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ABSTRACT

This paper reviews to what extent and how effectively the Inter-American Development Bank (IDB, or Bank) is implementing the IDB-9 requirements pertaining to environmental and social safeguards policies. The Bank's commitment to sustainability is enshrined in the Environmental and Safeguards Compliance Policy and policies addressing social concerns: involuntary resettlement, indigenous peoples, and gender equality. Each policy promotes sustainability through a two-pronged approach: mainstreaming of environmental and social concerns, and safeguards. The IDB-9 requirements called on the Bank to adopt a new set of environmental and social safeguards consistent with the findings of an external assessment by an Independent Advisory Group (IAG). IDB-9 also called for the adoption of a new Gender Equality Policy.

The IAG assessment (which was completed after the IDB-9 Agreement) concluded that a revision of the Bank's safeguards policies was not warranted, but it recommended actions to help the Bank strengthen its mainstreaming of sustainability concerns and application of safeguards. Management and the Board accepted this conclusion. Thus in terms of the IDB-9 mandate, the Bank has not revised its safeguards policies, but it has adopted the Gender Equality Policy. It also launched an action plan to address IAG's concerns. This review finds that the Bank's action plan is substantially responsive to the concerns raised by IAG and that progress on most actions is well under way, though further work is needed. It also finds that implementation of the Gender Action plan has made a good start.

Mainstreaming of sustainability concerns remains work in progress. The Bank's Sustainability Working Group has helped raise Management's overall awareness of sustainability issues, but the Bank has not yet found an effective way to integrate sustainability into its Country Strategies.

Similarly, gender sector notes have not yet resulted in consistent integration of gender equality into Country Strategies. For projects, in about one-fifth of those approved in 2012 (January – September), the results matrix includes gender indicators of varying relevance and quality.

On the safeguards side, progress has been made on integrating safeguards specialists into private sector operational teams, and the Bank has embarked on a more rigorous approach to supervision of safeguards implementation. Piloting of the gender safeguard has started recently. However, pressure to reduce project preparation times and an increase in high-risk projects seem to have resulted in the Bank's shifting some important safeguards due diligence work from the preparation to the supervision phase—a change the Bank's supervision system is not equipped to handle well.

The paper offers several suggestions to advance the sustainability agenda: (i) ensure that the environmental and social assessment process is consistently completed before project approval; (ii) strengthen safeguards supervision; (iii) increase attention to the social aspects of sustainability, (iv) broaden the focus of country environment sector notes to reduce fragmentation of mainstreaming efforts, (v) enhance implementation of the Gender Policy and action plan, and (vi) revisit the allocation of resources for safeguards work.

PREFACE

The Inter-American Development Bank (IDB) is in a period of rapid change, responding to both the economic dynamism of the Region it serves and the increasing competition in the international financial marketplace. Over the past decade, countries in Latin America and the Caribbean have gained greater access to alternative sources of finance and an increasingly ability to generate and share knowledge among themselves. Like other multilateral development banks, IDB is seeking to adapt to this changing international landscape by ensuring that it is responsive to borrowing countries' needs and putting strong emphasis on effectiveness in its use of scarce resources.

In 2010 the IDB's Board of Governors approved the 9th General Capital Increase of the IDB (IDB-9). The IDB-9 Agreement laid out a series of reforms intended to strengthen the strategic focus, development effectiveness, and efficiency of the IDB to help it remain competitive and relevant in the years ahead. As part of that Report, IDB's Office of Evaluation and Oversight (OVE) was charged with conducting a midterm evaluation—to be presented to the Board of Governors in March 2013—to assess IDB's progress in implementing those reforms. The full evaluation is available at www.iadb.org/evaluation.

This paper is one of 22 background papers prepared by OVE as input to the IDB-9 evaluation. It seeks to determine whether one portion of the IDB-9 requirements has been implemented fully and effectively and to offer suggestions to strengthen implementation going forward. The overarching goal of this paper and the entire evaluation is to provide insights to the Governors, the Board, and IDB Management to help make IDB as strong and effective as possible in promoting economic growth and poverty reduction in Latin America and the Caribbean.

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This background paper was prepared by Andres Liebenthal and Lynn Scholl, under the guidance of Monika Huppi. All background papers were thoroughly reviewed and discussed within OVE and shared with IDB Management for comments. The other background papers and full IDB-9 evaluation can be found at www.iadb.org/evaluation.

ACRONYMS AND ABBREVIATIONS

E&S	Environmental and social
ESC	Environment and safeguards compliance
ESG	Environment and Safeguards Unit
EVP	Executive Vice President
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
GAP	Gender Action Plan
GDI	Gender and Diversity Division
IDB	Inter-American Development Bank
IDB-9	Ninth General Capital Increase of the IDB
IAG	Independent Advisory Group
IFC	International Finance Corporation
MDB	Multilateral development bank
OVE	Office of Evaluation and Oversight
PCR	Project Completion Report
PMR	Progress Monitoring Report
SCF	Structured and Corporate Finance
SWG	Sustainability Working Group
VPS	Vice-Presidency for Sectors

EXECUTIVE SUMMARY

The sustainability policy framework of the Inter-American Development Bank (IDB, or Bank) includes the Environment and Safeguards Compliance (ESC) Policy, as well as policies addressing social concerns—involuntary resettlement, indigenous peoples, and gender equality—and disaster risk management. Each of these policies supports the Bank's commitment to sustainability through a two-pronged approach: *mainstreaming*—or enhancing environmental and social benefits; and *safeguards*—or avoiding, minimizing, and compensating for negative impacts.

In 2006 the Bank adopted the Environment and Safeguards Compliance Policy (OP-703) and in 2007 created the Environment and Safeguards Unit (ESG). With these actions, the Bank initiated a series of systemic reforms, including revisions to safeguards-related guidelines, procedures, and instruments. In 2009, the Bank established an Independent Advisory Group (IAG) to review progress in implementing the ESC policy and to provide advice on potential improvements to the policy and its application.

IDB-9 requirements

At the Bank's 2010 Annual Meeting, the adoption of a revised set of environmental and social safeguards consistent with the recommendations of the IAG and in line with international best practice was one of the requirements for the Ninth General Capital Increase (IDB-9) included in the Cancun Declaration and in the *Report on the Ninth General Increase in the Resources of the Inter-American Development Bank* (the IDB-9 Report). Specifically, the Bank committed to present, for the approval of Board of Executive Directors, an action plan with a revised set of environmental and social safeguards that are fully consistent with the recommendations of the IAG, and to adopt a new policy on gender equality.

This background paper reviews (i) how Management has responded to the findings and recommendations of the IAG report; (ii) what progress IDB has made been on the measures it committed to undertake, including those on adopting and implementing the Gender Policy and its associated Gender Action Plan; and (iii) how effectively the measures respond to the issues raised in the IAG Report pertaining to the mainstreaming of environmental and social concerns and the application of environmental and social safeguards in IDB-financed operations.

Main findings

The IAG presented its final report to the Committee of the Whole and to Management in February 2011.¹ Although the Cancun Declaration called for the adoption of revised environmental *and* social safeguards, the IAG's main focus was on the ESC Policy, touching on implementation of social safeguards only in passing. A central finding of the IAG was that the Bank's mainstreaming policy has not received the priority and leadership that will be required to meet the IDB-9 objectives. However, the IAG found that the Bank had made good progress on implementing the safeguards aspects of the

¹ The IAG report was completed after the IDB-9 Agreement calling for the adoption of new safeguards consistent with the findings of the IAG report.

ESC policy. Noting that other multilateral development banks (MDBs) had begun reviewing their safeguards and sustainability policies and standards, it recommended that the Bank hold off on revising its policies pending completion of other institutions' work. Instead, the IAG proposed a series of actions to strengthen the implementation of the Bank's existing ESC policy.

The Board and Management accepted the IAG's conclusion that the Bank's safeguards policies did not warrant revision at that time. Thus, in terms of the Cancun mandate, no steps were undertaken to adopt revised environmental and social safeguards, except for the adoption of the Operational Policy on Gender Equality in November 2010.

In response to the IAG recommendations Management created an internal Sustainability Working Group (SWG), chaired by the Principal Advisor to the Executive Vice President, and tasked with identifying a plan of action to respond to the issues raised in the IAG report.

A comparison of Management's action plan with the IAG recommendations, keeping in mind IDB-9's underlying objective, suggests that the Bank's action plan is on balance substantially responsive to concerns raised in the IAG review. Specific actions diverge somewhat from the IAG recommendations, generally for valid reasons. Most of the actions in Management's response to the IAG report are well under way, though work on many is still in progress.

To support implementation of the new Gender Policy, the Bank adopted a Gender Action Plan (GAP) spelling out objectives and a work program for 2011 and 2012. Implementation of the GAP has made a good start, with somewhat stronger progress on the proactive than the preventive side.

Mainstreaming

At both the corporate and the individual country program levels, mainstreaming of sustainability concerns remains work in progress. While the Bank still lacks a comprehensive approach to sustainability, interviews suggest that the SWG has helped raise Management's overall awareness of sustainability issues and brought to the fore the cross-cutting nature of social and environmental sustainability. To date, the SWG's main responsibility has been to prepare the Management Response and action plan to IAG and the Bank's inputs to the Rio+20 Conference. However, it lacks a clear longer-term agenda.

Several elements of the Bank's approach to sustainability were presented at the Rio+20 Conference in June 2012, including IDB's Climate Change Action Plan, Low Carbon Resilient Development, Biodiversity Platform, Sustainable Energy for All, and the Sustainable Emerging Cities Initiative. Drawing on the feedback received in Rio, the SWG is considering developing a more socially inclusive, cross-cutting approach to sustainability. Facilitated by a somewhat higher budget allocation, ESG has stepped up training for Bank staff on sustainability issues and has also conducted a seminar for Board members.

Environment sector notes have been prepared as inputs to several Country Strategies, but the Bank has not yet found an effective way to integrate sustainability concerns into its country programs in a cross-cutting manner. Efforts to integrate sustainability into

Country Strategies have remained fragmented, promoted by separate technical and sector units, each approaching the issues from its own angle.

Country gender policy and sector notes have been prepared for a number of countries as inputs to the Country Strategy formulation process. Country Strategies for five countries for which gender notes or background papers were prepared have been adopted, but only three of them reflect some of the issues raised in the notes. Several technical notes on gender mainstreaming in sectors (e.g., trade, water and sanitation, poverty analysis) have been completed, and additional work is under way. Over 20 learning events have been provided to help familiarize Bank staff with the Gender Policy. Completion of implementation guidelines for the Gender Policy is lagging.

The Gender and Diversity Division reports that 19% percent of lending operations approved between January and September 2012 (15 projects) include a gender-related results indicator in their results matrix, up from 9% in 2011. A review of these projects and their results frameworks found large variation in the relevance and quality of the gender indicators. For about half of these projects, the indicators were linked only weakly to the diagnosis of gender equality issues and to what the project proposed to do to promote gender equality.

Safeguards

The Office of Evaluation and Oversight (OVE) reviewed the application of safeguards in a sample of projects before approval and during implementation. While the sample size is not large enough to allow for statistical inference and to permit generalizing the findings across the Bank's entire portfolio, the review provides a qualitative sense of some of the strengths and weaknesses of the current system, pointing to areas that may require more in-depth review and follow-up as the Bank works to strengthen the effectiveness of its safeguards policy.

The sampled projects had generally been satisfactorily screened and assigned to the appropriate safeguards risk category. While Environmental and Social Impact Assessments (ESIAs) had been undertaken for the majority of sampled projects, several key deficiencies were identified: inadequate coverage of indirect and induced project effects, lack of baseline information, and failure to fully complete assessments and the associated environmental and social management plans outlining mitigation measures before Board approval. The fact that some projects are approved without a full understanding of their potential impacts and of the adequacy of provisions to manage these impacts likely subjects the Bank and its clients to a higher level of risk than the policies were intended to allow. The review also found that there is much less documentation for medium-risk projects (overseen by operational units) than for high-risk projects (overseen by ESG).

