

**INTER-AMERICAN DEVELOPMENT BANK  
TECHNICAL COOPERATION PROGRAM (TRUST FUND FINANCING)**

**TC/FUNDS BRIEF**

**I. GENERAL INFORMATION**

<b>Country/Region:</b>	Region III Countries	
<b>Program Name/Number:</b>	Voluntary Environmental Programs in Latin America: Lessons Learned (RS-T1283)	
<b>Name of Trust Fund:</b>	Finnish Technical Assistance Program	
<b>Team Leader/Members:</b>	Leader: Leonardo Corral; other members: Gisella Barreda (RE3/EN3); Bernadete Buchsbaum (LEG/OPR); and Virginia Franzini (LEG/OPR).	
<b>Beneficiary:</b>	Inter-American Development Bank (IDB)	
<b>Financing plan:</b>	IDB (Finnish Technical Assistance):	<u>US\$60,000</u>
	Total:	<u>US\$60,000</u>
<b>Tentative dates:</b>	Execution:	8 months
	Disbursement:	12 months

**II. BACKGROUND**

- 2.1 The conventional “command-and-control” approach to industrial pollution control is to establish laws and regulations requiring firms to cut emissions. Voluntary environmental programs (VEPs), in contrast, do not mandate emission reductions. Rather, they create incentives for emissions reductions by, for example, providing polluters with positive publicity and technical assistance. In industrialized countries, the popularity of VEPs has exploded over the past two decades. A 1999 survey identified 54 major VEPs in the United States, almost twice as many as had been in place three years earlier, and in the European Union, more than 300 VEPs were created prior to 1997. Although comparable data on the prevalence VEPs in developing countries do not exist, scattered studies strongly suggest that they have proliferated there as well. For example, a 2003 report found that regulators in Colombia negotiated over 50 VEPs with industrial association between 1995 and 2003.

- 2.2 Unfortunately, very little is known about VEPs in Latin America. How many and what types of VEPs exist? Have VEPs proven an effective and efficient regulatory tool? What types of VEPs work best and in what institutional, socioeconomic, and political conditions? Answers to these questions are needed for at least three reasons.
- 2.3 First, research on VEPs in industrialized countries suggests that, not surprisingly, certain types of VEPs are decidedly ineffective. For example, some U.S. VEPs mainly attract firms that are already relatively clean or that are in the process of cutting their emissions for reasons unrelated to the VEP. Such programs yield few environmental benefits and appear to primarily serve as public relations vehicles for both industry and regulators.
- 2.4 Second, findings from industrialized country research on whether and under what circumstances VEPs are effective are not likely to apply to Latin America—at least not without significant caveats and modifications—because in Latin America, VEPs have different objectives and operate in different conditions. As for conditions, compared to industrialized countries, Latin American countries often have more severe pollution problems; weaker environmental regulatory institutions; less public support for environmental protection; a paucity of private-sector financial and technical resources; and more sectors that are dominated by difficult-to-regulate small-scale firms. As for objectives, in industrialized countries, regulators establish VEPs to create incentives for firms to move “beyond compliance,” that is, to make emissions reductions in addition to those required by mandatory regulation. In Latin America, by contrast, regulators typically establish VEPs to create incentives for firms to comply with already existing but poorly enforced mandatory regulations.
- 2.5 Finally, both the payoffs and the risks from devoting scarce regulatory resources to VEPs may be greater in Latin America than in industrialized countries. Interviews with environmental regulators in Latin America suggest that VEPs are increasingly seen as the preferred means of correcting rampant noncompliance with “mandatory” regulations. Given this developing role, the stakes for the success of VEPs are enormous.

### **III. OBJECTIVES**

- 3.1 The broad objective of this TC is to collect the information policy makers need to decide whether and how to use VEPs to control industrial pollution in Latin America. The three specific objectives of this TC are to:
  - a. Collect information on the prevalence and basic characteristics of VEPs used to control industrial pollution in a sample of two Region III study countries.
  - b. Conduct in-depth case studies of six VEPs, three in each study country.
  - c. Distill policy lessons from the database and six case studies.

## **IV. DESCRIPTION**

### **A. Activities**

#### **1. Activity #1. Compile data base of VEPs in two Region III countries**

- 4.1 The consultants will conduct a preliminary investigation of the use of VEPs in Region III in order to identify countries where VEPs are commonly used to control industrial pollution. Based on this investigation, the consultants will select two study countries. Next, the consultants will develop a list of basic data to be collected on VEPs in each country. Using this “template,” the consultants will gather the specified information from in-country regulatory agencies and other sources. Finally, the consultants will use this information to construct a data base of industrial pollution VEPs in the two study countries. Duration: four months.

