INDEPENDENT ADVISORY GROUP ON SUSTAINABILITY

FINAL REPORT
TO THE
INTER-AMERICAN DEVELOPMENT BANK

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"In Latin America and Caribbean, the path to sustainable development will be built on each country's ability to respond to increasing demands for economic growth and social progress with development strategies that ensure the protection of terrestrial and marine ecosystems goods and services, reverse the degradation of the natural resource base, and provide for mitigation and effective adaptation to the consequences of climate change."

1.0 OVERVIEW

The Independent Advisory Group on Sustainability (IAG) is pleased to submit this final report to the Board of Executive Directors and Management of the Inter-American Development Bank (IDB). In keeping with our mandate, the Advisory Group undertook a strategic review of the Bank's capacity to address critical environmental and social issues effecting sustainable development in Latin America and the Caribbean through its Environment and Safeguards Compliance Policy (OP703). Our findings and recommendations are rooted in a deep appreciation of the Bank's commitment to fostering environmentally sustainable growth, social equity, and the reduction of poverty in Latin America and the Caribbean and of the historic role the Bank has played as a leading development partner to its member countries.

The Bank should be congratulated on the considerable progress it has made on the environmental front in recent years. The depth of its commitment to addressing the issues of sustainability that affect the Region was clearly underscored by President Moreno in his Message introducing the Bank's Sustainability Report 2009:

> "Sustainability issues inform every aspect of the IDB's work in Latin America and the Caribbean. It is how the Bank does business, in the projects it finances, and in its relations with governments, the private sector and partner institutions.
>
> Our commitment to sustainability reflects the challenging times in which we live. As a regional leader the IDB must show the way in addressing critical issues such as climate change, increasing prevalence of natural disasters, growing scarcity of water, and loss of biodiversity and ecological integrity. Long after the present financial crisis has faded from the headlines, these global issues will continue to determine our success in promoting sustainable development and reducing poverty. "[i]

The Bank's Board of Governors gave even greater force to this commitment with the decision taken at its Annual Meeting in Cancun, Mexico in April 2010 to increase lending for climate change initiatives, renewable energy and environmental sustainability from 5% to 25% of total lending by the end of 2015. This represents a significant opportunity to advance toward genuine sustainable development throughout the Region.

The Advisory Group sincerely hopes that our suggestions for future action will contribute to strengthening the Bank's capacity to meet these commitments. Our report focuses on strategic steps that we think should be taken to improve the implementation of the Environment and Safeguards Compliance Policy (OP703) in order to address sustainability issues more effectively and meet the objectives mandated by the Board of Governors as part of the 9th General Increase in the Resources the Bank, the Institutional Strategy for IDB9, and the Better Bank Agenda.

The Advisory Group has welcomed the challenge offered by the Bank's invitation to undertake this review. We are very grateful for the confidence placed in us by the Bank's Board of Executive Directors and President

Moreno and for the very helpful support and cooperation of Bank managers and staff at headquarters in Washington D.C. and in the several country offices visited by our members. The high level of professional and personal commitment of the Bank's staff is indeed remarkable, and we deeply appreciate the help of all those who met with us and helped organize interviews and discussions within and outside the Bank. In the days ahead, we look forward to discussing our findings and recommendations with the Board, Bank Management and civil society organizations interested in the activities and future of the Bank.

Following a description of the scope of the IAG's work, this report examines the Bank's response to environmental issues facing the countries of the Region before going on to examine the implementation of the Environment and Safeguards Policy. The final sections of the report offer a number of recommendations designed to correct imbalances in the application of the Policy and strengthen the Bank's ability to play a more effective leadership role to further the sustainable development of the Region.

2.0 THE MANDATE OF THE INDEPENDENT ADVISORY GROUP ON SUSTAINABILITY

2.1 Strategic Approach

The Independent Advisory Group on Sustainability was created in August 2009 to provide advice and recommendations to the IDB about critical sustainability issues affecting Latin America and the Caribbean and about improvements that might be made to the Bank's Environment and Safeguards Compliance Policy (OP703) to better address these issues. The mandate of the Advisory Group is tied directly to the commitment made to the Bank's Board of Executive Director in 2006 to assess the implementation of the new environment policy three years after its approval and to the agreements reached as a result of the 9th General Increase in the Resources of the Inter-American Development Bank approved by the Board of Governors at the Annual meeting in Cancun, Mexico in April 2010.

The objectives of the Advisory Group are spelled out in the terms of reference issued when the group was established.[1] Specifically, they ask the IAG to provide advice on four main subjects:

- The IDB's efforts and performance in addressing the critical environmental issues affecting the LAC Region;
- The improvements and/or amendments to the Environment Policy and the IDB processes that may be necessary to better enable the IDB to address these critical issues;
- The emerging sustainability issues in the region and how the Bank could effectively address them in the context of the Better Bank Agenda, and
- How the Bank can play a sustainability leadership role in the Region.

The Advisory Group's charge also must be seen in the context of the IADB's Institutional Strategy for IDB 9 and the Better Bank Agenda. In brief, the new strategy's overarching goals focus on two components: reducing poverty and inequality and achieving sustainable growth, with particular emphasis on addressing the needs of less developed and smaller countries and on fostering development through the private sector. The strategy spells out five sector priorities covering 1) social policy for equity and productivity; 2) infrastructure for competitiveness and social welfare; 3) institutions for growth and social welfare; 4) competitive regional and global integration;, and 5) protecting the environment, responding to climate change, promoting renewable energy and ensuring food security. As part of the agreement, the Bank commits to developing strategies for the regional integration, climate change and renewable energy by early 2011. [2]

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[1] See Annex 1

[2] The Bank's Strategic Priorities and its Relations to Ongoing Activities and Business Development Areas, Table III p11, Report on the Ninth General Increase in the Resources of the Inter-American Development Bank 21 May 2010 (AB-2764)

Within this framework, the Better Bank Agenda, among other things, highlights the Bank's commitment to expanding its "focus on environmental and social sustainability directed to sustaining the underpinnings of development, ensuring accountability and transparency, and continuously working to strengthen its safeguards system." The charge to the Advisory Group is cited explicitly in the Report on the Ninth General Increase in the Resources of the Bank (p.21), along with a statement specifically calling on Bank Management to develop an action plan by the first quarter of 2011 that contains a revised set of environmental and social safeguards that are fully consistent with the recommendations of the Advisory Group. [3]

Viewed within the context of these policy statements, the Advisory Group has focused its review on what we see as strategic priorities for improving the Bank's performance as a leader for sustainable development in Latin America and the Caribbean. Our review is not intended as an in depth technical evaluation of the impact and effectiveness of OP703 throughout the Region or a fine-grained analysis of Bank internal procedures and operational issues. In our view, such an approach would be of limited value given the relatively recent reorganization of the Bank, the comparatively brief period in which OP703 has been fully in effect, the paucity of indicators and data upon which to base such an assessment, and the considerable cost of such an approach in relation to the benefits it might produce. Accordingly, we have concentrated on examining the strategic issues and opportunities facing the Bank and its capacity to address them through the Environment and Safeguards Policy.

2.2 The Work Program of the IAG

The Independent Advisory Group on Sustainability carried out this review in four phases of work which involved extensive interviews and discussions with Bank staff, outside experts, private sector representatives and NGOs; reviews

[3] IBID, Table IV, p27 Evaluation of the Overview Framework of the Cancun Declaration

of literature on critical regional sustainable development issues and Bank programs and performance; fields visits by IAG members to Argentina, Bolivia, Brazil, Colombia, Guyana, Jamaica, Panama and Mexico; and extensive discussion and debate among the members of the Group in three formal meetings of the IAG. This thorough process resulted in our Interim Progress Report (March 12, 2010) and this Final Report to the Bank.[4]

The following section of our Advisory Group's report focuses on the key findings and issues raised by our review. In accordance with the themes of the IAG's terms of reference, the report first focuses on the IAG's appraisal of the IDB's response to the critical environmental and sustainability issues facing the Region before going on to examine issues specifically related to the implementation of the Environment and Safeguards Compliance Policy.

