INTER-AMERICAN DEVELOPMENT BANK GROUP

CLIMATE CHANGE ACTION PLAN

2021–2025

IDB Group

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ABBREVIATIONS

ADV	Advisory Services Division
ASR	Annual Supervision Report
BDA	Budget and Administrative Services Department
CCAP	Climate Change Action Plan
CCB	Country Department Caribbean Group
CCS	Climate Change Division
CDC	Country Development Challenge
CIF	Climate Investment Funds
CMF	Capital Markets and Financial Institutions Division
CO_2e	carbon dioxide equivalent
COP	Conference of the Parties
CRA	Climate Risk Assessment
CRF	Corporate Results Framework
CS	Country Strategy
CSD	Climate Change and Sustainable Development Sector
CTF	Clean Technology Fund
CTI	Competitiveness, Technology, and Innovation Division
DCCRA	Disaster and Climate Change Risk Assessment
DEF	Development Effectiveness Framework
DELTA	Tool for Development Effectiveness Learning, Tracking and Assessment
DRM	disaster risk management
DVF	Development Effectiveness Division
ESDD	Environmental and Social Due Diligence
ESG	Environmental and Social Solutions Unit
ESPF	Environment and Social Policy Framework
ESR	Environmental and Social Risk Management Unit
ESW	Economic and Sector Work
EXR	Expanded Supervision Report
FIN	Finance Department
FLI	Financial Institutions Division
FMM	Fiscal Management Division
FNP	Financial Products and Services Division
GEF	Global Environment Facility
GCF	Green Climate Fund
GHG	greenhouse gas
HRD	Human Resources Department
ICD	Innovation and Creativity Division
IDB	Inter-American Development Bank
IDB Group	Inter-American Development Bank Group
IEN	Infrastructure and Energy Division
IFD	Institutions for Development Sector
iGOPP	Index of Governance and Public Policy
IIC	Inter-American Investment Corporation
INE	Infrastructure and Energy Sector
INO	Investment Operations Department
INT	Integration and Trade Sector
LAC	Latin America and the Caribbean
LTS	Long-Term low greenhouse gas emission development Strategy
MCR	Credit Risk Management Division
MDB	multilateral development bank
MIF	Multilateral Investment Fund
MRV	measuring, reporting, and verification

NBS	nature-based solutions
NDCs	Nationally Determined Contributions
NFGS	Network of Central Banks and Supervisors for Greening the Financial System
OC	Ordinary Capital
ORP	Office of Outreach and Partnerships
PA	Paris Agreement
PBL	Policy-Based Loans
PCR	Project Completion Report
PMR	Project Monitoring Report
PPP	public-private partnership
RMG	Office of Risk Management
RND	Environment, Rural Development, and Disaster Risk Management Division
SCL	Social Sector
SDGs	Sustainable Development Goals
SEG	Environmental, Social and Governance Division
SFD	Sector Framework Document
SIDS	Small Island Developing States
SPD	Office of Strategic Planning and Development Effectiveness
SPH	Social Protection and Health Division
SPK	Strategic Planning and Knowledge Division
SRP	Staff Retirement Plan
TC	technical cooperation
TCFD	Task Force on Climate-related Financial Disclosures
TMT	Telecommunications, Media and Technology
TRY	Treasury Division
VPC	Vice Presidency for Countries
VPS	Vice Presidency for Sectors and Knowledge

I. INTRODUCTION

As recognized in the Inter American Development Bank Group's (IDB Group)[1] *Second Update to the Institutional Strategy*,[2] climate change threatens the achievement of social and economic results across Latin American and Caribbean (LAC). Changes in temperatures, precipitation, the frequency and intensity of extreme events, discharges from rivers, sea levels, acidification, glacier coverage, and coral bleaching increase the risks to already vulnerable countries and could cripple the global economy—in particular, small island economies. Addressing these challenges requires unprecedented global, national, and local action.

