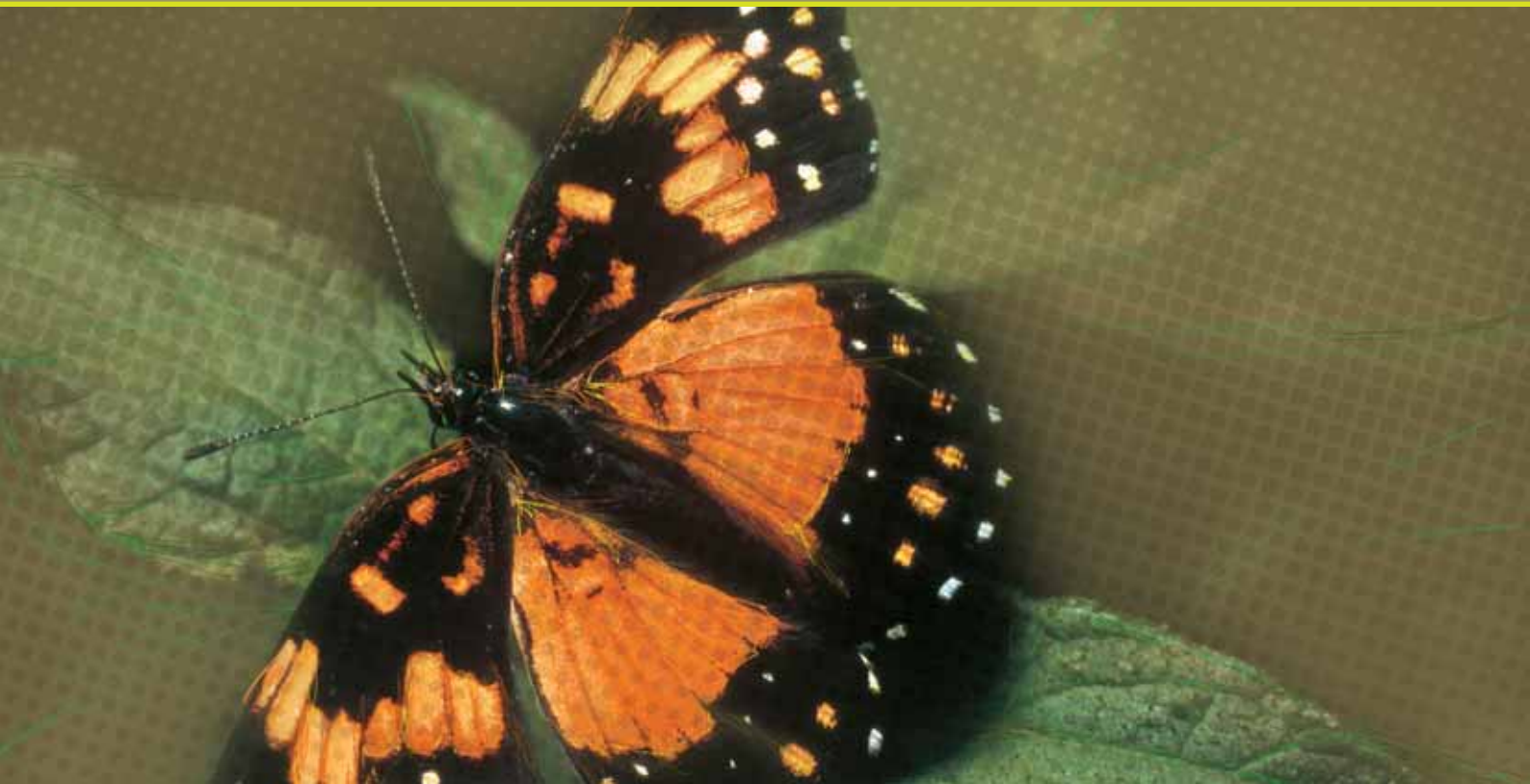


CAF and the Environment



Title:

CAF Environmental Strategy

This document sets out the guiding axes, principles, lines of action, and strategic environment programs that guide CAF's environmental management.

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Published and produced by:

Secretariat and Business Communications Office
CAF Publications
publicaciones@caf.com

Graphic Design: 72 dpi

Printed by: Gráficas Lauki
Caracas, Venezuela–November 2008

A digital version of this book is available at:
www.caf.com/publicaciones

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Foreword

L. Enrique García
President of CAF

This document seeks to collect and make public information about the long road of learning, experience, and specialization CAF has followed in environmental matters. It also establishes the tactical lines of CAF's environmental management in harmony with its economic, financial, and social strategies. In this process, CAF has steered significant effort and resources toward the area of the environment through various financing schemes, in an attempt to integrate the three cornerstones of sustainable development: economic, social, and environmental.

These efforts are intended to go on contributing to sustainable development and to boost competitiveness, reduce social gaps, check environmental deterioration, support economic growth, and improve living conditions for the region's inhabitants.

The principles defining the conceptual framework of CAF environmental management contained in this document have enabled the environmental dimension to be transversely incorporated into CAF-designed strategies and operations, positively impacting its support for its shareholder countries' development processes.

In this process of building solidly designed environmental management, CAF has developed its own instruments, systematized its processes, adapted its institutional schemes, and specialized its interdisciplinary teams in the framework of continual improvement. This has contributed to the environmental sustainability and social responsibility of its operations and, at the same time, has lent significant support to the shareholder countries in their efforts and actions to conserve and sustainably yield their natural resources and ecosystems.

The CAF Environmental Strategy set forth in this document is a further contribution by the Corporation toward consolidating a regional environmental culture and fostering commitment to conservation and the sustainable use of the region's natural heritage among national and international organizations.

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Introduction

CAF has put its experience, knowledge, resources, and action strategies at the service of an Agenda for Representative Development for the region with a view to achieving high-quality, sustained, equitable, and inclusive growth that helps reduce poverty and unemployment, strengthen democracy in a framework of governance, and involve society at large by creating social and human capital, while taking into account the sustainability of its shareholder countries' natural base.

