of environmental governance, institutional and policy development, the conditions of key natural resources and ecosystems, and the status of internationally agreed targets and goals.

#### **A.6. Assessing Environmental Risks and Opportunities**

The Bank will seek to identify early on potentially highly sensitive programs/projects or sectors considered for possible Bank financing in its operational programming documents, including Country Strategies, in order to plan for possible courses of action to manage risk. The Bank will take into account the country environmental analysis as described in A1, or other assessments from environmental due-diligence processes at the stage of project/program identification, to assess early on potentially significant environmental risks and opportunities. The Bank may adopt a risk management approach to anticipate precautionary measures, and, if needed, to facilitate capacity building and other enabling conditions for proper environmental management, such as enhancing policy dialogue with the borrower, leveraging public-private partnerships, harmonizing procedures among co-financing partners and engaging civil society participation. This applies particularly when the Bank's proposed portfolio is likely to include public and private sector operations in economic sectors or geographical areas that are potentially environmentally and socially sensitive. Once operations have been formally incorporated into the Bank's pipeline for conceptualization and design, the Environmental Safeguards set out in this policy, as presented below, will apply as appropriate.

#### **A.7. Promoting Corporate Environmental Responsibility**

With respect to its own administrative activities and facilities in headquarters and country offices, the Bank will promote corporate environmental responsibility actions, such as improving effi-

ciency in energy and water use: improving practices for reducing, reusing and recycling waste and materials; minimizing the consumption and emissions of hazardous substances; and providing a healthy and safe working environment. Where possible, common standards for resource intensity and efficiency will be used, such as those under development by the Global Reporting Initiative (GRI). Adjustments to relevant administrative manuals will reflect the principles of corporate environmental responsibility, in line with practices followed by other MFIs.

## **B. SAFEGUARDING THE ENVIRONMENT: MANAGING ENVIRONMENTAL IMPACTS AND RISKS**

The Bank applies safeguards throughout the project cycle to ensure the environmental sustainability of all Bank-financed operations. In line with sustainable development practices, the Bank takes a general precautionary approach to environmental impacts. The Bank favors avoiding negative environmental impacts; when impacts are unavoidable, Bank-financed operations require mitigation measures; and for impacts that cannot be fully mitigated, compensation or offsets should be implemented. The Bank will work with borrowers to manage environmental risks effectively and to help develop environmental management capacity, as agreed. Where, in the opinion of the Bank, the environmental risks are deemed to be too great, the Bank would support the proposed investment only once the plan for mitigation of the risks is agreed.

### ***Safeguard Policies and Directives***

#### **B.1. Bank Policies**

The Bank will only finance operations and activities that comply with the directives of this policy, and are consistent with the relevant provisions of other Bank policies.

#### **B.2. Country Laws and Regulations**

The Bank will also require the borrower for that operation to ensure that it is designed and carried out in compliance with environmental laws and regulations of the country where the operation is

being implemented, including national obligations established under ratified Multilateral Environmental Agreements (MEAs).

In agreement with the borrower, the Bank will define appropriate measures to comply with directives B1 and B2.

#### **B.3. Screening and Classification**

All Bank-financed operations will be screened and classified according to their potential environmental impacts. Screening will be carried out early in the preparation process. The screening process will consider potential negative environmental impacts whether direct, indirect, regional or cumulative in nature, including environmentally related social and cultural impacts, of the operation and of its associated facilities if relevant. Bank operations will be classified according to their potential impacts so that the appropriate environmental assessment or due diligence requirements are selected for the operation. The operation's environmental impact classification will be disclosed according to the Bank's Disclosure of Information Policy (OP-102). The Bank will periodically assess the performance of its screening and categorization procedures. The following classification will apply:

- Any operation that is likely to cause significant negative environmental and associated social impacts, or have profound implications affecting natural resources, will be classified as *Category "A."* These operations will require an environmental assessment (EA), normally an Environmental Impact Assessment (EIA) for investment operations, or other environmental assessments such as a Strategic Environmental Assessment (SEA) for programs and other financial operations that involve plans and policies. Category "A" operations are considered high safeguard risk. For some high safeguard risk operations that, in the Bank's opinion, raise complex and sensitive environmental, social, or health and safety concerns, the borrower should normally establish an advisory panel of experts to provide guidance for the design and/or execution of the operation on issues

relevant to the EA process, including health and safety.