The need for action was recognized in 2009 at the 15th Conference of the Parties (COP), when the Copenhagen Accord committed that US$100B would be made available annually by 2020 to help developing countries reduce greenhouse gas (GHG) emissions and address climate change impacts. In 2016, countries around the world ratified the Paris Agreement (PA), reinforcing the commitment to ensure the availability of financing for climate action. The PA aims to: (i) limit the global temperature rise this century to well below 2°C—aiming for 1.5°C—above pre industrial levels; (ii) reduce vulnerability and increase climate resilience; and (iii) make finance flows consistent with a pathway toward low-GHG emissions and climate resilient development. By 2017, all 26 of the IDB Group's borrowing member countries signed the PA, signaling the LAC region's strong interest and commitment to achieve its aims.

In 2012, multilateral development banks (MDBs) began tracking their financial contributions to proactive climate action using a **joint approach**. In 2016, the Governors of the IDB Group committed to the "goal of increasing the financing of climate change related projects in LAC to 30% of the IDB's and IIC's combined total approvals of loans, guarantees, investment grants, technical cooperation, and equity operations by December 31, 2020, subject to demand from borrowing countries and clients, and access to external sources of concessional financing"—often referred to as the *Bahamas Resolution*.[3] Within the context of this resolution, Governors also welcomed IDB Group Management's commitment to "improve the evaluation of climate risk and to identify opportunities for resilience and adaptation measures at the project concept stage and to accelerate efforts to mainstream climate change by 2018." Management subsequently approved the *Climate Change Action Plan 2016–2020 (CCAP 2016 2020)*,[4] which described actions to deliver on the *Bahamas Resolution*.

This document describes the IDB Group's progress since 2016 to support the region's need for low-carbon and climate-resilient development finance and its plan to raise climate ambition continuously in the region. The *Second Update to the Institutional Strategy* specifies that cross cutting issues, including climate change, continue to hamper development and that the IDB Group will renew its commitment to address them. The climate-finance goal set in the *Bahamas Resolution* has been extended through its inclusion in the *IDB Group Corporate Results Framework 2020–2023 (CRF 2020–2023)*.[5] At the same time, all MDBs have committed to complement tracking of their financial contributions to climate action with a new approach focused on the consistency of their support with long-term decarbonization and climate resilience efforts. To this end, MDBs have outlined a **common approach** to support countries to deliver on their commitments under the PA. There has also been increasing recognition of the need to measure the results of the IDB Group's climate action and the complexity it entails.

In November 2019, IDB Group Management presented the *IDB Group Framework for Action 2021–2025* (GN-2848-6) to lay the groundwork to update the *Climate Change Action Plan* and present emerging priorities for action. One key lesson learned from the implementation of the *CCAP 2016–2020* was that the different governance arrangements of the IDB vis-à-vis

1 The IDB Group is composed of two separate legal entities: the Inter-American Development Bank (IDB) and the Inter American Investment Corporation (IIC), which was rebranded as IDB Invest in 2017. The Multilateral Investment Fund (MIF), recently rebranded as the IDB Lab, is a trust fund administered by the IDB.

2 Document AB-3190-2.

3 Climate Change Goal of the IDB and the IIC (Resolution AG-6/16 and CII/AG-2/16, approved on April 10, 2016).

4 Document GN-2848-4.

5 IDB Group Corporate Results Framework 2020–2023 (GN-2727-12). The CRF is the primary tool for monitoring progress against the institutional strategy. The Board of Governors delegated approval of the CRF to the Board of Executive Directors in 2014 (Updating of the IDB's Corporate Results Framework (CRF): Proposal to Request Delegation of Authority from the Board of Governors (AB-2993)).

those of IDB Invest require different approaches. Recognizing this, the *CRF 2020–2023* applies the 30% IDB Group climate-finance goal separately to each institution as an annual floor. Together, these updates serve to raise the ambition of the goal while still being consistent with the *Bahamas Resolution*. Despite the unique approaches of the IDB Group members, to capture synergies, this action plan is presented jointly.