3.0 ADDRESSING CRITICAL ENVIRONMENT AND SUSTAINABILITY ISSUES IN THE REGION

In the view of the Advisory Group, the Bank has made especially noteworthy progress on addressing the critical environmental issues facing the region since the Board of Executive Directors approved the Environment and Safeguards Compliance Policy (OP703) in 2006. It has a clear appreciation of the environmental concerns of member countries and has developed an increasingly vigorous lending and technical assistance program to address them. In the course of the review, however, questions were raised about the scope of the Bank's environmental portfolio and its direct relationship to underlying issues of sustainability in member countries. In our opinion, there also are several emerging issues in the region, which, while recognized by the Bank nevertheless warrant greater attention in the future.

[4] See Annex 2

3.1 The Bank's Performance

The IDB's Sustainability Report 2009 demonstrates the Bank's recognition of the critical environmental issues facing the Region. The report highlights four major priority areas: 1) climate change mitigation and adaption and its ties to renewable energy policy and programs, disaster prevention, water scarcity and food security; 2) ecosystems services and biodiversity and related needs for increasing information and analysis of the value of ecosystems services; 3) urban growth, pollution, and social welfare, and 4) environmental governance related to the public and private sectors, including regulatory reform and strengthening the performance of country systems.

The Bank has sharply increased its lending and non-lending response to these issues. Overall Bank lending jumped from US$ 11.2 billion in 2008 to US$15.5 billion in 2009. Lending for environmental improvement, climate change and renewable energy reached an all-time peak of US$3.5 billion in 2009, nearly twice the amount of the previous year. Fifteen of the 33 loans approved last year (approx. US$2 billion) were in the area of climate change and renewable energy. In addition, US$ 1.8 billion went to water and sanitation projects and another US$55.3 million to natural disaster risk management. For the period, technical cooperation reached US$ 62.4 million in energy efficiency and renewable, disaster risk management and biodiversity, including US$23.1 million for eight projects with the Global Environment Facility (GEF).

One can add to this lending record a number of other noteworthy initiatives and activities. The Bank has always played a key role in disaster recovery and reconstruction in the Region, but recently it has become more active in prevention and mitigation with a new disaster risk management policy and significant financing in the area with 13 operations in 2009. The catastrophic earthquake in Haiti and recent flooding and mudslides in Colombia and Brazil underscore the growing importance of the Banks role in this critical area.

The Multilateral Investment Fund (MIF) also has continued to break new ground promoting sustainable approaches for small and medium enterprises. It has supported innovative initiatives with firms engaged in agriculture, tourism, recycling, and energy, climate change solutions and green Public Private Partnerships. The MIF is also continuing its steadfast promotion of Corporate Social Responsibility (CSR) in the Region.

The Bank also advanced its environment agenda in a number of other ways. These include increasing the staff of the environment and social safeguards group (ESG), expanding opportunities for environmental training, developing new technical environmental guidelines, expanding the use of GEF funding, and the recent approval of the Independent Consultation and Investigation Mechanism (ICIM),

Special mention should be made of the Sustainable Energy and Climate Change Initiative (SECCI) which has done an exemplary job of mainstreaming climate change solutions in country dialogue and sector operations. This initiative has generated relevant information that has captured the attention of non-environmental sectors at the Bank and in member countries. Meaningful dialogue at the policy level has been initiated and sustained across sectors, resulting in climate change mitigation and adaptation plans and concerted actions. As part of the overall climate change initiative, the Bank has developed a Climate Change Strategy, which is now going through a process of regional consultation prior to submitting it to the IDB Board for approval. It also took a pioneering step in issuing safeguard guidelines for operations dealing with coal-fired power plants. SECCI has also shown itself especially adept at mobilizing internal and external financial resources through the GEF, the Strategic Climate Fund (SCF), the Climate Investment Fund (CIF), specific sector funds for energy, or private investment deals. With a clear vision, work across sectors and innovative use of financial instruments, this initiative seems to be achieving for climate change what is more broadly needed for sustainable use of ecosystems and mainstreaming as a whole.

The IAG country visits also elicited rich examples of the strength of the Bank's partnership with its member countries. For instance, in Mexico and Bolivia the Bank is considered a vital ally on climate change; with Bank support Colombia has taken innovative steps to reduce GHG emissions and other mitigation measures in transportation projects; and Guyana looks to the IDB for support in analyzing the costs and benefits of major hydropower investments in a region of potentially rich biodiversity. The Bank's increasingly active involvement with the Global Environment Facility also has made it a stronger, more effective environmental partner to member countries.

3.2 Emerging Issues

The Advisory Group believes that there are several critical issues that warrant even more attention from the Bank than it is giving them today. Some of these have to do with specific environmental sectors while others cut across sectors to deal with the sustainability of development as a whole.

In the first category, the IAG considers biodiversity and ecosystems services, an area already identified by the Bank, to be one that should be given equal weight with climate change mitigation and adaptation. They can play a key role in the social and economic development of the Region, as well as offering cost effective solutions for adaptation to climate change. The recent UNDP Report: "Latin America and the Caribbean: a Biodiversity Superpower" leaves little doubt one of the Region's great comparative advantages lies in its natural resources assets, which potentially make it a powerful center of agribusiness and activities tied to biodiversity, carbon, water and other ecosystem services. The region embraces six of the world's most diverse countries – Brazil, Colombia, Ecuador, Mexico, Peru and Venezuela- and includes the rich diversity of the Amazon, the Meso American Reef and the unique ecosystems of small island states and the Caribbean Basin. Biodiversity-related products and services are of crucial importance to the Region's long-term growth and competitiveness, and there is a great need to promote public and private investment in technologies, products and markets tied to biodiversity and ecosystems services. Countries can increase economic benefits by investing in and restoring key biodiversity sectors such as agriculture, fisheries, forestry, protected areas, coastal and marine conservation, tourism, and water resources which are foundations of the Region's economy. Recent initiatives emerging from the climate and biodiversity conferences in Cancun and Nagoya, respectively, offer great opportunities for collaborative action with the IDB.

A second concern has to do with the Bank's agenda on poverty reduction and social equity. The Advisory Group recognizes the Bank's leadership in adopting an Indigenous Peoples Policy, the Involuntary Resettlement Policy and the Profile for the operating Policy on Gender Equality, as well as its continuing efforts to promote women's rights and the advancement of afro-descendants, indigenous peoples, and other minorities. However, we wish to add urgency to these efforts to give them even more prominence in the Bank's operations. The issues of income distribution, equal access to services and jobs, and social and cultural inclusion are as crucial a building block of sustainability as effective environment and natural resources management and economic growth.

The Advisory Group's third concern has to do with environmental governance. Rather than an emerging issue throughout the region, this is a persistent issue that continues to undermine the capacity of both the public and the private sector to make real progress on managing environmental issues. In the past, the Bank supported a number of capacity building projects for environmental institutions, and today, its policies explicitly commit it to helping countries strengthen their environmental management systems. Currently, however, the Bank has not vigorously pushed or financed efforts to address these governance issues. Innovative approaches are needed, not only to strengthen environmental governance for individual countries and key sector agencies, but also to enhance the regional and trans-boundary management capacity. Fashioning an effective approach to environmental governance is also tied to the next key issue of sustainability that emerged in our review.