In 2011, in line with the IDB-9 objectives, ESG embarked on a more rigorous and systematic approach to the supervision of safeguards implementation in high-risk projects. The approach involves, among other things, the identification of high-risk projects that will be directly supervised by ESG specialists, while responsibility for the remainder of the portfolio remains with the operational unit. To date, field visits to supervise progress on safeguards implementation have been undertaken for about 48% of

the 295 high-risk loan-financed projects, or about 18% of the Bank's active loan portfolio.

A new template for the preparation of safeguards supervision reports has also been introduced for high-risk projects. However, these supervision reports are not linked to the Progress Monitoring Reports (PMR), nor do the PMRs call for any reporting on safeguards performance. This is an important shortcoming, as it means that project performance with respect to safeguards policies remains largely unreported and often unknown for the vast majority of the Bank's portfolio.

OVE's review of the safeguards performance of 20 high-risk projects found that over half of them were not in full compliance with safeguard policy requirements at the time of the latest supervision mission. Yet a majority of supervision reports for these noncompliant projects rated performance as "partially satisfactory" on the basis of an expectation that the deficiencies were being corrected. Under IDB-9's results framework, the Bank aims to ensure that by 2015, 85% of projects with high environmental and social risks will be implementing mitigation measures satisfactorily. This review suggests that considerable additional efforts will be required to meet that target. Failure to complete ESIA's and Environmental and Social Management Plans (ESMPs) and other required safeguards instruments before project approval has been found to be the most important constraint to timely and effective implementation of mitigation measures.

The GAP identified 2011-2012 as a pilot phase for implementation of the gender safeguard. ESG's safeguard screening system now contains a gender module, and a gender consultant assigned to ESG is providing direct technical support and training specialists to identify gender risks in projects. About 140 projects have been screened for potential gender risks thus far. Mitigation plans for seven of these projects have been completed, and expert support is being provided for supervision of five high-risk projects. Gender safeguards guidelines are under preparation. Overall, however, staffing constraints limit the pace at which the safeguards side of the Gender Policy can progress.

The data suggest that the Bank's safeguards system may be operating under considerable strain. The increase in the number of high-risk projects and the share of such projects in C and D countries has outpaced the growth in technical capacity and budgetary resources allocated to safeguards. Combined with a Bankwide effort to shorten project processing times, these trends appear to have led the Bank to shift some key safeguards due diligence requirements to the supervision phase. Yet the Bank's current system for safeguards supervision is not equipped to properly handle such a shift.

In response to concerns raised by IAG about how the concentration of all safeguards staff in ESG had affected private sector operations, progress has been made on strengthening the cooperation between ESG and the Structured and Corporate Financing Department (SCF). ESG and SCF have developed and implemented an action plan to work out requirements, clarify staff responsibilities, and establish a joint progress monitoring template. To facilitate integration of safeguards concerns into private sector operations, ESG has dedicated a number of staff to private sector operations. OVE's interviews with key staff on both sides indicate that the working relationship is reported to be much improved and is expected to continue to strengthen as safeguards specialists are "seconded" to SCF units.

The Bank has made limited progress on strengthening and using national systems for safeguards. Capacity-building efforts and analysis of the equivalency of country safeguards systems with those of the Bank have been initiated in one pilot country, and a request from a second country has been received.

Suggestions going forward

The Bank has made considerable efforts to respond to the issues raised in the IAG report, but further work is needed to achieve the objectives that underlay IDB-9. OVE suggests that the Bank consider the following additional steps to strengthen mainstreaming of sustainability concerns and the effectiveness of the safeguards system:

- ***Ensure that the environmental and social assessment process is consistently completed, as required by the policies, before projects are submitted for Board approval.*** This includes the completion of applicable safeguards instruments—the ESIA, ESMP, environmental analysis, and resettlement plan, along with the appropriate disclosure and consultation process—in line with specified quality standards. Special attention should also be paid to integrating gender aspects into ESMPs where applicable.
- ***Strengthen safeguards supervision.*** Notwithstanding the important progress that has been made in systematizing the safeguards supervision of high-risk projects, the safeguards performance of only a small share of high- and medium-risk projects has been systematically followed up through field visits. Safeguards performance is not captured in PMRs and Project Completion Reports. Integration of a safeguards performance rating into these documents, and inclusion of medium-risk projects in the safeguards monitoring system, would be important steps to help strengthen safeguards implementation.
- ***Increase attention to the social aspects of sustainability.*** On the mainstreaming side, the Bank has focused its efforts on promoting intersectoral dialogue at the Management level and coordinating targeted new approaches to enhance the environmental benefits of projects. Contrary to the requirements of the Cancun Declaration, new social safeguards policies have not been adopted, except the Gender Policy. As other MDBs progress with the revision of their safeguards, IDB may wish to consider the merits of an integrated social safeguards policy akin to the ESC policy.
- ***Broaden the focus of country sector notes to reduce fragmentation of mainstreaming efforts.*** At the Country Strategy level, efforts to integrate sustainability have remained fragmented, promoted by separate sector and technical units, each from its own perspective and interest. One way to promote a more coordinated and cross-cutting approach would be to upgrade the country sector notes to cross-cutting technical notes focusing on key country-specific sustainability issues.
- ***Enhance implementation of the Gender Policy and Action Plan.*** Implementation of the Gender Policy and the GAP is off to a good start. However, to ensure that gender considerations are effectively integrated into country programs and individual operations as appropriate, operational teams need more

guidance on both the proactive and preventive sides. This means completing the Gender Policy implementation guidelines, developing further sector-specific toolkits, and providing staff training. It also requires a commitment from managers and operational teams to embrace the policy in lending operations. The quality of the gender-related indicators in project results matrices should be closely monitored to ensure that they are effectively linked to project diagnostics and interventions that affect gender issues.

- ***Revisit the allocation of resources for environmental and social safeguards work.*** Given the increase in high-risk projects and the share of such projects in C and D countries, more resources are likely to be needed to ensure adequate up-front due diligence and supervision of safeguards implementation. Implementing the preventive aspects of the new Gender Policy will also require adequate resources. A careful review of the human and financial resources allocated to implement the safeguards policies is warranted.

I. INTRODUCTION

- 1.1 In 1979 the Inter-American Development Bank (IDB, or Bank) became the first multilateral development bank (MDB) to adopt an environment policy, broadly mandating that the institution ensure the environmental quality of its operations and support environmental projects in the Region. Since then, the Bank’s sustainability framework has been updated and broadened to also address certain social concerns—involuntary resettlement, indigenous peoples, and gender equality—and disaster risk management. Table 1 shows the current framework of environmental and social (E&S) policies. While structured in various ways, each of these policies supports the Bank’s commitment to sustainability through a two-pronged approach: mainstreaming—or enhancing environmental and social benefits (“doing good”); and safeguards—or avoiding, minimizing, and compensating for negative impacts (“do no harm”).

Operational policy	Approval date
OP-703: Environment and Safeguards Compliance Policy	January 19, 2006
OP-710: Involuntary Resettlement Operational Policy	July 22, 1998
OP-765: Operational Policy on Indigenous Peoples	February 22, 2006
OP-704: Disaster Risk Management Policy	February 22, 2007
OP-761: Operational Policy on Gender Equality in Development	November 13, 2010

- 1.2 In 2006, the Bank adopted the revised Environment and Safeguards Compliance (ESC) Policy (OP-703). The following year, as part of the Bankwide realignment, all safeguards staff were consolidated in a new Environment and Safeguards Unit (ESG) in the Vice-Presidency for Sectors (VPS); and 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. These organizational changes have been followed by revisions to safeguards-related guidelines, procedures, and instruments, including efforts to strengthen screening and supervision of projects with respect to safeguards. In 2009, to carry out a commitment to assess the implementation of the ESC policy. The Bank established an Independent Advisory Group (IAG) to review progress on implementing the policy and to provide advice on potential improvements to it.

A. The IDB-9 requirements on environmental and social safeguards

- 1.3 At the Bank’s 2010 Annual Meeting, the adoption of a process to update the environmental and social safeguards became one of the requirements for the Ninth General Capital Increase (IDB-9).² As the Overview Framework of the Cancun Declaration stated:³

² AB-2728.

³ AB-2764, page 26.

Governors instruct the Board of Executive Directors to adopt a revised set of environmental and social safeguards fully consistent with the recommendations of the Independent Advisory Group on sustainability in its final report, and a revised set of social safeguards in line with international best practices.

- 1.4 The “Report on the Ninth General Increase in the Resources of the Inter-American Development Bank” (the IDB-9 Report) further elaborated:⁴

The Bank continues to expand its focus on environmental and social sustainability directed to sustaining the underpinnings of development, ensuring accountability and transparency, and continuously working towards strengthening its safeguard system. The recently established Independent Advisory Group on Sustainability (IAG) will provide an independent review and make recommendations to: (i) increase the effectiveness of the Environment and Safeguard Compliance Policy approved in 2006, (ii) updates to the policy; (iii) how the Bank can continue to provide leadership on emerging sustainability issues in the Region. ... Management will present and the Board of Executive Directors will approve by the end of the first quarter of 2011, an action plan with a revised set of environmental and social safeguards fully consistent with the recommendations of the IAG.⁵

- 1.5 In addition, in the IDB-9 Report the Governors specifically instructed the Bank to adopt a new policy on gender:

A draft Profile Operational Policy on Gender has undergone a public consultation process, and with those inputs an Operational Policy on Gender will be developed which, once adopted, will make the Bank the first MDB to apply gender-based safeguards to its interventions.

B. Evaluation questions and methodology

- 1.6 Given the IDB-9 requirements on environmental and social safeguards, this review seeks to answer the following evaluative questions:

- (i) How has IDB Management responded to the findings and recommendations of the IAG report?
- (ii) What progress has been made in implementing the measures Management committed to undertake in response to the IAG report and IDB-9 requirements? What progress has been made on adopting and implementing the Gender Policy and the Gender Action Plan (GAP)?
- (iii) How effectively do the measures undertaken by Management respond to the issues raised in the IAG report pertaining to (a) the mainstreaming of environmental and social concerns into IDB’s country strategies and programs, and (b) the adequate application of environmental and social

⁴ AB-2764, page 21.

⁵ Independent Advisory Group on Sustainability (2011): Final Report to the Inter-American Development Bank, Washington, DC, January 2011.

safeguards in IDB-financed operations, keeping in mind IDB-9 objectives?

- 1.7 The assessment is based on a desk review of relevant documents and interviews with key Bank staff and managers who are involved with mainstreaming and safeguards policies, including the Gender Policy. To assess to what extent the measures undertaken respond to the mainstreaming and safeguards concerns raised by the IAG, the team reviewed a sample of recent country and project documents against the requirements in applicable policies. Similarly, to assess the extent of implementation of the Gender Policy, the team interviewed staff working on gender mainstreaming and safeguards, and reviewed a sample of Country Strategies, gender sector notes, and recent projects.

II. FINDINGS

B. Addressing the IDB-9 requirements

- 2.1 The IAG presented its Final Report to the Committee of the Whole and to Management in February 2011.⁶ Although the Cancun Declaration called for the adoption of revised environmental *and* social safeguards, the IAG's main focus was on the Environment and Safeguards Compliance Policy, touching on implementation of social safeguards only in passing, since its mandate emanated from the ESC policy adoption.
- 2.2 A central finding of the IAG was that “the Bank’s mainstreaming policy has not received the priority and leadership that will be required to meet the objectives of the Ninth Capital Increase,”⁷ and that the Bank lacked a framework to ensure effective mainstreaming of sustainability concerns into its Country Strategies and operations. IAG further expressed concerns that the Bank’s focus on biodiversity and ecosystems services and on environmental governance had fallen short. While recognizing the Bank’s leadership in adopting policies on resettlement, indigenous people, and gender equality, it urged the Bank to give more prominence to these issues in its operations.
- 2.3 At the same time, the IAG found that, since the approval of the ESC policy in 2006, “the Bank has made great strides in implementing its requirements pertaining to safeguards.” Noting that other MDBs had launched a process to review their safeguards and sustainability policies and standards, it recommended that the Bank hold off on revising its policies until the other institutions had completed their work.⁸ Instead, the IAG proposed an “Action Plan for Sustainable

⁶ Independent Advisory Group on Sustainability (2011): *Final Report to the Inter-American Development Bank*, Washington, DC, January 2011.