As a complement to the modernization of the Environmental and Social Policy Framework (ESPF),[6] the Bank prepared a Mainstreaming Action Plan,[7] as an umbrella for the present CCAP and for a Disaster Risk Management (DRM) Mainstreaming Action Plan and a Biodiversity Mainstreaming Action Plan (to be prepared). Disaster risk, biodiversity, natural capital, and climate change are tightly interlinked topics, and advances in one agenda often come with benefits in the two others. To facilitate linkages between these agendas, the Natural Capital Lab is now part of the Climate Change Division (CCS) and has an expanded workplan including biodiversity mainstreaming.

At the time this document was being prepared, the full implications of the COVID-19 pandemic were still emerging. At a global level, major climate and sustainability events are being rescheduled,[8] delaying essential international discourse. Countries' and clients' needs and demands may shift in unanticipated ways as the world moves from crisis response to recovery. Attendees of the 2020 Petersburg Climate Dialogue[9] were "unequivocal in their acknowledgement that rescuing the world from the COVID crisis was consistent with ensuring that the recovery continued to address the needs of the world to combat the climate crisis" (Petersberg Climate Dialogue XI 2020), and recent surveys show that the public believes climate change is as serious a crisis as COVID 19 in the long run and supports a green recovery (Ipsos Global Advisor 2020). The pandemic's biggest long term impact on climate change is expected to be through fiscal recovery packages, along with possible shifts in power within and across national and international institutions (Hepburn, et al. 2020). At the same time, a green recovery makes sense from an economic perspective—a recent IMF report presents evidence that renewable based electricity generation and energy efficiency enhancing investments are more job-intensive than the generation of electricity from fossil fuels and that climate change mitigation will result in substantial output gains in the second half of the century (Jaumotte, et al. 2020).

Future climate action at the IDB Group will be affected by the pandemic in unforeseeable ways. Considering this context, the *IDB Group Climate Change Action Plan 2021–2025* attempts to lay out a relevant approach to further incorporate climate change and sustainability in the IDB Group's work so it can have a lasting impact as the region attempts to build back more sustainably. The plan centers on maintaining ambitious climate action by presenting key priorities at the IDB Group and regional level. However, specific country pathways to low-carbon and climate-resilient development depend on individual country circumstances and, consistent with the demand-driven nature of the IDB Group, sector-specific options are presented in **Electronic Appendix II** as a menu of *possible* interventions to provide flexible support to countries. As countries shift from emergency response to recovery and develop their own climate change strategies under fiscal constraints, this information will be used to specify annual priorities that will be presented to the Board.

Including this introduction (Part I), this document has three Parts. Part II presents an overview of progress and lessons learned from implementing the *Bahamas Resolution* and the associated *CCAP 2016–2020*. Then, informed by Part II, Part III proposes the *IDB Group Climate Change Action Plan 2021–2025*. **Annex I** provides a summary table of actions.

6 Document GN-2965-23.
7 GN-3019-2. See **https://www.iadb.org/en/mpas**.
8 This includes the 2020 United Nations Climate Change Conference (COP 26) in Glasgow, the 2020 United Nations Biodiversity Conference (COP 15) in Kunming, and the 2020 International Union for Conservation of Nature World Conservation Congress in Marseilles.
9 The Petersburg Climate Dialogue is an established annual meeting that enables countries to have constructive exchanges in an informal atmosphere on the most pressing issues regarding international climate action. This year's dialogue focused on ways to enable a clean, resilient recovery from the COVID-19 pandemic and the subsequent economic downturn.

II. OVERVIEW OF PROGRESS AND LESSONS LEARNED

From 2016 to 2019, the IDB Group made substantial progress in implementing the Bahamas Resolution. This part presents an analysis of that progress and an overview of lessons learned or reinforced from the implementation of the *CCAP 2016–2020*. **Electronic Appendix I** provides further details and supporting evidence.

Aligning incentives to strategy, including institutional arrangements and setting concrete institutional goals, has served to increase the ambition of the IDB Group's climate change agenda. The IDB Group's active engagement in the international dialogue on climate change and sustainability has kept it at the forefront of the global sustainability agenda and provided learning opportunities. Concrete goals for the IDB Group have been set through the CRF.