#### **2. Activity #2. Conduct in-depth case studies of three successful VEPs and three unsuccessful VEPs**

- 4.2 The consultants will select six VEPs—three in each study country—for more in-depth data gathering and analysis. In each study country, at least one of the three VEPs selected will be a relatively “successful” program, and at least one will be a relatively “unsuccessful” program. In conducting the case studies, the consultants will interview program participants including regulatory authorities and representatives of industrial plants and trade associations. They will also examine documentary and numerical data where available. Duration: four months.

#### **3. Activity #3. Distill policy lessons from case studies**

- 4.3 Using the database of VEPs in the two study countries as well as the six VEP case studies, the consultants will distill lessons learned. To the extent possible, the consultants will develop policy recommendations concerning what types of VEPs are most effective and efficient in improving program participants’ environmental performance, and under what conditions. Duration: four months.

### **B. Consulting Services Required**

- 4.4 Consulting firm qualifications: The selected consulting firm should have experience in the fields of environmental policy analysis and in the management of multi-laterally or bi-laterally funded technical assistance projects. In addition, the firm should demonstrate considerable prior working experience in evaluating environmental regulatory policies in Latin America.
- 4.5 Specialist qualifications: In all, this project will require the participation of two international experts and two local experts working under the consulting firm.
- a. Team Leader/Principal Investigator (international): This individual should hold a doctorate in economics or policy analysis and should have 12 years of work

experience in related fields, of which six have included project management positions. He or she should have a strong working knowledge of, and demonstrated experience conducting, studies of Latin American environmental regulatory programs and policies, and VEPs in particular.

- b. Voluntary Regulation Specialist (international): This individual should hold a doctorate in economics or policy analysis and should have 12 years of work experience in related fields. He or she should have extensive knowledge of and experience with the analysis of VEPs using case study and other empirical methods.
- c. Local Environmental Policy Specialists (local; one in each study country): These individuals should have graduate degree in policy analysis or a related discipline and five years of years experience in related fields. They should have considerable prior project experience working with stakeholders in the environmental sector of the study country, and in particular, with local regulatory agencies. The Local Environmental Policy Specialists should be native Spanish speakers.

4.6 Outputs required from Consulting Firm: All documents produced under the TC will be required to contain reference to the financing provided by the specific trust fund selected and its donor institution, in addition to the IDB. All reports should contain an executive summary of no more than two pages. Reports produced are to be delivered to IDB in a sufficient number of copies to enable distribution to the trust fund donors, the beneficiary and IDB units. At least five copies of the final report are to be delivered to IDB. Outputs required for this study will be:

- a. An inception report identifying study countries and local consultants.
- b. A progress report following completion of activity # 1.
- c. A progress report following completion of activity # 2.
- d. A final report.

4.7 Duration: The execution period is 8 months, and the disbursement period is 12 months. It is expected that 34 days of work will be needed from the Team Leader; 10 days from the Voluntary Regulation Specialist; and 30 days by each of the two Local Environmental Policy Specialists.

4.8 Single Source Selection will be used to hire Resources for the Future (RFF), a non-profit non-partisan research institute headquartered in Washington, DC, given its unique qualifications to carry out the tasks outlined above. RFF is well-recognized as the world's leading center for objective, independent social science research on environmental policy. It has a staff of over 40 Ph.D. economists and other social scientists who specialize in the area, very likely the largest conglomeration of such experts in the world. RFF's staff is top-notch. RFF researchers publish dozens of articles in leading peer-reviewed social science journals each year. Many RFF

researchers hold joint appointments at top academic institutions and serve on national and international “blue ribbon” committees including the Council on Foreign Relations, the National Academy of Sciences, EPA Science Advisory Boards, and the Council of Economic Advisors.