The transverse approach to the issue of the environment is apparent in these momentous objectives for the present and future of the region, and CAF has therefore undertaken to conserve and sustainably use natural capital and the environment as a basic support and source for its development in a permanent and coordinated effort with its partner countries.

CAF has made the environmental and social dimension a fundamental aspect of its administration. This Environmental Strategy document reasserts and strengthens CAF's express commitment to the environmental sustainability of its shareholder countries and the operations it finances.

The Environmental Strategy's conception builds on the experiences and lessons learned in the environmental sphere over more than 35 years of CAF history and particularly the progress made over the last decade. It adopts a prospective view to drive the environmental development challenges and opportunities of both CAF and its shareholder countries.

It is worth remembering in this context that, in 1994, CAF created the Sustainable Development Coordination Office (OCDS) responsible for the environmental assessment and follow-up of its operations. In 2000, the OCDS became the Sustainable Development Office under the Vice-Presidency of Development Strategies. Later, in 2004, the area's decision level was strengthened with the creation of the Vice-Presidency of Social and Environmental Development (VDSA). Through the VDSA, environmental issues were given transverse status integral to the region's economic and social development on the one hand, while on the other, the environmental own technical and methodological development was recognized, setting high levels of specialization in the CAF environmental area.

Grounding itself in this view, the VDSA set up new offices of the Environment and Social Development. In addition, in an effort to boost promotion and specialization in the social sphere, CAF created other parties to reinforce the areas of community and cultural development, and promote governance and leadership in the region.

From this perspective, CAF's institutional organization has been adapting dynamically and flexibly to achieve the objectives collected in this Environmental Strategy document. The VDSA and its Environment Office thus specialize in steering and supporting the issue's development with a highly specialized team and external consultants working at the Headquarters and at each of the Country Offices.

Organized into multidisciplinary teams, this group of professionals works together with the business areas and CAF support to tackle environmental and social management from an integrated perspective that guarantees its incorporation in the CAF's various consultation, decision-making, and execution authorities.

This integrating transverse approach to environmental and social management has been growing stronger with its coordination and inclusion in all CAF-financed operations in both the public and private sectors, being those of infrastructure, social services, industry, corporations, financial institutions and promotion of the microenterprise sector, among others.

Accordingly, part of the operations' financing is allocated to guarantee that any environmental and social impacts and risks identified are dealt with in a timely and efficient fashion, while developing the participation of civil society as indispensable to this process and in the pursuit of opportunities for environmental and social development associated with these operations.

CAF Environmental Strategy has progressed from the initial work of assessment and follow-up to broad-based, decisive, committed support for the region and its shareholder countries. The

Corporation contributes to this effect with environmental policy-making and designing regulatory frameworks, strengthening environment-focused government and non-government institutions, developing civil society as a key actor in consolidating a healthy environment, supporting and creating environmentally sustainable markets, and developing conservation projects and restoring ecosystems.

CAF has also incorporated actions geared to the administration and sustainable yield of natural resources in order to guarantee, among other things, sustained productivity, efficient energy use, and the promotion of renewable, clean, and alternative energy sources, support for a sustainability culture in the financial sector, and the promotion of responsible environmental and social management practices in the various production and service sectors.

In summary, it is important to remember that both the Corporation's responsibility activities, and those to do with support for the region's countries have created the need for a suitable institutional organization and for the design of methodologies and instruments of its own to support internal management. This has enabled across-the-board internalization of the environmental and social aspects of CAF's actions.

CAF Environmental Strategy



A. CAF's conceptual framework in the environment

Sustainable development and regional integration are the cornerstones of CAF's institutional mission and are defined as the guiding axes of the Corporation's Environmental Strategy.

A.1 Guiding axes

CAF believes that the main contribution of the environmental dimension to sustainable development is directed toward recognition of the conservation and sustainable use of the region's nature and environment as a basis for improving societies' quality of life, overcoming poverty, and promoting long-term economic development and spiritual wellbeing.

In the framework of regional integration, CAF brings the environmental perspective into play and focuses it on:

- The responsible management of ecosystems and shared natural resources of regional and international importance, and the harmonization of the region's environment policies.
- The capitalization of opportunities and the management of risks and impacts brought about by physical integration.
- The conservation of the natural heritage and the continued survival of the functional relationships of the ecosystems that guarantee life.
- The raising of environmental awareness in the region so as to encourage the strategic appreciation of its natural capital.

CAF also recognizes the environmental component as being decisive in the transformation of production in the region. Firstly, fully aware of the importance of integration into the world economy for the region, the Corporation promotes and accompanies international agreements on the environment signed by its shareholder countries.

Secondly, CAF promotes and supports the creation and growth of the production value of natural capital, as well as the development of emerging environmental markets, and the streamlining of enterprise and production sectors environmental management so that, overall, strengthening will streamline countries' sustainable integration in international markets in an ecoefficient fashion.

A.2 Environmental principles

In line with the Environmental Strategy's guiding axes, CAF has established a set of fundamental principles as a conceptual framework for the steering of its environmental management. The Corporation therefore:

- I. Views *the environment as a transverse, coordinating component* of social, economic, and cultural development.
- II. Recognizes the environmental issue as a *nexus integrating international, regional, national, and local actors*, and in which the interest, concern, the attention of public, private, and civil society sectors converge.
- III. *Respects, cooperates, and coordinates with the national policies, strategies, and standards* of its shareholder countries as decisive elements steering its institutional environmental management.