Country and client demand are at the core of driving climate action. Engaging governments and private-sector clients on key policy issues, sharing knowledge, and concentrating on upstream actions in the operational cycle have focused on building country capacity and demand for climate action that is aligned to countries' long-term priorities. Having staff with climate change and related expertise present in country is essential for driving the agenda and strengthening the dialogue with sector ministries and the private sector.

Climate resilience is critical for sustainable development, particularly in a region as vulnerable as LAC and especially in Small Island Developing States (SIDS). Significant progress has been made to systematically integrate disaster and climate change risk assessment and management in operations through: (i) the Disaster and Climate Change Risk Assessment (DCCRA) methodology; (ii) the increased use of specialized operational tools; and (iii) the increased use of contingent loans for natural disasters. All of these have contributed to a steadily increasing share of the IDB Group's climate finance going to adaptation and dual finance. The IDB has worked closely with executing agencies in country, contributing to strengthening understanding of disaster and climate change risk. Gaps in social and climate change resilience overlap, and there are opportunities to address them simultaneously. Going forward, an increased focus is needed on the threats climate change poses for the financial system and on the adoption of robust governance frameworks that enable the implementation of effective disaster risk management and climate change adaptation public policies. Protecting natural assets will also be critical, particularly for forests, oceans, and coastal environments.

The climate change and natural capital/ biodiversity agendas overlap and should be addressed jointly. Research by the International Union for the Conservation of Nature and Oxford University suggests that nature-based solutions could provide around 30% of the cost-effective mitigation that is needed by 2030 to stabilize warming below 2°C. They also provide a powerful defense against the impacts and long-term hazards of climate change. Increasingly, governments and the private sector are linking these two agendas in their planning and programming. For example, at the pre COP meeting of parties in 2018, many countries, led by Costa Rica, signed on to a High Ambition Coalition for Nature to develop this workstream, and, more recently, the government of the United Kingdom commissioned an independent review to detail the economics of biodiversity and its contribution to climate change, growth, and livelihoods. Countries will require advice, technical assistance, and knowledge inputs to overcome silos and mainstream biodiversity and natural capital considerations into their climate change plans. IDB activities to support this will be outlined in the forthcoming *Biodiversity Mainstreaming Action Plan*.

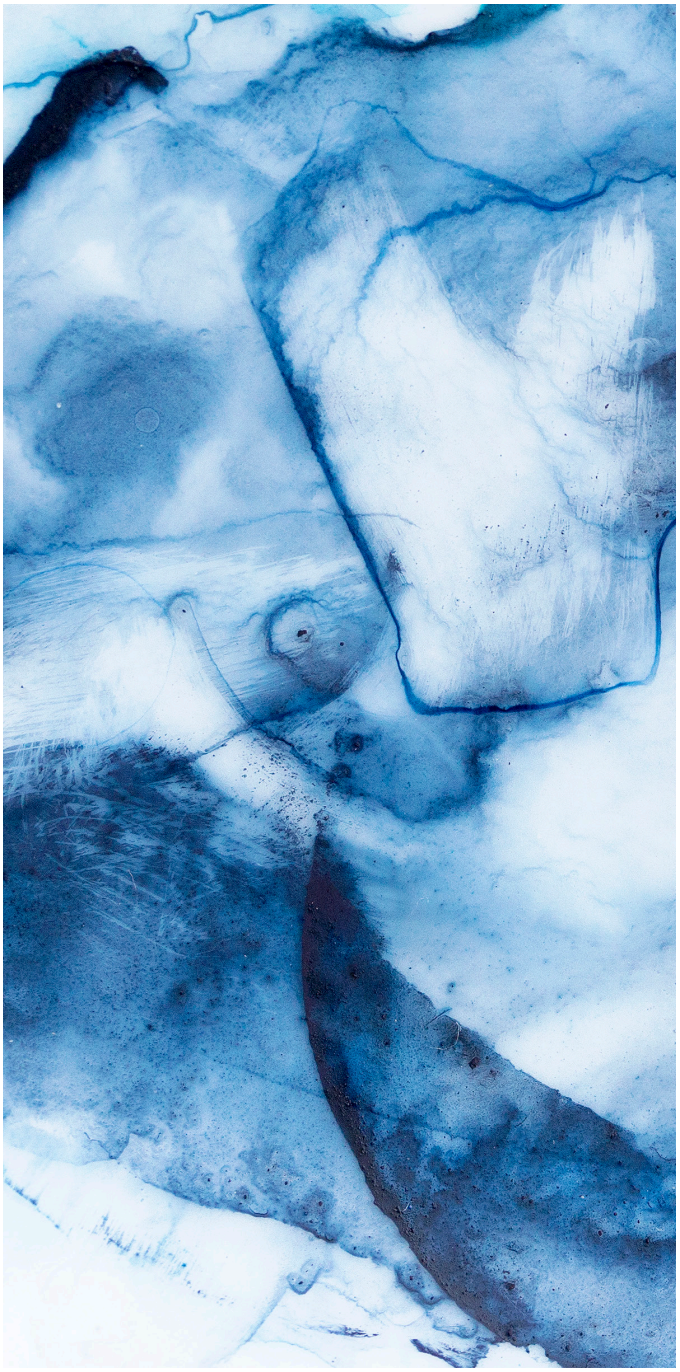
Delivering on climate goals requires everyone at the IDB Group to contribute and collaborate. Employee capacity building is critical for lasting progress in mainstreaming. Systematic efforts and tools for operationalizing climate change considerations are necessary for garnering these contributions. The collaborative approach that acknowledges the complexity and sector overlap of climate change is key.