- 4.9 RFF has a unique policy focus. RFF’s stated mission is to “improve environmental and natural resource policy making worldwide by conducting social science research of the highest caliber.” As a result, unlike most academic institutions, RFF emphasizes research with clear policy implications.
- 4.10 RFF has an excellent track record. Since its inception, RFF has pioneered key environmental policy tools including emissions taxes and tradable pollution permits.
- 4.11 RFF has considerable expertise and experience working in developing countries, particularly those in Latin America. Since the 1970s, when RFF had field offices in Chile and Mexico, a significant component of RFF research has focused on developing countries. For example, in the last decade, RFF has conducted major research projects on: pollution control policies for small-scale enterprises in Mexico; the use of market based incentive instruments in China; tropical deforestation in Mexico and El Salvador; mainstreaming environmental policies in Armenia; poverty and environment linkages and urban air pollution in India; and public disclosure pollution control policies in Indonesia.
- 4.12 RFF has an excellent record of cooperation and collaboration with multilateral development banks. Over the past 10 years, RFF has directed successful projects for the Inter-American Development Bank, the World Bank, and the Asian Development Bank.
- 4.13 Finally, RFF has considerable expertise in voluntary regulation. Over the past 15 years, RFF researchers have made important contributions to the new but fast growing social science literature on voluntary regulation. RFF reports on voluntary pollution control programs in the United States in the mid-1990s were among the first such publications to appear. In the late 1990s, RFF researchers evaluated the Clinton Administration’s experiments with negotiated voluntary environmental agreements and voluntary programs to control greenhouse gas emissions and improve energy efficiency. Currently, a major RFF research project is underway using US census data to evaluate a broad spectrum of Bush Administration voluntary environmental regulatory programs.

## **V. JUSTIFICATION**

- 5.1 It is expected that the project will improve policy makers’ ability to determine whether and how to use VEPs to control industrial pollution in Latin America. Specifically, it will improve their understanding of the prevalence and characteristics of VEPs in

Latin America; and of the conditions under which VEPs are likely to be effective pollution control tool.

## VI. BUDGET

Type of Expense	Trust Fund	Counterpart	Other	Total
<b>Expert #1 - Honorarium</b>				
34 working days x US\$875	29,750	0	0	29,750
<b>Expert #2 - Honorarium</b>				
10 working days x US\$500	5,000	0	0	5,000
<b>Expert # 3 - Honorarium</b>				
30 working days x US\$200	6,000	0	0	6,000
<b>Expert # 4 - Honorarium</b>				
30 working days x US\$200	6,000	0	0	6,000
<b>Other Costs: (contingency)</b>				
For fax, phone, copying, etc.	2,250	0	0	2,250
<b>Overhead</b>				
22.50% of Total Costs	11,000	0	0	11,000
<b>GRAND TOTAL</b>	<b>60,000</b>	<b>0</b>	<b>0</b>	<b>60,000</b>

## VII. RESPONSIBILITY IN THE BANK

- 7.1 Technical Responsibility: RE3/EN3 will be the responsible Unit. Leonardo Corral (X1690), fax: 623-1998; email [leonardoc@iadb.org](mailto:leonardoc@iadb.org) is the Bank's officer responsible for the project.
- 7.2 Responsibility for Disbursements: Responsibility for the general administration, including contracts and disbursements, rests with RE3/EN3.

## VIII. RECOMMENDATION

- 8.1 Leonardo Corral (RE3/EN3), designated team leader for the project of the reference, recommends the approval of this operation and the use of resources from the Finnish Technical Assistance Program totaling up to US\$60,000 in order to finance the corresponding project.


## IX. CERTIFICATION

- 9.1 I certify that this operation was approved for financing by the donor Finnish Technical Assistance Program. Also, I certify that resources from the Finnish Technical Assistance Program are available for up to US\$60,000 in order to finance the activities described and budgeted in this document. The commitment and disbursement of these resources shall be made only by the Bank in US Dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except that local consultants working in their own borrowing member country shall have their remuneration defined and paid in the currency of that country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this Plan of Operations. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

  
Arnaldo Medeiros da Fonseca Jr.  
Chief  
Technical Cooperation Coordination Unit