The Advisory Group's major concern is the absence of an explicit policy or strategic framework for translating the concept of "sustainability" or "sustainable development" into operational terms in the Bank's country strategies and programs. During our review, a number of sources questioned whether the increase in the Bank's environmental operations was advancing the overall sustainability of development in the region or merely responding to the immediate sector agendas of borrowing member countries or the lure of non-reimbursable funding. While it is impossible to dismiss the importance of increased sector lending for water and sanitation or air pollution abatement or disaster risk management, for instance, asking how these individual sector operations relate to other country issues such as urban growth, land use planning, or agricultural expansion is essential to determining their contribution to the sustainability of the country's development path. Without a well thought out framework for defining indicators, gathering data, and analyzing the interrelationships between sector investments, the Bank and its borrowing member countries will have little purchase on the sustainability of the development choices they make and little capacity to evaluate their progress toward their objectives.

A more coherent framework for integrating sustainability into its operations is also important to the Bank's partnership with private sector financial institutions. Commercial banks within the region increasingly are developing their own sustainability strategies and programs, and the Bank could contribute to ensuring greater consistency and applicability of sustainability standards across the region by working with government and the private sector on common frames of reference.

At present, no entity within the Bank is effectively carrying out this crucial role. In our view, this is directly tied to the IAG's central findings regarding the implementation of the "mainstreaming" aspect of the Bank's Environment and Safeguards Compliance Policy (OP703) which will be examined the next section of our report. It is important to reiterate that while most of the issues identified above are not new to the Bank, how they are approached in the Bank's country strategies and programs is a critical concern.

4.0 REVIEW OF THE IDB ENVIRONMENT AND SAFEGUARDS COMPLIANCE POLICY (OP703)

Since the approval of the policy in 2006, there has been much progress strengthening the Bank's capacity to implement it. While recognizing this progress, the IAG, nevertheless, found several critical distortions and deficiencies in the implementation of the policy. Importantly, these have little to do with the scope and language of the policy itself. Instead, they relate to the manner in which the Bank has chosen to carry it out. Our Group's findings focus first on the policy directives having to do with mainstreaming environmental sustainability in the Bank's strategies and program, and second, with the applications of the safeguards in project preparation, approval and supervision. As will become evident, all are interrelated and need to be addressed if the Bank is to be able to make progress toward achieving the aims of the Better Bank Agenda.

4.1 The Objectives of OP703

The IDB's Environment and Social Safeguards Compliance Policy has the following fundamental objectives:

> "The goal of this Policy is to advance the Bank's mission in Latin America and the Caribbean toward achieving sustainable

economic growth and poverty reduction goals consistent with long-term environmental sustainability. The specific objectives of the Policy are: 1) to enhance long-term development benefits to its member countries by integrating environmental sustainability outcomes in all Bank operations and activities and strengthening environmental management capacities in its borrowing member countries; 2) to ensure that all Bank operations and activities are environmentally sustainable as defined in this Policy; and 3) to foster corporate environmental responsibility within the Bank. The Bank will act to achieve these specific activities by adopting measures to mainstream environment into overall economic and social development and to safeguard the environment in all Bank activities."

For purposes of implementation, OP703 is organized into two sets of Policy Directives. The first set - Policy Directives A1 to A7- covers the Bank's objectives and actions with regard to "mainstreaming" environment in its country strategies and programs, addressing issues of environmental governance and institutional capacity building, working across natural resource sectors, assessing environmental risks and opportunities, supporting countries with the implementation of international environmental agreements, and fostering corporate environmental responsibility in the private sector. The second set- Policy Directives B1-B17- spells out the scope of the Bank's environmental and social safeguard requirements and the procedures for applying them.

Once again it is useful to quote the source in order underscore the relationship between the mainstreaming and safeguards objectives of the policy:

"Policy Directives are structured under two major categories: a) environmental mainstreaming; and b) environmental safeguards. These two categories are essential for environmental sustainability

and complement and reinforce each other. The mainstreaming directives apply to Bank programming activities, which by their nature predominantly focus on the Bank's public sector activities. These policy directives are proactive in nature and seek to enhance the incentive framework to foster environmental opportunities, new business opportunities for the Bank, and greater development benefits for the countries. On the other hand, the safeguard directives establish procedures and standards to ensure the quality and the environmental sustainability of both public and private sector operations."

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

4.2 Issues with Mainstreaming

In reviewing the implementation of the mainstreaming aspects of the Bank's policy, the Advisory Group has found that responsibility for carrying out the various requirements set forth in Policy Directives A-1 to A-7 appears to be unclear and diffuse. Responsibility is shared both within and between the Vice Presidency for Sectors and Knowledge (VPS), the Vice Presidency for Countries (VPC) and the Vice Presidency for the Private Sector (VPP), among others, but no overarching unit or officer has been given the authority and means to foster, coordinate and monitor the mainstreaming and sustainability aims of the Bank.

There are a number of illustrations of this situation. Within VPS, for instance, the Infrastructure and Environment Department (INE) has taken the lead on developing Country Environmental Assessments as part of the Country Strategy process but direct control of that process lies with VPC. Through its Environment, Rural Development, and Disaster Risk Management Division and the SECCI Initiative, INE also contributes significantly to environment and natural resources operations, but is not directly charged with mainstreaming across sectors. SECCI is an exemplary exception to this but, of course, it is focused on mainstreaming climate change responses, in particular, rather than environmental sustainability in general. One might argue that ESG carries out this function through a combination of its safeguard review responsibilities and its ability to assign environmental specialists to project teams. But the application of safeguards is only part of the mainstreaming function, and ESG's authority does not supersede that of the Bank's Vice Presidencies. Finally, the Vice Presidency for Countries, while playing a central role in strategy development, programming and the implementation of Bank operations, has not become a driving force behind the Bank's mainstreaming and sustainability agenda.

In the opinion of the Advisory Group, this situation will severely hamper the implementation of the Better Bank Agenda if not addressed effectively. There are two issues, in particular, which warrant direct attention. The first involves the requirement to integrate or mainstream environmental sustainability considerations into Bank Country Programming and Strategies (A-1). The second has to do with policy Directive A-2, which call for the Bank to finance operations which, among other things, "enhance environmental governance, policy development and institutional capacity …" This last is also tied to Safeguard Directive B-16, which asks the Bank to consider the use of "country systems " for identifying and managing environmental and social impacts.

Country Strategies

In the first instance, the IAG's review shows that the Bank's implementation of the requirement to analyze and integrate environmental issues into Bank Country Strategies has been notably inconsistent and contributed little to cross-sector analysis of the sustainability of a country's development strategy. A recent internal review of experience with Country Environmental Assessments (CEA) -the instrument used as part of country strategy development to examine environmental issues - concluded that there is a fundamental disconnect between the Country Strategies and the CEA.[5] Country Strategies do not necessarily reflect the findings of a CEA, assuming one has been done in the first place. CEA's seldom are being used to inform Bank operations and they vary widely in their focus and their methodology. Moreover, they tend to be financed by external Trust funds, an uncertain source, rather than the regular operating budgets of the country department, a situation which may make it difficult to coordinate the timing and preparation of the CEA with that of the Country Strategy.

In our minds, a main reason for this situation lies in the diffuse distribution of responsibility we have just described. The lead role for developing a Country Strategy that fully integrates environmental and social sustainability is not clearly assigned. The Vice Presidency for Countries (VPC) drives the development of Country Strategies, but the initiative for developing CEA or their equivalents has fallen to Infrastructure and Environment (INE) within the Vice Presidency for Sectors and Knowledge (VPS). While INE has taken the initiative to develop CEAs when requested and funding permits, it does not have the formal authority or means to require coordination and integration across the other Bank country and operational departments. Once again, there is no clear accountable center of authority ensuring that a

[5] John Redwood, Consultant , Background Paper " The Environment in Country Strategies and Programming at IDB" (2009)

Country Strategy effectively integrates the sustainability issues that may affect the country's development.