A variety of types of resources are needed to drive climate action in LAC, and the IDB Group should leverage each of them according to its strengths. Partner resources, particularly those that are concessional, can serve to overcome

barriers to investment, but time spent accessing them can be substantial, and they should be directed toward driving transformation. Private-sector mobilization is essential to provide the scale of resources needed,[10] and further internal efforts are needed to systematically capture the IDB's efforts. There is room to expand the IDB Group's toolbox to meet country needs through new financial instruments, business models, and efforts to enhance the thematic bond market. Public-private partnerships (PPP) are a powerful tool to increase efficiency, resilience, and sustainability.[11] While difficult to measure, efforts to build country capacity for establishing sustainable financial systems have substantial potential for impact.

There is a clear need to look beyond IDB Group climate finance as an input for tracking execution, measuring project outputs and outcomes, and conducting targeted impact evaluations to learn what works and why. A transparent approach that relies on established IDB Group development-effectiveness tools and frameworks complemented with climate-tailored efforts could enable improved reporting and help inform decisions. The IDB Group will also need to complement its tracking of climate finance in projects with information on the consistency of its portfolio with respect to long term decarbonization and climate resilience goals.

The IDB Group can also engage employees and influence behavior through its corporate sustainability efforts. In 2007, the IDB was the first MDB to commit to an internal carbon-neutrality target. Corporate sustainability efforts to expand that target and involve employees in achieving internal goals have revealed the need for ongoing communication and education efforts about climate change.