- Operations that are likely to cause mostly local and short-term negative environmental and associated social impacts and for which effective mitigation measures are readily available will be classified as *Category “B.”* These operations will normally require an environmental and/or social analysis, according to and focusing on, the specific issues identified in the screening process, and an environmental and social management plan (ESMP).
- Operations that are likely to cause minimal or no negative environmental and associated social impacts will be classified as *Category “C.”* These operations do not require an environmental or social analysis beyond the screening and scoping analysis for determining the classification. However, where relevant, these operations will establish safeguard, or monitoring requirements.

#### **B.4. Other Risk Factors**

In addition to risks posed by environmental impacts, the Bank will identify and manage other risk factors that may affect the environmental sustainability of its operations. These risk factors may include elements such as the governance capacity of executing agencies/borrower and of third parties,<sup>2</sup> sector-related risks, risks associated with highly sensitive environmental and social concerns, and vulnerability to disasters. Depending on the nature and the severity of the risks, the Bank will engage with the executing agency/borrower and relevant third parties to develop appropriate measures for managing such risks.

#### **B.5. Environmental Assessment Requirements**

Preparation of Environmental Assessments (EA) and associated management plans and their implementation are the responsibility of the borrower. The Bank will require compliance with specified standards for Environmental Impact Assessments (EIAs), Strategic Environmental As-

sessments (SEAs), Environmental and Social Management Plan (ESMP), and environmental analyses, as defined in this Policy and detailed in the Guidelines. The operation’s executing agency or borrower is required to submit all EA products to the Bank for review. The operation’s approval by the Bank will consider the quality of the EA process and documentation, among other factors.

- The EIA process includes, as a minimum: screening and scoping for impacts; timely and adequate consultation and information dissemination process; examination of alternatives including a no project scenario. The EIA should be supported by economic analysis of project alternatives and, as applicable, by economic cost-benefit assessments of the project’s environmental impacts and/or the associated protection measures. Also, due consideration will be given to analyzing compliance with relevant legal requirements; direct, indirect, regional or cumulative impacts, using adequate baseline data as necessary; impact mitigation and management plans presented in an ESMP; the incorporation of EA findings into project design; measures for adequate follow-up of the ESMP’s implementation. An EIA report must be prepared with its ESMP and disclosed to the public prior to the analysis mission, consistent with the Disclosure of Information Policy (OP-102).
- The SEA has the following objectives: (i) assure that the main environmental risks and opportunities of policies, plans or programs have been properly identified; (ii) engage early on governments and potentially affected parties in the identification and analysis of strategic issues, actions, and development alternatives; (iii) define and agree on a sequence of actions to address systematically and strategically environmental issues and priority actions, summarized in an SEA action plan for adequate monitoring and follow up; and (iv) assure that adequate environmental information is available and collected for the decision making process. The SEA process should be triggered early in the decision-making process and prior to the implementation of the policies, plans or programs.

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<sup>2</sup> See definition for *third party* in section VI.

Recommendations from the SEA process should be incorporated into an operation's activities.

- For operations requiring an environmental assessment but not subject to an EIA or an SEA, an environmental analysis should be performed including an evaluation of the potential environmental, social, health and safety impacts and risks associated with the operation, and an indication of the measures foreseen to control these risks and impacts. The financing of existing facilities will typically require an environmental assessment (EA) to assess the potential environmental and associated social impacts and risks due to the construction and operation of the projects or sub-projects.
- The ESMP must include: a presentation of the key direct and indirect impacts and risks of the proposed operation; the design of the proposed social/environmental measures to avoid, minimize, compensate and/or mitigate the key direct and indirect impacts and risks; the institutional responsibilities to implement these measures, including, where necessary, institutional development, capacity building and training; the schedule and budget allocated for the implementation and management of such measures; the consultation or participation program agreed for the operation; and the framework for the monitoring of social and environmental impacts and risks throughout the execution of the operation, including clearly defined indicators, monitoring schedules, responsibilities and costs. The ESMP should be ready for, and reviewed during, the analysis/due diligence mission.

## B.6. Consultations

As part of the environmental assessment process, Category "A" and "B" operations will require consultations with affected parties<sup>3</sup> and consideration of their views. Consultations with other interested parties<sup>4</sup> may also be undertaken in order to consider a broader range of expertise and perspec-

tives. Category "A" operations will be consulted at least twice during project preparation, during the scoping phase of the environmental assessment or due diligence processes, and during the review of the assessment reports. For Category "B" operations, affected parties must be consulted at least once, preferably during the preparation or review of the ESMP, as agreed with the borrower. For consultation purposes, appropriate information will be provided in location(s), format(s) and language(s) to allow for affected parties to be meaningfully consulted, to form an opinion and to comment on the proposed course of action. EIAs and/or other relevant environmental analyses will be made available to the public consistent with the Bank's Disclosure of Information Policy (OP-102). During execution, affected parties should be kept informed of those project-related environmental and associated social mitigation measures affecting them, as defined in the ESMP.