- IV. Promotes respect for *cultural diversity and gender equity*, and does not discriminate according to creed, ideology, or race, considering full participation indispensable in achieving a healthy environment.
- V. Recognizes and supports the *identity, culture, and interests of Native populations and other ethnic communities*, and promotes their participation in achieving sustainable development in the view that these communities play a fundamental part in environmental sustainability by virtue of their ancestral knowledge and practices.
- VI. Takes a *cautious approach to its activities* and, on foreseeing any danger of serious or irreversible damage, promotes the adoption of cost-effective measures to prevent the deterioration of the environment.
- VII. Encourages the incorporation of *environmental costs* in its activities for the prevention, correction, and restoration of environmental deterioration, and for the conservation of ecosystems and renewable natural resources.
- VIII. Promotes the exchange of *scientific knowledge* and environment-related transfer and technological innovation.
- IX. Views the *participation and information of public, private, and civil society* actors as decisive to the success of its mission, and consequently promotes and facilitates extensive discussion spaces and appropriate dissemination mechanisms relating to its activities in view of the policies and strategies established for CAF by its shareholder countries in this area.
- X. Is committed in creating *the spaces and providing the necessary technical, logistical, and human resources* to continue consolidating its position as a regionally, environmentally, and socially responsible institution.
- XI. Supports, through the public, private, and civil society sectors, the *strengthening of environmental management, and the conservation and sustainable use of natural resources and ecosystems* by its shareholder countries.

B. Scope

CAF Environmental Strategy is in line with the concept of sustainable development and therefore places special emphasis on:

- Operations financed by the Corporation in the public and private sectors including industrial projects, infrastructure projects, social and environmental development projects, and business operations.
- Programs and activities put forward by CAF to support member countries' environmental development.
- Activities of institutional environmental management developed on CAF facilities, at its Headquarters or Country Offices.

In the framework of this Strategy, the environment is understood as the set of elements comprised by geospheric, hydric, atmospheric, biotic, social, demographic, anthropological, ethnic, economic, cultural, archeological, participative, and institutional components.

This Strategy also takes into account the territorial nature of the environment, where different forms of pressure on and use of ecosystems, natural resources, and the environment are generated, leading to specialized environmental management for urban, rural, and natural areas depending on the different levels of human intervention and settlement.

It is important to highlight that, the social component mentioned in this Strategy document relates exclusively to the identification of impacts, risks, or opportunities associated with CAF-financed operations.

It should be stressed here that, through its four offices specializing in social issues, CAF has undertaken a series of programs, projects, and activities focused specifically on the region's social development and not mentioned in the present Environmental Strategy document.

C. Objectives

The CAF Environmental Strategy seeks:

- To permanently create and improve frameworks, spaces, and processes to guarantee responsible environmental and social management by CAF.
- To support shareholder countries in the conservation and sustainable use of natural resources and ecosystems, and the development of the environmental sector, incorporating long-term sustainability criteria and principles.

D. Lines of action

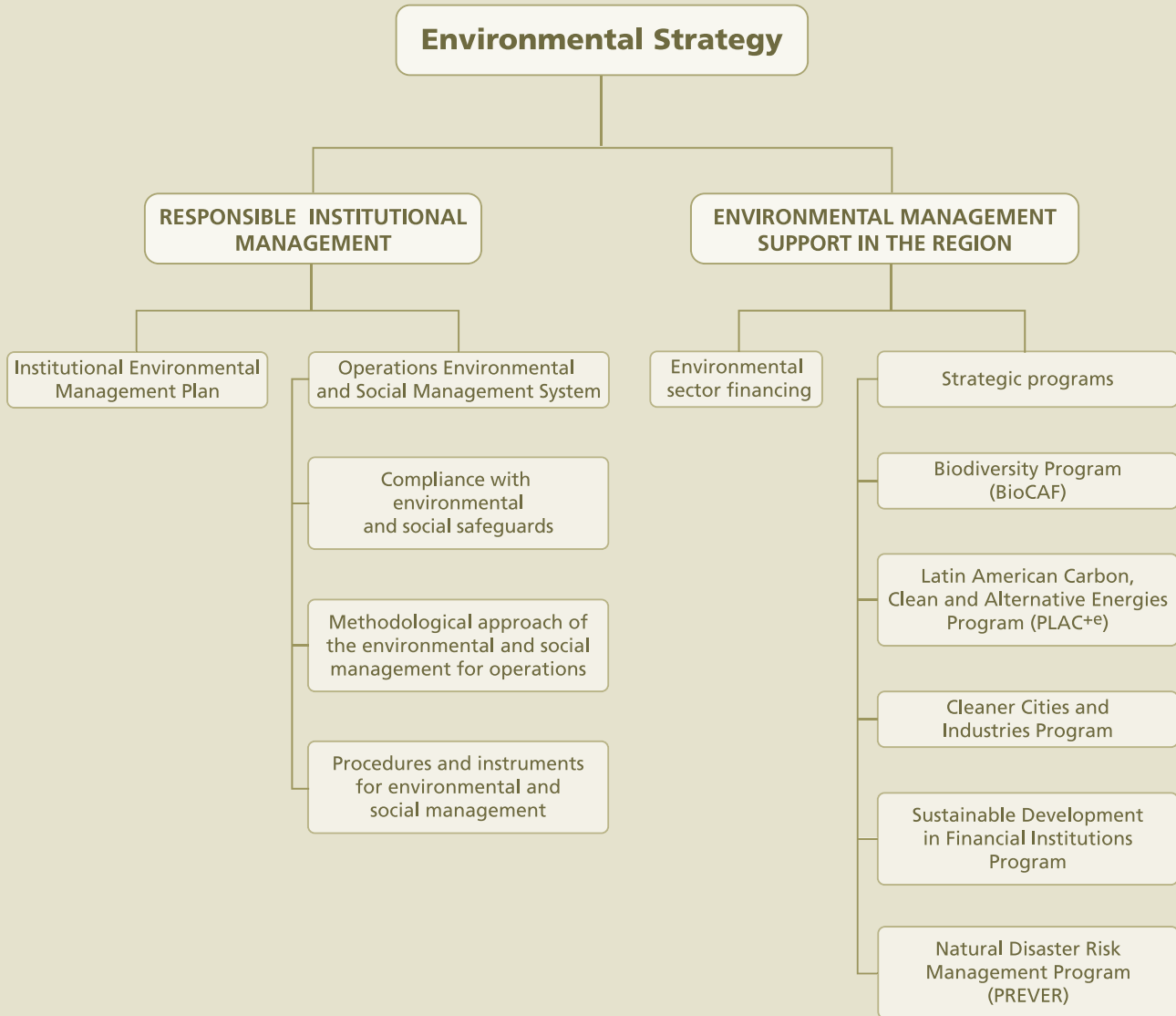
This Environmental Strategy document sets out the following courses of action in accordance with the established objectives:

- In line with the first objective, CAF has designed an Operations Environmental and Social Management System that comprises the set of safeguard guidelines, methodological approaches, procedures, instruments, and resources, in order to incorporate responsible environmental and social management at every phase of the CAF credit process.
- CAF has also drawn up an Institutional Environmental Management Plan to promote responsible environmental business action in regard to administrative activities and its facilities at CAF Headquarters and the Country Offices.
- To advance the second objective, CAF has designed and implemented a series of programs specializing in the environment that promote and support the national and regional initiatives for nature conservation and the sustainable use of the region's natural capital, as well as strengthening the environmental sector in each shareholder country.

E. Responsible institutional management

Within this first line of action, the institutional management responsible for the environment, CAF has established two areas of work: the

Figure N° 1 Environmental Strategy Lines of Action





Actions geared to improving the quality of life for present and future generations.

Operations Environmental and Social Management System and the Institutional Environmental Management Plan.

E.1 Operations Environmental and Social Management System

An Environmental and Social Management System has been designed and implemented to ensure responsible environmental and social management for CAF-financed operations. The System consists of a set of environmental and social safeguards, methodological approaches, procedures, instruments, and resources. These

coordinate and incorporate environmental and social management at every phase of the CAF credit process.

Compliance with environmental and social safeguards in CAF operations

The set of environmental and social safeguards is applicable to all operations financed by the Corporation. These safeguards set basic benchmarks for the development of sustainable and responsible environmental and social management for operations (see Box N° 1).

Box N° 1

Environmental and social safeguards applicable to CAF operations

I. National legislation. All CAF-financed projects are in line with the environmental legislation of the country where the project is executed, and with any international agreements and commitments signed by the shareholder countries.

CAF nevertheless calls for the application of additional precautions or selects internationally accepted technical standards where necessary.

II. Environmental and social impact, risk, and opportunity assessment. Right from the start of its cycle of operations, CAF carries out a review and complementation of the environmental and social assessment, and ensures that the management measures and opportunities for

environmental and social development associated with the operation are designed, identified, and implemented.

On the principle of precaution, when any major environmental and social impacts not foreseen in the assessment process occur during operations, CAF seeks the incorporation of the management measures required for the appropriate administration of these impacts. Likewise, when it sees a need, it calls for further assessments, studies, and environmental analysis to be presented. These include Strategic Environmental Assessments, Watershed Management Planning, Land Planning, and so on.

III. Environmental and social management and budget measures. As a result of the review of the environmental and social assessment for operations, CAF is seeking to internalize in its

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operations' budgets any environmental and social management costs needed to tackle environmental and social development impacts and opportunities. It is down to the client to adopt the necessary measures to avoid, control, mitigate, and offset any environmental and social impacts and risks.

IV. Institutional strengthening, human resources training, and information. CAF supports the strengthening of governance through the operations it finances, as well as the creation of capabilities among the institutions, establishments, and social groups linked to these operations. It places special importance on the exchange and timely dissemination of relevant information for the environmental and social management of government organizations, the private sector, and communities, bearing in mind the policies and strategies defined in this respect for CAF by its shareholder countries through the Corporation's Board of Directors.

V. Water conservation. CAF stimulates projects geared to the conservation and sustainable use of hydric and other associated resources (soils and vegetation), and promotes comprehensive management of watersheds.

VI. Nature reserves and protected natural areas. It is CAF policy to sponsor the preservation of national parks and other protected natural areas as public assets through the operations it finances. Therefore, in compliance with the relevant legislation of the country where the operation is carried out, CAF finances projects in protected areas providing the operation contributes to the fulfillment of the objectives for which the protected area has been created.

VII. Disaster risk prevention. When CAF sees a need to do so, it assesses operations in terms of their vulnerability to natural dangers and of the likelihood of operations to precipitate them and so consider reducing the risks to the projects entailed by natural disasters. Where appropriate, it also considers institutional strengthening of disaster risk management and vulnerability analysis management capabilities as part of the financing.

VIII. Pollution prevention. CAF operations promote the introduction of measures geared to preventing pollution. In industrial operations, the Corporation makes reducing pollution and the consumption of natural resources an integral part of the production process, encourages the use of clean or renewable energy, and contributes to cutting greenhouse gas (GHG) emissions in a framework of cleaner production.

IX. The region's cultural heritage. CAF subjects any projects in areas where there are archeological or historic treasures, or sacred Native sites, to the approval of the competent scientific and/or cultural institutions, and the country's relevant legislation.

X. Ethnic groups and cultural diversity. CAF strives to preserve and strengthen the region's cultural diversity. In this respect, it makes sure operations have complied with the participation process demanded by the country's legal system and, where it sees a need, calls for additional step of public consultation. It also calls for the execution of management plans in order to meet any possible impacts on collective lands and

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cultures of Native peoples, and other ethnic groups recognized in law.

XI. *Community participation and development.* It is a priority for CAF, through the operations it finances, to contribute to the strengthening of the informed, active, and timely participation of the inhabitants of the areas of influence in the operations it supports. When it sees a need, CAF calls for public consultation in addition to those required by the country's laws.

