



Corporate Evaluation

# Environmental and Social Safeguards Evaluation

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# **Environmental and Social Safeguards Evaluation**

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# Table of contents

<b>Acknowledgements</b> .....	<b>vi</b>
<b>Acronyms and Abbreviations</b> .....	<b>vi</b>
<b>Executive Summary</b> .....	<b>viii</b>
<b>Introduction</b> .....	<b>xx</b>
A. Evaluation objective and scope .....	01
B. Evaluation questions and methodology .....	01
<b>The IDBG's Safeguards System</b> .....	<b>06</b>
A. Policy Frameworks .....	07
B. IDBG roles and responsibilities.....	15
<b>Safeguards Application and Results</b> .....	<b>20</b>
A. IDB.....	21
C. Financial intermediary operations.....	46
<b>Factors Affecting Safeguards Application</b> .....	<b>50</b>
A. IDB.....	51
B. IDB Invest .....	57
<b>The Independent Consultation and Investigation Mechanism's Contribution to the IDBG's Safeguards System</b> .....	<b>64</b>
A. MICI policy framework and structure .....	65
B. Profile of MICI requests .....	68
C. Effects on projects and requesters .....	69
D. MICI's institutional impact.....	71
<b>Conclusions and Recommendations</b> .....	<b>74</b>
A. For IDB .....	78
B. For IDB Invest.....	79

## [Annexes](#)

## [Comments from Management](#)

# Acknowledgements

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# Acronyms and Abbreviations

<b>ASR</b>	Annual Supervision Report
<b>CMF</b>	Connectivity, Markets, and Finance
<b>CO</b>	Chief of Operations
<b>DC</b>	Division Chief
<b>E&amp;S</b>	Environmental and Social
<b>EA</b>	Environmental Assessment
<b>EHS</b>	Environmental Health and Safety
<b>EIA</b>	Environmental Impact Assessment
<b>ESAP</b>	Environmental and Social Action Plan
<b>ESCP</b>	Environmental and Safeguards Compliance Policy
<b>ESG</b>	Environmental and Social Safeguards Unit
<b>ESIA</b>	Environmental and Social Impact Assessment
<b>ESMF</b>	Environmental and Social Management Framework
<b>ESMP</b>	Environmental and Social Management Plan
<b>ESMR</b>	Environmental and Social Management Report
<b>ESMS</b>	Environmental and Social Management System
<b>ESRS</b>	Environmental and Social Review Summary

<b>ESS</b>	Environmental and Social Strategy
<b>FI</b>	Financial Intermediary
<b>FTE</b>	Full-time equivalent
<b>GDI</b>	Gender and Diversity Division
<b>IDB</b>	Inter-American Development Bank
<b>IDBG</b>	Inter-American Development Bank Group
<b>IFC</b>	International Finance Corporation
<b>IIC</b>	Inter-American Investment Corporation
<b>IO</b>	Investment Officer
<b>IP</b>	Indigenous people
<b>LAC</b>	Latin America and the Caribbean
<b>MDB</b>	Multilateral Development Bank
<b>MICI</b>	Independent Consultation and Investigation Mechanism
<b>NSG</b>	Non-sovereign-guaranteed
<b>OMJ</b>	Opportunities for the Majority
<b>OVE</b>	Office of Evaluation and Oversight
<b>PCR</b>	Project Completion Report
<b>PMO</b>	Portfolio Management Officer
<b>PMR</b>	Project Monitoring Report
<b>PS</b>	Performance Standard
<b>RAP</b>	Resettlement Action Plan
<b>SCF</b>	Structured and Corporate Finance Department
<b>SEG</b>	Environmental, Social and Governance Division
<b>SG</b>	Sovereign-guaranteed
<b>SPD</b>	Strategy and Development Effectiveness Department
<b>TC</b>	Technical cooperation
<b>TFFP</b>	Trade Finance Facilitation Program
<b>VPS</b>	Vice-Presidency for Sectors

# Executive Summary

Sound environmental and social management are critical to the Inter-American Development Bank Group's (IDBG's) goals of promoting sustainable growth and poverty reduction in Latin America and the Caribbean. The IDBG has committed to ensuring that the projects it supports are environmentally and socially sustainable and, to this end, it has adopted a set of safeguards policies and processes that aim to ensure that potential negative environmental and social (E&S) effects of its projects are adequately assessed, managed, and mitigated. The Boards of IDB and IDB Invest have requested that the Office of Evaluation and Oversight (OVE) undertake an evaluation of the IDBG's safeguards systems.

The evaluation seeks to provide the Boards and Managements with information on how effective the IDBG's safeguards systems have been in preventing, managing, and mitigating the adverse E&S impacts of IDBG-financed operations and in building client capacity to manage E&S impacts and risks. The evaluation covers IDB's safeguards work from 2011, when the most recent safeguards policy became operational, and IDB Invest's safeguards work from September 2013, when IDB Invest's E&S sustainability policy entered into force. It also reviews the contribution of the Independent Consultation and Investigation Mechanism (MICI) to the functioning of the IDBG's safeguards systems since the adoption of the new MICI policy in 2014.

For the evaluation, OVE used a mix of complementary building blocks and methods: a desk review of a random sample of over 200 IDBG projects approved over the evaluation period; field case studies of 35 purposefully selected operations in six countries; an analysis of IDBG's policy frameworks, procedures, institutional arrangements, and resource allocation; a comparative review of the safeguards policy frameworks of other multilateral development banks (MDBs); structured and semi-structured interviews with over 130 IDB staff, managers, and directors; electronic surveys of IDBG safeguards specialists and team leaders and of civil society representatives; and updates of previous safeguards-related evaluation work by OVE on financial intermediaries (FIs) and of MICI's contributions to the IDBG's safeguards system.

## **IDBG's Safeguards Policy Framework**

The evaluation concludes that it is time for the IDBG to update its safeguards policy framework and move toward an integrated and fully coherent framework. IDB's safeguards are regulated by five separate policies<sup>1</sup> on various E&S aspects that were developed in a piecemeal fashion over the last 20 years. All other major MDBs have over time consolidated their E&S safeguards policies into an integrated framework with a single umbrella policy on E&S project sustainability. With such an overall umbrella policy the organization can clearly spell out what it aspires to achieve through its policy, put environmental and social aspects on an equal footing, and ensure consistency across various safeguards aspects—features that IDB's current policy framework lacks. In addition, the IDB policies focus strongly on up-front preparation requirements, with little emphasis on how to achieve results, so that the policies are process- rather than principles-based and encourage a tick-the-box attitude and an enforcement- rather than a solutions-focused approach. Finally, IDB's policies have a more restricted topical coverage than those of most other MDBs, particularly on the social side; they lack clarity in several areas; and they do not provide a clear separation between the responsibilities of the IDB and those of borrowers. Over 95% of IDB safeguards staff agree that these shortcomings call for a revision of IDB's safeguards policies.

By contrast, IDB Invest's E&S sustainability policy, adopted in 2013, provides an overall framework for E&S impacts and risks, and it distinguishes more clearly between the responsibilities of IDB Invest itself and those of the client. While IDB policies specify that all operations must be in compliance at the time of approval, IDB Invest's policy allows for reaching compliance over time, encouraging an approach that rests on clearly identifying compliance gaps and agreeing on a legally binding action plan to close them; establishing a strong client E&S management system; and monitoring, reporting, and adapting as issues arise. However, the key policy challenge on IDB Invest's side is the reliance on multiple third-party policies: IDB policies, IFC Performance Standards (PSs), and selected other third-party standards. Relying on multiple policies and standards creates the potential for confusion and higher transaction costs, as staff and clients need to stay abreast of all policies and standards and work out how to address inconsistencies across various applicable standards. In practice, the evaluation finds that IDB Invest largely applies IFC PSs, which are widely recognized and adopted by private sector companies in the region. The evaluation finds that IFC PSs

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<sup>1</sup> The five IDB safeguards policies are OP-703: Environmental and Safeguards Compliance Policy; OP-704 Natural Disaster Risk Management Policy; OP-710: Involuntary Resettlement Operational Policy; OP-761: Operational Policy on Gender in Development; OP-765: Operational Policy on Indigenous Peoples.

cover almost all aspects included in IDB's policies and often do so more clearly and extensively. IFC PSs also cover several areas not included in IDB's policies.

## Institutional Responsibilities

Both IDB and IDB Invest have dedicated units in charge of safeguards. IDB Invest's Environmental, Social and Governance Division (SEG) is responsible for the application of the safeguards policy in all IDB Invest operations, and a SEG officer is assigned to each operation from its inception until IDB Invest financing is repaid. IDB's Environmental and Social Safeguards Unit (ESG) supports only a share of IDB's portfolio (all high impact or category A operations during preparation and implementation, all medium impact or category B operations during preparation and about half of them during implementation, and some high risk financial intermediary operations during preparation and implementation)<sup>2</sup> while safeguards application in the remaining operations is the responsibility of project team leaders. IDB Invest's SEG is part of the Risk Management rather than the Investment Operations Department, which gives it an arm's-length relationship to operations, even as SEG staff support operational work. IDB's ESG reports to the Vice-Presidency for Sectors.

## Key Findings on Policy Application and Results

### IDB

- **On compliance with policy requirements and quality of preparation.** OVE found that until recently a high share of IDB projects reviewed did not fully meet the up-front safeguards requirements before loan approval. The main forms of noncompliance were lacking or incomplete environmental and social assessments (ESAs) and associated management plans, and failure to consult with affected communities and to disclose E&S documents at the required times. ESAs were of variable quality, and a substantial share of resettlement plans could not be located. There was significant variation in the application of the gender, resettlement, indigenous peoples' and natural disaster risk management policies, which could not be explained by the nature of projects and expected impacts alone. Such variability is likely due to a

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2 During the initial stages of design, IDB categorizes all projects into one of four E&S impact categories. Category A projects are those with the most significant and mostly permanent E&S impacts, category B those that cause mostly local and short-term impacts, and category C those with minimal or no negative impacts. A fourth category, B13, is a catch-all category not related to severity of impacts; it covers non-investment lending and flexible lending instruments for which ex-ante impact classification may not be feasible, such as Financial Intermediary operations or Policy Based Loans.

lack of clarity on when and how to apply these policies. Over half of the projects used a framework approach because specific subproject investments had not been fully identified before approval. For such projects an E&S management framework was prepared. However, these frameworks were often too generic to properly guide the selection of subprojects and preparation of their ESAs and management plans, and they would have required consistent follow-up by the Bank during implementation which was often lacking.

OVE field case studies show that safeguards issues can be adequately addressed during project implementation, even if not all the E&S analyses and related consultations have been completed to required standards before loan approval—if a clear framework and timetable are established to guide remaining work, sufficient project funds are set aside to handle safeguards issues and there is close follow-up by the Bank during implementation. The evaluation finds, however, that the Bank’s due diligence work did not always systematically identify outstanding issues and map out a clear action plan to come to closure, and follow-up during implementation was often insufficient.

- **On follow-up during implementation.** IDB often leaves safeguards issues unattended during project implementation because of resource constraints, the concentration of ESG staff in Washington, and team leaders’ limited familiarity with safeguards issues. While an ESG staff is assigned to all high E&S impact (category A) operations during implementation, ESG only covers about half of the medium impact (category B) operations and limited number of FI operations. For the rest of the portfolio team leaders are responsible for ensuring that E&S issues are adequately addressed, but they are rarely equipped to handle such issues adequately. Even when an ESG staff member is assigned to an operation, the safeguards issues are not regularly followed up through field visits. OVE’s field studies found that when there were ESG supervision missions, they often identified important implementation issues and provided good advice on how to resolve them, but then there was not always regular follow-up to see to what extent these issues had been resolved, particularly for category B projects. There is consensus among staff that more attention and resources need to be allocated to safeguards supervision and implementation support.
- **On actual results.** Since IDB does not regularly monitor and report on the safeguards performance of all its operations, it does not know to what extent safeguards policy objectives are met at the project and portfolio levels. OVE’s field studies

found mixed safeguards results among the projects visited. In some operations the Bank had added significant value through long-term engagement and innovative approaches to key safeguards issues such as resettlement, helping communities become an integral part of project design and benefit from improved living situations and livelihood opportunities even if they had been displaced because of project interventions. However, OVE also found several projects in which remuneration for land acquisition had been delayed or not completed or was contentious, and economic displacement (an issue on which IDB policies lack clarity) had not been well handled. While direct environmental impacts related to the construction of infrastructure were adequately managed in the majority of projects visited, insufficient attention was often given to indirect and induced effects and to the operational phase. This then resulted in missed opportunities and substandard results, such as schools with suboptimal sanitation facilities, inadequate handling of medical waste at the municipal waste collection site, or inadequate attention to the induced impacts of transformational road investments.

- **On borrower's capacity.** On the borrowers' side, capacity constraints and lack of knowledge about applicable IDB safeguards frequently affected how project E&S issues were managed. While about half of the sovereign-guaranteed projects OVE reviewed allocated some funds to support the E&S management of the project, the support mostly consisted of hiring a consultant to undertake the work—a ring-fenced approach that does little to help the borrower build capacity to manage E&S risks. IDB lags on devising and applying a workable approach to strengthening and using local safeguards management systems.
- **On recents developments.** Over the past 18 months, ESG has undertaken significant efforts to systematize and enhance the Bank's up-front due diligence work and to address some of the preparation shortcomings that this evaluation has identified. OVE's review of a sample of operations approved between mid- 2017 and mid- 2018 found that these efforts are making a difference. However, significant challenges remain, in part because IDB's front-loaded safeguards approach, coupled with limited follow-up during implementation, is at odds with corporate goals to shorten project preparation times. Specific project designs are often not available before project approval, making it impossible to prepare meaningful site-specific E&S assessments and management plans or to carry out effective consultations. Furthermore, IDB's approach is not well suited to many of the operations that IDB's borrowers are demanding, including projects that are not fully designed prior to approval

and projects that use a framework approach. For such projects, a more flexible approach would be appropriate—one that would clearly identify compliance gaps during preparation, require an action plan anchored in the loan agreement that addresses those shortcomings, ensure that adequate project resources are allocated to its implementation, establish a credible E&S monitoring and reporting system, and involve strong Bank follow-up during implementation.

## **BID Invest**

Since the IDBG's private sector merge-out, IDB Invest is approving and supervising a much broader range of operations and consequently handling a more complex range of associated E&S impacts and risks than IIC did. Therefore, IDB Invest's SEG has made significant efforts to build its capacity and strengthen up-front due diligence work. SEG staff nevertheless report that further training is needed, and so do operational staff.

- **On quality of preparation:** SEG's capacity-building efforts are helping to address some of the safeguards-related project preparation issues that have afflicted the IIC legacy operations. E&S risks and impacts are now significantly better documented than they were for IIC legacy operations. While due diligence documentation for IIC legacy operations often failed to indicate which safeguards policies or performance standards applied, IDB Invest now clearly documents the applicable standards, drawing almost exclusively on IFC PSs. The applicable standards were correctly identified in the majority of IDB Invest approved operations reviewed; however, they were spelled out only in internal project processing documents, not in the contract with the client. The lack of specificity of such contractual requirements puts the burden on SEG officers to clarify specific standards to clients and allows for differences in interpretation that can lead to inconsistent application of safeguards across projects and make the enforcement of specific requirements more challenging.

The approach underlying IDB Invest's E&S sustainability policy is focused less on processes and more on outcomes and how to achieve them, thus allowing for greater flexibility in procedures. The policy allows meeting safeguards requirements over time. Clients had prepared or were required to prepare environmental and social impact assessments (ESIA) for almost all projects for which IDB Invest's policy required such analysis. In most of the projects OVE reviewed, SEG adequately identified gaps in such analyses and ensured that they would be filled through additional

analysis with time-bound measures in the Environmental and Social Action Plan (ESAP), which is an integral part of the loan contract. But IDB Invest's policy lacks clarity on the scope of E&S assessments for medium-risk (category B) projects other than greenfield investments. As a result, the nature and depth of such assessments varied considerably across the projects reviewed, and for many the only documentation available was IIC's or IDB Invest's environmental and social review summary (ESRS). While the quality of such ESRSs was adequate for all recently approved high-risk operations (category A), it was more variable for medium-risk operations (category B). The same was true for the ESAPs of recently approved category B operations. OVE also found that by drawing on both IFC PSs and IDB policy, IDB Invest's policy leaves room for ambiguity on consultation requirements. The nature and timing of engagement and consultation with affected communities may differ according to whether the IFC's PS or IDB Policy is applied. While consultations had been carried out for the majority of high-risk projects before loan approval, they had not been for some medium-risk projects, even those that involved activities with potential impacts on surrounding communities.

- **On follow-up during implementation:** Because IDB Invest's safeguards policy allows clients to meet safeguards requirements over time, strong implementation follow-up by IDB Invest is essential. However, resource constraints currently allow for only limited SEG follow-up, E&S monitoring and supervision visits during implementation. SEG staff handle a large number of projects, so that it is impossible for them to adequately follow up on each project assigned to them. While all category A and high-risk B projects had received a field visit by either a SEG officer or external E&S consultants in 2017, there was no evidence of any field visits for all but one of the lower-risk category B operations OVE reviewed. In these cases, E&S supervision was based on desk reviews of often incomplete client reports. While putting more emphasis on supervising higher-risk projects is sensible, the lack of attention to lower-risk category B projects risks leaving potential E&S impacts undetected and not appropriately followed up on. The monitoring of clients' E&S compliance is currently manual, is not consistently tracked and aggregated, and is based on information contained in client reports with inconsistent formats, content, and quality. The lack of an effective IT solution to support supervision efforts not only puts a high burden on the already stretched SEG officers, but also prevents Management from having real-time information about the E&S performance of the portfolio.

- On actual results:** In OVE’s field case studies, the nine private sector projects it visited (including SCF and IIC legacy operations and recently approved IDB Invest operations) showed more uniformly positive results than the public sector operations, with shortfalls noted in only two operations. The stronger performance among private sector operations is not surprising, since clients that are not willing to abide by IDBG’s safeguards requirements are unlikely to seek or obtain IDBG financing. OVE found that IDBG’s safeguards requirements added considerable value, even when a client already had a relatively strong E&S track record. For example, in some cases, the IDBG requirements provided a road map for the company to focus integrally on E&S aspects that it might have considered in a less focused way before engaging with the IDBG. IDBG’s safeguards requirements ensured that shortfalls in clients’ existing ESAs were addressed, for example by assessing and mitigating the E&S impacts of investments in associated facilities, such as transmission lines, or requiring additional biodiversity impact assessments that led to the establishment of a protected area. IDBG also helped some clients go beyond IDBG requirements by helping them gain international certifications for sustainable production practices or labor standards. Where OVE found less than satisfactory safeguards outcomes, the sponsor had encountered financial difficulties so that the company had not made the necessary investments to ensure that the projects would comply with IDBG standards for emissions and effluent discharges.
- On borrowers’ capacity:** As a result of the merge-out, IDB Invest is covering a broader range of clients with varying capacity to meet its E&S standards than IIC and SCF did individually. As the safeguards requirements of IDB Invest’s operations are focused on bringing the client’s own E&S management system up to par with IDB Invest standards, they generally help strengthen the client’s capacity to manage E&S issues. However, access to technical cooperation (TC) funds for targeted client capacity building has been restricted since the merge-out, even when such TCs could generate positive externalities that go beyond just strengthening the client’s own E&S management capacity.

## The role of MICI

The 2014 MICI policy addressed most of the problems that had afflicted the earlier MICI policy. However, IDBG’s policies remain silent on MICI as a grievance mechanism of last resort, thus essentially leaving MICI disconnected from the IDBG’s safeguards framework.

MICI requests have been motivated more often by social than by environmental concerns. Resettlement, inadequate compensation for non-physical displacement, consultation with indigenous peoples, and inadequate access to information have been the chief concerns raised. MICI's consultation function has provided redress to requesters and enhanced the implementation of the projects concerned. By contrast, MICI's compliance review function is not intended to provide, and indeed has not provided, redress to requesters, as its focus is on determining whether IDBG complied with its policies. MICI has begun to help focus the Bank's attention on safeguards, particularly in the areas of information disclosure and consultations, where Management is taking a number of corrective systemic actions. MICI thus far has had less impact on how IDB Invest handles safeguards, possibly because IDB Invest has been exposed to far fewer MICI cases than IDB.

On the basis of the findings of this evaluation, OVE recommends the following:

#### **For IDB**

- 1. Revise the current IDBG safeguards policy framework.** Develop a new safeguards policy framework that incorporates both environmental and social aspects in an integrated policy, differentiates more clearly between Bank and borrower responsibilities, clearly spells out technical requirements and addresses current coverage shortfalls and ambiguities, rebalances the focus on up-front procedural requirements with effective implementation for results and ensures applicability to operations without clearly designed investments at the time of approval. The policy framework should also consider a more refined project classification system that integrates risks as well as impacts, establishes a clear classification for FI operations and allows for reclassification during implementation as needed. It should also describe MICI's role as a grievance mechanism of last resort.
- 2. Consistently identify projects that use a framework approach to safeguards and enforce the multiple works safeguards preparation requirements.** IDB recently clarified up-front safeguards preparation requirements for multiple works projects, but there are still some specific investment operations that also use variations of the framework approach to safeguards. All projects using a framework approach should be identified during screening and the multiple works safeguards preparation requirements should be enforced.

### **3. Strengthen safeguards supervision and reporting.**

- Undertake more regular follow-up and field visits of all high and medium E&S impact operations, with particular emphasis on projects for which detailed designs emerge only during implementation. Explore new supervision approaches, including more use of local consultants, a stronger presence of ESG staff in country offices and more consistent use of third-party supervision funded with project funds.
- Revisit and solidify the approach to supervising projects using a framework approach by following up regularly on sub-projects, possibly with increased use of third party consultants financed from project funds.
- Strengthen safeguards results monitoring and reporting through both a uniform borrower reporting requirement and an enhanced Bank monitoring and reporting system. Regular safeguards performance and results reporting should become an integral part of the Project Monitoring Report system, updated at least annually. Regular monitoring and reporting will not only provide information about the extent to which the Bank's safeguards objectives are being achieved, but will also be essential if the Bank moves toward a more dynamic and principles-based approach that makes adjustments as issues arise.