## B.7. Supervision and Compliance

The Bank will monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations. Safeguard requirements, such as those in an ESMP must be incorporated into the project contract documents, its operating or credit regulations, or the project bidding documents, as appropriate, setting out as necessary milestones, timeframes and corresponding budgetary allocations to implement and monitor the plan during the course of the project. Safeguard indicators, as appropriate, should be clearly defined in the logical/results framework, followed up in project monitoring reports and reviewed in mid-term reviews and project completion reports. Compliance with safeguard commitments and identification of unexpected safeguard issues will be analyzed, reviewed and reported as part of Bank's administration and portfolio review missions. Category "A" projects will be reviewed at least annually to assess safeguard compliance. Whenever ex-post evaluations are conducted, these will evaluate the sustainability outcomes of an operation.

<sup>3</sup> See definition of *affected parties* in section VI.

<sup>4</sup> See definition of *interested parties* in section VI.

## B.8. Transboundary Impacts

The environmental assessment process will identify and address, early in the project cycle, transboundary issues associated with the operation. The environmental assessment process for operations with potentially significant transboundary environmental and associated social impacts, such as operations affecting another country's use of waterways, watersheds, coastal marine resources, biological corridors, regional air sheds and aquifers, will address the following issues: (i) notification to the affected country or countries of the critical transboundary impacts; (ii) implementation of an appropriate framework for consultation of affected parties; and (iii) appropriate environmental mitigation and/or monitoring measures, to the Bank's satisfaction.

## B.9. Natural Habitats and Cultural Sites

The Bank will not support operations that, in its opinion, significantly convert or degrade critical natural habitats or that damage critical cultural sites.<sup>5</sup> Whenever feasible, Bank-financed operations and activities will be sited on lands already converted. In addition, the Bank will not support operations involving the significant conversion or degradation of natural habitats<sup>6</sup> as defined in this policy, unless: (i) there are no feasible alternatives acceptable to the Bank; (ii) comprehensive analysis demonstrates that overall benefits from the operation substantially outweigh the environmental costs; and (iii) mitigation and compensation measures acceptable to the Bank—including, as appropriate, minimizing habitat loss and establishing and maintaining an ecologically similar protected area that is adequately funded, implemented and monitored. The Bank will not support operations that introduce invasive species.<sup>7</sup>

The EA process will identify and assess impacts on critical cultural sites. For other non-critical cultural sites or artifacts, appropriate measures will be taken to protect their integrity and func-

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<sup>5</sup> See definitions for *significant conversion*, *degradation*, *critical cultural site*, and *critical natural habitat* in section VI.

<sup>6</sup> See definition for *natural habitat* in section VI.

<sup>7</sup> See definition of *invasive species* in section VI.

tion. For operations where archeological or historical artifacts can be expected to be found either during construction or operations, the borrower will prepare and implement chance find<sup>8</sup> procedures based on internationally accepted practices.

## B.10. Hazardous Materials

Bank-financed operations should avoid adverse impacts to the environment and human health and safety occurring from the production, procurement, use, and disposal of hazardous material, including organic and inorganic toxic substances, pesticides and Persistent Organic Pollutants (POPs). The production, procurement, use and disposal of hazardous material and substances should be avoided whenever possible, and minimized in other cases. Whenever the significant production or use of a hazardous material or substance cannot be avoided, a management plan should be prepared covering their transport, handling, storage and disposal, with associated management and reporting practices including preventive and contingency measures, in consultation with potentially affected workers and communities.

Bank operation and activities should take into account international restrictions on the use of toxic substances, including the Basel Convention on the transboundary movement of hazardous wastes and the Rotterdam Convention on the prior informed consent procedure for certain hazardous chemicals and pesticides in international trade. Bank investment loans will not finance the production, procurement or use of POPs, unless for an acceptable purpose allowed under the Stockholm Convention on Persistent Organic Pollutants.