XII. *Involuntary resettlement and/or relocation.* In operations requiring resettlement and/or relocation of human groups, CAF calls for plans to be drawn up to compensate the

groups affected or offer them similar or better living conditions to those they had previously and for potential host communities to be taken into consideration. CAF also seeks the creation of local community development capabilities and options, especially in the case of Native peoples or local communities who, due to their vulnerability, may be directly affected by an operation's execution.

XIII. *Child protection.* CAF finances no projects involving the direct or indirect exploitation of minors.

XIV. *Gender equity.* CAF observes gender equity in the operations it finances.

Methodological approaches of operations environmental and social management

In assessing infrastructure operations, and social and environmental development operations, which generally involve construction work and the use of significant expanses of land, CAF takes a comprehensive and systemic approach as its methodological framework.

This approach draws on some of the ecosystemic principles adopted by the parties of the Convention on Biological Diversity (CBD), and consults some of the methodological developments and the application of this concept in different countries (see Box N° 2).

For industrial operations and manufacturing processes, CAF adopts the methodological approach of clean production analysis, combined with traditional clean-up processes depending on individual projects' requirements (see Box N° 3, p. 20).

In operations that combine infrastructure projects and industrial or manufacturing projects, the methodology involves both approaches, as with mining operations.

In Corporate Loan operations, CAF takes the analysis of end users' environmental and social management capability as a focus in its assessment (see Box N° 4, p. 20).

To guarantee the environmental and social quality of the operations as part of its methodological approach, CAF undertakes the follow-up, monitoring, and continuous control of compliance with environmental principles, safeguard guidelines, and especially any commitments acquired by the operation for environmental and social administration and management, and their corresponding budgetary execution.

Box N° 2

A comprehensive, systemic approach

This methodological approach is applied to infrastructure operations, and social and environmental development operations involving construction work and/or the significant expanses of land. The main aspects of the approach are:

- Understanding and analyzing natural and human systems such as the way geospheric, hydric, atmospheric, biotic, demographic, anthropological, ethnic, cultural, archeological, participative, economic, and institutional elements interact.
- Identifying levels of vulnerability and risk in each of the components of the above mentioned systems with an analysis based on the natural and/or social units that comprise them, and specializing environmental management according to urban, rural, or natural areas.
- Considering mechanisms to foster the information and participation of any communities present in the areas of influence, taking into consideration their points of view in any courses of action decided upon for operations' social and environmental management. In addition, when it sees the need and depending on how critical the project is and how vulnerable the communities affected are, it considers carrying out additional public consultation to that required by a country's legal system.
- Considering existing levels of deterioration in ecosystems before executing an operation, as well as any risks and impacts that may be generated later on. To this end, it identifies the ecosystemic functions that could be disturbed as a result of the operation, as well as the effects of such a disturbance on the smooth running of the operation.
- Identifying the critical factors to be managed in order to guarantee the functionality of ecosystems, human settlements, and the project itself. Among other things, it identifies any opportunities for conservation, environmental market development, business development support for Small and Medium Enterprises (SMEs), and social investment.
- Identifying the administration and management measures needed to prevent, mitigate, and/or offset any risks and impacts identified, and promote opportunities, and estimating the costs and budgets needed for their implementation.

Box N° 3

The cleaner production approach

For industrial or manufacturing operations, this approach envisages:

- Identifying and assessing a project's environmental management and industrial processes, and steering its recommendations to allow for the fall in consumption of pollutant inputs, energy, and natural resources serving as raw materials, in order to soften the impact on the environment.
- Identifying options for technology updating, process modification, recovery, recycling and reuse of raw materials and waste, and the introduction of best practices, among others, to reduce the pollutants produced by industry liquid discharges, atmospheric emissions, or solid or toxic waste disposal across all industrial processes. This approach is combined with the use of traditional clean-up procedures and techniques tailored to business needs, current standards, and the economic viability of the projects being financed.
- Involving mechanisms to guarantee the participation of actors related with the project's environmental and social management, making allowances for the different human settlements and communities involved, workers and suppliers, and so on.
- Considering the application of current standards to shareholder countries' clients in order to guarantee industrial safety conditions and occupational health for workers.
- Promoting compliance with standards on the use of prenarctic and other substances restricted by international agreements.
- Identifying the administration and management measures needed to prevent, mitigate, and/or offset any risks and impacts identified, and promote opportunities, and estimating the costs and budgets needed for their implementation.

Box N° 4

The Corporate Loans environmental and social management approach

The environmental and social management approach for Corporate Loans analyzes and promotes the measures needed for clients to incorporate policies, strategies, programs, and instruments, and to supply technical and human resources, and so pay due attention to the environmental aspects of their operations and compliance with their countries' legislation.

Environmental and social management procedures and instruments in the credit cycle

The objective of CAF's Operations Environmental and Social Management System is to guarantee the physical, environmental, and social sustainability of projects that make provision for the various operations financed by the Corporation. To do this, the System transversally integrates all available technical, technological, human, and financial resources at every phase of the credit process as stipulated by CAF.



Actions geared to promoting sustainable markets and financing sectors such as carbon, clean and alternative energy, clean production, and urban environmental management.

The System also incorporates a series of technical and report procedures and instruments tailored to the needs of each phase of the credit cycle. These include origination, assessment, formalization, and disbursements and administration, (see Figure N° 2 on this page and Figure N° 3 on p. 26).

Origination

CAF incorporates the preliminary environmental and social risk assessment on the basis of identification of potential credit operations (origination). This assessment becomes a tool for decision-making regarding:

- The incorporation or otherwise of the operation in the CAF portfolio.
- The establishment of the major risks and critical aspects in the event of incorporation which, from an environmental and social perspective, will have to be examined more closely at the assessment phase (due diligence).

- The preliminary identification of any environmental and social opportunities that can be built on through the operation.