The strategic consequences of this disconnect is that the Bank has no coherent foundation for addressing the underlying sustainability issues in a given country. Without such a foundation, the Bank will be hard put to exercise a leadership role that illuminates sustainability issues and develops the information and analysis required to assess the impact of its country operations, examine environmental issues related to alternative development strategies and actions, understand the broader cumulative impacts of its programs or understand the interrelationships of it several sector operations. It also may find it more difficult to identify, develop and implement effective strategies to enhance environmental governance and the capacity of the country's environmental institutions. The Bank has an important mainstreaming role to play in helping find agreement on sustainability and safeguards standards for the region. This can be done most effectively by investing in the development of sustainability strategies at the country level and then developing an overarching framework to help guide investment approaches. Indeed, without a broader strategic framework for each country, the Bank will find it difficult to work with its member countries and other partners to achieve an effective balance among their social and economic development objectives and the aims of environmental sustainability.

Governance and Country Systems

A second notable weakness in the implementation of the Bank's mainstreaming policy is the scant effort that has gone into carrying out Policy Directive A-2 aimed at supporting environmental and natural resources management operations that improve environmental governance and, by extension, strengthen the capacity and performance of a country's environmental regulatory and compliance systems (B-16). This is not to say that the Bank has never undertaken environmental capacity and institutional strengthening operations. It has financed a number of such operations in the past and has also helped sector agencies develop effective environmental units. What is lacking is explicit funding and strategic action to foster better environmental governance. Methodologies are needed for analyzing and evaluating environmental governance in the Country Strategy in order to lay the foundation for operations designed to strengthen the institutional framework for environmental management and further, to ensure that the country's national safeguards systems meet the Bank's standards of acceptability and equivalence. One important consequence of this situation, which will be discussed further on in relation to the applications of Safeguards, is that the Bank may fail to develop reliable and effective in-country partners for project supervision and evaluation.

Other aspects of the mainstreaming sections of the policy have received varying degrees of attention but not the high level of priority envisioned by the policy. Mainstreaming has occurred on specific operations because of the environmental knowledge and commitment of individual Bank staff, consultants or the scrutiny of the safeguard compliance process. As mentioned earlier, the Bank also has been an active promoter of corporate social responsibility practices in the private sector through the MIF, as well as through the activities of private sector department. And to some degree, the Bank has supported mainstreaming through the application of Strategic Environmental Assessment in regional initiatives such as IRSSA and its involvement in regional activities associated with Multilateral Environmental Agreements, particularly in areas such as climate change. But the effort behind these activities has not been the result of a coherent and sustained program.

In conclusion, the central point to be made here is that the Bank's mainstreaming policy have not received the priority and leadership that will be required to meet the objectives of the 9th Capital Increase and the Better Bank Agenda. An important consequence of this is that, de facto, the

Safeguards Compliance sections of the policy have come to be considered OP 703's primary aim.

4.3 Environmental and Social Safeguards Compliance

Unlike its record on mainstreaming, the Bank has made great strides implementing its requirements pertaining to Safeguards (B1-B17). Although the Advisory Group does believes there is room for improvement in a number of specific areas, not the least of which may be an excessive emphasis on compliance rather than problem solving, all in all the activities of the Bank's Environment and Social Safeguards Group (ESG) arguably have moved the Bank into the front ranks of the MDBs.

Objectives and Scope of Safeguards Compliance

According to OP 703, the Bank applies environmental and social safeguards to Bank financed operations throughout the project cycle in order to ensure their environmental sustainability. The introduction to the Safeguards section of the Policy makes clear that the Bank takes a precautionary approach to addressing the potential environmental impacts of projects, seeking to avoid negative impacts wherever possible and to ensure that unavoidable impacts are properly mitigated, offset or compensated. The Bank will only support projects with high environmental risks if borrowers have agreed upon a mitigation plan, and it will work with borrowers to improve their capacity to manage those risks. The Safeguards policy directives make clear that the Bank will only finance operations which comply with the policy and the requirements of other Bank policies cited in OP 703.

The specific scope of the Safeguards Compliance directives (B1-B17) covers the full range of activities and considerations that apply during the identification, preparation, appraisal, implementation and supervision of

Bank financed operations. These include, among other things: screening and classification of projects; environmental assessment requirements; consultation; supervision; the treatment of different types of impacts; and the approach to different types of lending and non-lending operations; procurement; and the use of country safeguards systems that meet the requirements of the Bank.

Applying the Safeguards

The Environment and Social Safeguards group (ESG) reports directly to the Vice President for Sectors and Knowledge and its primary responsibility is to manage the Safeguards Compliance process to ensure that Bank operations comply with the aims of OP703. ESG has become increasingly effective in the last few years. It has developed a strong core staff of environmental specialists with experience in different sectors, growing from 7 specialists in 2007 to a total of 23 staff in 2010; it has produced systems and guidance for screening and categorizing environmental and social risks and tracking the environmental components of projects in execution; it has produced new guidance for project assessment and carried out training programs for Bank staff; engaged in the development of the Bank's strategy on climate change; and participated in due diligence reviews and mitigation design for an increasing number of complex projects throughout the Region. ESG also has taken the lead in tracking the Bank's progress with regard to the sustainability commitments resulting from the recommendations of the Blue Ribbon Panel and more recently following the realignment from the Better Bank Agenda. Also, a transactional budget for safeguards both for private and public sector operations has been secured; consistency in safeguard application has been enhanced; and specialists' expertise has grown.

These accomplishments, which are spelled out in the 2009 Sustainability Report are recognized within and outside the Bank. The IAG found that few people within the Bank's headquarters or the 8 countries visited for the review questioned the validity of the Safeguards policy or ESG's responsibility for its implementation. Instead, the concerns that emerged dealt with several specific issues and a more fundamental critique having to do with the effects of a rigid compliance culture on the competitiveness of the Bank and its contribution to the development of its borrowing member countries. Not surprisingly, some of these same issues emerged in other documents examined by the IAG during the course of our review. First, a quick look at specific issues:

ESG Staffing

The number of staff in ESG increased to 23 in 2010. Despite the increased number, however, the workload has also increased with a jump from 480 to 775 in the number of operations moving through the compliance review process from 2007 to 2009. As a result, some observers believe ESG staff is too thinly spread to: a) support operational teams adequately, as well as carry out timely project reviews; b) give adequate attention during the project review cycle to Category A operations, as well as to those Category B projects that may have high-risk characteristics; and c) provide sufficient support to country offices, particularly in the supervision of projects.

In light of these considerations, as well as the findings of the IAG regarding "mainstreaming", the Bank should undertake a detailed review of the numbers, professional specializations and distribution of environmental staff needed to fulfill the mandate of Cancun.

Complex Lending Instruments

The Bank is making more use of lending instruments such as Policy based Loans, Sector-wide approaches (Swaps) and loans through Financial Intermediaries (FI). Determining how best to classify and approach the mitigation of the potential impacts of these types of loans has been an issue for some time. How to undertake alternatives analysis for the proposed activities and manage the cumulative effects of these approaches is particularly troublesome. In order to address these issues, the Bank has begun to explore the use of Strategic Environmental Assessments (SEA) and is currently developing specific guidelines and training for the treatment of FI operations. In the view of the Advisory Group, these steps are absolutely necessary, but they could be greatly enhanced by investing in parallel efforts to improve the capacity of country environmental institutions to manage the environmental dimensions of these of projects in partnership with the Bank.

Cumulative Impacts

While assessing cumulative impacts poses its own methodological problems, assigning responsibility for addressing those impacts may be equally difficult. This is particularly true in cases where the IDB is lending to only one of a group of several, similar projects all of which have or will contribute to the overall impact of the complex. Recent cases come to mind involving multiple hydropower projects in a single river basin, large scale road development or regional projects under IRSSA or Plan Puebla Panama. In these cases, one would expect a government agency to have taken responsibility for assessing and addressing the overall, cumulative impacts of the complex, but this seldom happens and the burden too often falls on single-project proponents who do not have the capacity to mitigate impacts beyond the influence area of their projects.