### **4. Strengthen IDB staff capacities to deal with E&S issues.**

- Make E&S training for team leaders mandatory to enhance their familiarity with safeguards policies/standards and procedures. Provide additional guidance material.
- Expand training for ESG staff, including on sectoral application of E&S policies and on IDB operations to ensure consistency in the application of safeguards policies/standards.

### **5. Strengthen client capacity to manage E&S risks.**

- Define and implement an incremental approach that identifies parts of the borrower's E&S management system (or specific sectors or agencies) that meet or come close to meeting IDB requirements and can thus be used in Bank supported operations. Couple the use of local systems with targeted capacity building.
- Ensure that safeguards requirements are explicitly addressed at each project launch workshop.

## For BID Invest

### 1. **Revise IDB Invest's E&S sustainability policy.**

- Revisit the requirement of relying on multiple third-party standards in favor of requiring borrowers to adhere to a single coherent set of standards. Given the widespread use of IFC PSs by IDB Invest and the region's private sector and IDB Invest's limited scale and resources, adopting the IFC PSs could be a practical and low-cost solution.
- Provide more clarity on applicable implementation guidelines and procedures manuals for IFC PSs, to cover not only processes but also IDB Invest's practical approach to interpreting and applying IFC PSs to its various types of operations and clients.

### 2. **Strengthen safeguards supervision and reporting.**

- Increase the attention devoted to monitoring E&S risks and impacts beyond operations initially deemed high-risk and undertake more regular field visits, particularly to operations without third-party supervision.
- Implement an IT system to help SEG officers and Management more consistently and efficiently track E&S compliance and results at the operation and portfolio levels.

### 3. **Strengthen IDB Invest staff capacities to deal with E&S issues.**

Provide E&S training for IDB Invest project teams to enhance their familiarity with applicable safeguards policies/standards and procedures, as well as for SEG staff to ensure consistency in the application of the various safeguards policies/standards.

### 4. **Continue and expand efforts to strengthen client capacity to manage E&S risks.**

Continue capacity-building efforts such as the annual Sustainability Week and revisit TC allocation criteria to increase the availability of resources for strengthening client E&S capacities in cases that can generate externalities.





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Introduction

- 1.1 The Inter-American Development Bank Group (IDBG) has committed to ensuring that the projects it supports are environmentally and socially sustainable. Sound environmental and social management are critical ingredients to IDBG's goals of promoting sustainable growth and poverty reduction in the region. To support the integration of environmental and social considerations into project design IDBG has adopted a set of safeguards policies and processes. These aim to ensure that potential negative environmental and social (E&S) effects of its projects are adequately assessed, managed, and mitigated.

## **A. Evaluation objective and scope**

- 1.2 The Boards of the Inter-American Development Bank (IDB) and IDB Invest have requested that the Office of Evaluation and Oversight (OVE) undertake an evaluation of the IDBG's safeguards systems. The evaluation seeks to provide the Boards and Managements with information on how well the two institutions' safeguards and sustainability policies serve to prevent, mitigate, and manage E&S risks associated with their projects, how effectively the policies are being applied, and what their results have been. The evaluation covers IDB's safeguards work from 2011, when the most recent safeguards policy became operational, and IDB Invest's safeguards work from September 2013, when IDB Invest's E&S sustainability policy entered into force. It also includes a review of the contribution of the Independent Consultation and Investigation Mechanism (MICI) to the functioning of the IDBG's safeguards systems since the adoption of the new MICI policy.

## **B. Evaluation questions and methodology**

- 1.3 The overarching question the evaluation seeks to answer is: How effective have the IDBG's safeguards systems been in preventing, managing, and mitigating the adverse E&S impacts and risks of IDBG-financed operations and in building client capacity to manage E&S impacts and risks? It addresses the following key questions: (i) How well are the IDBG's current safeguards policy frameworks suited to prevent, manage and mitigate adverse E&S impacts? (ii) How effectively have IDBG's safeguards policies been applied? (iii) What have been the results of IDBG's safeguards policies? and (iv) How effectively is MICI supporting IDBG's safeguards systems? Annex I provides more detailed sub-questions that guided the evaluation.

- 1.4 To address these questions OVE used a mix of complementary building blocks and methods: desk and field-based evaluations of individual projects; analysis of IDBG’s policy frameworks, procedures, institutional arrangements, and resource allocation; interviews and surveys; and updates of previous safeguards-related evaluations by OVE (MICI and financial intermediaries, or FIs) (see Box 1.1). Table 1.1. shows how the different instruments were used to address the specific evaluation questions, and Annex I provides more details on the evaluation building blocks.

#### *Box 1.1. Evaluation building blocks*

**Desk review of projects.** OVE undertook three types of desk-based project reviews using templates with standardized questions: (i) a stratified representative sample of 134 randomly selected high- and medium-E&S-impact IDBG projects (about 30% of all high and medium E&S impact operations approved over the review period)<sup>a</sup> to gain an understanding of how effectively the safeguards policies have been applied and complied with throughout the project cycle; (ii) an illustrative random sample of 40 IDB low-E&S-impact projects, to assess the adequacy of their risk classification; and (iii) another sample of 33 medium- and high-E&S-impact operations approved by IDB since mid-2017, and of all IDB Invest operations that closed during the second half of 2017, to assess recent developments in up-front due diligence work.

**Field case studies.** OVE also undertook field-based case studies of 35 loans in six countries (Brazil, Haiti, Nicaragua, Paraguay, Peru, and Uruguay) to assess the effectiveness of implementation and the results of applying the safeguards policies in mitigating E&S impacts, managing risks, and helping build client capacity to manage risks. These countries were selected because of the number of category A and B operations approved since 2011; geographical representation; and mix of sizes, income, and capacity levels; and to take advantage of synergies in OVE’s work program. OVE considered a diverse pool of category A and B projects, sovereign-guaranteed (SG) and non-sovereign-guaranteed (NSG) operations, economic sectors, and lending instruments. Projects were analyzed using a template to ensure consistency in evaluation across projects and countries.

**Analysis of IDBG’s safeguards policy framework.** To gain an understanding of how well the safeguards policy frameworks are suited to preventing and mitigating adverse E&S impacts, OVE undertook a contents analysis of the

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a The universe of IDB projects included all SG and NSG loans and guarantees approved between 2011 and June 2017 (2011 being the year when the current safeguards policy entered into effect), while the universe of IDB Invest included all the loans and guarantees approved between September 2013 (the effective date of IDB Invest’s E&S sustainability policy) and June 2017.

various policies and guidelines in IDB's and IDB Invest's safeguards policy frameworks. To provide a comparative perspective, OVE also looked at the safeguards policies of six other multilateral development banks (MDBs).

**Analysis of IDBG's safeguards procedures, organizational arrangements, and resource allocation.** To gain an understanding of the extent to which IDBG's internal capacity facilitates effective implementation of the safeguards policies, OVE reviewed the key safeguards processes throughout the project life-cycle, as well as the associated policy guidelines and tools. OVE also reviewed safeguards specific organizational arrangements and the human and financial resources the IDBG allocates to safeguards work.

**Update of previous safeguards-related evaluation work.** (i) Building on OVE's evaluation of MICI completed in 2012 (RE-416-1), OVE reviewed the new IDB and IDB Invest MICI policies, reviewed MICI complaints and cases received since MICI's restructuring, identified relevant lessons from MICI's legacy cases, and interviewed MICI, IDB Invest, and Bank staff to assess MICI's contribution to IDBG's safeguards system. (ii) OVE also assessed to what extent the IDBG is addressing the key safeguards-related shortfalls OVE identified in its evaluation of the IDBG's work through FIs (RE-486-2). To this end, OVE reviewed the E&S policies, guidelines, and procedures applicable to FI operations during the project cycle, interviewed Bank and IDB Invest staff, and reviewed recently approved FI operations.

**Interviews/surveys.** The analysis of projects in the field included interviews of IDBG staff involved in the projects (safeguards staff, team leaders, MICI staff) and other relevant project stakeholders, such as staff of executing agencies/clients and affected communities. OVE also conducted over 130 structured and semi-structured interviews with IDB chiefs of operations (COs), IDB division chiefs (DCs), Environmental and Social Safeguards (ESG) group heads, IDB Invest division chiefs and critical roles, and IDBG directors. In addition, OVE conducted electronic surveys of IDBG safeguards staff in the ESG Unit and the Environmental, Social and Governance Division (SEG), IDB team leaders, IDB Invest portfolio management officers (PMOs) and investment officers, and civil society organizations<sup>b</sup>.

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<sup>b</sup> Surveys were sent to 173 current IDB team leader, 82 current IDB Invest project team leads and all IDB and IDB Invest safeguards staff. Response rates were 62% and 67% for IDB and IDB Invest team leaders respectively and 92% and 79% for IDB and IDB Invest safeguards staff. The survey was also sent to 196 civil society organizations with a response rate of 35%.

**Table 1.1 Key evaluation questions and building blocks**

Key Evaluation Questions	Evaluation Building Blocks						
	Desk review of projects	Field case studies of projects	Interviews/Surveys	Portfolio analysis	Review of policies and guidelines	Review of procedures/organizational arrangements and resource allocation	Review of MICI cases
How well is the IDBG’s safeguards policy framework suited to prevent, manage, and mitigate adverse E&S impacts?	●	●	●	●	●	●	●
How effectively have IDBG’s safeguards policies been applied?	●	●	●		●	●	●
What have been the results of IDBG’s safeguards policies?		●	●				
How effectively is MICI supporting IDBG’s safeguards systems?		●	●		●		●

Note: See Annex I for more details.

Source: OVE.

1.5 The report is structured as follows: Chapter two reviews IDB’s and IDB Invest’s safeguards policy frameworks and compares them to those of other MDBs; it also discusses the institutional responsibilities for application of the safeguards policies. Chapter three reviews how the safeguards policies have been applied to IDB and IDB Invest operations and what results have been. Chapter four reviews what factors have affected the application and performance of the safeguards system, chapter five reviews MICI’s contribution to IDBG’s safeguards systems and chapter six offers conclusions and recommendations.





# 02

## The IDBG's Safeguards System

2.1 IDB’s and IDB Invest’s E&S safeguards systems are anchored in each institution’s respective set of policies. These policies spell out what the institutions aspires to achieve through their safeguards system and what safeguards requirements apply to IDBG-financed operations.

## A. Policy Frameworks

### 1. IDB

2.2 IDB’s safeguards policy framework consists of a set of five operational policies (Table 2.1). Except for the resettlement policy, the policies are not solely dedicated to safeguards, but encompass both mainstreaming, or enhancing E&S benefits (“doing good”) through Bank programs and projects, and safeguarding—or avoiding, minimizing, and compensating for negative impacts (“do no harm”)<sup>1</sup>.

**Table 2.1 The IDB’s safeguards policies**

Operational policy	Approval year
OP 703: Environment and Safeguards Compliance Policy	2006
OP 704: Natural Disaster Risk Management Policy	2007
OP 710: Involuntary Resettlement Operational Policy	1998
OP 761: Operational Policy on Gender Equality in Development	2010
OP 765: Operational Policy on Indigenous Peoples	2006

Source: OVE.

2.3 These policies cover various environmental and social topics. The safeguards part of the Environment and Safeguards Compliance Policy (ESCP) aims to ensure that Bank-financed operations are environmentally sustainable and provides an overall umbrella for the Bank to engage with borrowers on managing the environmental impacts of the operations it finances. It contains 17 policy directives that cover a mixture of Bank and borrower process requirements and provides further direction on four topics: transboundary impacts, hazardous materials, pollution prevention, and natural habitats and cultural sites. The natural disaster risk management policy stipulates that Bank-financed operations need to include measures to reduce disaster risk to acceptable levels. Three specific social

<sup>1</sup> OP102, Access to Information Policy, while not a safeguards policy, is generally included in the safeguards framework as it spells out access to information requirements pertaining to safeguards.

issues are covered in separate policies: the resettlement policy, which stipulates that Bank-funded operations should strive to minimize physical displacement and that those affected by physical displacement need to be treated equitably; the policy on indigenous peoples, which aims to safeguard indigenous peoples and their rights against adverse impacts and exclusion from Bank-funded operations; and the gender policy, which calls for Bank operations to introduce safeguards to prevent or mitigate adverse impacts due to gender.

- 2.4 IDB lacks an integrated and fully coherent safeguards policy framework. IDB's suite of safeguards policies was developed in a piecemeal fashion over the last 20 years and lags behind that of other MDBs in several aspects. Over the past several years, essentially all other major MDBs have consolidated their E&S safeguards policies into an integrated framework with an umbrella policy on E&S sustainability (Table II.1, Annex II), but IDB does not have an overall integrated framework for its safeguards system. While IDB's ESCP covers projects' environmental impacts, there is no overall umbrella policy covering the potential negative social impacts of IDB's operations. The ESCP indirectly refers to social impacts as associated with environmental impacts, but the policy is ambiguous as to what types of negative social impacts need to be identified and addressed<sup>2</sup>. At its core, the policy is focused on environmental impacts, as it was developed to "provide the necessary directives to put into operation [...] the Bank's 2003 Environment Strategy<sup>3</sup>." A single overall umbrella policy, like that adopted over time by most other MDBs, including IDB Invest, allows to clearly spell out what an organization aspires to achieve through its policy, puts environmental and social aspects on equal footing, and ensures consistency across various safeguards aspects—which is currently lacking in IDB's policy framework.
- 2.5 The integrated safeguards policy frameworks of other MDBs have some common core characteristics against which IDB's suite of E&S policies falls somewhat short. Aside from spelling out an overall policy objective, these umbrella policies clearly outline the lender's processing responsibilities and distinguish them from borrower responsibilities, which are often spelled out as technical requirements in the form of performance or safeguards standards (Table II.1, Annex II). Standards vary in coverage breadth. For example, the Performance Standards (PSs) of the

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2 For example, OP 703's introduction only refers to the environmental sustainability of Bank financed operations. Directive 3 specifies that Bank-financed operations are screened and classified according to their environmental impacts, but then continues that the screening should include environment-related social impacts. Directive 5 on environmental assessment requirements is mute on the need to assess social impacts, but then specifies that the E&S management plan needs to cover measures and monitoring frameworks to manage E&S risks.

3 Environment and Safeguards Compliance Policy, paragraph 1.2.

International Finance Corporation (IFC), which IDB Invest also uses, spell out borrower requirements in eight areas, while the Asian Infrastructure Bank and the Asian Development Bank have three and four standards, respectively (Table II.1, Annex II), with other aspects covered in a more principles-based manner in the general policy. IDB's policies do not as clearly delineate borrower and lender requirements, so that there is often a lack of clarity about roles and responsibilities. IDB staff report that by mixing procedures and technical requirements, IDB policies tend to create confusion among borrowers. IDB's policies are also unclear on technical requirements in several areas, leaving room for interpretation and variability in policy application. Feedback from civil society organizations is that IDB's policies are vaguer in some of their requirements than the policies of some other MDBs, providing less guidance to IDB staff and clients; therefore, it is more difficult to assess the IDB's performance against its safeguards. IDB's is the only set of policies that covers mainstreaming as well as safeguards. Overall, compared to the policy frameworks of some other MDBs, IDB's policies are more process- than principles-focused and pay relatively little attention to expected outcomes. This then encourages a process-driven application of the safeguards, rather than an outcome- and solutions-driven approach.

2.6 IDB's policy framework leaves a number of thematic areas uncovered, particularly on the social front. A review of core thematic areas covered by various MDBs' safeguards policy frameworks shows variation in coverage (Table 2.2) and points to areas on which IDB policies are unclear or subjects that they do not cover. IDB is the only institution with an explicit policy on gender equality and on natural disaster risks, though as Chapter III will show, the application of the safeguards in these two areas lacks clarity and consistency. Key areas that IDB's policies do not explicitly cover include community health, safety and security, labor and working conditions, vulnerable groups other than indigenous peoples and those affected by physical displacement, the need for a grievance mechanism<sup>4</sup>, and explicit requirements for borrower reporting. IDB's policies are also unclear on the need to compensate project-affected people for economic displacement, including the loss of use of resources and land. Unlike most other MDBs' resettlement-related standards, IDB's resettlement policy is limited to physical displacement. Some have argued that these areas

4 IDB requires a grievance mechanism only in the context of resettlement and indirectly refers to mechanisms for feedback and remedial actions in its indigenous peoples' policy, while other institutions have a general requirement for a grievance mechanism to which project-affected parties can bring their concerns before potentially lodging a complaint with the MDB's own grievance mechanism. Thus, the MDB's own grievance mechanism is clearly a mechanism of last resort, which is not unequivocally the case for IDBG's MICI.

can be covered more generally as social impacts under OP-703. However, as discussed above, the coverage of social impacts in OP-703 is tenuous, and many ESG staff have pointed out that the lack of explicit coverage of these areas has resulted in lack of clarity and clear guidance, a finding that also emerges from some MICI cases and OVE's project review. For example, OVE has found considerable variation in how economic displacement is treated across operations (see Chapter III). Both the resettlement and the indigenous peoples policies lack specificity and leave much to discretion, the former with respect to compensation standards and timing and the latter with respect to the prior informed consent of project-affected indigenous peoples<sup>5</sup>.

2.7 IDB policies have a strong focus on up-front preparation requirements but place little emphasis on implementation and achieving results. IDB's safeguards policies were originally conceived for well-defined investment loan operations in which E&S impacts can be identified up front<sup>6</sup> and mitigation measures clearly designed. They are more challenging to apply to other types of lending such as policy-based loans, FI operations, new loans for results, and multiple work operations and other projects that use a framework approach whereby not all investments are clearly defined up front, because for such operations specific E&S impacts can often not be readily identified in detail up front. However, IDB's portfolio has seen an increase in this type of lending (Figure 2.1). This trend is also reflected in the increasing share of operations classified as B13 in IDB's E&S impact classification system—that is, operations for which ex-ante impact classification may not be feasible (Figure 2.2)<sup>7</sup>. The growing share of operations to which the current safeguards policies are

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5 IDB's indigenous peoples (IP) policy does not specifically include free, prior, and informed consent in its safeguards provisions. It only calls for the need to reach agreement with affected indigenous communities in cases of particularly significant potential adverse impact that carry a high degree of risk to the physical, territorial, and cultural integrity of affected IPs. However, it fails to specify what defines a significant potential impact and it also allows for exceptions when a borrower can show that IPs were not willing to participate in consultations, though it remains unclear whether this exception applies to particularly high-risk situations. Some other MDBs' policies, including the IFC PSs that IDB Invest applies, are more categorical in always requiring IPs' free, prior, and informed consent.

6 Projects using a framework approach typically do not identify all investments to be financed ahead of time; instead they identify the type of activities and investments that qualify for financing and create a framework to for identifying and selecting them. Individual specific investments are then typically identified and selected during implementation. At times a subset of initial investments is identified and prepared in more detail before loan approval. IDB's Global Multiple Works lending instrument, defined as a group of works, of a similar nature, but which are physically independent of one another and whose feasibility does not depend on the execution of a specified number of such works, financed under one IDB supported program, is an example of projects using a framework approach. But OVE's portfolio review has shown that many other projects, not identified as Global Multiple Works, but as Specific Investment Operation, have also used a framework approach (see chapter 3 for further details).

7 As Chapter III discusses in further detail, IDB classifies all its operations in accordance with their expected E&S impact. Category A projects are those with high E&S impacts, category B those with medium impacts, and category C those with low impacts. B13 is a catch-all category not related to severity of impacts, covering non-investment lending and flexible lending instruments.

difficult to apply and the lack of clarity and coverage gaps in a number of IDB's safeguards policies lead the vast majority (97% of respondents) of IDB's safeguards staff to conclude that IDB's safeguards policies require revision.

**Table 2.2 Thematic areas covered by MDMs' safeguards policy frameworks**

	IDB	IDB Invest	WB	IFC	ADB	AIIB	EBRD	CAF
<b>Umbrella E&amp;S Policy and Integrated Framework</b>	<b>No (1998-2010)</b>	<b>Partly (2013)</b>	<b>Yes (2016)</b>	<b>Yes (2012)</b>	<b>Yes (2009)</b>	<b>Yes (2016)</b>	<b>Yes (2014)</b>	<b>Yes (2016)</b>
<b>ENVIRONMENT</b>								
Pollution Prevention and Abatement	●	●	●	●	●	●	●	●
Hazardous Waste/Material incl Pest Management	●	●	●	●	●	●	●	●
Resource Efficiency	●	●	●	●	●	●	●	○
Biodiversity, Natural Habitat	●	●	●	●	●	●	●	●
Natural Disaster	●	●	⊗	⊗	⊗	⊗	●	○
Climate Change, incl Greenhouse Gas Emission	GHG emission monitoring only ⊗	●	●	●	●	●	●	○
Transboundary	●	●	●	●	●	●	●	⊗
<b>SOCIAL</b>								
Indigenous People	●	●	●	●	●	●	●	●
Free Prior, Informed Consent by Indigenous People	⊗	●	●	●	●	●	●	●
Involuntary Resettlement (Physical Displacement)	●	●	●	●	●	●	●	●
Economic Displacement(incl loss of use of resources/land)	○	●	●	●	●	●	●	⊗
Vulnerable Groups	○	●	●	●	●	●	●	○
Gender	●	●	⊗	⊗	●	●	⊗	
Labor and working conditions	○	●	●	●	⊗	●	●	●
Community Health and Safety	○	●	●	●	●	●	●	○
Security Personnel	○	●	●	●	○	●	●	○
Cultural Heritage (tangible and intangible; other than linked to indigenous people)	Cultural sites only ⊗	●	●	●	⊗	⊗	●	●
<b>PROCESS</b>								
Environmental Assessment	●	●	●	●	●	●	●	●
Social Assessment	⊗	●	●	●	●	●	●	●
Consultation and Stakeholder Engagement	●	●	●	●	●	●	●	●
Grievance Mechanism	Only for resettlement ○	●	●	●	●	●	●	●
Information Disclosure	●	●	●	●	●	●	●	●
E&S performance reporting by borrower to MDB	Only for resettlement ○	●	●	●	●	●	●	●
Reference to MDB accountability mechanism	○	○	●	●	●	●	●	○

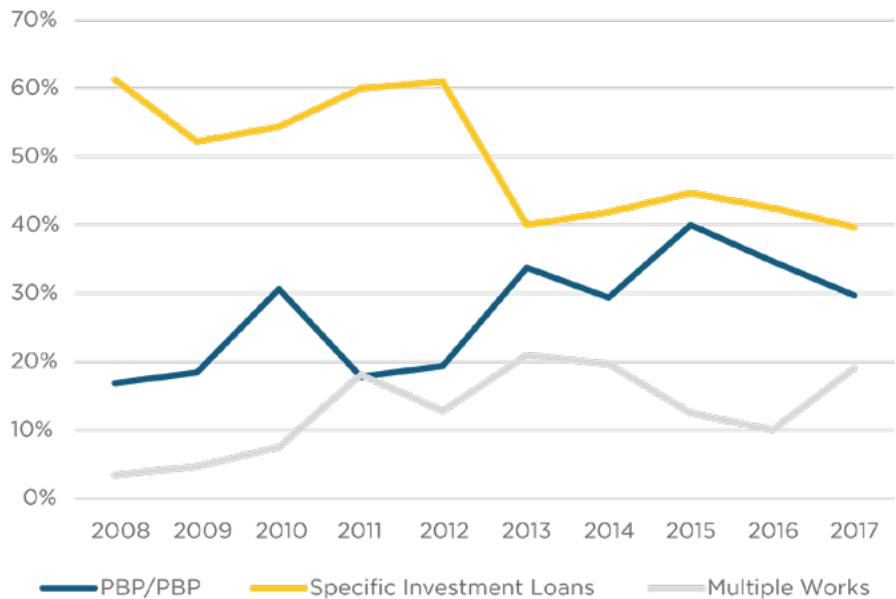
Note: ● means clearly covered; ⊗ means partly covered: only some aspects covered directly or partly covered under other requirements; ○ means not covered.