Operations Environmental and Social Management System has two instruments specially designed for this assessment. The first is the Preliminary Environmental and Social Risk Analysis Matrix, specialized for the different types of operations financed by CAF. The second is the Condor Geographic Information System.

On the basis of the interaction of the results of the project type analysis and the sensitivity/vulnerability of the environment, the Matrix enables the operation to be categorized according to the scale of the potential direct or indirect environmental and social impacts.

The Condor Geographic Information System too enables sensitive or vulnerable areas to be identified, as well as potential environmental impacts

Figure N° 2



on the geospheric, hydric, atmospheric, biotic, and social components of mainly the linear projects (see Box N° 5).

The classifications of “high” and “medium environmental and social risk” of necessity imply full environmental and social assessment. This assessment includes both the review of the assessment by the client and the due diligence by CAF. The operations classed as “low” or “zero environmental and social risk” require only certain basic reviews to guarantee the operation’s viability and meet any Environmental and Social Safeguards applicable to the operations.

From the environmental and social viewpoint, the risk definition phase culminates in the classification of operations into high, medium, low, or zero risk.

Box N° 5

Condor Geographic Information System

This data processing tool developed in a web environment belongs to a Geographic Information System (SIG). This enables any sensitive or vulnerable areas to be established as a preliminary step, as well as any potential environmental and social impacts of the mainly linear projects (roads, transmission lines, pipelines, and so on) in most of South America.

The system provides a regionally focused environmental and social analysis methodology, supported on a considerable wealth of geographic, environmental, social, economic, and political and administrative information, centralized in a database georeferenced on different scales.

Assessment

The review process for the environmental and social assessment of operations classed as high or medium risk seeks to identify any vulnerable areas, critical aspects, or environmental and social management measures needed to prevent, control, mitigate, and offset the impacts identified. It is thereby sought to incorporate the budgets needed to implement these within the project’s cost structure and, consequently, to analyze any conditions or recommendations binding the operation so as to guarantee their environmental, physical, and social viability. In accordance with the methodological approaches described, Box N° 6 (see p.24) highlights some of the minimum environmental aspects at the operation’s assessment phase.

The assessment process also seeks to build on opportunities for social and environmental development for the communities and ecosystems present in the areas of influence in order to enhance the populations’ quality of life.

The environmental and social assessment of operations relies specifically on three purpose-built tools:

- The Guide to the Environmental and Social Assessment of Infrastructure, Social and Environmental Development Operations.
- The Guide to the Environmental and Social Management Assessment of Industry and Manufacturing Processes Operations.
- The Guide to the Environmental and Social Management Assessment of Corporate Loans.

Box N° 6

Environmental and social aspects in the operations assessment process

In accordance with the features of these operations and of the environment in which they are carried out, aspects of operations assessment include:

- Assessment and analysis of the environmental and social studies advanced by the client in compliance with a country's environmental legislation.
 - Any additional environmental impact studies, strategic environmental assessments or accumulative impact assessments, vulnerability and disaster prevention analyses, or other studies or analyses to deepen knowledge of any elements of special interest that may be affected by the project.
 - Prior review by specialist teams of any detailed information and cartography available, inter-
- views with experts, researchers, and research centers, contact with the relevant environmental and social authorities at national, regional, local, and international levels where applicable.
 - Analysis and interviews with the consultants and companies carrying out the project's technical studies.
 - Field trips to intervention areas by these teams.
 - Consultation and interviews with communities present in the project's areas of influence and with local authorities.
 - Any legislation and requirements by the country's environmental and social authorities applicable to the project.
 - The application of international environmental and social standards, or those defined by other multilateral organizations, when the need arise.

The results of the assessment, as well as the establishment of the conditions and environmental and social recommendations binding the operation, are recorded in an Environmental and Social Report, which is among the documents submitted to the CAF Loans and Investments Committee (CPI). The environmental and social assessment then becomes a decision-making tool for the viability or conditions of financing.

Formalization

Rooted in the assessment process, this phase of the CAF credit cycle incorporates the conditions and environmental, social, and labor recommen-

dations to which the operation will be subject in the relevant credit contract. The budgets to execute these management measures are also incorporated. These may be part of the credit granted by the Corporation, taken from the national coffers, or financed with a combination of these sources.