⁷ Ibid.

⁸ While IAG didn't recommend revision of the safeguards policies, it did suggest that the Bank adopt new benchmarks as they are being set by other MDBs. While IDB is awaiting completion of the World Bank's revisions of its safeguards policies, it has started preparing some guidelines in line with some of the standards of other MDBs.

Development” to strengthen the implementation of the Bank’s ESC Policy with six specific actions (see Table 2).⁹

- 2.4 Management and the Committee of the Whole accepted the IAG’s conclusion that the Bank’s safeguards policies did not warrant revision at that time. Thus, in terms of the Cancun mandate, no steps were taken to adopt revised environmental and social safeguards, except for the adoption of the Gender Policy. In response to the IAG recommendations, Management created an internal Sustainability Working Group (SWG) tasked with identifying a plan of action to respond to the issues raised in the IAG report.¹⁰ The SWG prepared the *Management Response to the Final Report of the Independent Advisory Group on Sustainability: From Managing Risks to Embracing New Opportunities*,¹¹ which was issued in November 2011. The Management Response outlined an action plan structured around two tracks, mainstreaming and safeguards (Table 2).

⁹ IAG (2011), pp. 34-39.

¹⁰ The IDB Sustainability Working Group (IDB-SWG) was convened by the Executive Vice President (EVP) and chaired by the Principal Advisor to the EVP. The IDB-SWG includes representation of the four bank Vice Presidencies; the Managers of the Strategic Planning Department (SPD), the Legal Department (LEG), the Infrastructure and Environment Sector (INE), the Social Sector (SCL), the Structured and Corporate Finance Department (SCF), the Knowledge and Learning Department (KNL), the Multilateral Investment Fund (MIF), and the Inter-American Investment Corporation (IIC); and the Division and Unit Chiefs of the Environment and Rural Development Division (RND), the Environment and Safeguards Unit (ESG), and the Gender and Diversity Unit (GDI).

¹¹ IDB (2011), *Management Response to the Final Report of the Independent Advisory Group on Sustainability – From Managing Risks to Embracing New Opportunities*, GN-2647.

Table 2. IAG Recommendations and IDB Action Plan		
Area	IAG recommendation	IDB action plan
Mainstreaming sustainability	Appoint a Chief Sustainability Officer, reporting directly to EVP, to be responsible and accountable for mainstreaming E&S sustainability throughout the Bank's strategies, programs, and operations.	Establish a sustainability working group to oversee implementation of the action plan and lead environment and sustainability discussions at the Bank, support dialogue across sectors, improve efficiency and effectiveness in application of safeguards, develop innovative operations.
	Develop a Sustainable Development Framework or action plan to guide the mainstreaming of the Environment and Safeguards Policy (OP 703).	<ul style="list-style-type: none"> • Mainstream environmental sustainability into Country Strategies and programming with help of country sector notes. • Review Bank experiences in promoting E&S governance. • Develop a regional biodiversity initiative. • Define a Bankwide approach to Rio+20. • Create a Climate Change and Sustainability Unit.
	Implement sustainability training to strengthen Bank knowledge of sustainable development and requirements for mainstreaming.	Enhance knowledge management initiatives to facilitate mainstreaming of sustainability considerations.
Mainstreaming and safeguards	Provide for allocation of adequate resources to ensure that the full promise of the ESC policy can be achieved.	No specific action identified. Action Plan talks in general terms about improving efficiency and effectiveness of the application of the safeguards policies, and developing and promoting innovative sustainable approaches through lending and nonlending operations.
	Review the allocation of environmental staff resources within Bank operational units and country offices to ensure they have capacity for mainstreaming safeguards.	No specific action identified in Management Action Plan. But follow-up actions were undertaken focused on ESG-SCF working relationships
Safeguards	Streamline focus of Environment and Safeguards Unit (ESG) primarily on safeguards compliance, rather than the dual role of operations design and compliance review.	No specific action in Management Action Plan. General commitment to continue ESG's compliance review functions; expand in-country supervision; provide technical support for strengthening country systems; develop databases and impact indicators; ensure coordination and harmonization with other international financing institutions
		Additional items in Management Action Plan: <ul style="list-style-type: none"> • Increase reliance on and strengthen country safeguards systems. • Mainstream sustainability considerations into private sector operations. • Seek consistency with safeguards policies of other MDBs.

2.5 A comparison of Management's action plan with the IAG recommendations, keeping in mind IDB-9's underlying objective, shows that the action plan is substantially responsive to the concerns raised in the IAG review, even if specific

actions diverge from the IAG recommendations. It falls short, however, in embracing the challenge of developing an overall framework to guide mainstreaming of sustainability concerns. Key areas of divergence between the IAG recommendations and Management's actions are summarized below and further analyzed in Annex A.

- The SWG was established in lieu of appointing a chief sustainability officer. The appointment of a VP-level chief sustainability officer was rejected in light of the budgetary impact, the potential for generating imbalances in the organizational structure, and the risk of weakening ownership of sustainability among all Bank staff. Instead, management established the SWG, chaired by the Principal Advisor to the Executive Vice President (EVP), to lead environmental and sustainability discussions, support dialogue across sectors, and promote innovative sustainability mainstreaming operations. Although the SWG lacks executive authority, accountability, and permanence, its establishment represents a substantive and prudent response in light of the Bank's budgetary and organizational constraints.
- Management decided that limited staff numbers and the need for technical specialization made it impractical to implement IAG's recommendation to revisit the allocation of ESG staff between headquarters and country offices and to assign additional staff to operational units. OVE agrees with Management's position. Increased decentralization of safeguards specialists would also present additional challenges in terms of maintaining rigor and uniformity in the application of safeguards policies. However, efforts are under way to mainstream dedicated ESG staff into Structured and Corporate Finance (SCF) operational teams.
- Management did not embrace IAG's recommendation that ESG staff limit their activity to safeguards compliance work and refrain from supporting project due diligence and supervision work, on the grounds that the dual role is a more efficient and effective arrangement than separating the two functions. This position is understandable, as IDB's size would make it difficult to justify a separate team of safeguards compliance officers. It would also be difficult to motivate compliance-only staff and keep them updated on evolving project challenges.
- The action plan falls short of embracing the recommendation to develop an overall sustainability framework to guide IDB's work. The development of an integrated multisector framework would be a major intellectual and organizational challenge, and could provide an opportunity for the Bank to demonstrate its leadership role, since no other MDB has successfully developed such a framework. However, the Management Response errs on the side of caution by pursuing some building blocks—such as various initiatives launched at the Rio+20 Conference and a review of Bank experiences in promoting environment

and sustainability governance—rather than fully embracing the IAG’s vision.

- 2.6 An important gap in relation to the IDB-9 requirements is the lack of attention to social safeguards in both the IAG report and the Management Response. The Cancun Declaration and the IDB-9 Report refer to environmental *and* social sustainability and call for the Bank to adopt a revised set of social safeguards. However, while the Management Response is quite responsive to the IAG’s recommendations, the IAG work itself was largely limited to “provide advice and recommendations to the IDB on the experience of the Bank with the implementation of [the Environment and Safeguard Compliance] Policy.”¹² The Bank’s social safeguards and its disaster risk management policy were neither covered by IAG’s recommendations nor taken up in the Management Response. Consequently, in relation to IDB-9 requirements, the Bank’s actions on adopting new social safeguards have remained limited to the Gender Policy.
- 2.7 The Board approved the Operational Policy on Gender Equality in Development in November of 2010, and the policy took effect May 1, 2011. The accompanying GAP, approved in March 2011,¹³ addresses both the proactive (mainstreaming) and preventive (safeguards) directives of the Gender Policy and sets out a program of actions for 2011-2012, including:
- Country analytical work to support mainstreaming of gender equality into Country Strategies.
 - Increasing gender mainstreaming in Bank operations, including gender indicators in the results matrices of a greater proportion of Bank operations.
 - Increasing direct investment in, and support to, knowledge generation and capacity building to promote gender equality and women’s empowerment.
 - Integrating a gender-related screening question into the ESG safeguards tool.
 - Including a gender safeguards chapter in the Implementation Guidelines for the Gender Policy.
 - Preparing pilot gender impact mitigation plans for selected high-risk projects.
 - Carrying out a study on the Implementation of Gender Safeguards.

C. Implementation progress

1. Environmental sustainability

- 2.8 Implementation of most of the actions set out in the Management Response to the IAG is well under way, though work on many is still in progress (Table 3). While the Bank still lacks a comprehensive approach to sustainability, interviews suggest that the SWG has helped raise Management’s overall awareness of

¹² IAG’s focus on the ESC policy rather than the broader safeguards framework, including social safeguards policies, emanated from the requirement to undertake an external assessment of the experience with implementing the ESC policy after the first three years of its effectiveness. See Independent Advisory Group on Sustainability (2011): *Final Report to the Inter-American Development Bank*, Washington, DC.

¹³ The policy calls for periodic adoption of such action plans.

sustainability issues and brought to the fore the cross-cutting nature of social and environmental sustainability. To date, the SWG's main responsibility has been to prepare the Management response to IAG and the action plan, and the Bank's inputs to the Rio+20 Conference. However, the SWG lacks a clear longer-term agenda.

- 2.9 At both the corporate and the individual country program levels, mainstreaming of sustainability concerns remains work in progress. Several elements of the Bank's approach to sustainability were presented at the Rio+20 Conference in June 2012: IDB's Climate Change Action Plan, Low Carbon Resilient Development, Biodiversity Platform, Sustainable Energy for All, and the Sustainable Emerging Cities Initiative. Drawing on the feedback received in Rio, the SWG is considering developing a more socially inclusive, cross-cutting approach to sustainability. A biodiversity platform is in an advanced stage of development, and it is expected to be presented to the Board before the end of 2012. Facilitated by a somewhat higher budget allocation, ESG has stepped up training for Bank staff on sustainability issues and has also conducted a seminar for Board members. Sector notes have been prepared as inputs to several Country Strategies, but the Bank has not yet found an effective way to integrate sustainability concerns into its country programs in a cross-cutting manner (see Section C).
- 2.10 On the safeguards side, the Bank has adopted a more systematic approach to supervising high-risk projects, including field visits to follow up on safeguards issues. However, resource limitations restrict such efforts to only a subset of projects (see Section C). This is of concern, particularly since time pressures have tended to shift the completion of environmental and social assessments and the design of mitigation measures beyond the project approval stage, implying the need for substantial follow-up efforts at project start-up.
- 2.11 Progress has been made on strengthening the relationship between ESG and SCF. IAG had expressed some concern about how the concentration of all safeguards staff in ESG under VPS following the 2007 realignment had affected private sector operations. In interviews, key staff and managers indicated that the early challenges associated with the changeover led Management to focus a portion of its action plan on "addressing sustainability considerations in the Bank's private sector operations."¹⁴ Since then, ESG and SCF have developed and implemented an action plan to work out requirements, clarify staff responsibilities, and establish a joint progress monitoring template. To facilitate integration of safeguards concerns into private sector operations, ESG has dedicated a number of staff to private sector operations. According to OVE's interviews with key staff on both sides, the working relationship is much improved and is expected to continue to strengthen as safeguards specialists are "seconded" to SCF units.