Source: OVE analysis.

**Figure 2.1**

**SG approvals by major instrument types**

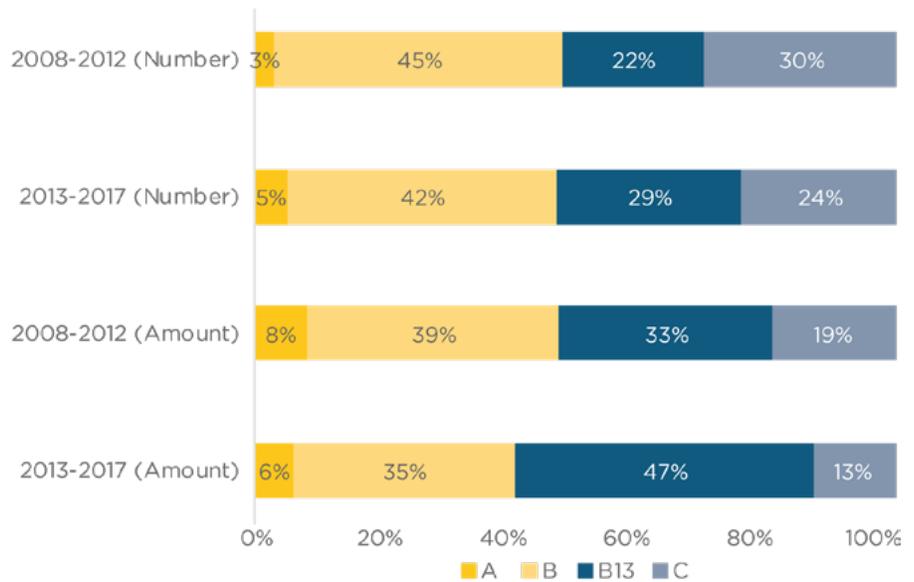
Source: OVEDA, Convergence.



**Figure 2.2**

**Share of SG operations and approved amounts by safeguards category, 2008-2017**

Source: OVEDA, Convergence.



## 2. IDB Invest

2.8 IDB Invest’s safeguards system is anchored in the E&S sustainability policy adopted by the Inter-American Investment Corporation (IIC) before the merge-out. Unlike IDB’s policies, IDB Invest’s E&S sustainability policy is an umbrella policy that provides an integrated framework for both E&S impacts and risks, similar to the more recent frameworks of other MDBs. The policy affirms the institution’s commitment to ensuring that the operations it finances are environmentally and socially sustainable and highlights pollution prevention and resource efficiency, climate change mitigation and low carbon development, biodiversity,

and labor, health, and safety as particular areas to which it is committed. Compared to IDB's policies, IDB Invest's policy more clearly distinguishes between IDB Invest's own responsibilities and those of the client, specifying that clients have to comply with the referenced standards and policies, whereas IDB Invest has to ensure that such compliance is reached. In a key difference from the IDB policies – which state that all operations have to be in compliance at the time of approval – IDB Invest's policy allows for reaching compliance over time. The policy is applied to all of IDB Invest's new operations, as well as to legacy IIC operations, while the IDB's safeguards policies continue to be applied to legacy Structured and Corporate Finance Department (SCF) and Opportunities for the Majority (OMJ) operations.

- 2.9 The key policy challenge on IDB Invest's side is the reliance on multiple third-party policies. Unlike IDB policies, which are largely self-contained, IDB Invest's policy refers clients to IDB policies and other third-party standards. Specifically, IDB Invest's E&S sustainability policy states that in addition to the IDB's safeguards policies, the IFC's Performance Standards, the World Bank/IFC Environmental, Health and Safety (EHS) Guidelines, and several other standards apply to its operations<sup>8</sup>. In case of differences between IDB and IFC PSs, a footnote in the policy states that the IDB standards prevail, but the same footnote also states that IDB's ESCP is only followed “as applicable” to private sector operations without specifying what this entails. The IDB Invest E&S policy also includes references to numerous IDB and third-party “good practice” documents.
- 2.10 By espousing various third-party standards and policies, IDB Invest's policy lacks clarity and creates the potential for confusion about borrower requirements. Unclear requirements can increase the transaction costs for borrowers and IDB Invest staff. The application of multiple policies and standards can also increase the need for ongoing training of IDB Invest's E&S staff to ensure proper and consistent application of the standards. Indeed, over half of IDB Invest's E&S staff surveyed indicated that they needed more training on IFC PSs, while about a quarter said they required more training on IDB safeguards policies. To the extent that there are inconsistencies across applicable policies and standards, the adherence to multiple standards also increases the risks that operations will lead to MICI cases.
- 2.11 OVE's comparative analysis of IDB's policies and IFC PSs found that IFC PSs cover almost all aspects included in IDB's policies and often do so more clearly and extensively. In many aspects

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<sup>8</sup> These include the core International Labor Organization (ILO) Conventions and other ILO standards; and Occupational Health and Safety Assessment Series 18001, UN Convention on Human Rights.

IFC PSs go further than IDB's policies, and they cover aspects on which IDB's policies are mute such as community health, safety and security, economic displacement, and labor and worker conditions (see Annex II for a detailed comparison of IDB policies and IFC PSs). While there is no gender-focused PS, the PSs require identification and protection of people who are affected by disadvantages and vulnerabilities, including those based on gender, but they lack some of the specificity on gender-based preventive action that IDB's gender policy contains. PSs do not make any explicit provision for disaster risk management, although where applicable, disaster risk assessments and management could arguably be covered under PS1, which covers overall E&S assessment, as well as under PS3 and PS4, which cover emergency response plans. PSs embrace a broader concept of stakeholder engagement, while IDB policies are more prescriptive on pre-approval stakeholder consultations, basing requirements on the project's safeguards category rather than on the specific needs and circumstances of a project and the people it affects. OVE's review of IDB Invest projects has found that there is lack of clarity on how to resolve this difference in approaches and requirements, particularly for category B projects.

- 2.12 While the policy states that clients are to adhere to various third-party standards, OVE's project review has found that in reality, IDB Invest projects largely rely on the IFC PSs<sup>9</sup>. Furthermore, over 90% of SEG staff say that they primarily apply IFC PSs because these are the standards IDB Invest's clients are more familiar with. IFC PSs are widely recognized and used by financiers and private sector companies across the Latin American and the Caribbean (LAC) region, often in the framework of the Equator Principles, which include the PS approach and have been adopted by a broad range of private sector banks. Applying those same standards can help prevent the inefficiencies and unnecessary costs incurred if clients have to implement and use two different sets of standards and E&S risk monitoring systems, especially if they work with both IDB Invest and IFC. Moreover, since IFC's PSs have been more recently revised, they are considered more relevant than IDB policies in light of evolving private sector practices and technologies, and they have broader topical coverage than IDB's policies.
- 2.13 IDB Invest's disclosure policy is more restrictive with respect to safeguards documents than that of the IFC, which also lends to the private sector. IDB Invest's policy only requires the disclosure of the Environmental and Social Review Summary (ESRS) and, for category A projects, the EIA, while the IFC policy requires the disclosure of all EIAs prepared for projects as well as a report on the status of free, prior, informed consent by IPs where applicable.

<sup>9</sup> Even for IDB Invest SCF legacy projects, which formally applied IDB policies, some third-party supervision reporting was found to be framed around PSs rather than IDB policies.

IDB Invest's new draft Access to Information policy, currently under consultation, would expand IDB's disclosure requirements to be more in line with those of the IFC.

## B. IDBG roles and responsibilities

### 1. IDB

2.14 As part of the Bank-wide realignment in 2007, all safeguards staff were consolidated in a new ESG Unit in the Vice-Presidency for Sectors (VPS). At the same time the Bank's Committee on Environment and Social Assessment, which in the past had reviewed projects' compliance with safeguards on behalf of the Loan Committee, was abolished and its compliance review function transferred to ESG. ESG had originally been located inside the Infrastructure and Energy Department, but in 2009 it was placed directly under the supervision of the VPS to ensure an arms-length relationship with sector operations divisions and make clear that it supports all sector departments on safeguards matters. The realignment also established the Gender and Diversity Division (GDI) and foresaw that in addition to mainstreaming gender and diversity issues into Bank operations, it would take the lead on social safeguards, while ESG would be responsible for environmental safeguards. The Strategy and Development Effectiveness Department (SPD) was to set quality standards for safeguards and report on the Bank's compliance with safeguards and standards<sup>10</sup>. In the event, GDI collaborated with ESG to help operationalize the safeguards aspects of the Gender Policy during the time of the first gender action plan, but its main focus has been on mainstreaming gender and diversity issues, while ESG focuses on E&S safeguards work. SPD's role on safeguards has largely been limited to reporting the evolution of project safeguards risk categories at the portfolio level in the context of corporate reports such as the Quarterly and Annual Business Reviews.

2.15 ESG plays a dual role: it exercises a quality and compliance review function, and it actively participates in the design and supervision of Bank operations. As part of its compliance review function, ESG participates in key management decision meetings during the project preparation cycle, including the Eligibility Review Meeting and Quality Review Meeting. For this reason, ESG has recently established a small quality review group inside its unit. At the same time, ESG staff actively participate as team members in the preparation and supervision of IDB operations. Some IDB managers and operational staff

<sup>10</sup> Realignment Implementation Plan, GA-232-9, Annex 1, pages 4, 7, 8.

interviewed by OVE have pointed out that this dual role can lead to a conflict of interest, because ESG exercises a compliance function over work that its own staff have undertaken. They have also indicated that this dual role can at times create confusion with the client, when ESG team members working as part of a preparation team agree on one approach with the borrower and other ESG staff later disapprove of such agreements during the quality review process. ESG considers that the potential for conflict of interest is avoided by having a separate quality review group inside ESG that does not directly participate in loan preparation. However, this unit reports to the same managers as the operational staff, which raises the question how strong the firewall is between those providing operational support and those exercising quality control.

- 2.16 The responsibility of sector divisions with respect to safeguards is unclear. While the realignment implementation plan states that ESG and GDI staff are responsible for ensuring the E&S viability of Bank-funded operations and for carrying out safeguards-related due diligence during project preparation and supervision, ESG only has the resources to assign a safeguards specialist to a fraction of Bank-funded projects<sup>11</sup>. Interviews with Division Chiefs (DCs) and Chiefs of Operations (COs) suggest that not all of them have the same understanding of who is ultimately responsible for the effective application of the Bank's safeguards policies. While some maintain that ESG bears the ultimate responsibility for safeguards compliance in those projects to which an ESG specialist is assigned, and sector divisions are responsible for the rest of the portfolio, others consider that the ultimate responsibility for effective application of safeguards policies of all projects rests with the project team leader, who draws on the expertise of ESG team members. Almost one-quarter of team leaders who responded to OVE's survey said that their responsibilities with respect to safeguards were not clearly defined. Among those who responded that their responsibilities were clear, most indicated that it was their overall responsibility to make sure the Bank and the borrowers adhere to the Bank's safeguards policies, and that they carry out that responsibility with the support and input of the ESG team members who are assigned to their teams.
- 2.17 The merge-out provided ESG with an opportunity to regroup and strengthen its support to SG operations. With the merge-out, the IDB's SCF portfolio was transferred to IDB Invest, freeing up resources in ESG to increase support to SG operations. ESG seized this opportunity to reorganize its operational support staff

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<sup>11</sup> While ESG has always supported the preparation and implementation of all high-impact projects (category A), the share of medium-impact operations (category B) receiving ESG support has risen from 42% in 2011 to 100% in 2017 for preparation and from 19% in 2011 to 52% in 2017 for supervision.

into four groups, and to establish the quality assurance group, a policy and knowledge group, and a resource management group. This has allowed establishing clearer lines of communication with sector divisions, a development that DCs have credited for improved interaction with their units.

## 2. IDB Invest

2.18 The Environmental, Social and Governance Division (SEG) is responsible for the application of the IDB Invest's safeguards policy. In contrast to IDB, where ESG reports to VPS, SEG is part of the Risk Management rather than the Investment Operations Department, which gives SEG an arm's length relationship to operations, even while SEG staff support operational work. A SEG officer is assigned to all IDB Invest operations, regardless of safeguards impact level, from the early stages (pipeline meeting) of project preparation until final repayment (see Annex IV). SEG staff are fully responsible for IDB Invest's safeguards work throughout the project cycle, until funds are repaid. Therefore, SEG involvement in the project typically lasts significantly longer for IDB Invest operations than ESG involvement in IDB operations, in which safeguards compliance due diligence ends when the loan has disbursed and closed. IDB Invest project teams are led by an Investment Officer (IO) from origination through first disbursement, when team leadership is transferred to a Portfolio Management Officer (PMO) in charge of supervision. IOs and PMOs are the primary point of contact for clients, with SEG intervening on E&S matters in coordination with the team leader. Unless workload is redistributed or staff leave (as during the merge-out), the same SEG officer normally stays assigned to each project during both origination and supervision. Like ESG in IDB, SEG participates in key decision meetings during loan processing and provides formal clearance of the Board report before its distribution to the Board.

2.19 Team leaders and SEG officers report good collaboration, but not all team leaders are clear about their roles and responsibilities vis-à-vis safeguards. A large majority<sup>12</sup> of surveyed or interviewed SEG officers, team leaders, and members of Management perceive both IDB Invest's processes and organizational setup to be adequate for the effective and efficient implementation of IDB Invest's safeguards policies. Respondents appreciated SEG's contributions as pragmatic, responsive, and solutions-oriented – more so than was the case, especially for SCF projects, before the merge-out. SEG staff perceives team leaders as generally

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<sup>12</sup> IDB Invest processes: 82% of survey respondents among SEG officers, 75% of survey respondents among team leaders and 93% of interviewed DCs and critical roles. IDB Invest's organizational setup: 73% among both SEG and team leader responses, 86% among DCs and critical role interviewees.

willing to address safeguards issues. However, almost 30% of team leader respondents perceive a lack of clarity about their role with respect to safeguards.

### **3. MICI**

2.20 MICI was established as an avenue for potentially affected parties to lodge complaints about alleged Bank or IDB Invest noncompliance with their safeguards policies. MICI provides potential requesters two avenues: a consultation function and a compliance review function. The consultation function provides an opportunity to address the issues raised by the requesters related to potential harm caused by alleged failure of the Bank or IDB Invest to comply with one or more of their policies. The compliance review function seeks to investigate allegations by requesters that the Bank or IDB Invest has failed to comply with their policies and as a result have caused harm to the requesters. While MICI's primary function is to help address issues that may result from the Bank's or IDB Invest's noncompliance with its safeguards and related policies, it also has the potential to enhance the quality of Bank or IDB Invest operations by generating lessons from such cases and providing guidance to the institutions on the implementation of their safeguards policies (see Chapter V).





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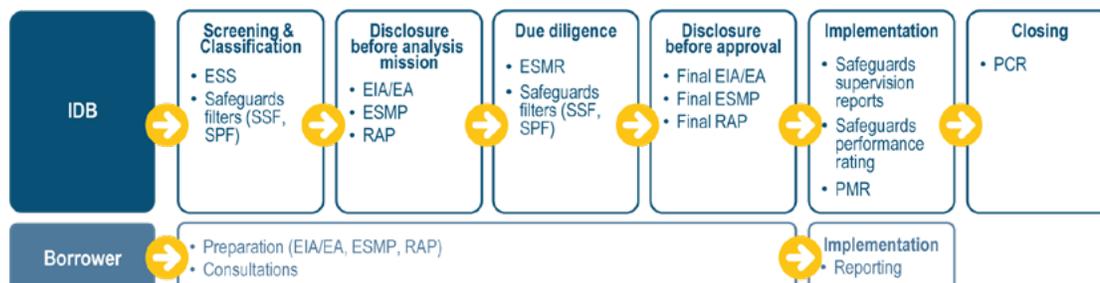
## Safeguards Application and Results

3.1 This chapter reviews how effectively IDB and IDB Invest have applied and complied with their safeguards policies during project preparation and implementation and what is known about safeguards results.

## A. IDB

### 1. Preparation

3.2 IDB’s safeguards policies require that each proposed Bank operation undergo an initial screening early in the preparation process to identify potential E&S impacts and assign an environmental impact category according to the potential negative E&S impacts. During the initial stages of design, IDB categorizes all projects into one of four E&S impact categories. Category A projects are those with the most significant and mostly permanent E&S impacts, category B those that cause mostly local and short-term impacts, and category C those with minimal or no negative impacts. A fourth category, B13, is a catch-all category not related to severity of impacts; it covers non-investment lending and flexible lending instruments for which ex-ante impact classification may not be feasible, such as FI operations<sup>13</sup>, policy-based loans, and loans for results. The screening phase also serves to determine which safeguards policies apply to the project and results in the preparation of an Environmental and Social Strategy (ESS) that outlines the key potential E&S impacts, identifies information and compliance gaps, and defines the actions needed to achieve safeguards compliance. The ESS and safeguards policy filter and screening form become annexes to the Project Profile, which is the basis for the Bank’s financial eligibility review meeting. (Figure 3.1).



**Figure 3.1**  
**Bank and borrower responsibilities**

Source: OVE.

<sup>13</sup> For FI operations, IDB has an informal sub-classification system mirroring that of IDB Invest, differentiating between low-, medium-, and high-risk FI operations. But these categories are not reflected in the safeguards policies and implementation guidelines, or in IDB’s databases.

- 3.3 OVE’s field review found that a share of operations had been under-classified. Using available documentation (which was often limited in scope), OVE’s desk review concluded that the large majority of projects<sup>14</sup> appeared to be assigned the proper environmental impact category. However, when projects were reviewed in the field, OVE found that seven out of 35 loans reviewed (almost 20%) had been under-categorized as B at approval, when they should have been categorized as A<sup>15</sup>. Available documentation in these cases was found to underestimate potential E&S impacts. Similarly, about 10% of ESG staff indicated that the last project they had supervised in the field had been under-classified as B when it should have been A. MICI also found that in two of the five completed compliance-reviewed cases, the project was classified as category B when it should have been classified as category A (see Chapter V). The share of under-classified operations encountered during OVE’s field studies raises the question of whether a static project classification system based entirely on up-front analysis, often carried out under time pressure and when final project designs are not yet available, is an optimal approach. Under-classification can leave some projects with significant E&S impacts under-addressed during implementation. OVE’s project review did not identify any projects that had been over-classified.
- 3.4 IDB’s safeguards classification system is mainly based on impact while that of some other MDBs also takes into consideration risk. When defining the various impact categories, IDB’s OP-703 focuses on E&S impact, except for category A projects, for which some sections of the policy specify that they are also high risk. In practice, ESG clarified that it is based on impact for all projects. The safeguards classification systems of IDB Invest and some other MDBs more systematically consider both risks and impacts—which is sensible. A project with limited E&S impacts may still entail significant E&S risks in an environment of low borrower capacity to manage such impacts or in a situation with high risk of social conflicts. While the Bank’s policy calls for the identification of other risks that may affect the environmental sustainability of its operations (OP-703, B4) during the due diligence work, such additional risk factors are not clearly captured in the formal categorization of an operation. Cognizant of this shortcoming, ESG has recently developed a four-point environmental and social risk rating system and in June 2018 completed the process of assigning a risk rating to operations in the portfolio. The system is intended to be dynamic and capture changes in project E&S risks through ratings updates as needed. Given that only a share of the active portfolio benefits from ESG

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14 OVE’s desk review found that 8% of category B projects and 7% of category C projects were under-classified.

15 After it became a MICI case, IDB changed the category for one of these projects from category B to category A. For another project one component was categorized as A, but the whole project was categorized as B instead of A.

support and field-based supervision, it is however not obvious how this will be done on a regular basis. While the risk rating system thus recognizes both risks and potential impacts, this categorization is not yet formalized and is applied in parallel to the safeguards categorization stipulated in IDB's safeguards policy<sup>16</sup>. For the moment, ESG mainly uses the risk ranking to determine whether a project should be assigned a safeguards specialist for supervision and what projects require supervision missions. A classification system which not only considers impact but also risks, becomes particularly important should the Bank decide to increasingly rely on borrowers' own E&S management systems.