The Bank promotes and encourages integrated pest management (IPM) and integrated vector management (IVM) practices to reduce reliance on synthetic chemical pesticides. The use of harmful pesticides should be avoided. Where pesticides have to be used, the operations should preferably use those that have the least adverse effects on human health, nontarget species and the environment, and their manufacture, packaging, labeling, storage, handling, use and disposal should be to

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<sup>8</sup> See definition for *chance find* in section VI.



appropriate standards. The Bank will not finance operations involving toxic pesticides—as defined by the World Health Organization (WHO) classes Ia, Ib, and II—except where adequate restrictions and sufficient capacity exist within the context of the operation for their proper and safe handling, storage and application. When appropriate, and as part of strengthening safeguard mitigation measures, the Bank will support building country and executing agency capacity in managing pesticides.

### **B.11. Pollution Prevention and Abatement**

Bank-financed operations will include as appropriate, measures to prevent, reduce or eliminate pollution emanating from their activities.

- The Bank will require clients to follow source-specific emission and discharge standards recognized by multilateral development banks. Taking into account local conditions and national legislation and regulations, the environmental assessment report or environmental and social management report will justify the standards selected for the particular operation, consistent with this Directive.
- As part of agreed mitigation measures, the Bank may require that the borrower, where feasible and cost effective, adopt cleaner production processes, energy-efficiency or renewable energy.
- The Bank encourages the reduction and control of greenhouse gas (GHG) emissions in a manner appropriate to the nature and scale of operations. Operations that produce significant quantities of greenhouse gases will annually quantify direct GHG emissions, in accordance with the emission estimation methodologies of the Intergovernmental Panel on Climate Change (IPCC) or other internationally accepted methodologies.

### **B.12. Project Under Construction**

The Bank will finance operations already under construction,<sup>9</sup> only if the borrower can demon-

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<sup>9</sup> See definition for *project under construction* in Section VI.

strate that the operation complies with all relevant provisions of this Policy. If, as part of the Bank's analysis/due-diligence of a proposed operation that is already under construction, noncompliances with relevant safeguard Directives of this Policy are identified, then an action plan must be submitted to the Bank prior to Board approval of the operation. The action plan shall define the actions and associated schedule for the timely resolution of such noncompliances and include sufficient funding for its implementation.

### **B.13. Noninvestment Lending and Flexible Lending Instruments**

Taking into account that the Bank may finance loans with instruments that differ from traditional investment loans, for which ex-ante impact classification may not be feasible, these lending instruments may require alternative environmental assessment and management tools to determine their level of safeguard risks and operational requirements, as described in the policy guidelines.

- For *policy-based loans*, the Bank will analyze during the design phase whether specific country policies and/or institutional changes supported by the operation will have significant and direct effects on the country's environment and natural resources. The appropriate sequence of actions and conditions to ensure environmental sustainability will be reflected in the corresponding action plan, as required.
- For *financial intermediation operations (FIs)*, including *Global Credit Loans*, the Bank will assess the executing agency's capacity for environmental management. The financial intermediaries will demonstrate that appropriate environmental procedures are in place so that final recipients of IDB financing are required to adopt and implement sound and adequate environmental measures. The borrower and the Bank will agree on implementing an appropriate and feasible Environmental Management System (EMS) tailored to the particular needs of the operation. Environmental review of a representative sample of projects should be performed periodically.

- *Loans that are based on performance criteria, sector-based approaches, or conditional credit lines for investment projects* may require undertaking early environmental and capacity assessments at the sector and program level, on a case-by-case basis, according to the nature of the program and the sector.

#### **B.14. Multiple Phase and Repeat Loans**

Where there are significant environmental liabilities remaining from previous phases of a multi-phase operation or from a recently completed Bank-financed operation by the same executing agency/borrower, the executing agency borrower must take appropriate action to remedy such liabilities, or agree with the Bank on an appropriate course of action consistent with the executing agency's/borrower's responsibility, prior to the Bank's decision on a new phase or loan. If warranted by the nature of the operation, an environmental audit will be required to identify shortcomings and solutions to address them.

#### **B.15. Co-financing Operations**

For co-financing operations, the Bank should collaborate with the borrowers and participating lending institutions, to adopt a single EA process and unified documentation, consultation and disclosure requirements, consistent with the requirements of this policy. As a principle, the Bank will support convergence and harmonization efforts among the multilateral financial institutions, bilateral donors and other private and public partners.

#### **B.16. In-country Systems**

In the context of individual operations, the Bank will consider the use of the borrowing member countries' existing systems of safeguards<sup>10</sup> for identifying and managing environmental and social impacts. This will apply when the Bank has determined that the borrowing member country's system is equivalent or superior to the Bank's. Equivalency will be analyzed on the basis of each relevant safeguard for the selected operation. The Bank will be responsible for determining equivalence

and acceptability and for overseeing compliance with this Policy.