¹⁴ GN-2637

Table 3. Implementation Status of Management Action Plan on Environmental and Safeguards Policy	
Action	Implementation status
Establishment of Sustainability Working Group	Ongoing: Working group with representatives from key departments of each Vice-Presidency, SPD, MIF, and IIC established under EVP leadership in early 2011. Working group continues to meet to discuss and provide guidance on cross-cutting sustainability issues.
Integration of environmental sustainability considerations into Country Strategies	Ongoing: Under a program begun in 2008, five environmental sector papers have been completed as input to Country Strategies. ^a Additional papers are under preparation. The extent to which these have been integrated into strategies has varied.
Review of experiences in promoting environmental governance	In preparation: A proposal for a study of the Bank's experiences in promoting environmental and sustainability governance is in preparation, to be undertaken in 2013.
Development of a biodiversity initiative	Ongoing: The biodiversity initiative is being prepared by a cross-sectoral working group, with two preparatory studies already completed, the launch of a Biodiversity Platform at Rio+20, and a full-fledged proposal to be submitted to the Board by December 2012. RND is preparing studies on fiscal and economic benefits of biodiversity, with the first two country reports to be delivered by end-2012. ^b
Preparation of Bankwide approach to the 2012 Earth Summit (Rio+20)	Completed: Several elements of the Bank's approach to sustainability were prepared and presented at the "IDB Rio+20" Conference held in Rio in June, 2012, including IDB's Climate Change Action Plan, Low Carbon Resilient Development, Biodiversity Platform, Sustainable Energy for All, and Sustainable Emerging Cities Initiative. Based on the feedback received in Rio, the SWG is considering the development of a more socially inclusive, cross-cutting approach to sustainability.
Creation of Climate Change and Sustainability Division	Completed: Transformation of the Sustainable Energy and Climate Change Unit into a Climate Change and Sustainability Division (CCS) completed in November 2011.
Knowledge management initiatives to facilitate mainstreaming of environmental and social considerations	Ongoing: ESG's knowledge, learning, and information budget was increased from US\$242,000 in 2011 to US\$374,000 in 2012. ESG accordingly increased the number of training workshops and seminars provided to staff, including a workshop for Board members. An e-learning safeguards course is under development and expected to become compulsory for all staff.
Greater reliance on and strengthening of country systems	Ongoing: A review of experience with the preparation of equivalence analyses at the World Bank and the Asian Development Bank has been completed. Funding has been mobilized to support capacity-building technical assistance. Expressions of interest in capacity building and equivalency analysis have been received from Guyana and Colombia; Guyana pilot under preparation.
Consistency with other MDBs	Ongoing: A review of the experience with the preparation of equivalence analyses at the World Bank and the Asian Development Bank has been completed. IFC's performance standards and guidelines have been adopted for financial intermediary operations. World Bank review of its safeguards framework is being followed to determine its potential implications for the IDB.

Mainstreaming of sustainability considerations in private sector operations	Ongoing: ESG has designated specific safeguards staff to work on private sector operations to facilitate integration of safeguards concerns. IFC performance standards and guidelines have been adopted for financial intermediary operations.
<i>Source:</i> OVE interviews and documents review.	
^a Bolivia (2010), Panama (2010), Peru (2010), Suriname (2011), Guyana (2012), Argentina (unpublished).	
^b Guatemala and Dominican Republic.	

2. Use of national systems

- 2.12 The Bank has made limited progress on strengthening and using national systems for safeguards.¹⁵ A review of the experience of the World Bank and the Asian Development Bank with equivalence analysis of countries' safeguards systems has been completed.¹⁶ A conclusion is that the IDB should focus initially on strengthening the countries' safeguards systems to prepare them for increased use in the future.
- 2.13 Capacity building is planned in some pilot countries (with funding from the Institutional Capacity Strengthening Thematic Fund), focusing on operations that have multiple subprojects. Guyana has been selected as the first country for capacity building and equivalency analysis;¹⁷ the Bank is analyzing the equivalence of Guyana's safeguards systems with IDB safeguard policies in 2012, and it plans to assess the implementation effectiveness of the country's safeguards systems in 2013. Colombia has also requested assistance to strengthen its safeguards system.

3. Gender Policy implementation

- 2.14 Implementation of the GAP has made a good start, with somewhat stronger progress on the proactive than the preventive side (Table 4). Country gender policy and sector notes have been prepared for a number of countries as inputs to the Country Strategy. The focus of these notes has varied from multisector or cross-cutting overviews to more focused analysis of gender issues in targeted areas at the core of IDB's discussion with a given country. For example, in 2012 policy notes were prepared on gender and violence in Mexico and the Dominican Republic, a sector note was prepared on gender and citizen security, adolescent pregnancy, and maternal health for Guatemala, and gender aspects were integrated into sector notes on agriculture and tourism for Nicaragua. The extent to which these notes have influenced the country dialogue and country strategy has varied (see Section C). Four technical notes on gender mainstreaming in

¹⁵ Progress on the use of country systems in financial management, procurement, planning, and monitoring and evaluation is reviewed in the background paper on the use of country systems.

¹⁶ Himberg, Harvey, et al. (2011), *Use of Country Systems: Equivalence Analysis*, IDB-TN-327.

¹⁷ The Guyana pilot is implemented in conjunction with the Guyana REDD+ Investment Fund (GRIF), a US\$250 million trust fund established by Norway. A prerequisite for accessing GRIF is the government's implementation of international best practice safeguards standards in its REDD+ program, in line with REDD+ Principles.

sectors (e.g., trade, water and sanitation,) have been completed, and four additional notes are being prepared. Over 20 learning events have been offered to help familiarize Bank staff with the Gender Policy. Completion of implementation guidelines for the Gender Policy is lagging.

Table 4. Gender Policy Action Plan Implementation Status	
Proactive action	Status
Implementation Guidelines for the Gender Policy	In progress (expected by first trimester of 2013).
At least four country gender sector notes in support of Country Strategy preparation	<ul style="list-style-type: none"> • Country gender notes and background studies completed for Peru, Chile, Nicaragua, Guatemala, Suriname as input to Country Strategy. • Policy notes on gender violence (Mexico, Dominican Republic). • Gender integration in 2 sector notes for Nicaragua. • Technical notes for Uruguay and El Salvador.
Knowledge and capacity building	<ul style="list-style-type: none"> • 17 research studies and evaluations completed in 2011. • 4 impact evaluations in progress in 2012.
Internal dissemination and learning events	12 internal learning and dissemination events (187 total participants) in 2011; 11 events Jan-Sept 2012.
Development of guidelines and methodological tools for gender mainstreaming	<ul style="list-style-type: none"> • Observation tool to assess adolescent-friendly health services for SPH. • “Violence Against Women in Santa Ana, El Salvador,” study conducted to inform the design of the Sustainable Cities Initiative.
Development of five gender sector notes for IDB-9 priority sectors	<ul style="list-style-type: none"> • 4 guides (Poverty Time Series, Technical Note on Trade and Gender, Handbook on gender mainstreaming into specific trade operations; one internal for WSA) completed 2011. • 4 sector-specific technical briefs for IFD and 2 guides for Transport under preparation.
Selection of priority projects for mainstreaming	Under preparation.
Preventive action	Status
Integration of gender module into the ESG Safeguards Toolkit	Completed
Study on Implementation of Gender Safeguards	In progress
Development of standards for social impact assessments and consultations on gender issues	In progress
Preparation of pilot gender impact mitigation plans for selected high-risk projects	Completed for 7 projects
Supervision of gender aspects of high-risk projects	5 projects (HA- L1070, PN-G1003, UR-L1069, ES-L1016, JA-T1072)
Monitoring and reporting	Status
Design and launch Gender Module in OPUS	Delayed
Methodology for monitoring quality of gender indicators in project results matrices	In progress
Methodology for tracking gender results in PMRs	In progress
Gender criteria integrated into DEM	Completed

Table 4. Gender Policy Action Plan Implementation Status	
Develop baseline for policy indicators and relevant IDB-9 indicators	Completed for some policy indicators, but not for IDB-9 indicators
Establishment of baselines for regional outputs requiring gender-disaggregated reporting under IDB-9	In progress (varies across divisions)
Institutional support and coordination	Status
Methodology for use of administrative budget for policy implementation	Completed
Recruitment of additional gender specialist staff and consultants	2 new GDI Staff, 6 gender retainer consultants to support operational divisions, including 1 ESG consultant for gender safeguards.
External dissemination of policy through various media	Completed
Bankwide GAP commitments for 2011 finalized	Completed for 2011

2.15 The GAP identified 2011-2012 as a pilot phase for implementation of the gender safeguards. ESG's safeguards screening system now contains a gender module, and a gender consultant assigned to ESG is providing technical support and training specialists to identify and address gender risks in projects. About 140 projects have been screened for potential gender risks thus far. Mitigation plans for seven of these projects have been completed and integrated into the Environmental and Social Management Plans (ESMPs). Expert support is being provided for the supervision of five high-risk projects. The Bank's overall safeguards risk classification system does not yet capture the degree of gender risk. Two social assessments that include a gender focus have been completed, and two more are under preparation. Gender safeguards guidelines are under preparation; they are expected to delineate the types of risks specific to sectors that the Bank works in—for example, infrastructure, social welfare, education, and finance. Overall, however, staffing constraints limit the pace at which the safeguards side can progress. To date, ESG has only one gender specialist assigned to focus specifically on gender safeguards.

D. Implementation effectiveness

1. Mainstreaming environmental sustainability and gender concerns

2.16 To assess how effectively the steps taken to date are helping to mainstream sustainability concerns into country programs, OVE reviewed the four Country Strategies for which an environmental issues note had been prepared and the strategy and program documents issued.¹⁸ The assessment was based on a desk review of the country documents using the basic policy requirements of the E&S policies as a benchmark (Annex B), supplemented by interviews with key staff who were involved in preparing these documents.

¹⁸ Bolivia, Panama, Peru, Suriname.

- 2.17 Each of the four Country Strategies discussed some environmental and sustainability concerns and identified a few areas in which IDB could engage through policy dialogue, technical cooperation, and lending operations. Except in the Peru strategy, however, discussions were concentrated on particular issues and did not have an overall strategic focus.
- 2.18 Interviews suggest that the environmental issues notes were useful input to the strategy preparation process, but that their focus was narrow. In line with ESG's focus and expertise in safeguards and the limited resources available for preparing the notes, they tended to focus on environmental risks associated with ongoing and future Bank operations rather than broader strategic issues and opportunities. Some interviewees suggested that, to mainstream environmental concerns into Country Strategies and programs, it would have been more effective for the notes to have a broader strategic perspective. One interviewee noted that country governments tend to be more receptive to incorporating environmental issues into the country program when technical and analytical work shows the benefits to the country in economic terms.
- 2.19 The Bank still lacks an overarching framework to guide the mainstreaming of sustainability concerns in a cross-cutting manner. Environment sector notes tend to focus on safeguards challenges rather than mainstreaming environmental concerns in specific sectors (e.g., transport, urban development, agriculture). Sector-specific background notes prepared for Country Strategies may or may not have touched on sustainability concerns; thus, while they were satisfactory on their own terms, they did not allow for a cross-cutting look at sustainability. Interviews suggest that one explanatory factor is that the technical notes were independently prepared by separate technical units, each from its own perspective. Another factor is that the Country Strategy Guidelines¹⁹ provide no guidance on the treatment of environmental sustainability, except with respect to the assessment of safeguards-related risks. Finally, unlike the safeguards, the mainstreaming directives of the policies are regarded as aspirational goals rather than requirements, and their implementation through Country Strategies reflects the results of extensive discussions and negotiations with the government in light of its own priorities and concerns.
- 2.20 Country Strategies have been adopted for five countries²⁰ for which gender sector notes or background papers were prepared, but only three of them reflect some of issues raised in the relevant gender note. Peru's Country Strategy contains a discussion of gender issues reflecting some of the issues raised in the country notes on gender—access to health care services for women—and includes plans for two technical cooperation projects on gender and diversity.²¹ The Guatemala Country Strategy takes up most issues raised in the gender note, exception adolescent pregnancy. The Nicaragua strategy picks up on maternal health issues,

¹⁹ IDB (2009), Country Strategy Guidelines.

²⁰ Peru, Chile, Nicaragua, Guatemala, and Suriname.

²¹ The *Ciudad Mujer* program and a pilot initiative in the women's emergency care centers in Villa El Salvador.

but doesn't cover issues related to women's labor market outcomes highlighted in the gender technical note. For Chile, a technical note on labor market issues for women (underemployment and a lack of training opportunities) was prepared, but the Country Strategy for Chile did not incorporate these issues, even as part of its section on improving labor markets. In Suriname, a background paper on gender issues also did not lead to inclusion of gender issues in the Country Strategy.