- 3.5 The majority of operations correctly triggered the applicable safeguards policies, but there was considerable variation in the application of some policies, which could not be explained by the nature of projects and expected impacts alone. Almost 75% of the projects OVE reviewed correctly triggered the applicable policies, but the ESSs did not consistently spell out why a policy applied or not. In addition, only somewhat over half of the projects clearly identified the strategy to validate information and close information gaps before project approval, so that they did not provide a clear road map for project preparation. Inconsistencies were found in the application of the gender and resettlement policies, and to a lesser extent the indigenous peoples policy, that could not be explained merely by differences in the nature of projects and their potential impacts. Inconsistencies in triggering the resettlement policy were mostly associated with projects that had not yet been fully designed at the time of approval, so that it was impossible to determine with certainty whether resettlement would indeed be required. In such cases, some project triggered the policy as a precautionary measure, and others did not and simply stated that the policy would be complied with if resettlement should be necessary during implementation. Thus, for the latter no resettlement frameworks were prepared. Yet, such frameworks could have helped ensure that resettlement would be handled in accordance with IDB's policy requirements if resettlement were to materialize during implementation. Similarly, the resettlement policy was sometimes triggered for economic displacement (which it does not explicitly address) and other times not.
- 3.6 The E&S impact categorization influences project preparation requirements. For high-impact category A projects, borrowers need to prepare an Environmental Impact Assessment

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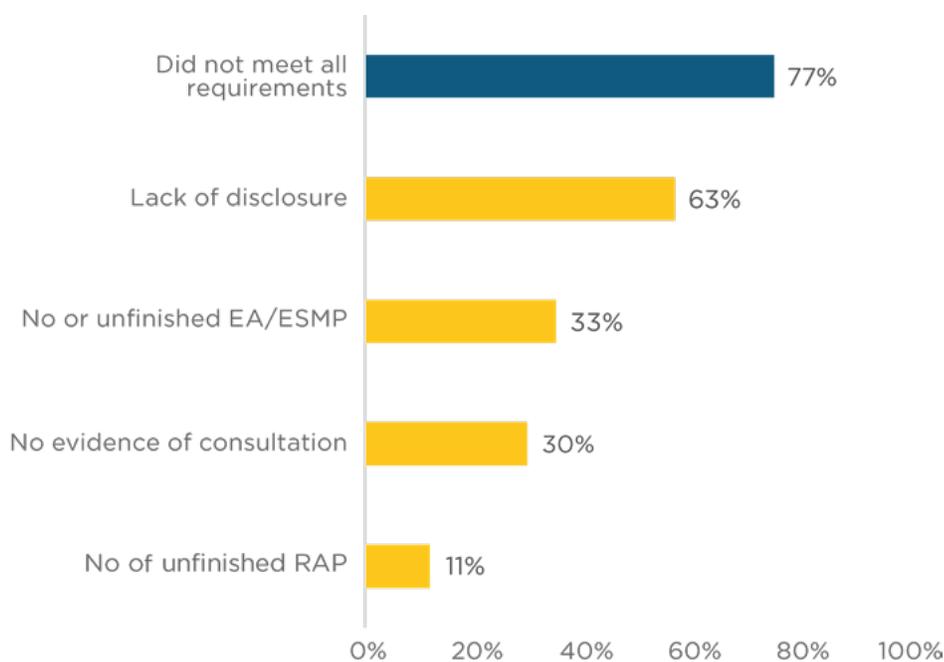
16 It is envisaged that the system will cover strategic, portfolio, and project-level risks with outputs that are strongly linked to database systems that would allow Management and ESG specialists to manage risk and report in aggregate on performance.

(EIA). For category B projects they need to prepare a lighter environmental assessment (EA). Both types of assessments are to be complemented by an Environmental and Social Management Plan (ESMP) that spells out the actions necessary to manage and mitigate E&S impacts. The EIA/EA is expected to include or be supplemented by specific analysis on sociocultural aspects, gender and indigenous peoples, and natural disaster risk, depending on which safeguards policies are triggered. If the project is expected to involve physical displacement of people, the assessment must be supplemented by a Resettlement Action Plan (RAP). A fit for disclosure EA/ESMP and RAP must be publicly disclosed before the Bank undertakes its analysis mission, and the final versions of these documents need to be publicly disclosed before the loan is submitted to the Board for consideration. The borrower is also expected to carry out consultations with project-affected populations before loan approval (two for category A projects and one for category B projects) (Figure 3.1). Category C operations do not require any specific E&S preparation and consultation. For PBLs which are classified as B13, the policy stipulates that only potential environmental impacts should be analyzed at the time of screening and those that may have significant negative implications on environmentally sensitive sectors are to undertake sector analytical work or a strategic environmental assessment. In practice, screening documents for PBLs essentially always state the program is not expected to have any negative impacts and no further analysis is undertaken<sup>17</sup>. As part of due diligence work before loan approval, the Bank then prepares an Environmental and Social Management Report (ESMR) for category A and B projects that outlines the project's potential E&S impacts and agreed mitigation measures, assesses the quality of the borrower's ESMP and its capacity to implement it, reviews compliance with the country's own laws and regulations, and spells out what actions remain to bring the operation into compliance with the Bank's policies and what safeguards-related requirements should be anchored in the loan contract. The ESMR is electronically linked to the loan proposal document.

- 3.7 The quality of safeguards-related project preparation has been variable, with the majority of reviewed projects not fully meeting requirements before approval. About three quarters of projects reviewed did not fully meet the preparation requirements. Over 60% did not comply with disclosure requirements, about one third had incomplete or missing EAs or ESMPs, and for about 30% there was no evidence of consultation (figure 3.2).

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<sup>17</sup> OVE's review of all PBLs approved in 2017 found that none of them had undertaken additional analysis.



**Figure 3.2**

**Share of projects falling short on E&S requirements prior to approval (total=101 projects)**

Source: OVE.

- 3.8 Disclosure of E&S-related documents has been uneven. For over one third of the operations that triggered the resettlement policy, a RAP or resettlement framework could not be located. While in the majority of operations reviewed some stakeholder consultations had been undertaken, only somewhat over half of these properly documented those consultations. Almost 40% of operations had not disclosed their EIA/EAs or ESMPs prior to Board approval and almost two thirds did not disclose these documents before the analysis mission (Figure 3.2 and Annex III). Shortfalls pertaining to documentation and disclosure have also been key drivers of MICI cases (Annex VI). To address the shortcomings in disclosure, IDB recently added a feature to Convergence that requires ESG to confirm that the necessary documentation has been disclosed before VPC provides clearance for the analysis mission to proceed.
- 3.9 E&S analyses often fell short of expectations. For almost one quarter of projects an EIA/EA was not available, and the key E&S issues were only summarized in the Bank's ESMRs. For those with an EIA/EA, over 70% adequately assess environmental impacts. When there were shortcomings, these included missing baseline information and inadequate attention to biodiversity and to indirect or cumulative impacts when these were pertinent. In almost half the projects that triggered the natural disaster safeguards policy, disaster risk management was not considered in the EA/ESMP or supplementary analysis,

even if disaster risk was classified as high or moderate<sup>18</sup>. OVE field case studies found that even in countries with areas that are prone to natural disasters (e.g., Haiti, Nicaragua, Peru), analysis was at best light and ESMPs rarely included any disaster risk management measures, nor were funds set aside to deal with the potential effects of a natural disaster. At times this meant that IDB-supported infrastructure, such as roads, was damaged by events like landslides or flooding even before the works were completed. OVE's document review and ESG staff surveys found that the requirements and responsibilities for undertaking disaster risk analysis and preparing a disaster risk management plan were unclear. Similarly, fewer than half of all projects that triggered the gender policy undertook any gender analysis, and only about one-third of such operations contained gender-specific actions. OVE's field studies and survey of ESG staff suggest that the inconsistency in triggering the gender policy may be at least partly due to staff not knowing how to approach and incorporate the issue. In each of the six countries that OVE visited, it found projects that had triggered the gender policy, but the Bank and the borrower had not found an effective entry point to address potentially negative gender-related project impacts. Again, for only half the operations that triggered the indigenous peoples policy was there evidence of related analysis. OVE's surveys and field studies highlighted that there is some lack of clarity on how to apply the policy, particularly when a country's definition of indigenous peoples is different from IDB's, or when indigenous groups reside in urban areas.

3.10 An important share of IDB-approved investment operations use a framework approach which makes the application of IDB's safeguards policies more challenging. Typically, for projects using a framework approach not all investments to be financed are identified before loan approval. Instead, the types of activities and investments that qualify for financing are identified and a framework is created for identifying and selecting them during implementation. At times a subset of initial investments is identified and prepared in more

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<sup>18</sup> OP-704 calls for projects to be classified into three disaster risk categories. Those classified as high risk require a disaster risk assessment and those classified as moderate risk may require a limited DRA. OVE's desk review found that the risk level was not set for almost one quarter of projects that had triggered the policy. For only half of the projects which had been classified as high risk there was evidence of any disaster risk analysis (meaning a discussion of the topic in the EA/ESMP, ESMR or free-standing disaster risk analysis), while the same applied to 42% of projects classified as moderate risk.

detail before loan approval. IDB's multiple works projects use a framework approach and specific preparation requirements have been identified for those. Over the evaluation period, 21% of all SG category A and B project approvals were classified as multiple works projects<sup>19</sup>. However, OVE's portfolio review has shown that about another 30% of category A and B projects approved during the evaluation period also used various variations of a framework approach, although they were not formally identified as multiple works operations and thus should adhere to preparation requirements for specific investment loans<sup>20</sup>. Thus, overall, over one-half of all category A and B investment lending operations approved over the last seven years and reviewed by OVE use a framework approach, which presents challenges in terms of safeguards policy application.

- 3.11 The preparation of projects using a framework approach was frequently deficient. Detailed E&S assessments and management plans cannot be prepared for all project investments when these have not yet been identified before loan approval. Instead, for projects with a framework approach, the E&S impacts are typically assessed for a sample of investments expected to be representative of all subprojects to be financed. These assessments are then used to design an Environmental and Social Management Framework (ESMF) that during implementation will guide the selection of individual subprojects and the preparation of their E&S assessments and ESMPs. For operations with subprojects that include resettlement, a resettlement framework plan should be prepared. Only about half of the projects using a framework approach that OVE reviewed had developed an ESMF that was fit for purpose, and about 40% of the frameworks that were prepared were not based on an E&S assessment of a sample of subprojects. This then led to ESMFs that were overly generic and not well adapted to the geographic and project-specific context of the areas where subprojects were to be implemented. They often lacked proper screening and scoping criteria and guidelines for subprojects and did not provide an adequate guide for subproject EAs to focus on and address site-specific issues and risks. Without such clarity, subproject EAs may be of limited use and tend to overlook important E&S project impacts. For example, OVE's field studies found that the

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19 The share of multiple works operations in OVE's desk review sample was 20%.

20 For multiple works projects, preparation requirements specify that 30% of subprojects should be prepared in detail before approval and an Environmental and Social Management Framework should be prepared to guide selection and EA/ESMP preparation for the rest of the sub-projects during implementation. For all specific investment operations, under which essentially all the other projects that also used a framework approach fell, EAs and ESMPs should be prepared prior to approval for all investments. However, this is not feasible when not all such investments have been identified yet. Among the projects reviewed by OVE that were not multiple-works but followed a framework approach, over half only prepared a generic framework without completing EA/ESMPs for any sub-projects.

screening of a site for the improvement of a neighborhood in a Bank-supported project in Nicaragua did not address the issue of an open dump next to the community that for many years had constituted a health threat to the community, and the closure of the dump was not integrated into project activities. In a tourism development project in Brazil, an appropriate EA was developed for only one subproject, so that the E&S impacts were inappropriately managed for the remainder of the subprojects that had been implemented at the time of OVE's visit. Projects using a framework approach also had a significantly higher rate of noncompliance with pre-approval consultation (49% vs 8%) and disclosure (77% vs 48%) requirements than non-framework projects.

- 3.12 The inconsistent preparation quality of projects using a framework approach may have been due partly to the lack of clarity on what is required to adequately prepare ESMFs, as well as to the lack of clarity on when this approach can be used for safeguards purposes. ESG has recently issued guidelines that clarify the preparation requirements for multiple works projects, and in principle, all projects using a framework approach should be classified as multiple-works projects. A review of a multiple works projects approved between mid-2017 and mid-2018 suggests that they now more consistently include EAs and ESMPs for a sample of their subprojects, all had prepared an overall ESMF, and that they adhere better to the disclosure requirements for ESMFs and subproject EAs/ESMPs than in the past. However, OVE's review of projects approved over the past year has also shown that there is still a share (15%) of projects which employ a variant of the framework approach even though they are not classified as multiple-works projects.
- 3.13 The use of a framework approach is not inherently problematic, provided certain conditions are met to ensure that such operations adequately address E&S impacts. Since projects with a framework approach leave the bulk of E&S assessment and the preparation of mitigation and management plans to the implementation phase, they require that implementing agencies have strong capacity to manage the E&S issues of multiple projects, and that IDB provide regular follow-up and implementation support. OVE's desk and field reviews have shown that this has not happened thus far. Interviews and the ESG staff survey found that the Bank does not currently have the capacity to provide the implementation support required to ensure the adequate E&S management of the growing number of projects using a framework approach<sup>21</sup>. One option to address this issue might be to resort more to third-party supervision and

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21 As Chapter IV explains, infrequent field visits, a relatively high number of projects per ESG officer, and limited ESG coverage of category B projects are key factors that affect the Bank's capacity to properly follow up on projects using a framework approach for which

implementation support of E&S issues in framework projects, with funds to finance this supervision built into the loan, similar to third-party supervision of IDB Invest operations.

- 3.14 OVE field case studies show that not completing all the E&S analyses to required standards before project approval does not have to handicap an operation's ability to properly address safeguards issues, provided there are a clear framework and timetable to guide remaining work and close follow-up by the Bank during implementation. The majority of the projects that OVE reviewed in the field had some shortcomings in safeguards-related project preparation. When the Bank clearly identified these shortcomings, agreed on a clear action plan to address them with the borrower during its due diligence work, and then anchored those commitments in the loan contract and regularly followed up, outstanding work—such as additional baseline data collection, more detailed biodiversity impact assessments, detailed EIAs for associated facilities, or detailed resettlement plans—was generally completed during implementation and facilitated adequate management of E&S issues, as long as sufficient resources were allocated to addressing them. This suggests that a somewhat more flexible approach to meeting E&S requirements over time is feasible when these conditions are met. However, OVE's desk and field review of projects found that the due diligence work did not always systematically identify outstanding issues and map out a clear action plan to come to closure, and that there often was insufficient follow-up during implementation.
- 3.15 OVE field studies have shown that failure to adequately identify and plan for minimizing, managing, and mitigating E&S impacts can result in substantial costs, not only for those directly affected by such impacts, but also in terms of delayed project implementation. For example, in a tourism development project in Brazil, civil works had to be stopped because of a resettlement issue. Similarly, in a roads program in Haiti, the lack of proper E&S baseline information and impact assessment resulted in deficient mitigation measures, leading to delays in the implementation of the civil works and creating social conflict and environmental damage. The preparation of the operations did not include the full costs of the programs, especially the resettlement costs, and when the money ran out, supplemental grants had to be found to fill gaps. On a larger scale, a recent IDB-funded study of lessons from four decades of conflicts related to infrastructure projects found that the lack of adequate up-front planning and consultation

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the EAs, RAPs, and ESMPs of individual subprojects may need to be reviewed during implementation.

with potentially affected communities were key drivers of such conflicts, which, when not properly addressed as they arose, resulted in a substantial loss of resources<sup>22</sup>.

- 3.16 Over the past 18 months, ESG has undertaken significant efforts to systematize and enhance the Bank's up-front due diligence work to address shortcomings. While ESG has always been involved in the preparation of all category A projects, since 2017 it also supports the preparation of all category B projects. ESG has recently invested significant efforts in systematizing the way the Bank carries out its due diligence work. It has prepared detailed protocols to guide the process along the project preparation cycle and to standardize the required contents for key due diligence documentation. OVE's staff surveys and interviews confirm that these efforts are resulting in stricter application of up-front safeguards requirements, partly motivated by the desire to reduce the risk of future MICI cases. They point, however, also out that the allotted preparation times are often insufficient to fully comply with all requirements.
- 3.17 OVE's review of a sample of operations approved between mid-2017 and mid- 2018 found that these efforts are making a difference. ESSs and ESMRs more systematically document the application of individual safeguards policies, and the contents and quality of ESMRs have been enhanced, including through a clear analysis of the quality and shortfalls of existing E&S analysis, assessment of safeguards compliance status, and identification of actions to ensure compliance throughout project implementation. Furthermore, all reviewed projects had conducted an EIA/EA and undertaken consultations prior to project approval and 90% had complied with disclosure requirements. In addition, all projects to which the resettlement policy applied had completed a resettlement plan or framework.

## 2. Supervision

- 3.18 The Bank's ESCP stipulates that the Bank will monitor the executing agency's/borrower's compliance with all safeguards requirements stipulated in the loan agreement and project operating regulations. According to directive B7 (OP-703), compliance with safeguards commitments and the identification of unexpected safeguards issues are to be analyzed, reviewed, and reported as part of the Bank's administration and portfolio review missions. However, the policy and its guidelines fall short on establishing more specific supervision requirements. For instance, the policy requires that category A projects be reviewed at least annually, but it is mute about the timing of

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<sup>22</sup> Watkins, G., Sven Uve Mueller, et al., 2017. *Lessons from four Decades of Infrastructure Project-Related Conflicts*. Washington, DC: Inter-American Development Bank.

the supervision of Category B, C, and B13 operations. The resettlement policy specifies that “in all cases, independent supervision and multidisciplinary evaluation will be provided,” with the implementing guidelines clarifying that “the Country Office specialists should make regular site visits and coordinate with the agencies responsible to ensure that the resettlement program complies with the original objectives and is achieving the intended results. The Country Office specialists should prepare regular progress reports for the representative and the appropriate divisions at Headquarters.” The other safeguards policies are either mute or vague on supervision requirements.

3.19 ESG has increased its involvement in the supervision of medium-impact (category B) projects, but its involvement is still limited. Category A projects have been consistently supported by an ESG specialist during implementation, but a strong focus on up-front process requirements and resource limitations have restricted ESG’s involvement to only a subset of category B projects (19% and 44% of the active category B projects in 2011 and 2015, respectively). Since the merge-out ESG has had more resources to focus on SG operations, and the share of active category B projects it has supported during implementation rose to 50% in 2016 and 52% in 2017 (see Chapter IV)<sup>23</sup>. Supervision responsibility for the remainder of the portfolio remains with the sector divisions. Until recently, the ESG approach to supervision consisted of identifying, during preparation, high-risk projects that would then be directly supervised by ESG specialists<sup>24</sup>, making selected field visits to follow up on safeguards issues, and rating safeguards performance on the basis of the field visits. While this up-front risk classification system of projects allowed ESG to prioritize supervision efforts, an important weakness of the rating system was its non-dynamic nature, given that many safeguards issues arise during implementation. To address this issue, ESG has thus revised the risk rating system. During the first half of 2018 it assigned a new risk rating to all active operations in the portfolio and classified 202 operations as high or substantial risk. According to ESG, an ESG specialist is now assigned to supervise 143 (71%) of the high and substantial risk operations. The challenge going forward will be to regularly update the risk rating, including for operations that are not followed by ESG specialists. Some other MDBs, such as the

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23 An ESG specialist was also assigned to 13% of active category B13 and 3% of active category C projects.

24 High-risk projects included all category A projects, higher-risk B projects, and some B13 operations.

World Bank, assign a safeguards specialist to each category A and category B project during supervision, with at least annual field-based safeguards supervision missions for all such projects.

- 3.20 Despite the progress in ESG's coverage, ESG systematically follows up on the safeguards performance of only a share of projects through field visits. At the portfolio level, although all category A projects and 52% of category B projects under implementation now have an assigned ESG specialist during implementation, in 2017, 73% of category A projects and 30% of category B projects that had reached eligibility and were supported by an ESG specialist received at least one supervision mission during the year. OVE's field studies showed the value-added of field visits and follow-up, particularly in environments of weak capacity and for projects for which E&S impacts and mitigation measures had not been well identified up front. When there were ESG supervision missions, they often identified important implementation issues and provided good advice on how to resolve them, but then there was not always regular follow-up to see to what extent these issues had been resolved, particularly for category B projects. For some of the larger infrastructure investment operations reviewed by OVE, safeguards supervision was undertaken as part of construction supervision by third-party supervisors, though the systematic availability of reports on this supervision was limited. Field case studies also found that some sector units hired local consultants to help supervise safeguards aspects in complex projects when no ESG specialist was available, but such efforts were only occasional.
- 3.21 The monitoring of safeguards aspects is not well integrated into the Bank's overall project supervision framework. While OP-703 stipulates that safeguards indicators should be defined in the project results framework, followed up in monitoring reports, and reviewed in midterm reviews and Project Completion Reports (PCRs), this is not systematically done. OVE's project review found that less than one third of operations included any safeguards-related indicators in the results framework, and in those that did these indicators were largely limited to tracking some gender-based outputs or GHG emissions. Some also included indicators on numbers of households resettled, but rarely updated them. The Project Monitoring Reports (PMRs) do not systematically report on safeguards performance, although a safeguards section (which includes a safeguards performance rating and its justification) has been incorporated into the PMRs. For one-third of the projects OVE reviewed the PMRs did not contain any safeguards performance ratings; those that did provide such ratings hardly ever substantiated them, and many of the ratings were outdated, as they were based on the last ESG supervision mission, which had often occurred several years back. Overall in 2017, only 28% of active category

B projects had a safeguards performance rating, and 40% of those ratings dated from before 2016. In addition, OVE's desk review found that the safeguards performance rating in about one-third of rated projects was questionable. Even in situations of noncompliance, projects were rated as satisfactory or partly satisfactory on the basis of expectations that the deficiencies would be corrected. The issues surrounding the adequacy and frequency of the safeguards performance ratings also call into question the reliability of aggregate safeguards performance reporting in the Bank's corporate results frameworks, which sets as targets that the share of projects with high E&S risks rated as Satisfactory in implementation of mitigation measures be 85% by 2015 and 90% by 2020. To improve the reliability and consistency of safeguards performance ratings, ESG recently developed guidelines which clearly define each performance category on the rating scale.