The Bank has pushed to use Strategic Environmental Assessment to address impacts on a wider regional scale and to examine the cumulative impacts of large scale projects. It should continue to apply these instruments in its work and seek to develop greater institutional and technical capacity to use them throughout the region. This is also another case in which a premium should be placed on strengthening environmental governance and country systems.

In-Country Systems

In Policy directive B-16, OP 703 calls for the Bank to consider the use of a borrowing country's existing safeguard system if it is deemed to be equivalent and acceptable to the Bank. The desirability of using in-country systems is also underscored in the Better Bank Agenda. The World Bank has taken some steps to follow this course, but the IDB has yet to make a concerted effort to do so. If a country has effective environmental and social safeguards in place, the IDB can be far more confident that the country will be able to exercise oversight of compliance on IDB financed operations such lending to Financial Intermediaries which may involve on-lending to multiple projects over a longer period of time. Recognizing the potential risks involved, the Advisory Group nevertheless believes it is especially important that the Bank make a deliberate, well funded effort using environment sector-wide loans to demonstrate how country systems can be improved to meet the requirements of this part of OP 703.

Country Offices and Supervision

Throughout our review, the Advisory Group heard repeated calls to strengthen the environmental management capacity of the Bank's country offices. Although COFs have often have natural resources specialists who act as advisers on safeguards compliance matters, only one COF has an ESG staffer in residence according to the recent Audit Report. With a greater presence of environmental staff in the field, COFs can give greater priority to compliance with safeguards, maintain collaborative relationships with government counterparts and gather data on the impact of Bank operations, and play a role in supporting capacity building on country systems.

Integration of ESG Requirements in Project Documents and Loan Agreements

One critical issue which emerged from the IAG review of the safeguards compliance process was the extent to which the ESG requirements designed to ensure compliance actually found their way into Project Documents, Operations Manuals and Loan Agreements.[6] A number of sources indicated that the incorporation of ESG requirements in these documents was often uneven or too general to provide explicit, legally binding guidance to countries and ultimately, to Bank staff charged with supervising compliance. This has been a persistent problem over the years which should be addressed by developing explicit guidance on integrating ESG requirements in key project documents and loan agreements, fostering closer coordination between ESG and Bank legal staff, and improved oversight and review of these documents to ensure that their environmental and social safeguard conditions and measures are explicit and actionable.

Training and Communication

Another persistent issue emerged during our review with regard to training and communication. In country offices, as well as at IDB headquarters, staff and managers expressed a need to receive more training on the nature of environmental issues affecting the Bank's work and about safeguards approaches to assessment and mitigation. Moreover, it was evident that many COF staff, and, importantly, many government counterparts also were not at all familiar with the "mainstreaming "components of the Bank's policy. A concerted effort is needed to communicate the Bank's overall environmental mission more widely and effectively, especially at the country level and to expand existing training activities.

Consultation

The Bank has established a number of ways of engaging with Civil Society and NGOs in Washington D.C. as well as in its member countries. Along with regular liaison activities and meetings held with Bank staff, the Bank holds annual meetings with civil society, confers with interested stakeholders on Bank strategies and policies, involves civil society in the Annual Governors

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[6] "Integrating Environmental and Social Safeguard Requirements in Bank Project Documents, A Critical Path Analysis from Project Proposal to Loan Agreement", Draft Consultant Report, IDB/ESG, August 2009

Meeting, and has established special consultative groups (CON/SOC) in each of its country offices as a permanent forum for relating to NGOs and civil society organizations. In addition, OP 703 Policy Directive B-6 requires interaction and consultation with affected stakeholders during the environmental assessment and approval process.

The Advisory Group believes that the Bank has established an effective framework for constructive engagement with interested stakeholders. While there will always be room for improvement, the Bank is an increasingly transparent and accessible institution. However, in the area of stakeholder engagement and consultation in Bank operations, Bank teams (and country counterparts) would benefit from more consistent and uniform approaches to consultation. According to our sources, the character and quality of stakeholder engagement varies considerably depending on the commitment, knowledge and personal skills of the professionals directing the operations and the institutional policies and procedures of public or private project sponsors. Clear guidance is needed from the Bank on approaches and practices for stakeholder engagement and the standards it expects Bank operations to meet. We understand that this type of guidance is being developed, and we urge the Bank to apply it as quickly as possible. The most effective way to ensure the success of an operation is through effective engagement of the stakeholders affected by it and management of the issues and interests of concern to them.

The effectiveness of stakeholder engagement is also tied to the Bank's approach to providing key information and documents to affected stakeholders during the project preparation, analysis and approval process. Stakeholders cannot be expected to understand the impacts and mitigation approaches of proposed Bank operations if they do not receive relevant information and analysis upon which to base their judgments in a timely matter. This is especially true of complex Category A projects, but applies too others as well. In the view of the IAG, it would be advisable for the Bank to ensure that EIA/ESIA for Category A projects be made publicly available to affected stakeholder as part of the consultation process before the Bank conducts analysis and due diligence missions. This would ensure a far more fruitful and informed dialogue and negotiation process with affected parties.

Harmonization with other IFIs

The IDB should be seeking continuously to improve its approach to safeguard compliance in order to maintain a leadership role within the community of MDBs and other International Financial Institutions. Its ability to collaborate with other IFIs, as well as maintain its competitive position, depends in great measure on how well harmonized its safeguards policies, standards, procedures and practices are with those of other prominent development finance institutions.

At present, the World Bank, the International Finance Corporation and the Asian Development Bank are engaged in reviewing, updating and improving their Safeguards policies and procedures. At the IDB, VPS/ESG has monitored this process closely. When the process is complete, new benchmarks will have been established that could serve as the basis for adjustments to the IDB's safeguards approach. The Advisory Group recommends that at that time, the Bank undertake a comparative review to ensure that its standards, procedures, project categorization criteria and technical guidelines are in line with those of these other leading institutions, and that compliance and consultation processes overall are subject to the broadest international standards of transparency and accountability.

Many of these specific issues have been identified in recent internal IDB reports prepared by the IDB Board's Office of Evaluation and Oversight (OVE), the Office of Strategic Planning and Development Effectiveness (SPD), and the Office of the Auditor General.[7] While the Bank has taken some action to respond to these assessments, the Advisory Group believes it would be useful for Upper Management to revisit them in the context of our report's major findings and recommendations. It would also be advisable in light of the more fundamental critique set forth below.

Compliance, Competitiveness and the Development Objectives of the Bank

ESG's primary responsibility is to manage the Safeguards Compliance process to ensure that Bank operations achieve the aims of OP 703. Within the Bank, no professionals or managers questioned the function that ESG performs, but during the course of our review, we heard that the manner in which ESG discharges its responsibility has created an adversarial relationship between ESG and project operations staff that may work against the timely and innovative resolution of environmental issues. This relationship is even more problematic in the case of private sector operations because it appears that some potential borrowers may be shying away from the Bank because of what they perceive to be the unpredictable application of excessively rigid safeguards compliance requirements.

The sources of these tensions are not easily identified. In our mind, the very nature of a compliance review function is potentially adversarial and it is quite normal for tensions to arise between compliance reviewers determined to uphold the highest standards and operations staff seeking to move a project to approval and implementation. However, a great danger is that the situation may lead to a compliance culture that places risk avoidance on a higher plane than the search for solutions to sustainability problems.