- 2.21 In relation to projects, the Gender and Diversity Division (GDI) reports that 19% of lending operations (15 projects) approved between January and September 2012 included a gender mainstreaming indicator in their results matrix, up from 9% in 2011. Most of these projects listed one or two indicators related to gender in their results framework. Roughly half of these targets were outcome indicators and the remainder output-based targets—indicators aimed at measuring, for example, an increase in the percentage of women entrepreneurs, increased employment among women, and improvements in women's access to health and child care services. In addition, two projects included design elements to involve men in parenting activities.
- 2.22 A review of these projects and their results frameworks found large variation in the relevance and quality of the gender indicators (see Annex D). Only seven of the 15 projects had indicators that explicitly aim to measure progress toward gender equality or women's empowerment, and these projects also tended to include a discussion of gender issues in the diagnostic section of the Loan Proposal. While the other project documents mentioned gender in the results frameworks, the indicators and the diagnostic were linked only weakly—if at all—to gender equality issues. For example, several projects simply stated that women would be among the beneficiaries of the project, with the targets in proportion to the share of women expected to participate in the project, without any discussion of gender inequalities or targets to remedy them. In one case the proportion of women in the sector was only 14%, and there was no discussion of measures to increase this share. In other cases, projects took credit for gender equality for merely tracking results by gender. While this is a good start, such disaggregation does not necessarily lead to the promotion of gender equality. Additionally, some targets were missing baselines. In contrast, the projects that had indicators directly related to promoting gender equality aspired to such things as increasing the share of women in productive activities, such as employment or starting their own businesses; increasing the share of women receiving training, advanced degrees, or critical social services; or increasing fathers' participation in child-rearing.
- 2.23 Among the projects reviewed were some excellent examples of gender mainstreaming. A Sustainable Rural Agricultural Development Program in Nicaragua incorporated eight well-developed indicators for women, including specific targets for numbers of women with degrees and training in agriculture-related fields, numbers of innovations of agricultural technology that incorporate gender, and numbers of women-headed agricultural businesses. This project benefitted from direct technical support from GDI staff. Another example was a

program designed to promote social and productive inclusion in Brazil that included measures and targets to reduce adolescent pregnancy. On the other extreme, the use of the share of women employed as an indicator in a project in Haiti failed to capture key issues, such as labor standards, associated with the employment of women under the project, although these issues are picked up in the social assessment and related mitigation plans.

2. Safeguards application in lending operations

2.24 As part of the IDB-9 commitments, the Bank is seeking to ensure the effectiveness of its safeguards policies. To see how effectively the Bank's organization and processes permit the application of its safeguards system, OVE reviewed the application of safeguards in a sample of projects before approval and during implementation. The assessment of safeguards application during project preparation was based on a desk review of a sample of 20 projects approved in 2011 and 2012. The sample was randomly chosen and stratified by sectors to include about equal numbers of high- and medium-risk operations and public (sovereign-guaranteed) and private sector (non-sovereign-guaranteed) operations. The assessment of safeguards performance during project implementation was based on a desk review of a separate sample of 20 projects approved in 2009 and 2010, randomly chosen from the universe of high-risk projects for which safeguards supervision reports have been completed. It is important to note that the sample size is not large enough to allow for statistical inference or to permit generalizing the findings across the Bank's entire portfolio. Such a review would require an in-depth evaluation of the performance of the Bank's safeguards system, which is beyond the purview of this background paper. Nevertheless, this review provides a qualitative sense of some of the strengths and weaknesses of the current system, pointing to areas that may require more in-depth review and follow-up as the Bank works to strengthen the effectiveness of its safeguards policy.

a) Application during preparation

2.25 The application of safeguards before project approval was evaluated against the main safeguards-related requirements of the IDB's environmental and social safeguards policies (Annex C), based on a review of each project's ESMR and other project documents, supplemented by interviews with key staff involved with the projects. This section summarizes key findings.

2.26 The sampled projects had generally been satisfactorily screened and assigned to the appropriate risk category. According to Directive B-3 of the ESC policy, all Bank-financed operations are screened and classified according to their potential negative environmental and social impacts. The distinction is made between "high-risk" and "medium-risk" projects from a safeguards perspective to enable

ESG to focus its safeguards expertise on the higher-risk projects,²² with the operating units taking responsibility for safeguards due diligence and supervision for the medium- and low-risk projects. The initial screening is the responsibility of the project team leader but is subsequently reviewed by ESG, which has the final say. This classification is simply a managerial convenience and can be changed at any time during due diligence or even project supervision, depending on the needs of the project.

2.27 While Environmental and Social Impact Assessments (ESIAs) had been carried out for the majority of sampled projects, several key deficiencies related to the assessments were identified. In line with Directive B-5 of the ESC policy, the Bank's approval of a project requires compliance with specified quality standards for ESIA, strategic environmental assessments, ESMPs, and environmental analyses, as appropriate. For about a third of the reviewed projects, the quality of the ESIA fell short of expectations. Three main deficiencies were found:

- ***Inadequate coverage of environmental and social assessment.*** In several cases the analysis of alternatives, the baseline information, and the coverage of indirect and induced impacts was insufficient or missing—for example, with respect to air pollution and traffic accidents from improved roads, downstream water quality from sewage and wastewater treatment, and resettlement from linked projects.
- ***Incomplete environmental and social assessments.*** It was not unusual for the ESIA or equivalent document to be available only as a preliminary draft or to not cover all components of the project at the time of Board approval. While in every case the borrower's responsibility and commitment to complete the ESIA process was written into the project agreement, the fact that the projects were approved without a full understanding of their potential impacts and of the adequacy of provisions to manage these impacts has likely subjected the Bank and its clients to a higher level of risk than the policies were intended to allow.
- ***Incomplete safeguards management instruments.*** For environmental and social assessments that were found to be incomplete, the corresponding ESMPs had only been prepared as a set of general requirements with inadequate coverage and specificity. Here again, while the loan agreements set out the borrowers' need to comply with the Bank's policy requirements, the absence of a complete ESMP—including necessary institutional and capacity development actions, environmental and social management measures, and the schedule and budget for such measures—is not in line with international good practice and raises doubts about the Bank's ability to undertake adequate due diligence of such aspects and provide assurance that the policy requirements will be complied with.

²² High-risk projects include essentially all projects in safeguards category A, higher-risk B projects, some B13 projects, and the occasional C project (normally project preparation technical cooperation) if it is linked to the preparation or implementation of an A or high B project.

- 2.28 The project review also found some examples of excellent-quality environmental and social assessments. In one case, a strong commitment to corporate social responsibility had motivated a private sector bank to take advantage of the ESIA process to underpin an inclusive and forward-looking sustainability policy, strengthen its social outreach and environmental management capacity, and launch a series of sustainability-enhancing credit lines with advisory and financial support from the Bank.²³ In another case, a strategic environmental assessment supported by the Bank's technical cooperation had enabled the local government to undertake a comprehensive analysis of alternative project components in a participatory manner with local communities, sector agencies, and technical experts, starting a few years before the project was approved.²⁴ The resulting project designs appear to have effectively minimized the potential for social and environmental impacts and maximized local ownership.
- 2.29 The involuntary resettlement policy was triggered in about half of the projects reviewed and was found to have been satisfactorily applied in three-quarters of these cases. When there were shortcomings, the main deficiency was incomplete resettlement planning at the time of Board approval, including lack of adequate baseline information and definition of the compensation package, institutional provisions, and dispute resolution arrangements. Here also, while appropriate language to address these gaps during project implementation had been inserted in project documents, the absence of a sound resettlement plan at the time of Board approval is likely to weaken the assurance that the policy requirements will be fully complied with.
- 2.30 The indigenous people's policy was triggered in about a third of the sample projects, and was satisfactorily applied in most of them. The review did, however, encounter one instance in which the policy was misapplied—a rural roads improvement and rehabilitation program in which the coverage of the project had been specifically designed to avoid indigenous communities.²⁵ While this approach may have simplified the project, it likely missed potentially important opportunities to support the development of indigenous communities. The review also found an excellent illustration of how the policy was applied as originally intended: a rural water supply and sanitation project included specific and detailed provisions for strengthening the governance capacity of indigenous communities to enable their participation in the project with the assistance of qualified social specialists and indigenous facilitators.²⁶ For the preparation of every subproject, the indigenous facilitators would first contact and consult with traditional leaders and indigenous communities to inform them about the project and discuss and evaluate technical, institutional, and financial alternatives for the design, construction, and operation of each community's water supply and sanitation system. Such a culturally sensitive approach (supported by a grant from the Fund

²³ EC-L1100.

²⁴ BR-L1176, BR-L1117.

²⁵ ES-L1045.

²⁶ PR-L1060.

for Special Operations) should enable the project not only to meet, but also to exceed, the policy's requirements and, by raising industry standards, serve as a good practice example for other projects.

- 2.31 The Gender Equality in Development Policy requires the Bank's operations to identify and address adverse impacts and the risk of gender-based exclusion, include women and men in consultation processes, and comply with applicable national legislation.²⁷ While the ESMRs of sampled projects routinely referenced the borrowers' requirement to comply with the policy, the review did not find any specific discussion or information about gender issues in the project documents.²⁸ Given that many of the sampled projects involved training and employment opportunities from which women could be expected to benefit, or resettlement compensation activities in settings where women are likely to be more vulnerable, this points to significant opportunities to strengthen attention to gender issues in project design. It also highlights the importance of vigorously pursuing the GAP measures to strengthen implementation of the gender safeguard.
- 2.32 The safeguard on disaster risk management was applied satisfactorily in all applicable cases reviewed. The objective of the safeguard is to ensure that, where project preparation identifies a high exposure or vulnerability to natural hazards, the project will provide for an assessment of the risks and set out appropriate measures to prevent, mitigate, and manage them. This safeguard was triggered in nearly a third of the projects reviewed and was satisfactorily applied in each of them.
- 2.33 The ESC policy, the involuntary resettlement policy, and the indigenous peoples policy all include requirements for disclosure and consultation with communities that are affected by the project. The review found that these requirements had been satisfactorily carried out in over half of the sampled projects for which such requirements were applicable. In the remaining cases, the project documents referenced the need for community consultations but did not provide any indication that such consultations had indeed been undertaken.²⁹ The absence of adequate documentation raises doubts about the extent of compliance with the policies' directives. It also suggests that the Bank may have failed to take advantage of opportunities for a more inclusive approach to safeguards management, under which it could derive potential benefits from the communities' knowledge of local conditions and their ability to resolve conflicts and enforce agreements.

²⁷ The main safeguard related to the Operational Policy on Gender Equality in Development, approved in 2010, is to prevent, avoid, or mitigate gender-based exclusion. Its predecessor, the Operational Policy on Women in Development, approved in 1987, required mitigation of "negative impacts on women." Since the Operating Guidelines for the new Gender Policy have not yet been issued, and introduction of the new Gender Policy is in its infancy, OVE reviewed the sampled projects against the old policy requirement, which is narrower and is subsumed in the broader requirement of the new policy.

²⁸ Implementation of the gender safeguard is still in its infancy. Across the Bank's entire portfolio, gender mitigation plans have been incorporated into the ESMs of seven projects thus far.

²⁹ PN-L1047, ME-L1081.

2.34 This review has found that there is much less documentation for the medium-risk projects than for high-risk projects. This is a serious deficiency, since the various policy directives require specific safeguards instruments to be prepared and available. For example, every category B project is required to conduct at least one consultation with affected communities during the project preparation stage. But such a consultation was documented in only a few cases reviewed here. While the full risks cannot be assessed through OVE's limited review, the frequent absence of mandatory documentation encountered in this review raises concerns about the quality and extent of safeguards due diligence, especially for medium-risk projects. It also points to the desirability of having safeguard specialists involved in due diligence and supervision of all high- and medium-risk projects.

b) Application during implementation

2.35 In 2011, in line with IDB-9 objectives, ESG embarked on a more rigorous and systematic approach to the supervision of safeguards implementation in high-risk projects. The approach involves, among other things, identifying high-risk projects that will be directly supervised by ESG specialists, while responsibility for the remainder of the portfolio remains with the operational units. This new approach to safeguards supervision, including the rating of projects safeguards performance based on field visits, has been implemented for about 48% of the 295 high-risk loan projects that in turn account for about 37% of the somewhat over 800 active projects in the Bank's loan portfolio.³⁰ In other words, field-based supervision of safeguards performance by Bank safeguards specialists has been carried out for only about 18% of the Bank's active loan portfolio.³¹ A new template for the preparation of safeguards supervision reports has also been introduced for high-risk projects. These forms do not yet formally include gender safeguards issues, nor are gender issues incorporated yet in the safeguard performance ratings. The safeguards supervision reports are not linked to the Progress Monitoring Reports (PMRs), nor do the PMRs call for any reporting on safeguards performance. This is an important shortcoming, as it means that project performance with respect to safeguards policies remains largely unknown for almost 90% of the Bank's portfolio.