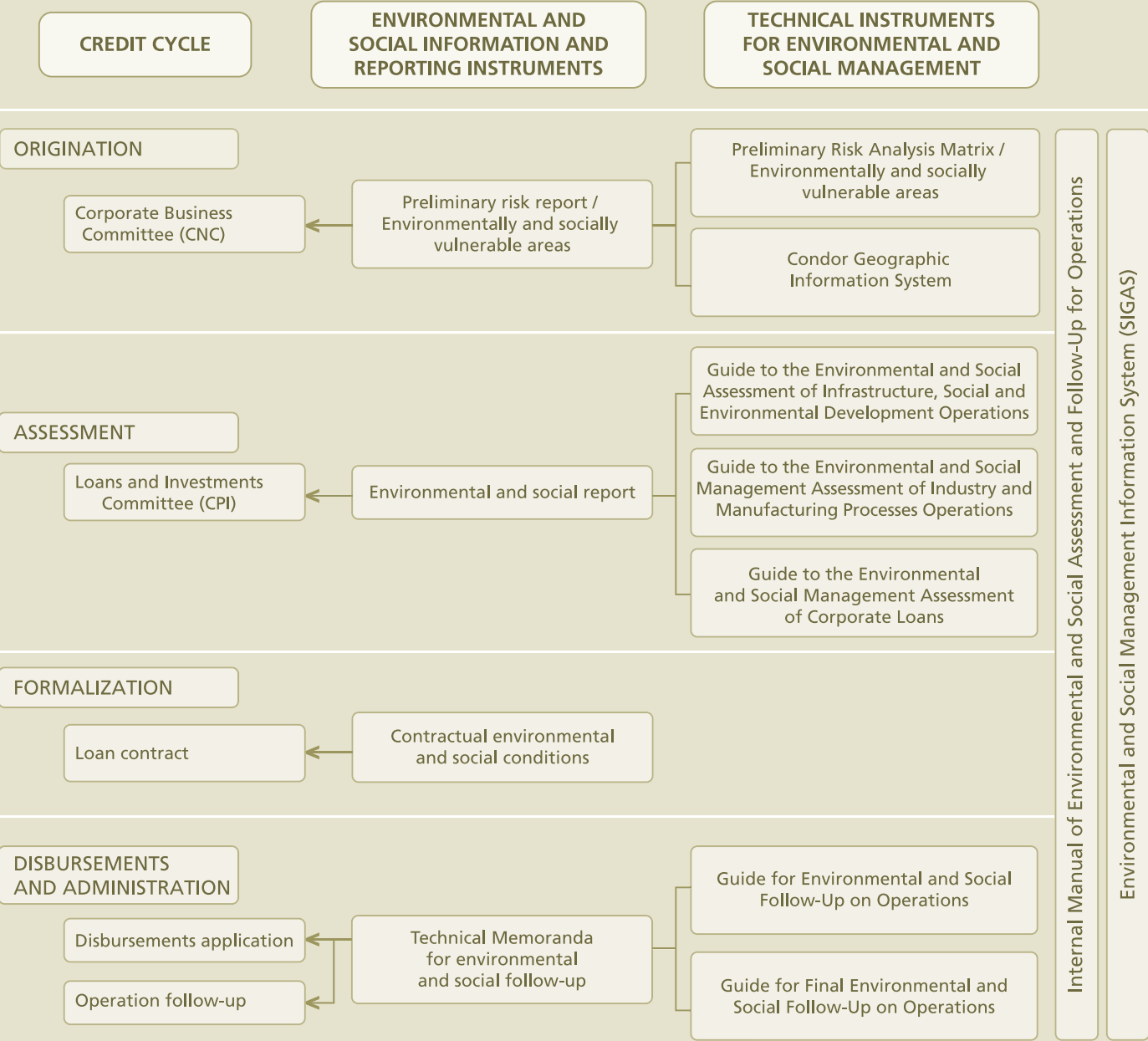
Disbursements and Administration

At the disbursements and administration phase, CAF strives to carry out any relevant control and follow-up, comprehensively monitoring the environmental and social conduct of operations by verifying compliance with safeguards and,



Actions geared to the generation and dissemination of environmental information as an essential decision-making tool.

Figure N° 3 Procedures and Instruments of the Environmental and Social Management System for CAF Operations



especially, with the social and environmental conditions and recommendations laid out in the respective credit contracts.

Generally speaking, the management of operations –especially the most environmentally and socially critical ones– is assessed annually. This is done in tandem with routine environmental and social monitoring prior to approval of an operation's disbursements.

Environmental and social monitoring of operations enables CAF to identify aspects inadequately complied with, impacts and risks unforeseen in the environmental studies or project assessments, and the physical and budgetary execution levels of the management conditions and measures established, among other things, to duly incorporate any recommendations necessary.

The lessons learned in this follow-up can feed back into the design and focus of new operations as part of the continual improvement of CAF's environmental and social management.

For the environmental and social monitoring of the operations, the Corporation has designed two technical tools to support and steer these activities (see Figure 3): the Guide for Environmental and Social Follow-Up on Operations, applicable to the periodic assessments preceding disbursements or annual assessment of critical projects; and the Guide for Final Environmental and Social Follow-Up on Operations, which assesses operations *ex post* at the close of the CAF credit cycle. Following the application of these instruments, technical memoranda are drafted that record the conclusions of the follow-up and any recommendations necessary.

The task of follow-up is thus approached as teamwork in conjunction with the environment, credit administration, and other areas of support in order to effectively ensure compliance with the principles, safeguard guidelines, and applicable environmental and social legislation, and the environmental and social conditions or recommendations binding the operation.

Other instruments

The Operations Environmental and Social Management System also relies on two specialized instruments (see Figure N° 3):

- The Internal Manual of Environmental and Social Assessment and Follow-Up for Operations, which sets out the guidelines, methodologies, procedures, guides, and other instruments applicable to the CAF operations cycle described above.
- The Environmental and Social Management Information System (SIGAS), an online information system that stores and files: i) technical, legal, and financial documents; ii) designs, studies, assessments, and other information provided by the client; iii) the acts and pronouncements of the various CAF consultation and decision-making authorities and; iv) all documents relating to an operation's environmental and social management, including any communications by the relevant environmental and social authorities, and any project, client, or community related public information.

This instrument accordingly tells us in real time about the progress of each operation's environmental and social management from the outset, linking all CAF personnel at Headquarters and in

Actions geared to the promotion of conservation initiatives for species, ecosystems, and natural and genetic resources, especially those critical in the provision of environmental services.





its Country Offices throughout the operation's environmental and social management associated to the credit cycle. The SIGAS thus becomes a permanent consultation and decision-making tool for all authorities taking part in the operation.

These standardized instruments and procedures generally enable highly efficient investment in terms of time, human and technical resources management, thus contributing to the suppleness that characterizes CAF in its financing.

E.2 Institutional Environmental Management Plan

As part of its responsibility to the environment, CAF is currently drawing up a group of measures involving all its professionals, geared to reducing and rationalizing energy, water, and input consumption, and promoting practices that reduce, reuse, and recycle waste and materials. It tends to favor dangerous waste management and fosters a healthy working atmosphere that stimulates constant exchange and communication among its collaborators.

F. Support for the region's environmental management

CAF has, out of principle, made significant efforts to support the conservation and sustainable use of natural resources and ecosystems, and to strengthen the development of its shareholder countries' environmental sector, creating synergies and working in tandem with public, private, and civil society actors. The tackling of this wide array of environmental issues has resulted in the development of ten strategic lines of work (see Box N° 7).