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[7] Environmental Performance Review Applied to the Energy Sector), Office of Evaluation and Oversight Draft, 12/5/009.
Review of Environmental and Social Risk Management, Office of strategic Planning and Development Effectiveness , January 2009
Audit Report: Environmental and Social Safeguards Process, Office of the Auditor General, July 22, 2010

In the case of the IDB and ESG, these "normal" tensions may be exacerbated by a number of factors. One is that pressures to meet the deadlines of a shortened project cycle make project teams especially sensitive to anything that might slow down the process. Bank staff members from environmental, as well as non-environmental areas have expressed their concerns that a shortened time period constrains the capacity of the Bank to think through its projects, pay attention to details, and address complex sustainability issues. According to them, by cutting preparation short, the Bank and its clients are merely postponing costs that will have to be borne later during execution. As far as the application of safeguards is concerned, however, ESG staff members claim not to feel unduly pressured to accelerate the process, and data on project approval times provided by the Bank suggest that the compliance process alone has not had a marked effect on the overall duration of the process. A recent review showed that only two projects, both of which were high risk Category A have been denied approval. Perceptions are important, however, and the delays and complications surrounding one potentially high risk project can quickly be transformed into conventional wisdom.

In the view of the Advisory Group, another especially important factor is ESG's dual role as a compliance reviewer and a provider of technical environmental support to project teams. Having ESG play both roles generates an unbalanced adversarial relationship in and of itself, especially in the case of the private sector divisions of the Bank which have no specialized environmental staff to represent them. While an ESG specialist assigned to a project team may do his or her very best to develop and represent good solutions for the team, that specialist is constrained by the fact that he remains under the supervision of ESG and is subject to scrutiny and review by his colleagues within ESG. In such a situation, it would only be natural for both parties to become risk adverse. Ultimately, the incentives shaping the specialist's performance come not from the division developing the project but from the group reviewing the project. Even if this situation doesn't constitute a conflict of interest in any extreme sense, it certainly puts a damper on the specialist’s inclination to advocate in favor of the project. The easiest way to correct the imbalance in this case would be to mainstream environmental staff through the Bank assigning directly to project operations departments rather than have them play a dual role within ESG.

The “virtual “nature of much of the Bank’s current operations review process may also contribute to the tensions. Sitting behind a computer screen, reviewers do not benefit sufficiently from face to face interaction, debate and negotiation with project teams. In the face of uncertainty, reviewers may take refuge in a rigid application of the”precautionary principle” rather than propose trade-offs or innovative solutions that might balance environmental objectives with the overall development aims of the Bank and the borrowing member country. This may be true especially if the reviewer faces no tangible consequences for a project being delayed or cancelled. This tendency also may be accentuated if the decision making mechanisms that exist at various stages of project development and approval (Eligibility; QRR or in critical cases, Operations Policy Committee) have not been put to effective use in forcing discussion, breaking intractable impasses, or designing mutually agreeable solutions and environmental matters.

The Advisory Group believes that a solution to this issue has to do with structural, procedural and attitudinal changes rather than a radical change in the Environment and Safeguards Compliance Policy. In the first case, the Bank may which to reconsider the dual role ascribed to ESG, taking steps to assign staff in such a way as to strengthen the environmental capacity of project operations teams so they have unhindered expert advocates in the compliance review process. From a procedural point of view, Managers and ESG must make use in a timely manner of existing decision making mechanisms to examine trade-offs and forge agreements within the Bank - and between clients and the Bank- that place a premium on designing sustainable solutions to compliance issues and offer incentives to do so. This may involve training, problem solving workshops, incentives built into loans to private clients, and, at a minimum, early working sessions for problematic projects in which Managers work out negotiated solutions. Finally, incentives need to be oriented toward finding solutions rather than unearthing flaws. Project team and reviewers have to develop a greater understanding of the relationship and trade-offs between the development goals of the project and it environmental requirements.

5.0 STRATEGIC LEADERSHIP FOR REGIONAL SUSTAINABILITY

In Latin America and Caribbean, the path to sustainable development will be built on each country's ability to respond to increasing demands for economic growth and social progress with development strategies that ensure the protection of terrestrial and marine ecosystems goods and services, reverse the degradation of the natural resource base, and provide for mitigation and effective adaptation to the consequences of climate change. Shaping such strategies requires a new thinking about the relationships and trade-offs between traditional sectors and environmental sustainability, new ways of designing and managing multi-dimensional projects and programs, and new measures of impact, progress and growth.

For the Bank to provide effective leadership on sustainable development, it will have to reinvigorate its commitment to "mainstreaming" and correct the imbalances that have occurred in the implementation of OP 703. As we have seen, the Bank has advanced the mitigation of environmental risks at the project level through application of Safeguards, but has neglected environmental mainstreaming at the policy and programmatic level, despite the very explicit mandate contained in OP-703. It has not developed a coherent approach to sustainable development or clearly assigned responsibility for its implementation. One consequence of this is that the Bank's sustainability agenda is driven and defined by a narrow, compliance driven application of environmental and social safeguards which, though quite effective, is tied to single projects rather than broader country strategies. Absent a vigorous pursuit of the "mainstreaming" objectives of

OP703, the policy's Safeguards Compliance components have come to be seen as the heart of the Bank's environmental mission. Consequently, the policy appears to be defined in terms of policing and enforcement for individual operations to such an extent that it has eclipsed the original sustainable development objectives of the Bank.

Strategic direction towards sustainability is not set at the project level and certainly not through the application of risk mitigation procedures alone. ESG can, and does make every possible effort to ensure that projects are as environmentally sensitive as possible. But, no matter how efficient, effective, and well resourced ESG might be, on its own, it will never produce the kind of decisions that are needed to transform the unsustainable patterns of consumption and production that are undermining the natural capital of the Region.

A new framework is needed for addressing sustainability issues in the Region at the level of country strategies and programs, as well as in individual Bank operations. Both the Bank and its member countries must recognize that sustainable development is not solely about giving ecosystem conservation a higher priority. It also requires putting in place governance and financial mechanisms that are capable of ensuring that ecosystem contributions to development are adequately considered when defining public policies intended to expand economic growth, reduce poverty and improve equity. Under a sustainable development framework, projects are supposed to respond to broader public policy decisions formulated after careful consideration of key sustainability criteria and inevitable thematic and sector trade-offs. In the absence of a sound sustainability framework for decision-making, key questions may be ignored that later erupt in social or political disputes that produce implementation delays and increase the transaction costs of an operation. On the basis of a mutually agreed-upon framework, the Bank and the countries of the Region can collaborate more effectively in pursuit of the objectives of Cancun.

In our view, the Bank is well positioned to take up a more active role to foster sustainable development in Latin America and the Caribbean. Along with its historic leadership as the region's development bank and the mandates it now has from the Governors' decisions at Cancun and the Better Bank Agenda, the Bank already has the mainstreaming policy tools it needs in OP 703 and a wealth of experienced and capable professionals within the Bank. It is also well positioned to forge strategic alliances with international and regional organizations like the World Bank, IFC, CAF, Brazil's BNDES, as well as private financial institutions that could be especially effective in introducing innovative approaches to sustainability throughout the region. All these represent unique comparative advantages that can make the IDB an invaluable champion of sustainable development in Latin America and the Caribbean.

What is most needed now is a firm commitment from the Board and Management to designate senior staff and allocate resources to push forward on this front. The Action Plan set forth below focuses on the key steps we think the Bank should take to assume this leadership role.

6.0 ACTION PLAN FOR SUSTAINABLE DEVELOPMENT

In this final section of our report, the Advisory Group wishes to propose a set of actions which we believe will strengthen the implementation of the Bank's Environment and Safeguards Compliance Policy (OP703). We believe they address the fundamental imbalances examined above that have led the Safeguards Compliance aspects of OP 703 to overshadow its central environmental mainstreaming objectives. Taken as a whole, the fundamental objective of these recommendations is to provide the Bank with the necessary tools to meet the commitments of Cancun.

The six recommendations we have set forth below represent actions which we think should be given the highest priority by the Bank. Other actions suggested earlier in Sections 3 &4 of this report which deal with emerging environmental and social issues, mainstreaming and the safeguards compliance process also should be addressed within the context of the priorities presented below.