2.36 OVE's review of the safeguards performance of 20 high-risk projects found that over half of them were not in full compliance with safeguard policy requirements at the time of the latest supervision mission. Yet for over half of these noncompliant projects, the supervision report rated performance as "partially satisfactory" on the basis of an expectation that the deficiencies would be corrected. Under IDB-9's results framework, the Bank aims to ensure that by 2015, 85% of projects with high environmental and social risks will be implementing mitigation measures satisfactorily. This review suggests that

³⁰ Data from ESG database as of November 6, 2012.

³¹ It must be noted that ESG also reviews reports of field visits from consultants engaged under private sector operations to verify compliance of safeguards by private borrowers.

considerable additional efforts will be required if Bank projects are to meet that target.

- 2.37 Interviews suggest that the failure to complete ESIA and ESMPs and other required safeguards instruments before approval is the most important constraint to timely and effective implementation of mitigation measures. This is confirmed by OVE's desk review of safeguards supervision reports. Among the deficiencies OVE encountered were inadequate safeguards management systems and capacity, lack of baseline information on air and water quality, and absence of provisions for waste disposal and for creation of protected areas. With respect to resettlement requirements, typical deficiencies included incomplete and inadequate resettlement planning, delayed compensation processing and payments, and inadequate monitoring arrangements.

3. Concluding observations on the application of safeguards

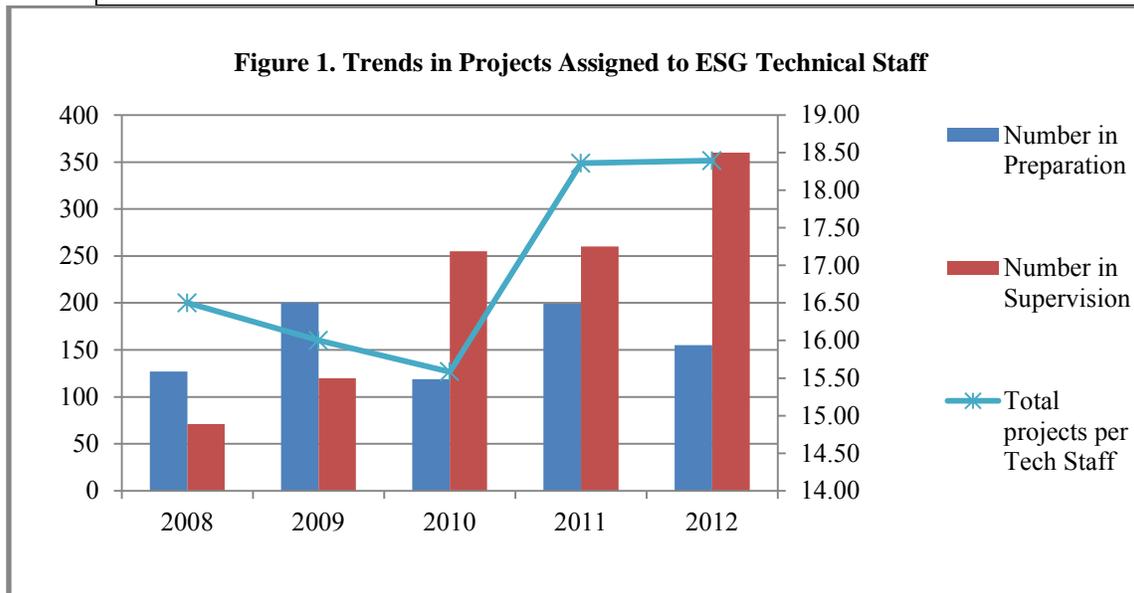
- 2.38 Overall, the findings of this review suggest that the Bank's safeguards management system may be working under considerable strain. The centralization of all safeguards management under ESG has led to the development of a uniform understanding and application of safeguards across the Bank, as reflected in their fairly consistent implementation across public and private sector projects—a positive development. But the prevalence of inadequate and incomplete E&S assessments at the project approval stage among the sampled projects suggests that the Bank and its clients may be subjected to a higher level of safeguards-related risks than the policies were intended to allow. Similarly, although progress has been made on establishing a more rigorous safeguards supervision system, the findings of this review suggest that there are constraints to effectively following up on the growing number of high-risk projects and that no systematic follow-up system is in place for medium-risk projects.
- 2.39 The data suggest that the growth in the number of high-risk projects has outpaced the increase in resources and technical capacity allocated to safeguards. As Table 5 and Figure 1 show, over the last five years the Bank has been characterized by:
- An 18% increase in ESG's administrative budget;
 - A 40% increase in the number of ESG technical staff;
 - A 61% increase in the number of projects assigned to ESG specialists;
 - A 120% increase in the number of category A projects, which are usually more complex;
 - A 150% increase in the number of category B13 projects, which are also more complex, since the Bank's monitoring and supervision of safeguards issues has to be managed through a financial intermediary; and
 - A 25% increase in the share of projects in the poorer and more vulnerable C&D countries, which tend to have inadequate safeguards frameworks and management capacity and thus require more intensive assistance.
- 2.40 Combined with a Bankwide effort to shorten project processing times, these trends appear to have led to shifting some key safeguards due diligence

requirements to the supervision phase. Yet the Bank’s current system for safeguards supervision is not equipped to properly handle such a shift. While the actual risks associated with delayed safeguards due diligence and instrument preparation are difficult to assess, lessons from global experience indicate that these risks are generally more effectively averted or managed if the environmental/social assessment process has been completed, and required instruments are available, at the time of approval or start-up.

	2008	2009	2010	2011	2012
Active projects assigned to ESG specialists	198	320	374	459	515
Category A	n.a.	39	66	81	86
Category B	n.a.	101	176	218	235
Category B13	n.a.	56	90	114	140
Share of projects in C&D countries (%)	n.a.	35%	56%	59%	60%
ESG technical staff	12	20	24	25	28
ESG administrative budget (total) (US\$000s)	5,371	5,817	6,056	6,890	6,856

Source: ESG.

Note: End-of-year data shown for every year except 2012, for which June 2012 data are shown.



III. CONCLUSION AND SUGGESTIONS GOING FORWARD

- 3.1 The Bank has made considerable efforts to respond to the issues raised in the IAG report, but further steps are needed to achieve the objectives that underlay IDB-9. Management's actions in response to the IAG's recommendations have been cautious and realistic, combining continuation of earlier efforts (on sector notes, climate change, country systems, harmonization with other MDBs, safeguards enhancement, sustainability lending) with some new initiatives (biodiversity, governance, knowledge management, ESG/SCF action plan). Nevertheless, additional effort will be needed to underpin the gains and sustain the momentum in relation to the full and effective implementation of both environmental and social safeguards and mainstreaming.
- 3.2 The Bank has made substantial progress on the initial implementation of the Gender Policy and the associated action plan. The results of these efforts remain to be seen as project implementation progresses and integration of gender efforts into project preparation and strategy formulation takes hold. While the share of projects that include gender equality in their results matrices has increased, the degree to which these projects can be expected to contribute to promoting gender equality varies substantially. The implementation of the gender safeguards is still in its infancy.
- 3.3 Implementation gaps appear to have resulted as some key safeguards work has been shifted from the approval to the implementation stage, with inconsistent follow-up during project implementation. Presentation to the Board of loan proposals that are based on inadequate and incomplete environmental and social assessments—without a full understanding of the potential impacts of the project, the attendant capacity requirements, management measures, or timetables and budgets—is likely to subject the Bank and its clients to a higher level of risk than the policies were intended to allow.
- 3.4 In addition to the efforts that are already under way, OVE suggests that the Bank consider the following additional steps to strengthen the mainstreaming of sustainability concerns and the effectiveness of the safeguards system:
- ***Ensure that the environmental and social assessment process is consistently completed, as required by the policies, before projects are submitted for Board approval.*** This includes the completion of applicable safeguards instruments—the ESIA, ESMP, environmental analysis, and resettlement plan, along with the appropriate disclosure and consultation process—in line with specified quality standards. Special attention should also be paid to integrating gender aspects into ESMPs, when applicable.
 - ***Strengthen safeguards supervision.*** Notwithstanding the important progress that has been made in systematizing safeguards supervision of high-risk

projects, to date the safeguards performance of only a small share of high- and medium-risk projects has been systematically followed up through field visits. Safeguards performance is not captured in PMRs and Project Completion Reports (PCRs). Integration of a safeguards performance rating into the PMR and PCR and inclusion of medium-risk projects in the safeguards monitoring system would be important steps to help strengthen safeguards implementation.

- ***Increase attention to the social aspects of sustainability.*** On the mainstreaming side, the Bank has focused its efforts on promoting intersectoral dialogue at the Management level and coordinating new approaches to enhance projects' environmental benefits—such as the Climate Change Action Plan, the Biodiversity Platform, Sustainable Cities, and Green Line Banking. Less attention has been given to integrating social aspects into sustainability considerations. Contrary to the requirements of the Cancun Declaration, new social safeguards policies have not been adopted, except the Gender Policy. As other MDBs progress with the revision of their safeguards, IDB may wish to consider the merits of an integrated social safeguards policy akin to the ESC policy.
- ***Broaden the focus of country sector notes to reduce fragmentation of mainstreaming efforts.*** At the Country Strategy level, efforts to integrate sustainability have remained fragmented, promoted by separate sector and technical units, each from its own perspective and interest. One way to promote a more coordinated and cross-cutting approach would be to upgrade the country sector notes to cross-cutting technical notes focusing on key country-specific sustainability issues.
- ***Enhance implementation of the Gender Policy and Action Plan*** Implementation of the Gender Policy and the GAP is off to a good start. However, to ensure that gender considerations are effectively integrated into country programs and individual operations as appropriate, operational teams need more guidance on both the proactive and preventive sides. This means completing the Gender Policy implementation guidelines, developing further sector-specific toolkits, and providing additional staff training. It also requires a commitment from Management and operational teams to embrace the policy in lending operations. The quality of the gender-related indicators in project results matrices should be closely monitored to ensure that they are effectively linked to project diagnostics and interventions that affect gender issues.
- ***Revisit the allocation of resources for environmental and social safeguards work.*** Given the increase in high-risk projects and the share of such projects in C and D countries, more resources are likely to be needed to ensure adequate up-front due diligence and supervision of safeguards implementation; also, more systematic follow-up on medium-risk projects is needed. Implementing the preventive aspects of the new Gender Policy will also require adequate resources. A careful review of the human and financial resources allocated to implement the safeguards policies is warranted.