3.22 Overall, there is considerable agreement among staff on the need for more continuous support by ESG during project supervision. Almost three-quarters of ESG specialists, 50% of IDB's project team leaders, 64% of COs, and 71% of DCs agreed that the levels of efforts and resources devoted to safeguards during project implementation are too low. Interviews and staff surveys confirm that safeguards supervision efforts are inadequate. One-third of IDB project team leaders referencing a category B project said that the Bank's frequency of safeguards supervision is inadequate, and 43% said that the timely availability of a safeguards specialist is inadequate. This situation was even more marked among team leaders of category A projects – 57% and 43%, respectively, indicated that the frequency of safeguards supervision and the timely availability of a safeguards specialist are inadequate. About 20% of ESG specialists said that the frequency of safeguards supervision of the last project they supervised was inadequate; however, it is important to remember that a large share of category B projects are not supervised by ESG. The need for more presence of ESG specialists in country offices or local E&S consultants was also an issue frequently raised by DCs (71%) and COs (40%), given that important safeguards issues arise during implementation<sup>25</sup>. Civil society representatives responding to OVE's survey and follow-on discussions also pointed out that consistent follow-up by IDBG on safeguards application during implementation remains a key concern. While most of them consider that IDB projects address E&S concerns better now than in the early

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25 As of June 2018, ESG consultants supporting operations are present in Brazil, Bolivia, and Haiti.

2000s<sup>26</sup>, only about one-third consider that IDB projects address environmental concerns fully effectively, while somewhat less than half think social safeguards issues are addressed fully effectively (see Annex V).

### 3. Results

3.23 IDB does not systematically follow and document the safeguards implementation performance and results of all the operations it finances. Unlike IDB Invest, IDB's policies do not uniformly call for borrowers to report on safeguards performance to IDB. Together with limited safeguards supervision, this means that IDB does not have a clear overview of how well the portfolio of operations it finances perform on safeguards, what safeguards results are achieved and whether the policies achieve their objectives. Given the lack of monitoring and reporting on safeguards performance and results throughout project implementation, it is not surprising that PCRs cannot properly document safeguards outcomes. Of the 20 PCRs for Category A, B and FI projects validated by OVE in 2018, only three reported on the effects of some E&S shortfalls or results, while five others stated that the ESMP or local E&S requirements were complied with without providing any evidence. Given the lack of systematic information on safeguards results, OVE is drawing on the findings from its field study of 26 SG and 9 NSG operations to provide some insights on safeguards results. While they can provide some insights into safeguards implementation performance and results on the ground, such one-off field visits to a limited number of sites cannot provide an overall reliable picture of project safeguards performance, particularly in the absence of regularly produced monitoring data.

3.24 OVE's field studies show mixed results on safeguards outcomes. About one third of SG operations visited by OVE showed predominantly positive safeguards results on the environment side and about half did so on the social side. While OVE noted some shortfalls in the remaining projects, the performance of only three<sup>27</sup> each on the environmental and social side was afflicted by substantial deficits. On the environment side shortfalls were generally linked to not taking into consideration and addressing indirect or induced impacts or to not considering the operational phase after an investment was completed. On the social side, shortfalls were predominantly related to delayed or controversial land compensation and failure to effectively deal with economic displacement.

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26 Of the respondents, 75% said that environmental concerns are addressed better now than in the early 2000s, and 63% responded that social concerns are better addressed now.

27 One of the three is a program financed by five individual loans, but was reviewed as a program.

- 3.25 OVE field visits found that long term engagement and innovative approaches to key safeguards issues such as resettlement can yield results that go beyond the confines of the project. In two large scale flood management operations in Brazil for example, IDB introduced an integrated approach to managing E&S risks. Borrowers indicated that the integration of E&S issues and effective community engagement and communication were a significant value provided by the Bank. Both operations effectively helped resettle several thousand households into improved housing away from flood zones. The implementing agencies plan on continuing to use the approaches and resettlement standards promoted by the Bank. In an urban transport project in Brazil, the participatory approach promoted by the Bank before and during civil works construction helped build trust with affected communities and facilitated the implementation of complex civil works. This helped devise and implement a construction schedule that minimized disruption, prevented economic displacement of vendors during the construction of a new bus terminal, effectively integrated vendors into project design and provided them with enhanced facilities as part of the new terminal. It also provided for terminal design with access for those with special needs.
- 3.26 Even projects with some safeguards performance shortfalls showed aspects of the valued added of IDB's safeguards. For example, in an urban development operation in Paraguay, safeguards preparation fell short, with resulting negative consequences, including a MICI case; nevertheless, the project helped build significant capacity in the E&S unit of the ministry to manage social safeguards issues. In a roads program in the same country, the Bank's approach to safeguards added significant value by helping the implementing agency assess and address induced impacts through innovative land use change studies. But the project failed to establish a proper monitoring system that could help ensure that concerns of affected communities, including indigenous peoples, are adequately addressed. In one country, where some implementing units largely followed local rather than IDB safeguards requirements (mainly because they were not familiar with IDB's requirements), the environment ministry reported that the presence of IDB significantly helped enforce local E&S requirements. While this may not have been what IDB intended through its safeguards system, it nevertheless is a positive side effect.
- 3.27 OVE's field studies also found instances in which inadequate attention to safeguards resulted in missed opportunities and suboptimal results. While the direct environmental effects during the construction phase of the majority of infrastructure

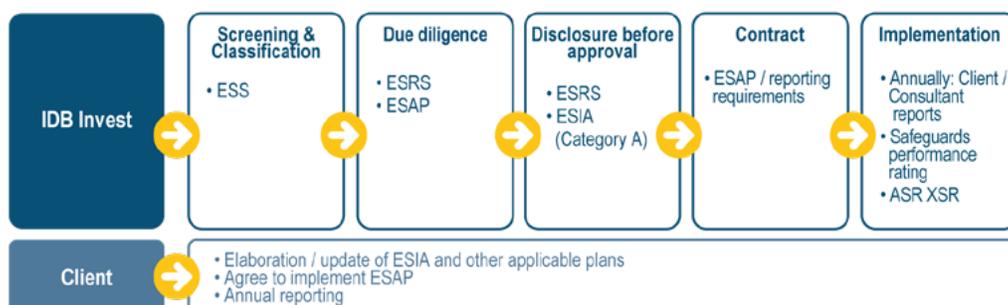
investments visited by OVE were adequately managed and mitigated, inadequate attention was repeatedly paid to indirect and induced impacts and to the operational phase, thus limiting the safeguards benefits or even generating negative outcomes. For example, failure to adequately consider safeguards issues during the operational phase led to schools with sub-optimally operating sanitation facilities in Haiti. Similarly, hospital medical waste correctly separated at the facility level in Nicaragua was mingled again, without treatment, with other waste at the municipal waste site. Failure to adequately integrate the operational phase into the ESMP of a solid waste management facility in Peru risks limiting the benefits of a well designed and constructed landfill, lest increased attention is paid to establish the technical and financial capacity to effectively operate the facility. In a roads project which rehabilitated and expanded a strategic road corridor in the same country, the baseline studies identified significant opportunities to reap additional benefits from this investment that the project did not support, thereby limiting its potential benefits. Additionally, insufficient attention was also paid to indirect impacts of increased traffic on community health and safety and water resources. In a roads project in Nicaragua that is expected to have significant indirect environmental impacts, including changes in land use and use of natural resources, these impacts were not properly addressed. In the development of an industrial park in Haiti, indirect and induced impacts on neighboring communities from industrial production and the influx of workers were only assessed over time and mitigation measures have not been fully implemented, leaving solid waste management, water and sanitation, housing and social services investments underfunded and unattended. In Brazil, lack of attention to upstream industrial pollution (outside the project area) resulted in suboptimal water quality at downstream project sites where project investments were made to reduce discharge of polluted household water. In the case of a sub-national development program in Uruguay, that almost exclusively relied on the relatively strong local requirements and capacity to ensure that direct effects of infrastructure investments were adequately managed and mitigated (which they were), very little attention was paid to effects during the operational phase and indirect impacts, particularly for more complex projects.

3.28 A key shortcoming identified across the majority of OVE field study projects was the lack of adequate baseline and monitoring information to assess the effectiveness of safeguards measures and results. This not only prevented projects from taking corrective action when necessary, but also prevented them from clearly demonstrating visibly positive results and understanding what worked and what didn't work. For example, in the case of a project in Brazil that involved large numbers of resettled households, there

is no information about whether families that were compensated but not rehoused have managed to restore their livelihoods and incomes. In a transport project in Haiti that affected 3,000 people, information on how the contractor had handled resettlement was only available for about half the affected population. EAs for subprojects of a water supply operation in the same country failed to include adequate environmental and socioeconomic baselines and management plans although the subprojects entailed considerable E&S impacts, including land acquisition. Combined with lacking supervision and the absence of a monitoring system, this has resulted in neither the Bank nor the borrower knowing what the outcome of the compensation process for such land acquisition has been.

## B. IDB Invest

3.29 IDB Invest's responsibilities during preparation include screening operations for E&S impacts and risks, categorizing the operations, and identifying any steps the client needs to take to comply with IDB Invest's E&S requirements. Unlike IDB operations, IDB Invest operations do not need to be in full safeguards compliance at the time of approval and can reach compliance over time. Therefore, an important part of IDB Invest's due diligence work is to assess the client's Environmental and Social Management System (ESMS) and identify actions deemed necessary to bring the operation in compliance with IDB's policy. IDB Invest summarizes its due diligence assessment and confirms applicable safeguards standards and compliance gaps in the Environmental and Social Review Summary (ESRS) which becomes an annex to the Credit Proposal and Board Report. Actions deemed necessary to bring the operation in compliance are agreed with the client and specified in an Environmental and Social Action Plan (ESAP) which becomes an annex to the loan contract with the client. The client then needs to implement the ESAP, manage any emerging E&S issues over time, and report to IDB Invest on E&S compliance throughout the project's life (Figure 3.3).



**Figure 3.3**

**IDB Invest and clients' responsibilities.**

Source: OVE.

## 1. Preparation

3.30 IDB Invest categorizes direct investment operations according to their E&S risks and impacts. Since adopting its E&S sustainability policy in 2013, IDB Invest has categorized operations as A, B, or C (A being projects with highest and C those with lowest E&S risks and impact), and it also categorizes FI operations: FI-I (high potential risk), FI-II (medium potential risk), and FI-III (low potential risk)<sup>28</sup>. For internal use, IDB Invest further divides category B projects into high- and low-risk B operations.

3.31 Since the IDBG's private sector merge-out, the share of NSG operations with medium E&S impacts and risks (category B) has increased. Before the merge-out<sup>29</sup>, FI operations accounted for about half of IDBG's overall private sector loan approvals<sup>30</sup>. For the rest of the portfolio, there were important differences in terms of safeguards risk profiles, in line with the specific characteristics of each private sector window's mandates. The SCF portfolio (focused on larger projects) accounted for the bulk of category A projects. In contrast, the old IIC approved only two category A operations, and the rest were category B and C operations. Opportunities for the Majority (OMJ) approvals were mostly concentrated in FI operations. After the merge-out, while the share of FI operations dropped, category B operations increased, representing the largest share of loan approvals (57% of projects and 53% of approved amounts). Category A operations have accounted for about 5% of approved operations, and category C and FI operations have averaged about 6% and 32%, respectively<sup>31</sup>. This change is largely explained by a shift toward infrastructure and corporate operations. Specifically, energy and agribusiness lending has accounted for most of IDB Invest's category A and B approvals since the merge-out (see Annex III). Among approved FI operations, more than half (54%) were categorized as medium-risk (FI-II), while 40% and 6% were categorized as low-risk (FI-III) and high-risk (FI-I), respectively.

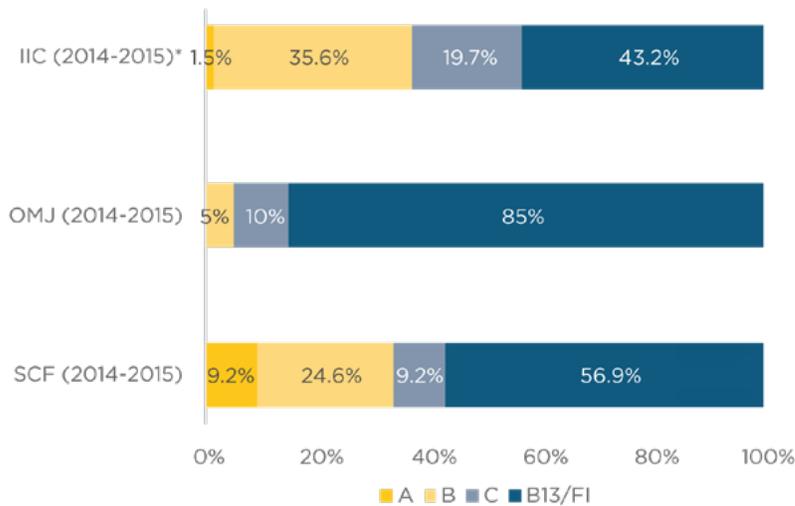
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28 For FI-I operations, the FI's current or future portfolio financed as part of the IDB Invest investment includes or is expected to include category A subprojects. For FI-II operations, the FI's current or future portfolio is limited to category B subprojects. For FI-III operations, the FI's current or future portfolio is dominated by category C and lower-risk category B subprojects.

29 The analysis before the merge-out considers the 2014-2015 period because it is only since adopting its E&S sustainability policy in September 2013 that IDB Invest categorizes direct investment operations as A, B, or C. Previously, IIC had categorized projects into four categories, making comparisons difficult.

30 FI operations approved by SFC and OMJ were classified as B13. The B13 category shown in Figures 3.4 and 3.5 also included a small number of guarantees.

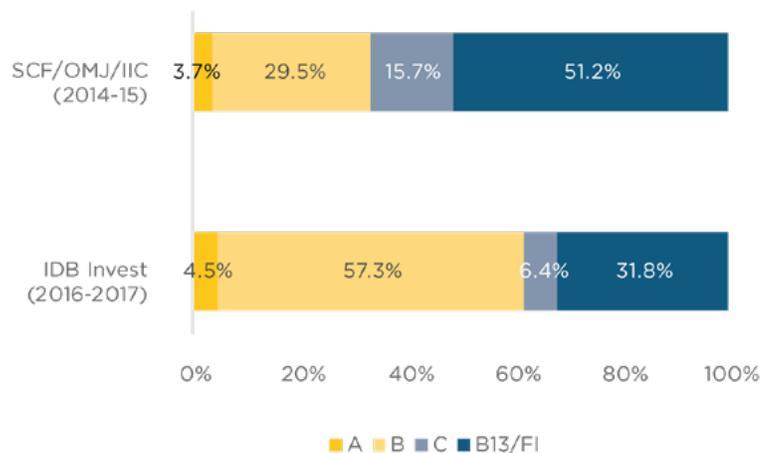
31 In terms of approved amounts, category A accounted for 19%, category B13 for 25%, category C for 3%, and category B for 53%.



**Figure 3.4**

**Share of approved operations by safeguards category and private sector window (before the merge-out)**

Source: OVE, based on data from IDB Invest and IDB data warehouse.



**Figure 3.5**

**Share of private sector operations by E&S category (2014-2015 and 2016-2017)**

Source: OVE, based on data from IDB Invest and IDB data warehouse.

3.32 OVE's desk review of legacy IIC projects found that they were largely assigned the appropriate E&S classification, but supporting documentation was often limited. Considering the nature of the investments and sectors and reviewing the available documentation, OVE concluded that the safeguards classification of essentially all reviewed projects was likely to be adequate. However, the analysis and documentation supporting the categorization of category B projects was frequently inadequate, given the absence of E&S analysis, ESIA, and other due diligence documents, and the scant information in the Board proposal and the ESRs. However, more recently approved IDB Invest operations are all much clearer about the scope and nature of financed investments and associated E&S risks.

3.33 IDB E&S screening and documentation were spotty for IIC legacy projects. Before 2016, SCF was part of IDB, and thus NSG projects were prepared similarly to SG projects, while IIC projects followed a different path. IIC's Environmental and Social Guidance Document (2013), which accompanied its E&S sustainability policy, included screening, categorization, and due diligence phases. However, OVE's desk review found that neither safeguards screening documentation nor a road map for E&S preparation was prepared for IIC legacy projects<sup>32</sup>. For such projects, the only E&S documentation available was the final due diligence documents—that is, the ESRS and the ESAP. After the merge-out, IDB Invest gradually changed its E&S processing rules and they now more closely resemble IDB processes. For all but very low-risk, repeat, and/or small operations<sup>33</sup>, an ESS Summary is now prepared and uploaded to IDB Invest's operations processing system.

3.34 Until recently, IDB Invest did not clearly document which policies and standards were triggered by its operations. OVE's portfolio review found that more than two-thirds of legacy IIC projects did not state clearly which standards apply to a given operation, either in the ESRS/ESAP or in the investment agreement. In contrast, over 90% of operations approved post-merge-out discuss the applicable standards systematically, generally drawing almost solely on IFC PSs. OVE's review confirmed that the majority of these operations correctly identified the applicable standards. However, these references are spelled out only in internal project processing documents, not in the contract with the client. Although IDB policies also apply according to IDB Invest's E&S sustainability policy, essentially none of IDB Invest's operations that OVE reviewed cite them in loan documents or contracts. The lack of specificity of contractual requirements puts the burden on SEG officers to clarify specific applicable standards to clients and allows for differences in interpretation that can lead to inconsistent application of safeguards across projects and make the enforcement of specific requirements more challenging.

3.35 ESAs must be prepared for category A and greenfield B projects, but there is lack of clarity on ESA requirements for greenfield components of other projects. IDB Invest's E&S sustainability policy requires that an ESA be prepared for category A projects and for category B greenfield projects. In a review of category A projects recently approved by IDB Invest, OVE found that ESAs were prepared in all cases. IDB Invest appropriately identified gaps

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<sup>32</sup> The desk review shows that none of the IIC projects before the merge-out had an ESS, while 74% of the post-merge-out projects reviewed had prepared one.

<sup>33</sup> New/renewing TFFP lines, new exposures lower than US\$5 million to a single client (excluding category A and complex transactions), existing client operations up to US\$30 million (excluding category A and complex transactions), uncommitted tranches of approved transactions, revolving and term loan renewals.

between local ESIA requirements and IDB Invest standards and required additional analysis to overcome those shortcomings<sup>34</sup>. For greenfield category B projects that OVE reviewed, IDB Invest had required that ESIA be prepared, although almost 40% were not available by the time of project approval<sup>35</sup>. Among the limited number of brownfield projects with greenfield components that OVE reviewed, ESIA were prepared for fewer than one-quarter of those components. When ESIA were prepared, it was typically because they were required by local regulators, not because IDB Invest required them. This inconsistency may be due to a lack of clarity in IDB Invest's E&S policy on whether and when ESIA should be prepared for greenfield components of otherwise brownfield projects.

3.36 IDB Invest's E&S sustainability policy is unclear about the format and scope of analysis for lower-risk B projects and for existing facilities. For existing facilities, an EHS audit is needed (unless relevant documentation is otherwise available), and for lower-impact category B projects, the policy states that "specific environmental and social analysis may be sufficient." Neither the policy nor supporting documents provide guidance on what EHS audits or specific E&S analysis need to consist of, and whether (and in what form) they need to be documented by IDB Invest. OVE's desk review found that for over 80% of such projects reviewed no documentation of E&S analysis or EHS audits was available.

3.37 For most projects, OVE was not able to find any documentation to ascertain whether consultations were held and whether they fulfilled applicable requirements. IDB Invest's E&S policy stipulates that consultations be commensurate with the nature of social and environmental risks and impacts and the project's E&S category. The nature and timing of engagement and consultation with affected communities may differ according to whether IFC's PS1 or IDB Policy are applied. IFC's PS1 stipulates that consultations be held whenever there are affected communities which are subject to identified risks and project impacts, while IDB's policy stipulates that there needs to be consultation prior to project approval for all category A and B projects. By referring to both IFC PS and IDB policy, IDB Invest's E&S sustainability policy therefore leaves room for ambiguity. OVE's project review found that in practice, IDB Invest follows IFC PSs and local regulations rather than IDB policy. While for

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34 Only two category A projects were approved by IIC before the merge-out.

35 The policy is silent on when clients must elaborate ESIA, and therefore IDB Invest can allow their completion at a later point in time. However, this implies that decision-makers may not be fully informed about relevant E&S risks and impacts at the time of approval. For four out of five reviewed projects without an ESIA at approval, the preparation of the ESIA was included as a requirement in the ESAP.

the majority of category A projects reviewed consultations were carried out before approval, for over three quarters of legacy and recent IDB Invest category B operations reviewed there was no evidence of any consultations before approval. About 70 percent of these operations did not seem to involve changes to the physical footprint or other risks and impacts to communities, and therefore not conducting consultations, while not compliant with IDB policy, was in line with IFC PS1. The remaining 30% of cases involved at least some changes to the physical footprint or other activities with the potential for impacts on communities, but for only about half of them did the ESRS or ESAP mention or provide for consultations or the preparation of a community engagement plan during implementation. For those category B projects for which consultations were carried out, OVE was unable to find documentation to assess whether the consultations followed the required format, content, and quality.