Appointment of a Chief Sustainability Officer

The Bank should appoint a Chief Sustainability Officer to be responsible and accountable for mainstreaming environmental and social sustainability throughout Bank's strategies, programs and operations. Within the context of OP 703, the Chief Sustainability Officer would assume leadership for coordinating the promotion, development, implementation and monitoring and evaluation of the Bank-wide sustainability agenda within existing planning and operations departments, divisions, and country offices. The scope of these responsibilities could include, but not necessarily be limited to fostering and coordinating the following activities:

- Development and promotion of the Banks sustainability agenda; the CSO should lead the development of the sustainability framework/action plan described below to guide the Bank's sustainability activities, including the mainstreaming components of the Environment and Safeguards Policy. [8]
- Support for dialogue and training on sustainable development across sectors within the Bank and borrowing member countries;
- Encouraging the integration of environmental and social sustainability in IDB countries strategies and country dialogue and programming.[9]
- Development and promotion of innovative sustainable approaches through Bank lending and non-lending operations;

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[8] The actions agreed upon at the Board of Governors' meeting contained in AB-2764 (CGI-9 Agreement of May 2010), Table IV-1 contain a number of actions explicitly related to sustainable development. (Item #1, 2, 8, 19). These need to be woven together to meet the overarching institutional priority (Item1.a) of ensuring sustainable development. Accordingly, these action items should be integrated into the Sustainable Development Framework/action plan developed by the CSO.

[9] The CSO might find it useful to examine the applicability of the type of Sustainability Assessments (SA) by the EU and the Institute for European Environmental Policy especially with regard to environmental governance and country safeguard systems.

- Mobilizing financial and technical resources for advancing the Bank's sustainability agenda;
- Development of data and indicators for measuring progress toward sustainability in borrowing member countries;
- Participation in the definition of trade-offs and the mediation and resolution of disputes within the Bank regarding safeguards compliance in Bank development operations;
- Strengthen the Bank's representation in high level meetings and conferences relevant to the Banks sustainability goals by providing support to the President, Vice Presidents, Board members and Country Representatives, as well as direct participation of the CSO.

The Advisory Group wishes to emphasize that role we envision for the Chief Sustainability Officer is that of a senior coordinator and enabler charged with working Bank-wide through existing Bank departments, rather than an entirely new department. To some degree, the SECCI Initiative serves as a model for this type of role, though the Chief Sustainability Officer would have a broader, more overarching function akin to that of a Senior Vice President for Sustainability in a major multi-national corporation.

Finally, the Advisory Group is of the opinion that to be effective, the role of the Chief Sustainability Officer must be located at a high- level that will have authority and influence to work closely with the Vice Presidents and key managers of the Bank , as well as with country office staff and government representatives. As the main function of the CSO is to ensure that there is effective coordination across sectors and departments to better integrate sustainability in all Bank products, it would seem appropriate that the position of the CSO, including its necessary supporting staff, report directly to the Executive Vice President of the Bank.

Sustainable Development Framework

The Bank should develop a sustainable development framework or action plan to guide the implementation of its OP 703 mainstreaming and sustainability activities. Coordinated by the Chief Sustainability Officer and drawing from existing policies, strategies and guidance, the action plan would focus on initiatives at regional and country level, innovative pilot programs, joint sustainability research activities, and monitoring and evaluation. The action plan also should help lay the foundation for helping countries weigh trade-offs and make decisions over resource allocation, creating incentives for countries to undertake serious sustainable development assessments that will bring to the front information about ecosystem services, their status and contribution to economic growth and development. In addition it should support cooperative initiatives to strengthen governance mechanisms for sustainable development. Although the sustainable development framework is oriented toward bringing existing Bank mainstreaming policy into action, it should be developed in so far as possible COF, as well as country government and CON/SOC country collaboration.

Allocation of Environmental Staff Resources

Implementing an effective mainstreaming plan will require that the Bank conduct a thorough review of the allocation of staff resources within Bank operational departments, divisions, and COFs to ensure that they have the capability to foster mainstreaming objectives as well as work sustainable solutions in project operations. In our view, the private sector operations of the Bank would benefit from having environmental staff with private sector experience permanently assigned to that department. COFs also need additional environmental staff to a) strengthen their capacity carry out safeguard compliance supervision and b) contribute to the preparation of environment and natural resources projects, including projects designed to strengthen environmental governance and safeguards systems in the country, and c) support the integration of sustainability components in country strategies. Although a reallocation of staff resources may involve shifting ESG staff with private sector experience out of that unit into the private sector department, it also will be important to provide additional staff to ESG to strengthen its capacity for supervision.

Streamline Focus of ESG

The Advisory Group is of the view that ESG's role should focus primarily on its Safeguards Compliance role in order to strengthen the mainstreaming objectives of OP 703. Rather than have the dual role of operations design and compliance review, ESG should be responsible for activities directly related to the application of Safeguards. This role not only should include continuing its existing compliance review functions and expanding in country supervision, but also focus more deliberately on providing technical support for strengthening country systems for environmental safeguards compliance and operations design. In addition to these key roles, the unit would also continue to be involved in Bank-wide efforts to develop data bases and indicators of project impacts and sustainability and provide safeguards training. It would also take the lead in ensuring coordination and harmonization with other IFIs on matters related to Safeguards.

Sustainability Training

Strengthening the Bank's knowledge of the characteristics of sustainable development and the requirements for implementing OP 703's mainstreaming objectives and the Better Bank Agenda should receive a very high priority. While it important for operational staff to continue to receive specialized courses on various aspects of environmental and social Safeguards, it is also important that the Upper Management of the Bank and members of the Board of Executive Directors have the opportunity to explore the complex dimensions of the economics and governance of sustainable development. A number of prestigious universities offer high-level executive workshops on development and environmental sustainability that the Bank should consider for its own senior executive and directors.

In addition, efforts to train COF staff should be strengthened. These activities also could involve country government personnel and the Banks civil society stakeholder depending on the subject matter.

Allocation of Resources

The Bank is now in a very good position to carry out the recommendations the Advisory Group has set forth in this Report. The 9th General Increase in the Resources of the Bank and the associated commitment to increase Bank lending for renewable energy, climate change, and environmental sustainability from 5% to 25% by 2015 provide both the financial resources and the explicit mandate to ensure that the full promise of the Bank's Environment and Safeguards Compliance Policy can be achieved.

7.0 FINAL STATEMENT

The Bank has a unique opportunity to exercise significant leadership in Latin America and the Caribbean in the coming years. As many of the countries of the Region have emerged from the recent economic crisis with remarkable dynamism, the challenges of poverty reduction, social equity, and environmental sustainability still accompany the positive trends of economic growth. Over the years, the Bank as had the experience and foresight to put in place the policies and acquire many of the tools it needs to provide vigorous support to its member countries in meeting these challenges. What is needed now is for the Bank to concentrate its energies on implementing the mainstreaming priorities of OP 703 so that it may become a genuine partner for sustainable development in the Region.

ANNEX 1

Independent Advisory Group on Sustainability
Terms of Reference
August 13, 2009

I. Background

The Inter American Development Bank ("IDB") Environment and Safeguard Compliance Policy ("The Environment Policy"), approved by the Board of Executive Directors in 2006, commits the Bank to an independent assessment of its implementation:

> *The Bank will report its experience with the implementation of this Policy and achievement of its objectives. The implementation of this Policy will be reviewed no later than three years after it enters into effect, as part of an independent assessment, which will include consultations with governments, private sector, beneficiaries, and civil society.*

Concurrent with this the Bank has initiated a request to its Members for an increase of capital. As part of this process the Bank recognizes the importance of undertaking both a review of its experience in implementing its environment policy, as well as addressing emerging sustainability issues in the region and the Bank's capacity to address these, as part of the Better Bank agenda.