LIST OF PERSONS INTERVIEWED

Name	Title	Unit
Leandro Alves	Division Chief	INE/ENE
Federico Basanes	Division Chief	INE/WSA
Juan Pablo Bonilla	Chief Advisor	EVP/EVP
Kelle Bevine	Principal Advisor	SCF/SMU
Emmanuel Boulet	Environment Lead Specialist	VPS/ESG
Leila Chennoufi	Environment Sr. Specialist	VPS/ESG
Janine Ferretti	Unit Chief	VPS/ESG
Daniel Fonseca	Priv. Fin. Ops. Lead Specialist	SCF/FMK
Jaime Garcia Alba	Advisor	EVP/EVP
Musheer Kamau	Economics Specialist	CCB/CSU
Hector Malarin	Division Chief	INE/RND
Ernesto Monter Flores	Environment Lead Specialist	VPS/ESG
Andrew Morrison	Division Chief	SCL/GDI
Marco Carlo Nicola	Country Rep.	CCB/CSU
Juan Carlos Paez Zamora	Natural Resources Sr. Specialist	VPS/ESG
Colin Rees	Consultant	VPS/ESG
Jonathan Renshaw	Social Development Lead Specialist	VPS/ESG
Nestor Roa	Division Chief	INE/TSP
Rafael Rodriguez-Balza	Operations PPAL Specialist	CID/CID
Hans Schulz	General Manager	SCF/SCF
Alberto Villalba	Natural Resources Specialist	VPS/ESG
Omar Zambrano	Economics Sr. Specialist	CAN/CPE
Suzanne Casolaro	Consultant	GDI & ESG
Matilde Neret	Operations Lead Specialist	SPD/SDV
Anne Marie Urban	Social Development Lead Specialist	SCL/GDI

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Annex A. Consistency of Management Response/Action Plan with IAG Recommendations

IAG Recommendation	Extent and Areas of Convergence in Management Action Plan	Areas of Divergence	Explanation for Divergence
<p><u>Appointment of a Chief Sustainability Officer</u> (CSO) to be responsible and accountable for mainstreaming E&S sustainability throughout the Bank’s strategies, programs and operations. Position to report directly to EVP.</p>	<p>Substantial: The Sustainability Working Group, led by Principal Advisor to EVP, will:</p> <ul style="list-style-type: none"> a. Oversee implementation of the action plan and lead environment and sustainability discussions at the Bank. b. Support dialogue across sectors. c. Improve efficiency and effectiveness in application of safeguards d. Develop innovative operations 	<p>The SWG lacks executive authority, accountability, and permanence, and may be perceived as a limitation in the long term institutional commitment to sustainability.</p>	<p>The creation of the SWG, rather than a VP-level officer responded to Board members’ concerns about:³²</p> <ul style="list-style-type: none"> a. the budgetary impact of a new position/unit, b. the potential for bureaucratization and generating imbalances in the organizational structure, c. the importance of operational units’ taking responsibility for correcting deficiencies, and d. the risk of weakening ownership of sustainability among all Bank staff.
<p><u>Develop a Sustainable Development Framework</u> or action plan to guide the implementation of the mainstreaming of the Environment and Safeguards Policy (OP-703).</p>	<p>Partial:</p> <ul style="list-style-type: none"> a. Environmental sector notes in four countries to pilot environmental mainstreaming in Country Strategies and Programs . b. Review of Bank experiences in promoting E&S governance c. Develop a regional biodiversity initiative d. Bank wide approach to E&S sustainability for Rio+20 	<p>The Management Response falls short of laying out a cross-cutting approach to sustainability to guide the implementation of mainstreaming in country strategies and programs.</p>	<p>The SWG is aware of this issue, but it can only coordinate. It does not have the authority to compel individual Bank units to work together on the challenging task of developing an integrated sustainability framework cutting across all sectors.</p>
<p><u>Review the allocation of environmental staff resources</u> within Bank operational units and COFs to ensure they have capacity for mainstreaming and project safeguards</p>	<p>Substantial: Enhanced teamwork between SCF and ESG through development and implementation of a joint action plan to improve mainstreaming and increase efficiency re safeguards for private sector operations</p>	<p>The Management Response does not mention an increase in E&S staffing in country offices</p>	<p>The decentralization of E&S staff to COFs is deemed to be impractical given:</p> <ul style="list-style-type: none"> a. current need for highly technically specialized staff to handle ever more complex projects; and b. the risk of local capture and alienation.

³² CGA/11/03

<p><u>Streamline Focus of ESG primarily on safeguards compliance</u>, rather than the dual role of operations design and compliance review.</p>	<p>Partial: The Action Plan states that ESG should</p> <ul style="list-style-type: none"> a. continue its existing compliance review functions; b. Expand in-country supervision; c. Provide technical support for strengthening country systems d. Develop data bases and impact indicators e. Ensure coordination and harmonization with other IFIs 	<p>ESG continues in a ‘dual role’ supporting operational units with the design, due diligence, monitoring and supervision of safeguard matters for high risk projects, as well as reviewing compliance with safeguards.</p>	<p>While this constitutes a ‘divergence’, OVE agrees with management’s explanation that, in light of the growing need for specialized technical knowledge in safeguards matters (by type of safeguard, type of project and sector), the separation of operations support from compliance review would require much additional staff.</p>
<p><u>Sustainability training to strengthen Bank’s knowledge of sustainable development and requirements for mainstreaming</u></p>	<p>Full:</p> <ul style="list-style-type: none"> a. ESG will increase awareness raising efforts among operational staff b. Expand staff and stakeholder knowledge base about the economic and environmental value of biodiversity 	<p>None</p>	<p>Not needed.</p>
<p>Provide for an <u>allocation of resources</u> adequate to ensure that the full promise of the Environment and Safeguards Compliance Policy can be achieved.</p>	<p>Partial: The Management Response states that it will aim to improve the efficiency and effectiveness in the application of the safeguards policies and to develop and promote innovative sustainable approaches through lending and non-lending operations.</p>	<p>New initiatives have been funded, but from 2011 to 2012 the number of projects requiring ESG specialists support increased by 12% while ESG’s budget declined by 0.5%</p>	<p>The SWG focuses on prioritizing incremental funding for new initiatives, rather than baseline funding for routine operations, which are subject to the vagaries of a very competitive budget process.</p>

Annex B. Table 1: Extent of Mainstreaming of Environmental and Social Concerns in Country Strategies for Strategies having been backed by Environmental Sector Notes: Bolivia, Panama, Peru, Suriname	
Indicator: Extent to which Country Strategy and Programs:	Summary of Findings
1. (OP-703- A.1): Mainstream environment in country programming and strategies	Every CS/CP touches upon at least some E&S concerns -- most frequently climate change, water supply & sanitation, indigenous peoples, and natural disasters --, but the discussion is scattered and lacks cross-cutting integration with country strategic objectives. Overall, there was little attention to air pollution. The Peru CS has the most complete discussion of key E&S strategic issues.
2. (OP-703- A.2): Support environmental and natural resources management operations	Every CP identified at least one operation for IDB support, most frequently in the renewable energy subsector, but these are only occasionally linked to the CS discussion.
3. (OP-703- A.3): Mainstream environment across sectors	Every CS/CP identified areas for dialogue and capacity building, most frequently for environmental management, disaster risk management and water resources management, but no cross sectoral linkages.
4. (OP-703- A.4): Support regional initiatives and international agreements	Every CS/CP identified support for some global environmental initiatives, most frequently climate change adaptation. No regional initiatives are mentioned.
5. (OP-703- A.5): Track environmental sustainability indicators	Most CS/CPs include a few environmental sustainability indicators, but at this stage it is too early to assess if they are being tracked. The most frequent indicators relate to waste water supply and sanitation and renewable energy. Panama and Peru have the most comprehensive sets of indicators.
6. (OP-703- A.6): Assess environmental risks and opportunities	Most CSs identify at least one highly sensitive sector for IDB involvement, policy dialogue or TC.
7. (OP-765): Identify opportunities to promote the indigenous peoples' social, economic, political and organizational development	Every CS/CP identifies a few opportunities to promote indigenous peoples' development through specific operations, policy dialogue or TC.
8. (OP-704) Include a discussion of their disaster risk vulnerability as a major development challenge	Every CS/CP discusses disaster risk management and identifies it as an area for policy dialogue. Panama identifies three operations in this area.
* Source: OVE Assessment of Country Strategies	

Annex B.	
Table 2: Extent of Gender Mainstreaming in Country Strategies backed by Gender Note/Background Paper: Chile, Peru, Surinam, Nicaragua, Guatemala	
1. (OP-761): Give consideration to gender equality issues and women's participation	Country Strategies for Peru, Guatemala, Nicaragua discuss gender and diversity issues to varying degrees.
Source: OVE Assessment of Country Strategies	

Annex B. Table 3: Extent of Mainstreaming of Environmental and Social Concerns in Country Strategies and Program Documents	
Extent to which Country Strategy and Programs...	Summary Finding
1. (Ref OP-703- A.1): Discuss country strategic objectives and possible actions to address key environmental and related social issues in a cross-sectoral manner?	B: only IP and CC; Pa: only env. cap bldg and WWS; Pe: WRM, WWS, For, CC, DRM, env. & territorial mgt issues; S: Brief mention of DRM, CC and IP issues.
2. (Ref OP-703- A.2): Identify financing operations designed specifically to (i) enhance environmental governance, policy development and institutional capacity building; (ii) reverse environmental deterioration; and (iii) promote the conservation and sustainable use of natural resources and ecological services?	B: WSS, NP; Pa: GEF bio; Pe: hydro, RE, S: RE/EE grant and TC
3. (Ref OP-703- A.3): Identify environmental and/or natural resources management loan components or activities across different sectors that will increase value added and long-term environmental sustainability (beyond required environmental mitigation actions)?	B: dialogue on CC, DRM, WRM; Pa: env. cap bldg; Pe: IWRM, WWS, dialogue on env & territ. Mgt, Pas; S: Dialogue on DRM, NRM, env pols. And land rights
4. (Ref OP-703- A.4): Identify regional and transboundary environmental and natural resources management initiatives, including those addressing global and regional environmental public goods and services?	B: CC adapt only; Pa: GEF bio; Pe: CC adap in public invs.; S: RE/EE grant and TC, nothing on biod
5. (Ref OP-703- A.5): Incorporate, as applicable, relevant indicators to track the Bank's effectiveness in pursuing environmental goals as well as general country-level environmental performance?	B: WSS, RE only; Pa: WSS, env mgt capacity; Pe: Pas, DRM, CC adap, WWS, GHG, CC risk, RE; S: none
6. (Ref OP-703- A.6): Identify potentially highly sensitive programs/projects or sectors considered for possible Bank financing in order to plan for possible courses of action to manage risk?	B: none; Pa: hydro & trans only; Pe: CC resilience, REDD, E&S in mining; S: Dialogue on DRM, NRM, env pols. and land rights, but too early for inv.
7. (Ref. OP-765): Identify opportunities to promote the indigenous peoples' social, economic, political and organizational development through socioculturally appropriate activities and operations and innovative mechanisms?	B: adapting WWW, health & educ. Progs. w/IP tech note; Pa: dialogue + health & ecotourism activities, w/IP tech note; Pe: IP educ, 2 TCs, w/4 tech notes on social inclusion; S: Highly sensitive, but dialogue on land rights, w/IP-M tech note.
8. (Ref. OP-704) Include, for countries that are highly exposed to natural hazards, a discussion of their disaster risk vulnerability as a major development challenge and propose the inclusion of disaster risk management activities in the operational program?	B: dialogue on DRM; Pa: three DRM loans; Pe: dialogue on DRM, S: Dialogue on DRM

Source: OVE

Annex C. Table 1: Safeguards Compliance at Approval		
Indicator: Extent to which the following safeguard-related policy requirement has been applied in sample projects	Number of Projects in Sample to Which Requirement Applies	Average Ratings
1. Screening & Classification	20	3.0
2. Environmental and Social Assessment	18	2.7
3. Involuntary Resettlement	9	2.8
4. Indigenous Peoples	7	3.0
5. Gender Equality	14	2.0
6. Disaster Risk Management	7	3.0
7. Disclosure and Consultation	18	2.3
<p>Notes</p> <p>A four-point rating scale was used as follows:</p> <ul style="list-style-type: none"> • Excellent (4): The project exceeds the indicated requirement and by raising industry standards can serve as a good practice example. • Satisfactory (3): the project is in material compliance with the indicated requirement. • Partly unsatisfactory (2): the project is not in material compliance with the indicated requirement, but deficiencies are expected to be addressed through ongoing and/or planned actions. • Unsatisfactory (1): the project is not in material compliance with the indicated requirement, and necessary corrective actions have not been adequately identified and appraised <p>A stratified random sample of 20 high and medium risk projects approved in 2011 and 2012 were reviewed. Rating averages include projects for which the relevant safeguards requirement is applicable.</p>		