3.38 The depth of analysis of E&S topics in the ESRSs varied, and ESAPs were typically complete if sometimes unspecific. A major focus of IDB Invest's due diligence is to thoroughly assess not only the project's risks and impacts, but also the client's baseline E&S management capabilities and systems, to determine whether there are areas that need strengthening to prevent or mitigate risks stemming from the IDB Invest-supported operation, and from the client's activities in general. IDB Invest documents its due diligence work in the ESRS, which becomes an annex to the Board proposal, and now more explicitly includes the ESAP, which is also annexed to the client contract. OVE's desk review of category B projects found that the existence and quality of the borrower's Environmental and Social Management System (ESMS) were assessed for all operations, but for only about 40% of these projects did ESRS clearly describe and identify relevant ESMS gaps. Environmental and labor aspects were usually well covered<sup>36</sup>, while less attention was often given to social issues. This has somewhat improved for post-merge-out IDB Invest operations that OVE reviewed. IDB policy areas not explicitly covered in the IFC PSs, such as gender aspects and natural disaster risk, were rarely thoroughly analyzed. For example, fewer than 10% of reviewed operations (including legacy and more recently approved projects) properly analyzed gender risks and impacts. Almost all operations reviewed included an ESAP, which typically included time-bound measures; however, over one-third of the ESAPs were disconnected from the ESRSs or failed to include appropriate measures to cover relevant compliance gaps. For some operations, the phrasing of certain ESAP items was too generic ("design and implement an ESMS in accordance with IFC

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<sup>36</sup> Almost three quarters of reviewed projects presented an adequate analysis of environmental issues and almost 70% had an adequate analysis of labor and working conditions.

PS1”) to guide clients about which specific measures to take and how to implement them. For recently approved category A projects, OVE found that the ESRs and ESAP were generally complete and of good quality.

3.39 IDB Invest’s disclosure requirements for E&S documentation are limited under its current disclosure policy. IDB Invest requires that the ESRs be disclosed at least 30 days before final project approval for all projects – a practice that all desk-reviewed IDB Invest operations followed. For category A projects, the ESIA and other relevant E&S documents need to be disclosed at least 120 days before Board approval, a provision that has been complied with for all category A projects reviewed by OVE. While for category B projects that require an ESIA the current policy does not require disclosure, it is nevertheless encouraged in the new IDB Invest E&S Review Procedure Manual. In the majority of such cases reviewed by OVE, the ESIA had been disclosed. The draft of the revised IDB Invest disclosure policy currently under consultation provides for broader disclosure of E&S information.

## 2. Supervision

3.40 An integral part of IDB Invest’s supervision is regular self-reporting by the client. IDB Invest’s E&S sustainability policy stipulates that clients must send Annual E&S Monitoring Reports as a key component of the supervision program agreed between the client and IDB Invest. IDB Invest’s E&S Review Procedure Manual details the schedule according to which third-party external consultants, which are frequently retained for category A and high-risk B projects, must conduct site visits, and establishes that the assigned SEG officer must visit category A and high-risk B operations at least annually. However, E&S policies and manuals are silent on whether, and how often, SEG officers should visit all other projects<sup>37</sup>.

3.41 In the context of limited resources, SEG’s commitment to high responsiveness and involvement during project preparation is counter-balanced by a perception of insufficient attention to project supervision. Almost half of SEG officers indicated that there is a lack of resources for supervision, which can hamper IDB Invest’s ability to ensure proper follow-up on E&S requirements. Of PMO respondents, 20% said that they were not regularly advised of safeguards-related issues that may have come up, and 40% of PMO survey respondents felt that they were insufficiently prepared by SEG on E&S aspects for

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<sup>37</sup> The E&S Review Procedure Manual states that category B projects should receive site visits at least annually but does not stipulate by whom.

supervision missions<sup>38</sup>. OVE's found that in 2017 all category A and high-risk category-B projects had received some supervision missions by either a SEG officer or external E&S consultants, or both. The presence of some SEG officers in country offices has helped facilitate such supervision. However, OVE's desk review only found evidence that one of the sampled lower-risk category B projects had been visited by SEG during implementation, and none was visited by an external E&S consultant.

3.42 IDB Invest contracts are often unclear about the period over which clients have to report on E&S issues, and about the format and content of the reports. Only about 40% of the contracts for reviewed IIC legacy and newer IDB Invest operations included a template for client reporting on E&S issues. Furthermore, only half of those templates included all relevant areas identified in the ESRS, while the rest focused mainly on workplace health and safety aspects. The wording of contractual clauses regarding E&S reporting was inconsistent and sometimes confusing. While contracts typically specified the need for annual reporting, some contracts required only reporting against the ESAP rather than on E&S compliance more generally. Given that the ESAP typically consists of certain deliverables to be completed by specific dates (often by, or within a certain number of months after, the first disbursement), it is unclear from such contracts whether annual E&S reporting continues to be required after the last ESAP deadline, and whether the content of E&S reporting needs to focus only on the (usually limited) ESAP requirements. This constrains the usefulness of client reports for effective supervision of general E&S compliance. While SEG has developed more complete and standardized reporting templates for new IDB Invest operations, a review of recently approved operations suggests that they are not yet consistently used.

3.43 Supervision efforts for the IIC legacy portfolio are not well documented, and E&S performance ratings, when available, are often inadequate or based on insufficient information. OVE's desk review did not find any stand-alone IIC-produced supervision documents or records other than a sentence or short paragraph in the E&S annex of the Annual Supervision Report (ASR). Not all ASRs of legacy IIC operations contained a section on E&S safeguards, and only about 70% of the ASRs from before the merge-out for IIC legacy operations included a rating on E&S safeguards performance. This practice has improved for more recent ASRs, all of which contained an E&S safeguards rating. For

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<sup>38</sup> IDB Invest's guidelines and policies are not clear about which projects need to be visited by SEG officers directly during supervision, as opposed to holding virtual meetings or phone calls, or preparing the PMO officers for covering E&S issues during their annual client visit. In the team leader survey, PMO officers expressed a desire for SEG officers to accompany them on more supervision missions.

two-thirds of the rated projects in the desk review OVE either did not find evidence supporting the ratings, since available E&S information was insufficient to ascertain compliance, or considered the rating inadequate as it did not reflect some instances of client noncompliance. Many client E&S reports were either missing or of deficient quality. These issues persist for E&S supervision efforts of the existing portfolio since the merge-out, but it is too soon to tell whether supervision quality will improve for newer operations.

### 3. Results

3.44 While IDB Invest monitors safeguards performance more systematically than IDB, the reliability of information is uncertain and often focused on compliance with the ESAP rather than outcomes. Among the 41 Expanded Supervision Report (XSR) validated by OVE in 2018, only 13 went beyond simply reporting that the borrower had complied with safeguards requirements and set up an ESMS and reported more specifically on some safeguards outcomes such as the borrower having met agreed upon effluent standards or improved waste treatment or reduced work-related accidents. Three reported on specifics of non-compliance. None of them reported however against achievements under all applicable standards. Given the lack of systematic results reporting, for IDB Invest, as for IDB, OVE is drawing on findings from its field case studies to illustrate results. OVE found that the nine private sector projects it visited showed more uniformly positive results, with shortfalls noted in only two operations. The stronger performance among private sector operations is not surprising, since clients that are not willing to abide by IDBG's safeguards requirements are unlikely to seek or obtain IDBG financing<sup>39</sup>.

3.45 IDBG's safeguards requirements added considerable value in the private sector operations OVE visited, but results were less than satisfactory when clients experienced financial difficulties. OVE found that IDBG's safeguards requirements added considerable value, even when a client already had a relatively strong E&S track record. In some cases, the IDBG provided a roadmap for the company to focus integrally on E&S aspects that it might have considered in a less focused way before engaging with the IDBG. In several cases, IDBG's requirements ensured that the E&S impacts of investments in associated facilities, such as transmission lines, were adequately assessed and managed. For example, in an energy project with an experienced international

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<sup>39</sup> As the majority of NSG operations reviewed in the field were operations approved by SCF or operations that received both SCF and IIC support, OVE is referring to IDBG in this section rather than IDB Invest.

sponsor, IDBG's requirements led to modifications in some design and operational aspects that helped minimize environmental impacts and ensured the proper assessment and management of E&S impacts of an associated transmission line. In another project, IDBG's safeguards helped ensure that the E&S impacts of associated facilities were properly assessed and managed, a protected area was established to safeguard a protected trees species, and displaced people received improved housing and other assistance, aspects that had not been considered in the client's EIA before IDBG's engagement. In another case, the establishment of a strong EHS management system that allowed for regular monitoring and follow-up, coupled with regular due diligence by third-party supervisors and IDBG, ensured that the sponsor met international standards for effluent discharges and air emissions. IDBG helped some clients go beyond IDB requirements, for example by helping them gain various certifications, including for one company, one of the first Edge certifications for gender equality in the workplace in LAC. This then reportedly inspired other local companies in the same sector to raise their standards. Two clients reported that IDBG's support with the development of a corporate E&S strategy, including its focus on labor standards and sustainable production practices, facilitated their products receiving international certifications for exports. Where OVE found less than satisfactory safeguards outcomes, the sponsor had encountered financial difficulties so that the company had not made the necessary investments to ensure that the projects would comply with IDBG standards for emissions and effluent discharges.

## C. Financial intermediary operations

3.46 In the 2016 Evaluation of IDB Group's Work Through Financial Intermediaries, OVE recommended that the IDBG strengthen E&S safeguards practices around FI operations. The evaluation found that IDBG E&S safeguards had been insufficiently and inconsistently applied to FI operations across the Group. Given the fungibility of money in lending to FIs, OVE's main recommendations were to apply E&S safeguards to at least the whole targeted asset class, as well as to ensure compliance with E&S policies through better support and supervision<sup>40</sup>. The evaluation's background paper included several concrete suggestions on how to implement these recommendations. Since OVE's FI evaluation, IDBG has

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<sup>40</sup> The recommendation read: "Review and strengthen the way environmental and social safeguards are applied to FI operations. Given the fungibility of resources at the FI level, it is not sensible in most cases to apply safeguards only to specific projects 'funded' by IDBG. Rather, IDBG should focus on the development and application of E&S systems at the FI level, particularly as they apply to the relevant portfolio. It should also provide adequate support and supervision to ensure that IDBG's E&S policies are followed, tailoring them as needed to fit the specialized objectives and risks of different business lines."

taken several steps toward meaningful improvements in the management of the E&S risks of FI operations, although some challenges persist (see Box 3.1).

**Box 3.1. IDBG follow-up on the E&S recommendations of OVE's FI evaluation**

**IDBG has made several meaningful improvements in the management of the E&S risks of FI operations since OVE's 2016 FI evaluation.**

Both IDB and IDB Invest have mostly moved away from financing category A projects through FIs<sup>a</sup>. IDB has introduced a more systematic approach to the E&S safeguards for FIs,<sup>a</sup> requires close oversight by external E&S consultants for FI-I operations, has added a dedicated E&S resource in CMF to improve E&S practices, and has continued to invest in strengthening the ESMSs of 14 national development bank clients through technical cooperations (TCs). IDB Invest has invested heavily in E&S capacity building among FI clients<sup>b</sup>, has moved toward requiring that clients also report some information on the relevant portfolio to get a better sense of E&S risks, and has developed requirements for an IT solution for TFFP that has the potential to improve E&S risk screening.

**However, IDBG still requires the application of E&S requirements only to the “use of proceeds,” which is inadequate when supporting activities that the FI also undertakes on its own account.**

Neither the existing policies and guidelines nor ESG and SEG practices have changed to consistently require that FI clients apply E&S safeguards to the entire asset class. Whenever IDBG operations support activities also otherwise undertaken by the FI itself, or disbursements are not made specifically for each pre-identified subproject (a practice more common in SG FI operations), FIs can select what they report to IDBG as the use of proceeds. This practice can lead to cherry-picking low-risk operations to which the least onerous E&S requirements apply, and which may not be representative of the real E&S risks the FI, and thus indirectly IDBG's reputation, is exposed to. For SG FI operations, ESG

a For the IDB, the implementation guidelines for the ESCP broadly refer to specific requirements for FI operations with no or minimal risk, moderate risk, and significant risk (Directive B13). While the IDB has adopted the same subcategories (FI-I, FI-II, and FI-III), these categories are not reflected in the safeguards policies and implementation guidelines, or in IDB's databases. ESG reviews the appropriateness of the classification, and ESG specialists focus on FI-I operations only.

b IDB Invest has continued to organize a Sustainability Week for E&S training of FI and non-FI participants and has also implemented an online training course on E&S requirements for low-risk FI operations (including TFFP, where this training or attending Sustainability Week is mandatory for new TFFP banks and encouraged for existing TFFP FI clients).

and CMF do not plan to implement OVE's recommendation since they consider it unrealistic to expect that national development banks, often much larger than IDB itself, will adopt IDB's E&S requirements for a wider set of activities, or to require that IDB client second-tier public banks enforce the broader application of IDB E&S safeguards by their first-tier bank clients. For NSG operations, IDB Invest has been drafting new reporting templates that ask FIs for basic information relevant for E&S purposes for the entire relevant portfolio, but it has so far stopped short of consistently requiring that E&S safeguards be applied to the entire asset class, even though its peer IFC successfully implemented this requirement several years ago.

**IDBG seems committed to strengthening the ESMS capabilities of FI clients, but there is room for improvement in making sure that FI clients' ESMSs, once established, continue to be correctly implemented and applied.**

At IDBG, E&S reporting by FIs continues to vary widely in terms of quality and content. IDB Invest has gradually improved its reporting templates, but even the most recent draft does not provide IDB Invest with the necessary information to conduct meaningful checks of whether FIs correctly classify and monitor their subprojects. While TFFP-supported goods continue to be screened against the exclusion list and the planned TFFP IT solution includes checking importer and exporter names against certain compliance blacklists, the current and planned practices still do not screen company names specifically for E&S violations such as those found in the 2016 OVE FI evaluation. Therefore, there is a potential for IDBG FI clients to still finance higher-risk activities than IDBG is aware of. Thinly stretched SEG resources, coupled with cumbersome and non-standardized reporting formats and the absence of effective IT systems to support monitoring, further hinder the effective supervision of FI operations. While SG FI-I operations are now better supervised than in the past, FI-II and FI-III operations are supervised by CMF staff with little or no E&S expertise who often rely on FI clients to self-report noncompliance; however, the risk implications of this practice are low because such operations typically support small operations in low-risk sectors.

**3.47 IDBG support to national E&S regulation for FIs remains insufficient.**

IDBG has continued to take a project-by-project approach to bridging gaps in FIs' E&S risk mitigation systems, so that it is dedicating significant resources to "reinventing the wheel" from operation to operation. The development and enforcement of stronger national E&S standards (for FIs and general) have the potential to improve E&S outcomes in the region much more than the limited number of FI operations IDBG undertakes. While IDB

Invest, in particular, has been involved in promising voluntary banking sector initiatives in Paraguay, Ecuador, and Argentina, IDB's support to public sector regulatory initiatives is constrained by the lack of ownership for this type of work in IDB.



# 04

## Factors Affecting Safeguards Application

4.1 Various factors affect the effectiveness with which the IDBG's safeguards policies are applied and achieve results. Some of these factors are under the direct control of the IDBG: the capacity of safeguards specialists and team leaders and the extent to which they collaborate, resource allocation, and the overall approach to safeguards application, including the safeguards policy framework. Other factors are related to how borrowers approach E&S risks to ensure that they meet the IDBG's standards: borrower capacity to understand and meet IDBG safeguards requirements, disparities between local and IDBG requirements, and resource allocation. Issues related to the policy were discussed in Chapter II. This chapter reviews the other factors.

## **A. IDB**

### **1. Staff capacity**

4.2 Team leaders' familiarity with safeguards policies is insufficient, given their responsibilities. Team leaders remain solely responsible for safeguards supervision for almost half of medium -and all lower- E&S-impact projects. Furthermore, even for operations in which an ESG specialist is involved, field visits and regular follow-up are limited by time, resource and location constraints, so that it is often left to the team leader to identify E&S issues as they arise and alert the ESG specialist accordingly. However, interviews with DCs and COs and a team leader survey all suggest that the majority of team leaders are not adequately equipped to fulfill this responsibility. Almost one-quarter of team leaders OVE surveyed responded that they are not very familiar with the IDB's ESCP, over one-third with the involuntary resettlement policy, almost 60% with the indigenous peoples policy, and over half with the gender equality policy. About 80% of team leaders feel that they need more training on E&S safeguards, and over 70% called for more guidance material on safeguards application. Similarly, over three-quarters of team leaders said they needed more inputs from safeguards specialists during both project preparation and supervision to ensure that project E&S risks are effectively managed. These findings were strongly echoed by COs: over 80% stated that team leaders are not sufficiently equipped to handle safeguards issues as they emerge. A sound appreciation of safeguards issues by team leaders can have a significant positive effect on project design and implementation, as OVE's field case studies found.

4.3 ESG has made efforts to assign its specialists to project teams early in the project cycle and provide staff training, but there is still room to enhance team integration and provide more training. Interviews suggest that the collaboration between ESG and sector divisions has been strengthened, and efforts are made to integrate ESG specialists into project preparation teams as early in the project cycle as possible. While ESG staff largely feel that their integration into project teams is adequate, CO and DC interviews and feedback from team leaders show that there is room to further strengthen the integration of ESG staff into project teams, move from a requirements- or audit-focused approach to a more solutions-oriented approach, and reduce variability in the application of safeguards requirements across ESG specialists<sup>41</sup>. Recognizing these issues, ESG is working to standardize preparation requirements; prepare guidance notes, particularly for social safeguards; and provide staff training. Interviews and OVE's survey indicate that ESG staff, particularly those recently hired, consider that these efforts are helping safeguards specialists find common ground and consistency in the application of safeguards. Still, almost half of those who responded to OVE's ESG staff survey called for more training on social safeguards application and the design and implementation of Bank operations, and 70% called for more sector-specific training.

## 2. Resource allocation

4.4 The IDBG's private sector merge-out permitted ESG to increase its involvement in medium-impact operations (category B) and to strengthen its staff mix, but human resource constraints still limit the level of support that ESG provides. The 2016 merge-out allowed ESG to focus almost exclusively on SG operations<sup>42</sup>, releasing human resources previously allocated to support NSG operations. Specifically, it was decided to transfer only two positions (less than the estimated full-time equivalent (FTE) headcounts that had been working on NSG projects<sup>43</sup>), allowing ESG to increase its participation in the preparation and supervision of category B projects (Figure 4.1) in addition to all category A projects and high-impact FI operations. The total number of staff has remained relatively constant since 2011. ESG has made important efforts in recruitment and on-boarding training to address a high

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41 For example, about half of COs suggested the need for better integration of ESG specialists into project teams, and over one-third of COs and DCs indicated that ESG staff adopted too much of an auditor's approach. One-quarter of COs and almost 40% of DCs indicated that variability in safeguards application across ESG staff was a concern.

42 Since the merge-out, ESG provides oversight support to SEG for NSG cross-booked operations.

43 Before the merge-out, ESG staff usually worked on both SG and NSG projects within their assigned sector. Preparing for the merge-out, ESG estimated that about 9.5 FTE ESG staff and 1.7 consultants had worked on NSG projects in 2014/2015, more recent ESG estimates put the number at around 6.6 FTE staff for 2013-15. In addition, \$ 500,000 of non-personnel cost were also transferred from ESG to IDB-Invest.

employee turnover rate in the context of the merge-out<sup>44</sup>, including increasing the number of social specialists – a key gap ESG had identified. Approximately 34 FTE specialists (18 staff and 16 consultants), organized in four groups, directly support the preparation and supervision of operations by leading the ESG engagement (primary team member) or by providing specialized expertise (e.g., biodiversity, social) as a team member<sup>45</sup>. However, some ESG specialists remain thinly stretched, especially in ensuring proper follow-up during project implementation. In 2017, an ESG specialist supported an average of 2.4 operations in preparation plus 10 operations in supervision, with a large degree of variation, especially in terms of project supervision<sup>46</sup>.

4.5 ESG depends substantially on annual allocations of the transactional budget to support operations, but this allocation is not based on parameters linked to the underlying portfolio. ESG receives a dedicated administrative budget to cover personnel costs and non-personnel costs for corporate inputs and knowledge work. ESG depends largely on transactional resources (budgeted under the Vice Presidency for Countries and executed mainly under VPS) to cover the costs of travel and consultants in support of operations<sup>47</sup>. Between 2011 and 2017, overall ESG spending increased at an average annual rate of 4.6% in nominal terms (Figure 4.2), rising from 1.3% to 1.7% of total Bank expenditures as ESG increased its coverage of category B projects. Transactional resources accounted for an average of 22% of the total ESG expenditure during 2011-2017. Although some parameters of average costs were developed in 2011 for the allocation of these resources (based on project type, E&S impact, and country group<sup>48</sup>), they were not fully implemented. As a result, the transactional resources allocated

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44 Nearly half of all current ESG personnel were recruited after the merge-out. In 2016, ESG developed a workforce plan (2016-2018) in the context of the implementation of its new organizational structure. The plan included a specific target ratio of E&S specialists (60/40), which has been achieved.

45 Full-time consultants have a critical role, not only supporting operations but also leading the ESG support. In 2017, approximately 20% of category B projects supported in preparation and 30% of category B projects supported in supervision by ESG were led by an ESG full-time consultant. ESG is also supported by some retainer companies, but only in a very limited number of more complex projects.