October 24, 2006  
Date

## X. APPROVAL

  
Alvaro Llosa  
Division Chief EN3  
Regional Operations Department 3

7-11-06  
Date

## REGIONAL SUPPORT

### Voluntary Environmental Programs in Latin America: Lessons Learned (RS-T1283)

#### TERMS OF REFERENCE

#### I. BACKGROUND

- 1.1 The conventional “command-and-control” approach to industrial pollution control is to establish laws and regulations requiring firms to cut emissions. Voluntary environmental programs (VEPs), in contrast, do not mandate emission reductions. Rather, they create incentives for emissions reductions by, for example, providing polluters with positive publicity and technical assistance. In industrialized countries, the popularity of VEPs has exploded over the past two decades. A 1999 survey identified 54 major VEPs in the United States, almost twice as many as had been in place three years earlier, and in the European Union, more than 300 VEPs were created prior to 1997. Although comparable data on the prevalence VEPs in developing countries do not exist, scattered studies strongly suggest that they have proliferated there as well. For example, a 2003 report found that regulators in Colombia negotiated over 50 VEPs with industrial association between 1995 and 2003.
- 1.2 Unfortunately, very little is known about VEPs in Latin America. How many and what types of VEPs exist? Have VEPs proven an effective and efficient regulatory tool? What types of VEPs work best and in what institutional, socioeconomic, and political conditions? Answers to these questions are needed for at least three reasons.
- 1.3 First, research on VEPs in industrialized countries suggests that, not surprisingly, certain types of VEPs are decidedly ineffective. For example, some U.S. VEPs mainly attract firms that are already relatively clean or that are in the process of cutting their emissions for reasons unrelated to the VEP. Such programs yield few environmental benefits and appear to primarily serve as public relations vehicles for both industry and regulators.
- 1.4 Second, findings from industrialized country research on whether and under what circumstances VEPs are effective are not likely to apply to Latin America—at least not without significant caveats and modifications—because in Latin America, VEPs have different objectives and operate in different conditions. As for conditions, compared to industrialized countries, Latin American countries often have more severe pollution problems; weaker environmental regulatory institutions; less public support for environmental protection; a paucity of private-sector financial and technical resources; and more sectors that are dominated by difficult-to-regulate small-scale firms. As for objectives, in industrialized countries, regulators establish VEPs to create incentives for firms to move “beyond compliance,” that is, to make emissions reductions in addition to those required by mandatory regulation. In Latin America, by contrast, regulators typically establish VEPs to create incentives for firms to comply with already existing but poorly enforced mandatory regulations.



- 1.5 Finally, both the payoffs and the risks from devoting scarce regulatory resources to VEPs may be greater in Latin America than in industrialized countries. Interviews with environmental regulators in Latin America suggest that VEPs are increasingly seen as the preferred means of correcting rampant noncompliance with “mandatory” regulations. Given this developing role, the stakes for the success of VEPs are enormous.

## **II. CONSULTANCY OBJECTIVES**

- 2.1 The broad objective of this TC is to collect the information policy makers need to decide whether and how to use VEPs to control industrial pollution in Latin America.
- 2.2 The three specific objectives of this TC are to:
- a. Collect information on the prevalence and basic characteristics of VEPs used to control industrial pollution in a sample of two Region III study countries;
  - b. Conduct in-depth case studies of six VEPs, three in each study country; and
  - c. Distill policy lessons from the database and six case studies.

## **III. CHARACTERISTICS OF THE CONSULTANCY**

- 3.1 Type of consultancy: A consulting firm will be hired on the basis of a lump sum agreement. The payment schedule is presented on Chapter V of these Detailed Terms of Reference.
- 3.2 Starting date and duration: The consulting firm will be contracted to work for a total of approximately 3.5 person months. The consultancy will start on [DATE], 2006 and will end on [DATE], 2007.
- 3.3 Place of work: The consultants will work in their firm’s office and in the two study countries (see below). At least one of the consultants will make a total of one round trip to each of the two study countries.
- 3.4 Qualifications: The selected consulting firm should have experience in the fields of environmental policy analysis and in the management of multi-laterally or bi-laterally funded technical assistance projects. For a detailed description of the required qualifications of the consulting company and the technical team, please refer to Section VI of this DTOR.

#### IV. ACTIVITIES

##### **A. Activity #1. Compile data base of VEPs in two Region III countries**

4.1 For this activity, the consulting firm is expected to undertake the following:

- a. Conduct a preliminary investigation of the use of VEPs in Region III in order to identify countries where VEPs are commonly used to control industrial pollution.
- b. Based on this investigation, select two study countries.
- c. Develop a list of basic data to be collected on VEPs in each country.
- d. Using this “template,” gather the specified information from in-country regulatory agencies and other sources.
- e. Use this information to construct a database of industrial pollution VEPs in the two study countries.
- f. Duration: four months.