In cases where the Bank is considering the use of a borrowing member country's systems, the verification of equivalence will be included as part of the project report submitted for approval.

If the verification reveals gaps for specific safeguard requirements, the Bank and the borrower may agree on an action plan with sufficient resources allocated to it. The action plan, to be approved by the Board, shall demonstrate the necessary measures to achieve and maintain equivalence with IDB standards, consistent with the Policy directives. The Bank shall support the borrowing member country's capacity development needs to ensure acceptable safeguard implementation consistent with the agreed action plan. If, during the course of project implementation the Bank verifies equivalence in additional elements of a borrowing member country's systems, in accordance with Management guidelines, a change may be authorized in the contractual conditions. The Bank will use its own systems in areas where the borrowing member's systems are not deemed equivalent, and the delineation between safeguards under Bank or country systems will be reflected in the borrower's contractual obligations to the Bank.

Management will report to the Board of Executive Directors the results of the experience with country systems' use no later than three years after the effective date of this Policy.

#### **B.17. Procurement**

Where agreed with the borrower, suitable safeguard provisions for procurement of goods and services in Bank financed projects may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement. The Bank will foster approaches that help provide goods and services procured under Bank-financed operations that are produced in an environmentally and socially responsible manner, in terms of resource use, the work environment, and community relations. Bank procurement procedures will include a Bank-approved

<sup>10</sup> See definition for *safeguard systems* in section VI.

exclusion list of environmentally harmful products. The Bank should encourage borrowers and executing agencies to procure environmentally responsible works, goods and services, which in the Bank's opinion are consistent with the princi-

ples of economy and efficiency. Environmentally responsible procurement experience and practices will be shared with borrowing member countries and other multilateral financial institutions, to promote harmonized approaches.

## V. Policy Implementation and Compliance

This policy enters into effect six months after its approval by the Bank's Board of Executive Directors, in order to allow time to implement administrative changes and procedures within the institution. The policy will apply to operations that enter the Bank's pipeline<sup>11</sup> after the date the policy enters into effect, and to country strategy papers that have not yet been initiated at that time.

The reformulation of previously approved operations which require approval by the Bank's Board of Executive Directors, will be assessed in terms of potential environmental sustainability, as defined within the safeguard framework of this policy. Project teams must make a judgment as to whether the reformulation raises new significant environmental impacts and risks. In such cases, this policy would be applicable to these new environmental impacts and risks and approval of the reformulation will be subject to securing necessary agreements or consents of applicable borrowers pursuant to the relevant legal documentation. The reformulation proposal documents should address the fulfillment of this requirement.

The Bank will periodically assess the performance of its screening and categorization procedures.

The Bank will report its experience with the implementation of this Policy and achievement of its objectives. The implementation of this Policy will be reviewed no later than three years after it enters into effect, as part of an independent assessment, which will include consultations with governments, private sector, beneficiaries, and civil society. Bank Management will update the Guidelines from time to time to reflect evolving internationally accepted practices in the field.

The Policy cannot specifically anticipate and encompass all circumstances and, consequently, it is conceivable that the Bank may approve departures from one or more of the directives in the Policy. In such circumstances, proposals advocating any such departure in either programming or in project development and execution must demonstrate the exceptional characteristics of the situation that justify the departure. Project proposals in particular must justify deviations from the safeguards to achieve the goals of the project, include a strategy to correct or mitigate the effects of deviations, and formally request to the Board of Executive Directors the corresponding exception to the Policy.

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<sup>11</sup> Entering the Bank's pipeline means (i) after the signing of the mandate letter, for Private Sector projects, (ii) after the project number has been issued, for public sector operations, and (iii) for country strategy papers, those that have not yet been initiated.

## VI. Definitions

For the purposes of this Policy:

*Affected parties* are individuals, group of individuals or communities who may be directly impacted by a Bank-financed operation. Such impacts may be positive or negative. Affected parties may designate representatives as part of the consultation process.

*Associated facilities* in the context of environmental assessment, refer to new or additional works and/or infrastructure, irrespective of the source of financing, essential for a Bank-financed project to function, such as: new/additional access roads, railways, power lines, pipelines required to be built for the project; new/additional construction camps or permanent housing for project workers; new/additional power plants required for the project; new/additional project effluent treatment facilities, new/additional warehouses and marine terminals built to handle project goods.