46 About one-quarter of ESG specialists supported the supervision of 15 or more projects in 2017.

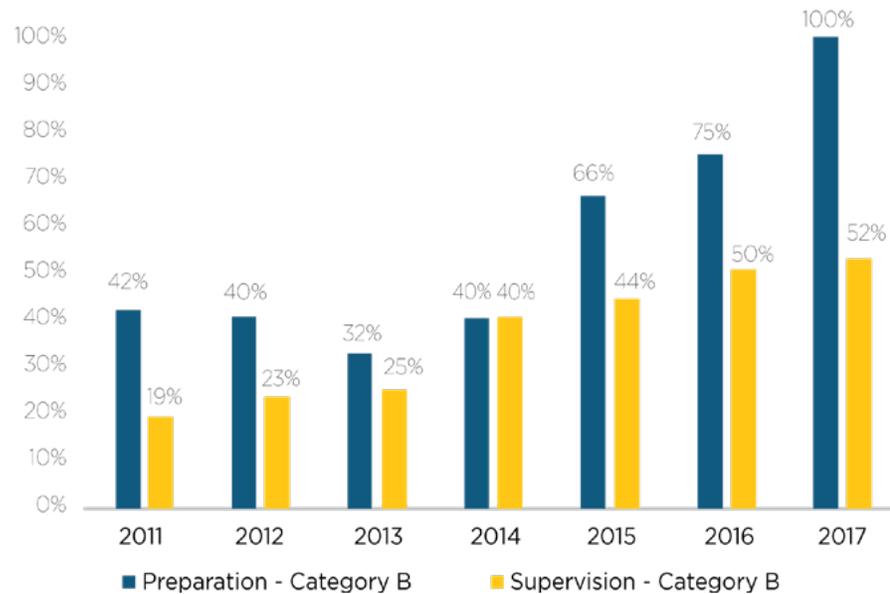
47 The transactional budget covers expenditure on consultants and travel associated with the preparation and supervision of operations, including expenditure on E&S safeguards. In addition, between 2011 and 2015 ESG had access to some TC resources for a total amount of US\$3.2 million (12 TCs) to support operations (11 TCs, US\$2.8 million) such as the Caracol Industrial Park in Haiti (4 TCs, US\$1.4 million), and the strengthening of country safeguards systems (one regional TC, US\$0.5 million). No TCs were approved in 2016 and 2017.

48 The transactional budget is also reallocated among sectors and countries according to the changes in the programming and the specific needs of each project over the year.

every year do not necessarily mirror the evolution of the portfolio requiring safeguards support. The lack of historic cost information has been an important impediment to adequate budgeting.

**Figure 4.1**  
**Category B projects supported by ESG (2011-2017)**

Source: ESG.

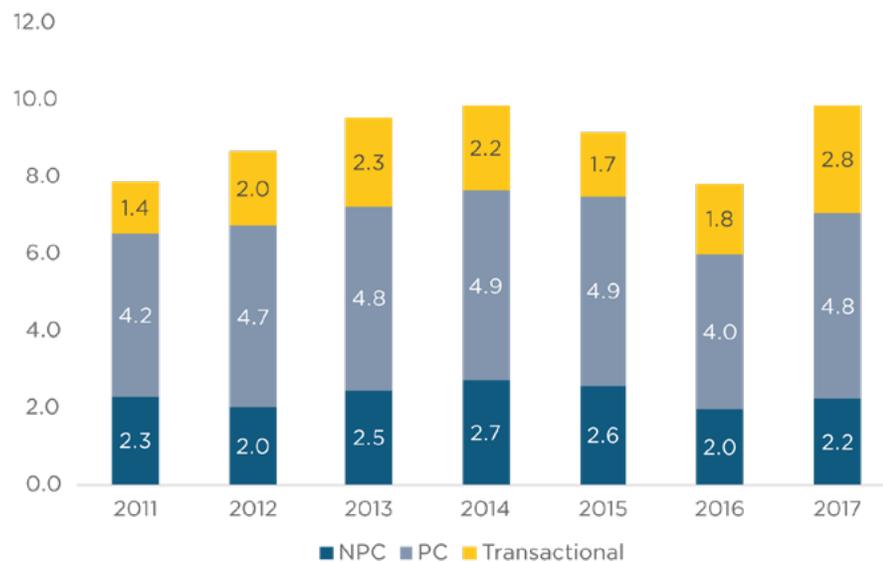


**Figure 4.2**

**ESG Expenditures (2011-2017)**

Note:  
 Budget through 2015 includes ESG funding for private sector operations transferred to IDB Invest with the 2016 merge-out.

Source: Budget Execution Reports and data from BDA/BGT.



### 3. Safeguards approach

4.6 The strong focus on detailed up-front preparation requirements, coupled with limited follow-up during supervision, is at odds with corporate goals to shorten project preparation times. IDB's safeguards policies were largely designed for traditional investment projects with well-defined investments for which detailed EIA/EAs

and associated plans, including RAPs, are finalized before project approval. However, the drive to reduce project preparation times has increasingly resulted in the approval of operations for which the detailed design is left to implementation or for which not all investments have yet been specified (e.g., project with framework approach). This makes it virtually impossible to finalize detailed and credible EIA/EAs, ESMPs, or RAPs before project approval. As a result, assessments and mitigation plans are often generic, lack necessary baseline information, and finally do not serve to effectively guide the management of E&S issues during implementation. Even when specific investments have been identified, the time allotted for project preparation is often too short to undertake serious E&S assessments or prepare resettlement plans and also undertake the required consultations. Thus, the Bank's policies, as well as its established processes and requirements, are increasingly incompatible with both ever-shortening project preparation times and the types of more flexible operations that borrowers demand.

- 4.7 The effective application of safeguards policies to investments for which designs only become available during project implementation would require a shift away from a strong focus on up-front requirements toward a more balanced and dynamic approach that also embraces adaptive management and implementation support. An approach that focuses less on processes and more on outcomes and how to achieve them would allow for greater flexibility in procedures, but it would need to emphasize monitoring of E&S impacts and outcomes, regular and transparent reporting and feedback, and strong implementation follow-up. This approach is more readily espoused by IDB Invest's safeguards system, although as discussed below, resource constraints call into question how systematic implementation support and follow-up are across its entire portfolio.

#### **4. Borrower capacity**

- 4.8 Limited client capacity and resource allocation affect the implementation of safeguards requirements. Over one-third of team leaders for category A and B projects indicated that client capacity was not sufficient to adequately implement the Bank's safeguards requirements in the last project they had supervised, and a similar share (29% category A and 36% category B) indicated that borrowers had not allocated sufficient resources to address safeguards issues. ESG specialists reported even more pronounced client capacity constraints: over 40% responded that client capacity was not adequate to address E&S issues in the context of the last project they helped prepare, and

almost two-thirds indicated that client capacity was insufficient in the last project they had supervised. Yet borrower capacity to manage E&S project impacts is not systematically analyzed during project preparation (only half of the projects in OVE's portfolio review discussed borrower capacity in the ESA/ESMP or ESMRs). Moreover, while about half of the SG projects OVE reviewed allocated some funds to support the E&S management of the project, efforts mostly consisted of hiring a consultant to undertake the work when necessary, rather than concerted efforts to build capacity. Outside specific projects, ESG has started to undertake more untied capacity-building efforts, including by developing targeted online courses.

- 4.9 By ring-fencing safeguards requirements, the Bank is unlikely to help build substantial client capacity to manage E&S risks beyond the confines of a given operation. While focusing on its own safeguards requirements may help the Bank ensure that the operations it funds meet certain standards, the ring-fenced approach does little to help build country- or sector wide capacity to manage E&S risks and thus more broadly contribute to development. Indeed, over half of COs interviewed consider that the Bank has had at best a marginal impact on client capacity to manage E&S risks. This view is largely shared by team leaders, with over 70% reporting that the last project they supervised<sup>49</sup> had minimal or no impact on the borrower's capacity to manage E&S risks beyond the confines of the project. While OVE's field studies largely confirmed this, they found that the Bank can have a significant impact on local E&S capacity when it engages long-term with a given program and implementing agency.
- 4.10 COs and DCs underlined that the Bank should put more effort into building client capacity and that a stronger ESG field presence would allow for closer implementation support that could facilitate capacity building. Many COs, DCs, ESG staff, and team leaders consider that stronger ESG presence in country offices would significantly facilitate the effective application of safeguards policies, particularly when details of project design are left to implementation and a solutions-focused approach to managing E&S risks is needed. Interviewees also pointed out that the Bank has advanced little in the use of country systems for E&S safeguards issues. They contrasted the experience on E&S safeguards with that on financial management and procurement: fiduciary staff are often placed in the field, and the Bank has taken an incremental approach to using country systems. Compared to procurement and financial management, IDB lags on devising and applying a workable approach to using country systems for

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<sup>49</sup> In the OVE survey, team leaders were asked to refer to the last project they supervised that was the most advanced in terms of implementation.

safeguards. ESG has thus far undertaken two sector-based equivalency analyses, and in 2017 it approved the first operation that uses a country system.

- 4.11 Borrowers need more clarity about safeguards requirements during project implementation. The Bank's due diligence work does not result in a systematic identification of differences between a country's own safeguards requirements and the Bank's requirements. OVE's field-based case studies found that implementing agencies do not always understand the Bank's requirements during project implementation, a point team leaders also raised. The field case studies found that when borrowers are unclear about the Bank's requirements, they resort to the country system, particularly when no ESG specialist is assigned to a project. This happened, for example, in transport and solid waste management projects in Peru, an agriculture project in Uruguay and in transport and urban upgrading operations in Paraguay. Given frequent delays between project approval and eligibility and the associated frequent changes in project counterpart staff, the lack of knowledge about the Bank's safeguards requirements could be partly addressed by systematically including a review of safeguards requirements during the project launch workshop following project eligibility. Team leaders and COs point out that this practice would also go a long way toward better informing implementing agencies about the costs and benefits of safeguards.

## **B. IDB Invest**

### **1. Staff capacity and resource allocation**

- 4.12 Investment and portfolio managers' familiarity with applicable IDB Invest safeguards policies is limited. Over half of them report that they are quite familiar with IDB Invest's E&S policy and IDB's Environmental and Safeguards Compliance policy, but fewer than one-third are familiar with IDB's other safeguards policies, and over half are not very familiar with IFC PSs, all of which apply to IDB Invest operations. Given that each IDB Invest project is assigned a safeguards specialist throughout the project cycle, team leaders' limited familiarity with applicable safeguards policies is a less critical factor for IDB Invest than for IDB. Nevertheless, given the large number of operations SEG officers cover and the fact that team leaders are the first

point of contact for clients, IDB Invest officers would benefit from having greater familiarity with safeguards policies. SEG has recently started to provide some training to operational staff<sup>50</sup>.

4.13 E&S human resources dedicated to NSG projects are now about the same as they were before the merge-out. After a drop due to staff departures and the limited headcount assigned to SEG during the merge-out, the total number of personnel dedicated to the E&S aspects of private sector projects is now again about what it was in 2015<sup>51</sup>. SEG expenditures have remained relatively stable as a share of total IDB Invest administrative expending, accounting for 4.2% during 2016-2017 compared to 4.1% at the former IIC (2013-2015)<sup>52</sup> (see Annex III), despite the fact that SEG now handles significantly more complex operations and E&S issues than IIC did previously. SEG has built capacity by recruiting mostly senior staff who are already experienced with private sector practices, IFC's PSs, and/or IDB E&S policies, and it intends to strengthen its field presence by hiring and shifting staff to reach 11 officers in country offices by 2020. Furthermore, IDB Invest has hired several E&S consultants, and has used external E&S consultants on retainer agreements to fill immediate, more specialized needs. Notwithstanding these efforts, SEG officers remain thinly stretched.

4.14 SEG staff are assigned to a large number of operations, raising the question of how effectively they can follow up on each operation, particularly during supervision. The inability of SEG officers to adequately focus on project supervision because of the high number of operations assigned to them was a frequent concern raised by SEG officers and team leaders in OVE's survey. The average SEG officer is assigned about 40 projects; however, there is a large degree of variation among officers—one is assigned as many as 111 projects<sup>53</sup>. On average, each officer is responsible for about 11 projects in preparation plus 29 projects in implementation, but two SEG officers for FIs are assigned as many as 26 operations in preparation, and another SEG officer is in charge of 95 operations in supervision (Annex III). More resources are assigned to the highest-risk projects (category A and FI-I), but SEG officers with such high-risk projects typically

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50 SEG has provided E&S training to PMOs, new employees (as part of general on-boarding) and IOs working on agribusiness operations.

51 The SEG staff has grown from seven right after the merge-out to 18 now, including four staff in the field. Before the merge-out, ESG estimated that about 11 FTE staff and consultants were assigned to NSG operations at IDB, and IIC had six E&S specialists.

52 No comparable data are available for ESG resources devoted to former SCF and OMJ projects, as ESG did not separate out its spending on SG vs. NSG operations.

53 As this analysis is based on the primary SEG officer as listed in IDB Invest databases, it does not take into consideration the fact that IDB Invest usually assigns two SEG officers (one primary, one as a "shadow" SEG officer) to high-risk projects for the purposes of peer learning, and that therefore the actual workload is higher than these numbers suggest.

need to take care of many lower-risk projects at the same time<sup>54</sup>. These numbers add to the widespread feedback relayed to OVE<sup>55</sup> that SEG may not have enough resources for supervision, especially given the reported focus on high responsiveness during project preparation. In the face of resource constraints, SEG management takes a risk-based approach to workload distribution and supervision, in which operations deemed high-risk (category A, FI-I, and high-risk B) are assigned more resources and attention than those considered lower-risk<sup>56</sup>. While this approach is reasonable, a concern voiced in the SEG survey was that operations initially rated low-risk may become high-risk without SEG being able to notice, avoid, or remedy the situation, given the insufficient resources assigned for monitoring. This impression is reinforced by the results of OVE's desk review of category B operations, which showed that E&S supervision was largely based on desk reviews of often incomplete client reports, and that noncompliance events may have been missed or not adequately reported and followed up on. The inability to consistently follow up on projects during supervision is particularly a concern because IDB Invest's policy allows for compliance over time, thus requiring consistent tracking of outstanding issues and making sure that unanticipated events are adequately addressed during implementation.

4.15 The problem of insufficient resources is exacerbated by the lack of appropriate IT systems to support the documentation and compliance monitoring of E&S requirements. SEG has invested in E&S intelligence<sup>57</sup> and is using E&S tools (Forest Watch, GIS mapping tool) for client and internal use, and SEG leadership now has a dashboard view of Maestro-recorded data such as project locations, E&S classification, and assigned staff. However, E&S requirement and performance monitoring is currently manual, not consistently tracked and aggregated, and based on information contained in internal documents and client reports with inconsistent formats, content, and quality. Unlike IFC, IDB Invest's preparation and supervision efforts are currently not being supported by an effective IT solution that would allow more efficiently tracking E&S compliance at the project and portfolio level. This not only puts a high burden

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54 On average, those SEG officers assigned at least two category A or FI-I projects are additionally in charge of more than five times as many lower-risk projects than high-risk projects (the ratio is 10 times when also including SEG officers with only one high-risk project assigned). Only one SEG officer with the most (15) high-risk projects has fewer (11) lower-risk projects assigned.

55 According to numerous comments from the team leaders' and SEG officers' surveys.

56 Operations are risk-rated and categorized only once at the outset of the operation, with the categorization being entered in the IT system (Maestro) at that point. The risk rating and category are not revisited during the life of the project.

57 For example, by subscribing to RepRisk ([www.reprisk.com](http://www.reprisk.com)).

on the already-stretched SEG officers and presents operational risk in manual entry and retrieval of relevant information, but also prevents Management from having real-time information about the E&S performance of the portfolio so that they can, for example, quickly identify potential issues that may merit intervention and a shifting of resources.

- 4.16 To help ensure that all staff obtain the knowledge necessary to consistently apply the IIC E&S sustainability policy, SEG has made extensive training efforts. Apart from conventional training, SEG also fosters peer learning by convening meetings to discuss category A projects, as well as by assigning two E&S specialists to high-risk projects. In spite of these efforts, more than half of the respondents to the SEG staff survey expressed a need for more training on IFC PSs, especially IFC PSs 5 (land acquisition and involuntary resettlement) and 6 (biodiversity conservation and sustainable management of living natural resources). Almost half of respondents also expressed a desire to receive more training on sector-specific issues, and a third expressed a need for training on IDB E&S policies (especially on natural disaster risk management and involuntary resettlement).

## **2. Safeguards approach**

- 4.17 The reliance on multiple third-party policies makes it more challenging to apply safeguards requirements consistently and requires clarity on applicable implementation guidelines. Both IDB's safeguards policies and IFCs PSs rely on implementation guidelines and staff guidance notes to clarify for borrowers and staff how these policies are to be applied. While IDB Invest's policy states that both IDB's policies and IFC's PSs apply, it does not formally state whether IDB Invest uses additional documentation, such as IFC's extensive, publicly available Guidance Notes<sup>58</sup>, to help apply and interpret the PSs. While IDB Invest reportedly also follows these Guidance Notes, it has not formally acknowledged to what extent this is the case. IDB Invest also lacks a document similar to IFC's Environmental and Social Procedures Manual, which not only clarifies how to apply the PSs to different types of operations and sectors, but also clearly and openly lays out the roles and responsibilities of IFC's E&S staff during project appraisal, structuring, and supervision, going well beyond what is detailed in IDB Invest's own E&S Review Procedure Manual. More clarity is also needed on the specific requirements of IDB Invest's own E&S policy, such as what EHS audits (required for existing facilities) or E&S analyses (required for lower-impact category

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<sup>58</sup> The Guidance Notes and E&S Procedures Manual specify, for example, how to apply requirements in practice based on the type of operation, the sector, the size, and other relevant aspects.

B operations) should consist of, and whether and how they should be documented by IDB Invest; on the ESIA requirements for brownfield operations with greenfield components; and on corporate operations that aim at financing supply chains<sup>59</sup>. Clearer definition of such aspects not only can help create more clarity for clients and avoid inconsistent application of safeguards standards, but also can reduce the potential for differing interpretations of IDB Invest's E&S sustainability policy to lead to complaints to MICI.

### 3. Client capacity

4.18 As a result of the merge-out, IDB Invest is covering a broader range of clients with varying capacity to meet its E&S standards than IIC and SCF did individually. Before the merge-out, SCF was already working in high-risk sectors such as infrastructure, in which clients are often more experienced in, and willing to implement, demanding E&S requirements. While IIC's operations tended to be much smaller and their E&S impacts more contained, they often also were characterized by lower E&S capacities among clients. OVE's portfolio review found that the majority of capacity assessments in former IIC operations revealed gaps in clients' existing ESMSs that would need to be addressed to attain compliance. OVE's SEG staff survey suggests, however, that client capacity was generally considered adequate for effective safeguards implementation in some more recent projects that SEG prepared or supervised<sup>60</sup> (see Annex V). As the safeguards requirements of IDB Invest's operations are focused on bringing the client's own ESMS up to par with IDB Invest standards, they generally help strengthen client capacity to manage E&S issues. IDB Invest team leaders and SEG staff both report that today SEG staff focus more strongly on constructively working with clients to help them achieve IDB Invest standards than they did before the merge-out. This approach is facilitated by IDB Invest's more flexible policy, which allows clients to meet its standards over time rather than up front. OVE's field studies found that even when the client already had strong E&S management capacity, IDB Invest requirements often helped to elevate it further. IDB Invest

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59 IFC PSs allow clients to conduct only limited E&S due diligence on their supply chains, which may be a reasonable approach if supply chains are merely ancillary to the actual project. However, when channeling financing through a corporate client to its supply chain is the main purpose of the operation, it is not obvious that this approach is appropriate, given that different, more extensive requirements apply when conducting similar financing operations through FIs. While IDB Invest's E&S sustainability policy includes a section specifically for FIs, it does not provide a clear understanding of what should be considered an FI from an E&S perspective.

60 Only 10% of SEG staff responded that client capacity during the most recent project they helped prepare was less than mostly adequate, and none reported that client capacity was less than mostly adequate for the most recent project they supervised.

is undertaking some capacity-building efforts, such as the annual Sustainability Week, but SEG staff have reported that access to TC funds for more targeted client capacity building has been very restricted since the merge-out even when such TCs could generate positive externalities that go beyond just strengthening the client's own ESMS.





# 05

The Independent  
Consultation and  
Investigation  
Mechanism's  
Contribution  
to the IDBG's  
Safeguards System

## A. MICI policy framework and structure<sup>61</sup>

- 5.1 As part of its safeguards system, the IDBG has set up an independent accountability mechanism similar to those established since the mid-1990s by most other MDBs. The Independent Consultation and Investigation Mechanism (MICI) serves as a grievance mechanism where people and communities can lodge complaints if they deem that IDBG funded projects have negatively affected them as a result of IDBG not adhering to its safeguards policies.
- 5.2 In 2012, OVE completed an evaluation of the first two years of MICI operations and recommended that the Board terminate MICI's pilot phase and reformulate its policy. The evaluation identified significant problems with MICI's policy, structure, and operations. It found that MICI's structure did not make it sufficiently accountable for delivering results with integrity and efficiency. MICI's operations were not fully transparent, and some of its cases languished without resolution. OVE recommended that MICI's pilot phase be terminated. Consequently, MICI was relaunched in December 2014, with a new policy and structure that have addressed most of the shortcomings identified in OVE's 2012 evaluation (Box 5.1). In addition, starting in 2016, MICI became responsible for handling safeguards complaints about the newly created IDB Invest.
- 5.3 Like most independent accountability mechanisms, MICI performs two very different functions—compliance review and consultation. These functions are handled by separate organizational units in MICI. The Compliance Review Phase is primarily a way for the Bank to assure shareholders that it complies with the safeguards policies that shareholders have approved. The main product of an investigation is a report to the Board, usually accompanied by recommendations for future actions by Management. Since the new policy came into effect in December 2014, there have been four such reports. Consistent with its policy, MICI has presented recommendations in addition to its findings about compliance in these reports. The Consultation Phase is a way for the Bank to ensure – and publicly demonstrate – that its safeguards work to protect local communities. Upon receiving an eligible complaint from the public, MICI arranges for a mediation-type process that involves Bank staff as well as the client and the complainant. This is not a legal or adversarial process; all parties, including Bank Management, must be willing parties. The product of a successful

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<sup>61</sup> This chapter only reviews MICI's contribution to the functioning of IDBG's safeguards system. It does not purport to be a full evaluation of MICI operations since the adoption of the revised MICI policy, which would be beyond the scope of this evaluation.

“consultation” is a course of action that satisfies the complainant and that the other parties agree to. Although the process must be triggered by a complaint related to a safeguards policy, it does not result in any finding of compliance or noncompliance with policy. Two such consultations have been completed between December 2014 and June 2018, and two more are ongoing (see Annex VI).

*Box 5.1. The current MICI policy has addressed key shortcomings identified in OVE’s MICI evaluation*

**Clear accountabilities.** The 2014 MICI policy establishes a clear chain of command in which all its staff – including the coordinators for the compliance and consultation phases – and consultants are accountable to the Director. The Director is accountable to the Boards of IDB and IIC.