##### **B. Activity #2. Conduct in-depth case studies of three successful VEPs and three unsuccessful VEPs**

4.2 For this activity, the consulting firm is expected to undertake the following:

- a. Select six VEPs—three in each study country—for more in-depth data gathering and analysis. In each study country, at least one of the three VEPs selected will be a relatively “successful” program, and at least one will be a relatively “unsuccessful” program.
- b. In conducting the case studies, interview program participants including regulatory authorities and representatives of industrial plants and trade associations. Examine documentary and numerical data where available.

##### **C. Activity #3. Distill policy lessons from case studies**

4.3 For this activity, the consulting firm is expected to undertake the following:

- a. Using the database of VEPs in the two study countries as well as the six VEP case studies, distill lessons learned.
- b. To the extent possible, develop policy recommendations concerning what types of VEPs are most effective and efficient in improving program participants’ environmental performance, and under what conditions.

## **V. REPORTS AND PAYMENT SCHEDULE**

### **A. Reports**

- 5.1 Based on the activities detailed in section IV, the consulting firm will deliver to the Bank a total of three reports:
- a. Report #1: An inception report identifying study countries and local consultants.
  - b. Report #2: a progress report following completion of activity # 1.
  - c. Report #3: a final report following completion of activities # 2 and #3.

### **B. Payment schedule**

- 5.2 The consulting firm will be paid according to the following schedule: (i) XX% upon contract signing; (ii) XX% upon submittal and approval by the Bank of Report #1 (iii) XX% upon submittal and approval by the Bank of Report #2; and (iv) XX% upon submittal and approval by the Bank of Report #3.

## **VI. CONSULTANTS' QUALIFICATIONS AND CONSIDERATIONS FOR THE TECHNICAL PROPOSAL**

- 6.1 As noted above, the selected consulting firm should have experience in the fields of environmental policy analysis and in the management of multi-laterally or bi-laterally funded technical assistance projects. In addition, the firm should demonstrate considerable prior working experience in evaluating environmental regulatory policies in Latin America.
- 6.2 The minimum technical team required to carry out the consultancy is three or four experts.
- 6.3 The requirements of each of the consultants are as follows:
- a. Latin American Environmental Policy Specialist (team leader):
    - i. Doctorate in economics or policy analysis.
    - ii. Twelve years of work experience in related fields, of which six have included project management positions.
    - iii. Strong working knowledge of, and demonstrated experience conducting, studies of Latin American environmental regulatory programs and policies, and VEPs in particular.

- b. Voluntary Regulation Specialist:
- i. Doctorate in economics or policy analysis
  - ii. Twelve years of work experience in related fields.
  - iii. Extensive knowledge of and experience with the analysis of VEP.
- c. Environmental Policy Specialists (either one person that would work on both studies countries, or two persons, one for each study country):
- i. College degree in policy analysis or a related discipline
  - ii. Two years experience in related fields.
  - iii. Prior project experience working with stakeholders
  - iv. Spanish proficiency for work in Spanish speaking countries.

Model form for Evaluation of the Proposals

Criteria	Points
(i) Specific experience of the consulting firm relevant to the assignment	[0-10]
(ii) Adequacy of the proposed technical approach, methodology and work plan in responding to the terms of reference	[0-10]
(iii) Key professional staff qualifications and competence for the assignment	
a) Latin American Environmental Policy Specialist (team leader)	[insert points]
b) Voluntary Regulation Specialist	[insert points]
c) Environmental Policy Specialist	[insert points]
Total points for criterion (iii)	[30-60]
The number of points to be assigned to each of the above positions or disciplines shall be determined considering the following three sub criteria and relevant percentage weights:	
1) General qualifications	[insert points]
2) Adequacy for the assignment	[insert points]
3) Experience in region and language	[insert points]
Total points for three criteria	

(\*) The work should be completed in a period no longer than 12 months.

## Voluntary Environmental Programs in Latin America: Lessons Learned

(RS-T1283)

### PROCUREMENT PLAN

Main Project Procurement: CONSULTING SERVICES	Source of Financing		Procurement Method	Expressions of Interest	Estimated Dates		Status
	IDB (%)	Local/Other (%)			Publication Specific Procurement Notice	Completion of Contract	
<b>Consulting Firm</b> To prepare the studies to collect the information policy makers need to decide whether and how to use Voluntary environmental programs (VEPs) to control industrial pollution in Latin America.  <b>Amount (US\$60,000)</b>	100%	0%	SSS	No	December 2006	September 2007	In process

SSS = Single-Source Selection