Box N° 7

Strategic lines of work in the environment

- Nature conservation.
- The yield and sustainable use of natural and genetic resources, and biodiversity.
- Strengthening of natural capital and valuing of services furnished by nature.
- Promotion of the use of clean and alternative energy, and energy efficiency.
- Creation and support for the development of environmental markets.
- Streamlining of urban and industrial environmental management.
- Prevention and treatment of risk associated with adverse natural phenomena.
- Support for the incorporation and development of environmental and social management by financial institutions.
- Support for the institutional management and strengthening of public, private, and civil society environmental organizations.
- Support and strengthening of civic participation in environmental management and dispute settlement processes.

In order to encourage support for the conservation and sustainable use of natural resources and ecosystems, and the development of the environmental sector CAF has, through these lines of work, created specific financing mechanisms, as well as five strategic environmental programs.

The programs listed below are dynamic and flexible in the way they meet countries' requirements and the individual dynamics of different issues.

F.1 Strategic environment programs

Biodiversity Program (BioCAF)

This program is rooted in the vast potential of the region's biodiversity and genetic resources for its countries' sustainable development. Some of these countries are classified as "megadiverse", a status awarded at international level for the number and variety of their species. In view of this, BioCAF supports significant efforts geared to conservation of the ecosystems that are home to this natural wealth, as well as various activities and initiatives to promote sustainable yield of this potential and contribute to CAF members' social and economic development.

Within the scope of its work, BioCAF has established three subprograms, through which it has been making significant contributions to support: i) the promotion of species and ecosystem conservation initiatives; ii) the development of promotion mechanisms and tools for biodiversity based products and services, and other natural resources (e.g. green markets, biotrade, and biotechnology); and iii) activities promoting environmental services as a strategy to contribute to the conser-

vation of natural ecosystems and promote activities that enhance the populations' quality of life.

Latin American Carbon, Clean and Alternative Energies Program (PLAC+e)

Through the PLAC+e, CAF contributes to reducing global warming and promotes the use of clean and alternative energy in Latin America by undertaking and financing innovative projects.

Efforts have so far been directed at: i) promoting and actively participating in the development of the GHG emissions reduction market, with the participation of the public and private sectors; ii) supporting countries, production sectors, and projects in securing buyers and generally contributing to the consolidation of a sustained demand for reductions in GHG emissions for Latin America and the Caribbean; iii) supplying technical, intermediation, and financing support to projects with potential in GHG emissions reduction; iv) strengthening national institutions and mechanisms to stimulate and consolidate the GHG market; and v) supporting the region's countries in the identification and development of clean and alternative energy, and energy efficiency projects with specialized lines of financing.

Cleaner Cities and Industries Program

The Cleaner Cities and Industries Program was set up in response to the growing environmental pollution in urban areas and that caused by manufacturing, mining, and service industries in the region, and in order to contribute solutions that lead to efficient energy use and lower consumption levels of inputs and natural resources. The Program's activities fall into three

main lines of action: i) the environmental urban management, ii) the implementation of Clean Production techniques in Small, Medium, and Large Enterprises, and iii) the promotion of Clean Production financing incentives and mechanisms.

In the operations it finances under this program, CAF also supports the adoption of best environmental practices geared to the saving and efficient use of water and energy, the use of clean technologies and processes, and of renewable energies, the substitution of pollutant inputs and raw materials, and the pollution reduction of the cities and the various production, mining, and service processes.

Disaster Risk Management Program (PREVER)

For more than five years, PREANDINO gave momentum to national and sectoral policy-making that prevented and mitigated the risk of natural disasters, and to the incorporation of prevention in planning development in the Andean region.

Building on the results of PREANDINO, CAF is currently directing its efforts at its new Disaster Risk Management Program, which aims to support the prevention, mitigation, and treatment of socioeconomic and environmental impacts associated with natural disasters.

The Risk Management Program-PREVER has, as lines of action, established support for projects and activities to do with: i) El Niño-related risk management and vulnerability reduction; ii) adaptation and vulnerability to climate change; iii) contingent treatment in response to disasters; and iv) risk prevention from the municipal perspective.

Program to Promote Sustainable Development in Financial Institutions

This Program seeks to foster the internalization of environmental management principles and practices in the region's financial sectors.

Among its long-term objectives, the Program raises the possibility of incorporating changes in the countries' financial system through a joint agenda with local actors and financial institutions that are also CAF partners and clients. These changes would encourage the adoption of environmental management in financial practices and build a training and dissemination strategy for organizations to reduce risk, cut operating costs, and create new business opportunities through the incorporation of the concept of sustainable development in their management.

Coordination of Environmental Strategy with other CAF programs

The environmental and social principles, safeguard guidelines, strategic lines of work, and others matters set out in this Environmental Strategy are involved horizontally in the wide range of CAF programs. These include the Social Responsibility Programs, the Competitiveness Support Program, the Governance Program, the Andean Education Agenda, and many more.

F.2 Environmental sector financing

CAF also supports its shareholder countries' public, private, and mixed sectors through various forms of financing aimed at strengthening and developing the environmental sector. These include credits, asset investment, and guarantees, either independently or cofinanced with other financial institutions.

G. Implementation and follow-up of CAF Environmental Strategy

CAF periodically assesses the procedures and instruments in this Environmental Strategy document in the framework of continual improvement, seeking at all times to optimize and rationalize the use of technical, economic, and human resources. This assessment also pays attention to the inherent dynamics of the region's political, economic, cultural, social, and natural processes.

CAF includes the widespread participative consultation of all the organization's internal and external authorities in its periodic assessments, with the participation of governments, NGOs, and civil society representatives.

On this basis, CAF can modify its instruments, procedures, and programs while, at the same time, seeking a healthy environment, and the protection and conservation of nature.

This book was printed
in November 2008
Caracas-Venezuela.
This editions is for
a thousand copies.