Source: OVE review of sample projects

Annex C. Table 2: Safeguards Compliance at Supervision		
Indicator: Extent to which the following safeguard-related policy requirement has been applied in sample projects	Number of Projects in Sample to Which Requirement Applies	Average Ratings
1. Environmental and Social Management Plan	20	2.3
2. Involuntary Resettlement	9	2.3
3. Indigenous Peoples	2	2.0
4. Gender Equality	2	3.5
<p>Notes:</p> <p>A four-point rating scale was used as follows:</p> <ul style="list-style-type: none"> • Excellent (4): The project exceeds the indicated requirement and by raising industry standards can serve as a good practice example. • Satisfactory (3): the project is in material compliance with the indicated requirement. • Partly unsatisfactory (2): the project is not in material compliance with the indicated requirement, but deficiencies are being addressed through ongoing and/or planned actions. • Unsatisfactory (1): the project is not in material compliance with the indicated requirement, and mitigation prospects are uncertain or unlikely; or earlier non-compliance (meanwhile corrected) resulted in substantial environmental damage. <p>A sample of 20 high risk projects approved in 2009 and 2010 were randomly chosen from among projects for which ESG has completed supervision reports. Averages include projects for which the relevant safeguards requirement is applicable.</p>		

Source: OVE

Annex D. Review of Gender Equality Indicators in Project Results Matrices

Project Number	Gender issues assessed in the diagnostic section?	Do the gender based indicators further gender equality or women's empowerment?	Baseline Established for the Targets?	Are means of verification specified/is it evaluable?	# of Output Targets	# of Outcome Targets	# of Indicators
UR-L1071	Yes	Yes as it seeks to increase the share of women entrepreneurs in the population.	Yes	Yes	2	1	3
ME-L1115	Yes; marginally	Yes; it attempts to increase the % of female entrepreneurs Yes; seeks to increase share of female-owned farms and the number of women with training and advanced degrees in agriculture, among other objectives.	Yes	Yes	0	1	1
NI-L1067	Yes; very well done.	Yes; seeks to increase share of female-owned farms and the number of women with training and advanced degrees in agriculture, among other objectives.	Yes	Yes	8	7	15
NI-L1059	Yes	Yes; includes fathers in parenting	Yes	Yes	1	1	2
HO-L1072	Yes	Yes; seeks to improve health care access for pregnant women & reduce maternal mortality rate.	Yes	Yes	0	1	1
HO-L1071	Marginally	Yes; seeks to increase # of women receiving pre-natal and post-natal care.	Yes	Yes	2	0	2
BR-L1287	Yes	Yes; seeks to reduce adolescent pregnancy and reduce high school dropout rates among teen mothers.	Yes	Yes	1	1	2
BR-L1187	No	Not clear; it seeks train women as agents to reduce violence. Indirectly this might empower women but not clear how it would promote gender equality or directly benefit women.	No	Yes	0	1	1
HA-L1076	No	Not clear; the indicators only measure employment of women, but none of the objectives in the social plan with respect to labor standards and women/gender.	No	Yes	0	2	2
HO-L1063	Yes	Yes; seeks to reduce domestic violence, however, the indicators are not broken out by gender.	Yes	No	1	1	2

Project Number	Gender issues assessed in the diagnostic section?	Do the gender based indicators further gender equality or women's empowerment?	Baseline Established for the Targets?	Are means of verification specified/is it evaluable?	# of Output Targets	# of Outcome Targets	# of Indicators
UR-L1062	Yes	No; the purpose of the project is to reduce violence in the City of Montevideo but indicators, targets and baselines are not disaggregated by gender.	Baseline exists, but there is no disaggregation by gender	No	0	0	0
BH-L1016	No	Not clear; since the results matrix does not provide a baseline disaggregated by gender it is not possible to determine whether it increases gender equality within the sector.	None	No	0	1	1
AR-L1068	No	No; only meets standard of equality of benefits/inclusion in proportion to their representation in the sector.	Yes	Yes	1	0	1
DR-L1053	No	Not clear, although mothers of young children will benefit.	No	Yes	0	1	1
BO-L1064	No	Not clear: the project seeks to help improve the cognitive, social, emotional, and physical development of Bolivian children, however gender equality issues in early childhood education are not addressed.	No; there are no gender related targets; however, the results will be disaggregated by sex, which is a good start.	Yes	0	0	0
				Total	16	18	34
				Avg % of Indicators	1.07	1.20	2.27
					47%	53%	

Source: OVE

Annex E. Projects Currently under Supervision for Gender Safeguards in High-Risk Projects for Gender Equality

Project	HA-L1070 SAE-A Haiti Investment Plan
Gender Risks	<ol style="list-style-type: none"> 1) Influx migration for employment 2) Lack of existing infrastructure and social services 3) Lack of identification documentation 4) Gender Based Violence and Sexual Harassment on site 5) Discriminatory practices 6) Lack Gender sensitive hygiene facilities
Gender Results	<ol style="list-style-type: none"> 1) Implement Social Impact Assessment 2) Address gender impacts in design phase for project with over 6,000 beneficiaries 3) Incorporate Gender into Rules and Regulations of Industrial Park for Management Company
Project	PN-G1003 Water and Sanitation in Rural and Indigenous Areas of Panama
Gender Risks	<ol style="list-style-type: none"> 1) Lacking education on hygiene and sanitation 2) Failure to consider gender dimensions of labor regarding water and sanitation
Gender Results	<ol style="list-style-type: none"> 1) Implement Social Impact Assessment 2) Female focus group consultations 3) Address gender impacts in design phase which affects over 1000 rural beneficiaries
Project	UR-L1069 Montevideo Sanitation Program
Gender Risks	<ol style="list-style-type: none"> 1) Disruption of social networks 2) Violence and Security among resettled populations 3) Compensation options that benefit females
Gender Results	<ol style="list-style-type: none"> 1) Use of intermediaries to prevent cash compensation 2) Female centered resettlement processes for 250 households 3) Training for female heads of household on housing market transactions in Montevideo
Project	ES-L1016 Urban Solidarity Communities in Metropolitan Area of San Salvador
Gender Risks	<ol style="list-style-type: none"> 1) Disruption of social networks 2) Gender Based Violence and Security 3) Cash compensation
Gender Results	<ol style="list-style-type: none"> 1) Gender sensitive resettlement planning for 1000 families 2) Sex disaggregated data 3) Female focus group consultations 4) Employment opportunities for female community leaders 5) Avoid cash compensation

Project	JA-T1072 Project to Improve Afro-Descendant Livelihoods in the Portmore Causeway Fishing Village
Gender Risks	<ol style="list-style-type: none">1) Disruption of economic livelihood due to resettlement2) Lack of access to credit, training, and financial education3) Employment opportunities for female fish vendors
Gender Results	<ol style="list-style-type: none">1) Access to income enhancement programs for females2) Female leaders appointed to provide ongoing feedback on project implementation3) Financial literacy and health and safety training for female fish vendors

Source: ESG

Management Comments



Mid-Term Evaluation of IDB-9 Commitments
Background Paper: Environmental and Social Safeguards, Including Gender Policy
Management Comments

I. INTRODUCTION

- 1.1 Management welcomes this evaluation of the implementation by the Bank of the IDB-9 requirements pertaining to environmental and social safeguards policies. The conclusions presented in this background paper will contribute to the Bank's efforts to more effectively strengthen the mainstreaming of sustainability concerns and the effectiveness of the safeguards system.
- 1.2 Management is pleased to see that most of the detailed comments provided to OVE on an earlier draft of this paper have been incorporated in this final version.

II. OVERALL FINDINGS AND SUGGESTIONS

- 2.1 Management welcomes OVE's insights into the progress made by the Bank in responding to the issues raised in the report by the Independent Advisory Group (IAG) report, and the actions taken to date towards fulfilling the IDB-9 requirements. Management also appreciates OVE's acknowledgement that the Bank has largely met the formal requirements included in the Cancun Declaration, through the review of the write out Environment and Safeguards Compliance (ESC) policy by the IAG, the formation of the Sustainability Working Group (SWG) to address resulting recommendations, and the adoption of a Gender Equality Policy. Management also agrees with the paper's conclusion that the Bank still lacks a comprehensive approach to sustainability.
- 2.2 With respect to the Gender Policy, Management also notes that the background paper provides a constructive analysis of some results associated with the implementation of the Gender Action Plan for Operations (GAP, 2011-2012). It is important to point out that the paper does not include any assessment the Bank's direct investments in gender equality and women's empowerment, which are part of the Gender Policy's proactive directive.
- 2.3 Management shares OVE's view that while the Bank has made good progress on implementing safeguard aspects of the ESC policy, there is a need to address the constraints affecting the application of safeguards to ensure that (i) the environmental and social assessment process is consistently completed, (ii) safeguard supervision is strengthened, (iii) there is systematic safeguard support for medium-risk projects not currently supported by ESG, and (iv) the gender policy is effectively implemented.
- 2.4 In response to OVE's specific suggestions, we would like to offer the following responses:
 - i. Management agrees with OVE's suggestion on the importance of ensuring that "*the environmental and social assessment process is consistently completed, as required by the policies, before projects are submitted for Board approval*".

Management believes that failure to do so is one of the most important constraints to effective implementation of mitigation measures. Management is currently developing guidance to ensure that required analysis and management plans are adequately identified and completed at the appropriate stages, including for Board approval. Management will also develop guidance on the development and application of adaptive approaches to social and environmental management to make sure that they are consistent with the ESC Policy and that they adequately address the environmental and social changes and developments related to a project's impacts throughout the project cycle.

- ii. Management fully supports OVE's suggestion to "*strengthen safeguard supervision*" and to integrate a safeguard performance rating into the project monitoring reports (PMRs) and eventually the project completion reports (PCRs). In 2013, Management will develop mechanisms to ensure that safeguard specialists are able to provide inputs into the PMR, the loan review report (LRR) and PCR for all high-risk operations.
- iii. As suggested by OVE, in an effort to "*increase attention to the social aspects of sustainability*", Management is currently developing guidance to strengthen the Bank's ability to provide technical advice and support to its clients on ways to improve engagement, including consultations, with stakeholders, in order to develop broad community support for projects. Likewise, Management has taken steps to strengthen its ability to implement the safeguards elements of the Indigenous People's Policy.
- iv. Management is committed to "*broaden the focus of country sector notes to reduce fragmentation of mainstreaming efforts*", as suggested in the background paper. Management plans to undertake a review in 2013 of what is required under A.1 and A.6 of the ESC Policy, the result of which is expected to be the definition of a systematic and strategic approach to integrating sustainability concerns (environmental, indigenous, climate change, gender, disaster risk) and opportunities into Country Strategies. The Biodiversity and Ecosystem Services Initiative will provide opportunities to enhance the mainstreaming of sustainability considerations in the entire project cycle, including programming.
- v. Management shares OVE's concerns about the need to "*enhance the implementation of the Gender Policy and Action Plan*". Management will continue to advance in the implementation of the Gender Policy, building upon actions undertaken in 2011 and 2012, with a strong focus on the Gender Policy monitoring indicators. Management is preparing its own assessment of the actions and results of the GAP, 2011-2012, that will, together with the results of the OVE review, guide future action. Given the shortage of specialist staff in ESG to implement the safeguards aspects of the Gender Action Plan, Management will focus on in-house training and the application of safeguards in a representative sample of high priority sectors, in accordance with the priorities set out in the Bank's Policy on Gender Equality.
- vi. Finally, Management fully concurs with the need to "*revisit the allocation of resources for environmental and social safeguards work.*" Management is

working to identify ways to address the capacity constraints currently affecting the ability to provide adequate safeguard analysis to Bank operations, including providing training in the application of safeguards for sectors.

III. LOOKING FORWARD

- 3.1 Much of the IDB's work in this area has already begun to be implemented through the ongoing efforts by cross-sector teams to implement the ESC Policy the Policy on Indigenous Peoples and the Gender Equality Policy. Management looks forward to making further progress, including working to address OVE's findings and suggestions.