**Structural conflict of interest eliminated.** The MICI Director and the Compliance Review Coordinator, both salaried staff members, are responsible for contracting experts to serve on compliance review panels and are accountable for the panels’ work products. This arrangement removes the conflict of interest embedded in the previous structure, in which the head of compliance review was a consultant paid by the day.

**Sequencing.** The 2010 MICI policy was based on an erroneous view that the problem-solving (consultation) function should be a compulsory “gatekeeper” to limit the number of cases proceeding to compliance review. It required MICI to assess every request’s eligibility for a consultation process, even when the requesters actually wanted only a compliance review. Now, under the 2014 policy, a requester may choose either process, or both. If both are chosen, the consultation function must occur first. This is appropriate, because the Bank must be a willing party to the consultation process, which would be awkward if the Bank had already been found to be noncompliant.

**Registration and eligibility determination.** Under the old policy, MICI conducted a second and completely redundant assessment of a request’s eligibility for the compliance phase, even when the request had already been found eligible for consultation. This provision caused delays and frustration for requesters, as well as excessive costs. Under the new policy, MICI makes only one eligibility determination. The 2014 policy simplifies and clarifies the criteria for registering cases and deciding on their eligibility. If a requester decides to opt out of a compliance review, the MICI Director retains the prerogative to recommend to the Board to continue the review. Although this provision has not so far been invoked, it could potentially ensure that a legitimate compliance investigation can be pursued even if a requester loses interest.

**Transparency.** Both the old and new policies called for MICI to maintain an online registry of each request and its disposition. MICI is currently meeting this requirement: every request and disclosed report can be located and tracked on the registry, which is generally kept up to date. Under the former regime, OVE found that MICI's patchy and untimely reporting fostered suspicions about MICI's integrity.

**Management responses.** The 2014 MICI policy provides for Bank and/or IIC Management to provide written responses at three stages: on the request itself, on MICI's recommendation for a compliance review, and on MICI's draft compliance review report to the Board. Management responses are currently posted on MICI's website and annexed to each MICI compliance review report. This policy, and MICI's current practice, therefore respond to the OVE evaluation's criticisms that – under the 2010 policy – Management had no opportunity to place its perspectives on the record, and at times was even denied information about MICI complaints regarding projects.

**Exclusion of cases under judicial review.** The 2010 policy included a blanket prohibition on eligibility for any request that “raised issues under arbitral or judicial review.” OVE found that this proviso created significant obstacles to MICI's effective functioning for several reasons: it applied very broadly to requests that merely “raise issues” under litigation; it could incentivize someone to initiate a legal proceeding to forestall a MICI investigation; and it effectively obligated a complainant to choose between pursuing legal recourse and seeking MICI's assistance. The 2014 MICI policy retains the principle that MICI should avoid reviewing cases that are also being litigated, but it slightly softens the blanket prohibition: it now requires the MICI Director to assess the implications of any such legal case and make a recommendation to the Board about proceeding. The new policy also specifies “particular issues or matters raised in a request” – a slightly narrower wording than in the 2010 policy. The exact interpretation of this exclusion provision has been the subject of debates and disagreements between MICI and Management.

5.4 A few lacunae remain in MICI's current policy and its integration into IDB's overall safeguards policy framework. The policy remains focused on procedures without articulating the overarching intent. For example, it sets out rules for how people may file requests without providing an overarching commitment about the Bank's intention to make it easy for people to seek redress for possible harm associated with its projects. Because MICI was created after most of the Bank's safeguards policies were adopted, the policies do not refer to MICI or to the notion of accountability in general. As for IDB Invest, its sustainability policy lists the 2015 IIC MICI policy

merely as one of several “documents that are applicable for compliance,” rather than setting out the purpose of MICI as a mechanism. The IDBG has not yet articulated how MICI, as an independent mechanism of “last resort,” is supposed to relate to project-specific grievance mechanisms, such as are required in projects involving resettlement, or to national ombudsman or similar services. The policies’ silence on MICI leaves it essentially disconnected from the IDBG’s safeguards frameworks. Under MICI policy, a request is ineligible if it is received more than 24 months after the operation’s final disbursement. While the application of this provision is straightforward in the case of loans, it remains unclear in the case of guarantees and equity investments. MICI has recently proposed how to apply the provision in such cases, based the work of a MICI/Management working group, and has suggested that the solution be piloted for two years. Similarly, there has been disagreement between MICI and Management on how to interpret the stipulation that MICI cases are not eligible if they pertain to an issue under arbitration or judicial review in a member country.

## **B. Profile of MICI requests**

5.5 MICI received 45 requests between December 2014 and the end of 2017 that concerned 25 IDB and IIC projects<sup>62</sup>. Seven of the 45 requests concerned private sector operations<sup>63</sup>. Two-thirds (30) of the requests did not get registered because they either lacked the necessary information or they concerned matters outside MICI’s purview or projects that are not IDB-financed. Of the 15 requests that were registered, six were found eligible, thereby becoming “cases” (Figure 5.1). Four of these six were requests for consultation, and the other two were for compliance review. One consultation case – Paraguay Downtown Redevelopment – was eventually transferred to compliance review at the requesters’ option. One of the compliance reviews and two of the consultations have been completed, and MICI is now monitoring the implementation of the agreements reached during consultation. In addition, MICI completed the compliance review of four cases that had been received under the old MICI policy (Annex VI, Table VI.1).

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62 Some projects received multiple requests.

63 The seven MICI cases on private sector operations included 1 IIC, 1 MIF, 3 SCF, 1 OMJ, and 1 IDB NSG guarantee. Of these, one was declared eligible.

**Figure 5.1**

**MICI requests since the establishment of the new MICI**

Source: OVE, based on MICI public registry.

5.6 More MICI requests have been motivated by social than by environmental issues. An analysis of the driving concerns raised in the eligible MICI cases suggests that resettlement, inadequate compensation for non-physical displacement, consultation with indigenous peoples, and inadequate access to information were the chief concerns; only three requests concerned primarily environmental issues. Other requests have cited environmental problems, but these appear to be secondary or ancillary to the main social complaints (Annex VI, Table VI.2). Most MICI complaints have concerned problems that arose during project design and preparation – for example, inadequate consultation and planning. This pattern of complaints may reflect not the actual distribution of social and environmental problems, but rather the fact that many of the safeguards themselves are structured as ex ante requirements, and a complaint to MICI must be framed as noncompliance with one of these requirements. Thus, the pattern of issues raised in MICI requests is not necessarily representative of the distribution of actual safeguards issues in the overall portfolio.

### C. Effects on projects and requesters

5.7 MICI's consultation function has provided redress to requesters and enhanced the implementation of the projects concerned. A MICI-brokered agreement concerning a land titling project in Peru led to substantial changes in the project implementation plan, giving higher priority to indigenous communities than

was initially envisaged. While it is too soon to tell whether the new plan will deliver the desired outcomes for the requesters, MICI is maintaining a monitoring role. In the case of the Brazil Habitar project, the MICI-led consultation (completed under the old MICI policy) allowed the requesters to move into new homes after having lived in a makeshift dwelling for many years. The MICI consultation process was also constructive in the context of the Brazil São Jose Dos Campos project, even though the case ended up being transferred to compliance review and then the planned resettlement never occurred. During the three years of the MICI consultation process, according to Management, “the Borrower, in dialogue with the Requesters and with the support of the Project Team and the MICI, implemented multiple actions and measures to improve the documents and operational plans drawn up during the design stage and also to address the specific claims of the requesters<sup>64</sup>.” Staff involved in MICI consultation cases have appreciated MICI’s role. Some found MICI’s process helpful because it relieved the project team of the onus of resolving a difficult dispute. Others saw an opposite benefit – requesters and others have been spurred to try to resolve a dispute themselves, to forestall a lengthy MICI consultation process.

5.8 MICI’s compliance review function, by contrast, is not intended to provide, and indeed has not provided, redress to requesters. MICI compliance reviews have had a strong legalistic orientation, comparing the Bank’s actions to the letter of the policies to determine compliance, but they have not generally resulted in redress to requesters. In Colombia, a Bank-financed airport expansion project finished without improvement in the noise situation. For projects in Mexico and Brazil, the disputed project or component ended up not being implemented. In a project in Bolivia, MICI found weaknesses in the E&S assessment and consultations, but there is no evidence that this resulted in redress to the complainant. In some projects, Management has corrected problems in “real time” while a MICI request was under consideration. Most frequently, it has disclosed or promised to disclose missing documents and/or make them available in additional languages. Management has also improved the design of follow-on projects in light of MICI cases. For example, in the follow-on project to the La Paz drainage project, “a new consultation and assessment procedure has been included...with the goal of minimizing the adverse impacts of works of this kind<sup>65</sup>.”

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64 Source: MICI Recommendation for a Compliance Review São Jose Dos Campos Urban Structuring, (Board Document, no date) Annex 1 Management Response, para. 67.

65 Source: Management’s Comments on the Draft Compliance Review report, MI-44-6, October 2017. Not in the public domain.

## D. MICI's institutional impact

- 5.9 OVE's staff surveys and interviews suggest that MICI has helped focus the Bank's attention on safeguards policies to some extent. One-third of ESG staff responding to OVE's survey indicated that the existence of MICI has made team leaders more receptive to addressing safeguards issues in projects, and one-fifth indicated that it has facilitated discussing safeguards issues with clients. Among ESG staff directly involved in MICI cases, virtually all reported in interviews that MICI's existence helps focus staff's and managers' attention on safeguards policies and has facilitated ESG's work in guiding project teams to properly consider the safeguards dimensions of project design and implementation. At the same time, almost one-quarter of IDB team leaders consider that MICI has had no effect on the way they approach safeguards. MICI thus far seems to have had little effect on how IDB Invest handles safeguards, possibly because IDB Invest has been exposed to far fewer MICI cases than IDB. Only two SEG staff reported that MICI has made team leaders more receptive to safeguards issues, 40% of team leaders thought MICI had not had an effect on the way safeguards are handled, and over one-third reported not being familiar with MICI.
- 5.10 Information disclosure and consultations emerge as two recurring themes from completed MICI compliance reviews. Compliance reviews are the main channel through which MICI's work has generated lessons or implications for individual safeguard policies. MICI has completed four compliance reviews and is working on a further two<sup>66</sup>. In three of the four completed compliance reviews, MICI found that the Bank had failed to disclose – or had disclosed too late in the project design process – various documents that were subject to mandatory disclosure. This meant that project-affected people had not been able to participate meaningfully in project planning. Lack of information is also invoked in another ongoing compliance review. Shortcomings in consultations were identified in all four completed compliance reviews. MICI found two kinds of noncompliance with consultations: certain project-affected people were not consulted at all, or any meetings that were held were just information sessions, not genuine consultations. MICI also found that in two of the four cases, the project was inadequately classified as category B when it should have been classified as category A (see Annex VII for a summary of compliance review findings and themes).

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66 In one other project, the Board denied MICI's recommendation to conduct a review.

5.11 MICI has sparked several improvements in Bank guidance to staff. Interviews with ESG staff, COs, and DCs suggest that concerns about potential MICI cases have given IDB an impetus to revisit its processes and procedures to ensure more consistent adherence to safeguards policy requirements, particularly during preparation. Steps have been taken to address the two recurring compliance review themes of consultation and information disclosure. ESG's recently issued good practice note on "Meaningful Stakeholder Consultation" is seen as a constructive response to MICI's findings. In the area of information disclosure, in response to MICI recommendations, Management has issued clarifications about the disclosure requirements for EIAs and related materials. Some staff also report, however, that the fear of MICI cases has led to an excessive focus on meeting process requirements and a "check the box" attitude, rather than helping to find practical solutions to safeguards issues. This issue may also be driven by IDB's process- rather than principles-focused safeguards policies.





# 06

## Conclusions and Recommendations

- 6.1 The IDBG has committed to ensure that the projects it supports are environmentally and socially sustainable. IDBG has adopted a set of policies and processes that aim to ensure that the potential negative E&S effects of its projects are adequately identified, managed, and mitigated. This evaluation finds that although IDBG and its borrowers have undertaken significant efforts to address the E&S impacts of IDBG-funded operations, the implementation of IDBG's E&S safeguards system has encountered considerable challenges that arise from both the policy framework and its application.
- 6.2 On the policy front, IDB's current safeguards policies are not anchored in a fully coherent and integrated framework, since they were developed in a piecemeal fashion over the course of several decades. Compared to the safeguards frameworks of other MDBs, IDB's policies also have a more restricted topical coverage, particularly on the social side. IDB policies do not provide a clear separation between the responsibilities of the IDB and borrowers, and they have a strong focus on up-front preparation requirements while providing little guidance on implementation. The policies are process- rather than principles-based, encouraging a tick-the-box attitude and enforcement rather than a solutions-focused approach.
- 6.3 IDB's strong up-front focus, coupled with limited follow-up during implementation, is at odds with corporate goals to shorten project preparation times. OVE found that a significant share of IDB projects did not fully meet the up-front preparation requirements stipulated by the policies. ESG has made significant efforts over the past 18 months to systematize and enhance the Bank's up-front due diligence work with positive results, but challenges remain. The current approach is not well suited to many of the projects that IDB's borrowers currently demand, including projects using a framework approach. Specific project designs are often not available before project approval, and in projects using a framework approach, many specific investments have not been yet identified, making it impossible to prepare site-specific E&S assessments and management plans. Thus, for such projects a more flexible approach would be appropriate. Such an approach would need to clearly identify compliance gaps during preparation, prepare an action plan anchored in the loan agreement that addresses such shortcomings, ensure adequate project resources are allocated to its implementation, establishes a credible E&S monitoring and reporting system and involve strong Bank follow-up during implementation. Additionally, the share of B13 operations to which IDB's current safeguards policies are difficult to apply has increased considerably in IDB's overall lending.

- 6.4 Compared to IDB's policies, IDB Invest's E&S sustainability policy provides an overall framework for both E&S impacts and risks, and it distinguishes more clearly between the responsibilities of IDB Invest itself and those of the client. While IDB policies specify that all operations have to be in compliance at the time of approval, IDB Invest's policy allows for reaching compliance over time, encouraging an approach that rests on clearly identifying compliance gaps and agreeing on a legally binding action plan to close them; establishing a strong client E&S management system; and monitoring, reporting, and adapting as issues arise. However, the key policy challenge on IDB Invest's side is the reliance on multiple third-party policies, which creates the potential for confusion and higher transaction costs. While the policy states that clients should adhere to IFC PSs, IDB safeguards policies, and selected other third-party standards, OVE found that IDB Invest largely applies IFC PSs, which are widely recognized and adopted by private sector companies. OVE found that IFC PSs cover essentially all aspects included in IDB's policies and often do so more clearly and extensively. IFC PSs also cover several areas not included in IDB's policies. IDB Invest also lacks clarity on applicable implementation guidelines.
- 6.5 Resource constraints and the concentration of safeguards staff in Washington have prevented IDB from providing its borrowers with the implementation support necessary to adequately address E&S issues as they arise during project implementation. On the borrower side, capacity constraints and lack of knowledge about IDB safeguards frequently affect how project E&S issues are managed. Yet supervision of safeguards implementation is limited to only a subset of projects, and safeguards performance is not regularly monitored and reported on. As a result, IDB does not know to what extent safeguards policy objectives are met.
- 6.6 Since the merge-out, IDB Invest's SEG has made significant efforts to build its capacity and strengthen up-front due diligence work, addressing some of the shortcomings OVE identified in IIC's legacy portfolio. These efforts are essential in light of the larger and often more complex infrastructure-focused investments that IDB Invest now also supports. SEG staff are well integrated into project teams and are appreciated for their constructive and solution-focused approach. However, resource constraints allow for only limited SEG follow-up, E&S monitoring, and supervision during implementation. SEG staff have a heavy caseload, which makes it impossible for them to consistently follow up on each project assigned to them. The inability to follow-up properly during implementation is of particular concern in the context of a system that allows for safeguards compliance over time. Increased

restrictions on the use of TC resources for E&S capacity building make it difficult to build such efforts into project design, even when these could have positive externalities.

- 6.7 Because of its limited supervision capacity, IDB Invests relies heavily on client self-reporting, which is of variable quality. This risks leaving potential E&S impacts undetected and not appropriately followed up on and mitigated, as reflected by OVE's finding of inadequate or insufficiently substantiated safeguards performance ratings during implementation. The monitoring of the E&S compliance of IDB Invest clients is currently manual, is not consistently tracked and aggregated, and is based on information contained in client reports with inconsistent formats, content, and quality. The lack of an effective IT solution to support supervision efforts not only puts a high burden on the already-stretched SEG officers, but also prevents Management from having real-time information about the E&S performance of the portfolio.
- 6.8 Staff capacity and knowledge constraints also affect the application of safeguards policies. While IDB's ESG has undertaken significant efforts to strengthen its staff's capacity and has developed valuable guidance material to support a more consistent application of safeguards policies across projects, a significant share of its staff expressed a desire for further training. Team leaders, who often bear significant responsibility for effective safeguards application, particularly during implementation, do not have the knowledge they need. Similarly, at IDB Invest the need for training to gain greater familiarity with safeguards policies was a topic frequently raised by IOs and PMOs, given that team leaders are the first point of contact for clients and SEG officers are too thinly stretched.
- 6.9 The 2014 MICI policy corrected most of the problems which had afflicted the 2010 policy. There is still a lack of clarity on how to apply the judiciary review clause of the MICI policy and how to apply the 24 months post-disbursement restriction to private sector operations, particularly guarantees and equity investments. In addition, IDBG's policies remain silent on MICI as a grievance mechanism of last resort, thus essentially leaving MICI disconnected from the IDBG's safeguards framework.
- 6.10 MICI has begun to help focus the Bank's attention to safeguards, particularly in the areas of information disclosure and consultations, where Management is taking a number of corrective systemic actions. MICI thus far has had less impact on how IDB Invest handles safeguards, possibly because IDB Invest has been exposed to far fewer MICI cases than IDB.

6.11 On the basis of the findings of this evaluation, OVE recommends the following:

## A. For IDB

- 1. Revise the current IDBG safeguards policy framework.**

Develop a new safeguards policy framework that incorporates both environmental and social aspects in an integrated policy, differentiates more clearly between Bank and borrower responsibilities, clearly spells out technical requirements and addresses current coverage shortfalls and ambiguities, rebalances the focus on up-front procedural requirements with effective implementation for results and ensures applicability to operations without clearly designed investments at the time of approval. The policy framework should also consider a more refined project classification system that integrates risks as well as impacts, establishes a clear classification for FI operations and allows for reclassification during implementation as needed. It should also describe MICI's role as a grievance mechanism of last resort.
- 2. Consistently identify projects that use a framework approach to safeguards and enforce the multiple works safeguards preparation requirements.** IDB recently clarified up-front safeguards preparation requirements for multiple works projects, but there are still some specific investment operations that also use variations of the framework approach to safeguards. All projects using a framework approach should be identified during screening and the multiple works safeguards preparation requirements should be enforced.
- 3. Strengthen safeguards supervision and reporting.**
  - Undertake more regular follow-up and field visits of all high and medium E&S impact operations, with particular emphasis on projects for which detailed designs emerge only during implementation. Explore new supervision approaches, including more use of local consultants, a stronger presence of ESG staff in country offices and more consistent use of third-party supervision funded with project funds.
  - Revisit and solidify the approach to supervising projects using a framework approach by following up regularly on sub-projects, possibly with increased use of third party consultants financed from project funds.
  - Strengthen safeguards results monitoring and reporting through both a uniform borrower reporting requirement and an enhanced Bank monitoring and reporting system. Regular safeguards performance and results reporting should become

an integral part of the Project Monitoring Report system, updated at least annually. Regular monitoring and reporting will not only provide information about the extent to which the Bank's safeguards objectives are being achieved, but will also be essential if the Bank moves toward a more dynamic and principles-based approach that makes adjustments as issues arise.

#### **4. Strengthen IDB staff capacities to deal with E&S issues.**

- Make E&S training for team leaders mandatory to enhance their familiarity with safeguards policies/standards and procedures. Provide additional guidance material.
- Expand training for ESG staff, including on sectoral application of E&S policies and on IDB operations to ensure consistency in the application of safeguards policies/standards.

#### **5. Strengthen client capacity to manage E&S risks.**

- Define and implement an incremental approach that identifies parts of the borrower's E&S management system (or specific sectors or agencies) that meet or come close to meeting IDB requirements and can thus be used in Bank supported operations. Couple the use of local systems with targeted capacity building.
- Ensure that safeguards requirements are explicitly addressed at each project launch workshop.

## **B. For IDB Invest**

### **1. Revise IDB Invest's E&S sustainability policy.**

- Revisit the requirement of relying on multiple third-party standards in favor of requiring borrowers to adhere to a single coherent set of standards. Given the widespread use of IFC PSs by IDB Invest and the region's private sector and IDB Invest's limited scale and resources, adopting the IFC PSs could be a practical and low-cost solution.
- Provide more clarity on applicable implementation guidelines and procedures manuals for IFC PSs, to cover not only processes but also IDB Invest's practical approach to interpreting and applying IFC PSs to its various types of operations and clients

**2. Strengthen safeguards supervision and reporting.**

- Increase the attention devoted to monitoring E&S risks and impacts beyond operations initially deemed high-risk and undertake more regular field visits, particularly to operations without third-party supervision.
- Implement an IT system to help SEG officers and Management more consistently and efficiently track E&S compliance and results at the operation and portfolio levels.

**3. Strengthen IDB Invest staff capacities to deal with E&S issues.**

Provide E&S training for IDB Invest project teams to enhance their familiarity with applicable safeguards policies/standards and procedures, as well as for SEG staff to ensure consistency in the application of the various safeguards policies/standards.

**4. Continue and expand efforts to strengthen client capacity to manage E&S risks.**

Continue capacity-building efforts such as the annual Sustainability Week and revisit TC allocation criteria to increase the availability of resources for strengthening client E&S capacities in cases that can generate externalities.



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