To that end, the Bank is engaging the assistance of an Independent Advisory Group on Sustainability ("The Advisory Group") to provide advice and recommendations to the IDB on sustainability issues and concerns, both in response to the mandate of the Environment Policy and as part of the Bank's preparation for the requested capital increase.

II. Objectives

The purpose of the Advisory Group is to provide advice and recommendations to the IDB on the experience of the Bank with the implementation of this policy and the achievement of its objectives. Specifically the Advisory Group is asked to provide advice on:

- The IDBs efforts and performance in addressing the critical environmental issues affecting the Region;
- The improvements and/or amendments to the Environment Policy and the IDBs processes that may be necessary to better enable the IDB to address these critical environmental issues;
- The emerging sustainability issues in the region and how the Bank could effectively address them in the context of its Better Bank agenda; and
- How the Bank can play a sustainability leadership role in the Region

III. Membership

The Advisory Group is composed of 9 members:

Prof. John Agard

Ms. Rosalia Arteaga
Mr. Rafael Asenjo, Rapporteur
Mr. Israel Klabin
Dr. Tom Lovejoy, Chair
Dr. Juan Mayr
Mr. Carlos Manuel Rodriguez
Mr. Francis Sullivan
Ms. Emma Torres

Listed alphabetically

John Agard (Trinidad and Tobago)

Professor of Small Island Ecology and Head of the Department of Life Sciences at the University of West Indies; Former Chairman of the Environmental Management Authority (EMA) of Trinidad and Tobago.

Rosalía Arteaga (Ecuador)

President of the Foundation for the Integration and Development of Latin América (FIDAL); Executive Director of Foundation Natura Regional (FNR); Former President and Vicepresident of Ecuador; Former General Secretary of the Amazon Cooperation Treaty Organization (ACTO).

Rafael Asenjo (Chile)

Manager of a US$35 million project in charge of organizing Chile's protected areas system, Former Executive Director (the first) of the National Commission for the Environment in Chile (CONAMA) and former Executive Coordinator for the UNDP/Global Environment Facility.

Israel Klabin (Brazil)

Founder and President of the Brazilian Foundation for Sustainable Development; Former consultant to the Brazilian Government; and Former Mayor of Rio de Janeiro.

Thomas E. Lovejoy (United States)
Biodiversity Chair and Former President of The H. John Heinz III Center for Science Economics and the Environment; Former Chief Biodiversity Advisor to the World Bank; Chief Scientist and Counselor at the Smithsonian Institution; and Science Advisor to the Secretary of the Interior.

Juan Mayr (Colombia)
Former Minister of Environment, Colombia; Member of the UN Secretary General Panel of Eminent Persons on UN-Civil Society Relationships; and Member of the National Commission for Conciliation in Colombia.

Carlos Manuel Rodriguez (Costa Rica)
Regional Vice-President and Director of the Conservation Biodiversity Center for Mexico and Central America at Conservation International (CI); Former Environment and Energy minister for Costa Rica.

Francis Sullivan (United Kingdom)
Deputy Head of Group Sustainable Development and Adviser on the Environment at HSBC Holding plc; Member of the judging panel of the Whitley Awards for Nature Conservation; and Member of the Advisory Board of the Environmental Change Institute at Oxford University.

Emma S. Torres (Bolivia)
Economist, currently Senior Advisor to the Regional Director for Latin America and the Caribbean at the United Nations Development Program (UNDP).

ANNEX 2

DESCRIPTION OF IAG WORK PROGRAM

STAGE I

In the first phase of work, the Advisory Group met with key senior managers and professional staff of the Bank, first at its inaugural meeting in August 2009 and next at a special three day session from February 22-24, 2010. During this second session, the Advisory Group heard detailed technical presentations on Bank environmental programs and the implementation of OP703 from the following divisions of the Bank's Vice Presidency for Sectors and Knowledge(VPS): Environment, Rural Development and Disaster Risk Management; water and sanitation; energy; transport; the sustainable energy and climate change unit; and the environmental safeguards unit. The Structured and Corporate Financing Department and the Multilateral Investment Fund of the Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations (VPP) also presented to the IAG. IDB country managers for the Southern Cone, Central America, Mexico, Panama and the Dominican Republic, the Andean Region, and the Caribbean also met with the Advisory Group. These meetings and informal discussions with President Moreno and members of the Board of Director contributed to the IAG's deliberations underlying its Interim IAG Report issued before the Bank's Annual meeting at Cancun.

Stage II

During our second phase of work, the Advisory Group reviewed the implementation of the Bank's policy in eight borrowing member countries: Argentina, Bolivia, Brazil, Colombia, Guyana, Jamaica, Mexico and Panama. In brief 3-4 day visits to each, IAG members met with Bank country representatives and senior technical staff to discuss the implementation of OP703 and the environmental portfolio of the Bank in the country. They also held meetings with government officials and project execution agencies, civil society organizations, NGOs and representatives of private sector associations. These visits provided invaluable insights into the sustainability issues and priorities of the countries, the role of the Bank, and the perceived strengths and weaknesses of the application of the Bank's Environment and Safeguards Compliance Policy. Consultants assigned to each IAG team developed country trip reports that contributed substantively to the final deliberations of the Advisory Group.

During this second phase of work, the IAG members and supporting staff also met with representatives of NGOs interested in the policy and programs of the Bank. Two informal meetings were help with representatives of the Bank Information Committee, the World Wildlife Fund and Amazon Watch, and IAG members participated in the Bank's annual meeting with civil society held in Quito, Ecuador in early November 2010. As indicated earlier, IAG members also met with NGO representatives during the country visits. In addition to these meetings, we have received very useful written observations and recommendations from several NGOs during the course of our review.

STAGE III

The third phase of work was devoted to preparing the Final IAG Report. It involved two main activities: 1) a special 3-day facilitated workshop in which the country review consultants synthesized and integrated the findings of their reviews into a common set of issues and findings for consideration by the IAG, and 2) a 3-day Advisory Group meeting aimed at reviewing and discussing major findings and developing priorities and recommendations to the Bank for future action. Both these sessions were supplemented by very useful meetings with Bank staff designed to clarify and deepen the members understanding of particular issues and themes.

Following the members review and revisions to the Final Report, it will be presented to the Board of Executive Directors of the Bank, President Moreno and NGOs. The Advisory Group will be available for additional consultations throughout this period as the Bank develops the Action Plan called for by the work program of IDB 9.

SCHEDULE OF COUNTRY VISITS

COUNTRY	IAG PANELIST	CONSULTANT	DATES
Brasil	Tom Lovejoy Israel Klabin	Jaqueline N. Poole Alan D. Poole	07/26/2010 - 07/30/2010
Guyana	John Agard Rosalia Arteaga	Susan Granger	08/09/2010 - 08/13/2010
Jamaica	John Agard	Susan Granger	08/16/2010 - 08/20/2010
Mexico	Rafael Asenjo Emma Torres	Juan Dumas	10/11/2010 - 10/15/2010
Argentina	Rafael Asenjo Juan Mayr	Andres Garrett	08/31/2010 - 09/03/2010
Panama	Carlos M. Rodriguez	Jaime Echevarria	09/06/2010 - 09/10/2010
Bolivia	Rosalia Arteaga Juan Mayr	Andres Garrett	09/13/2010 - 09/17/2010
Colombia	Carlos M. Rodriguez Emma Torres	Juan Dumas	09/27/2010 - 10/01/2010

Meeting of IAG - Panelists	08/04/2009 - 08/05/2009
Meeting of IAG - Panelists	02/22/2010 - 02/24/2010
Meeting of IAG - Consultants	10/25/2010 - 10/27/2010
Meeting of IAG - Panelists	11/18/2010 - 11/19/2010