*Chance finds* are the unanticipated discovery of material remains of archaeological or historical significance.

*Critical cultural sites* include but are not restricted to those protected (or officially proposed by governments for protection) such as World Heritage Sites and National Monuments, and areas initially recognized as protected by traditional local communities (e.g., sacred groves).

*Critical natural habitats* are (i) existing protected areas, areas officially proposed by governments for protection or sites that maintain conditions that are vital for the viability of the aforementioned areas; and (ii) unprotected areas of known high conservation value. Existing protected areas may include reserves that meet the criteria of the IUCN Protected Area Management Categories I through VI; World Heritage Sites; areas protected under the RAMSAR Convention on Wetlands; core areas of World Biosphere Reserves; and areas in the UN List of National Parks and Protected Areas. Areas of known high conservation value are sites

that, in the Bank's opinion, may be: (i) highly suitable for biodiversity conservation; (ii) crucial for critically endangered, endangered, vulnerable or near threatened species listed as such in the IUCN Red List of Endangered Species; or (iii) critical for the viability of migratory routes of migratory species.

*Cultural sites* are any natural or manmade areas, structures, natural features and/or objects valued by a people or associated people to be of spiritual, historical and or archaeological significance. Material remains may be prominent, but will often be minimal or absent.

*Degradation* is the modification of a critical or other natural habitat that substantially reduces the natural habitat's ability to maintain viable populations of its native species.

*Environmental assessment (EA)* is a generic term covering various types of assessment processes such as EIA, SEA, SCA, environmental analyses and environmental audits.

*Environmental Goods and Services.* Ecosystems and the environment are the source of goods (e.g., drinking water, forestry products, genetic resources) and services (e.g., clean air, hydrological flows, biodiversity corridors, flood protection) on which society places a value, whether it is social, ethical, or economic. Enhancing these values and implementing sustainable financial mechanisms constitute an important strategy adopted increasingly in many countries to conserve ecosystems and the environment.

*Interested parties* are individuals or groups who have expressed support or concern regarding a proposed or existing bank-financed operation.

*Invasive species* is defined as a species that is (i) nonnative (or alien) to the ecosystem under consideration; and (ii) whose introduction causes or is likely to cause economic or environmental harm or harm to human health.

*Natural habitats* are biophysical environments where: (i) the ecosystems' biological communities are formed largely by native plant and animal species; and (ii) human activity has not essentially modified the area's primary ecological functions. Natural habitats may be sites that (i) provide critical ecological services required for sustainable human development (e.g., aquifer recharge areas, areas that sustain fisheries, mangrove or other ecosystems that help to prevent or mitigate natural hazards); (ii) are vital to ensure the functional integrity of ecosystems (e.g., biological corridors, natural springs); and (iii) have high levels of endemism. Natural habitats may occur in tropical humid, dry, and cloud forests; temperate and boreal forests; Mediterranean-type shrub lands; natural arid and semi-arid lands; mangrove swamps, coastal marshes, and other wetlands; estuaries; seagrass beds; coral reefs; underwater vents; freshwater lakes and rivers; alpine and sub-alpine environments, including herb fields, grasslands, and *páramos*; and tropical and temperate grasslands.

*Precautionary approach* means that where there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation.

*Project under Construction.* For the purpose of implementing directive B12, a project is under construction if, prior to entering the Bank's pipeline, the borrower has initiated major works for the projects, where initiating major works imply

on-site physical construction of the project. Major works exclude exploratory or preparatory activities such as building access roads, providing power supply and other associated facilities.

*Risk* is understood as the possibility that environmental, social, health and safety, governance or operation-specific factors may affect environmental sustainability of the operation. Safeguard risk assessment and management is an iterative process of identifying risk factors and taking action to manage risks at the country, portfolio, and operation level.

*Significant conversion* is the elimination or severe diminution of the integrity of a critical or other natural habitat caused by a major, long-term change in land or water use. In both terrestrial and aquatic ecosystems, conversion of natural habitats can occur as the result of severe pollution. Conversion can result directly from the action of a project or through an indirect mechanism (e.g., through induced settlement along a road).

*In-country Safeguard Systems.* For the purpose of this Policy, the in-country safeguards systems consists of the laws, regulations, institutions, and procedures associated with the safeguard requirements established under Directives B3 to B11.

*Third Party.* A third party is a public agency that is not identified as an executing agency in a loan agreement but whose involvement is necessary for the effective mitigation of impacts or environmental enhancement of a project.