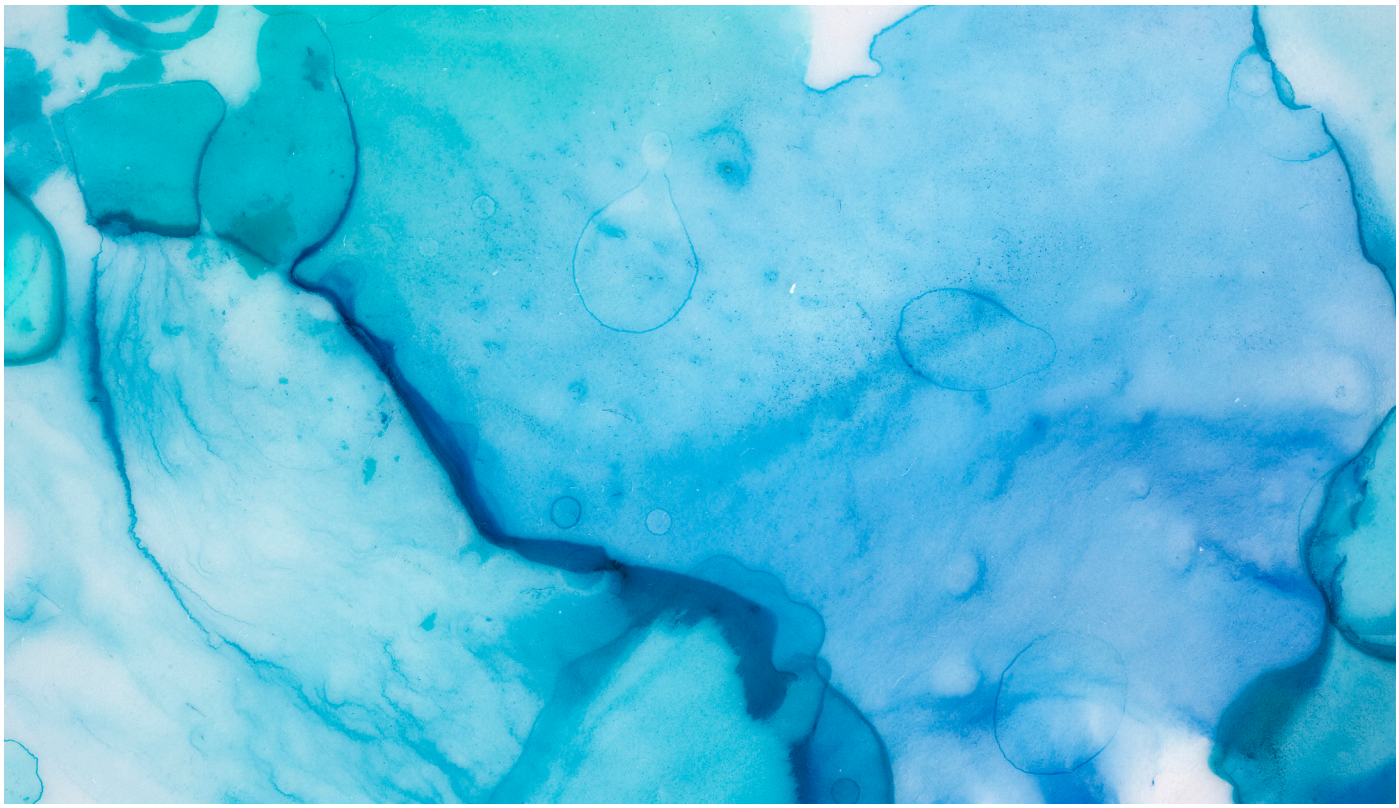
10 Relevant examples of the way IDB Invest has mobilized private-sector resources to provide scale within different sectors of the economy are **Campo Palomas Wind Power Project (UR-L1104)** in the energy sector, **LD Cellulose SA** in the agribusiness sector, and **Banco Pichincha** in the financial sector.

11 This mechanism has three main advantages: (i) it can mobilize private capital into sustainable projects when government's budgetary capacity is limited; (ii) it can serve as an efficient tool to implement new and cleaner technologies; and (iii) through risk mitigation, it can promote climate change enhancements to infrastructure assets (for example, to mitigate environmental risks, the private sector can identify means to increase resiliency or implement adaptation measures). In our region, the role of PPPs in promoting climate change has been clear: In terms of transport, this tool has been used to deploy electric buses in Bogotá and Santiago; in the case of energy, PPPs have been used to implement renewable projects in Argentina (La Castellana, Achiras); and in water and sanitation, the PPP of the Guayaquil water utility has helped increase the resiliency capacities of the city to flooding. The IDB has produced knowledge on this issue. Following the typical structure of a PPP process, from project identification to contract management and structuring, the IDB supported the government of Jamaica in addressing climate change issues at each stage of the project life cycle and in reviewing its PPP policy framework (Frisari, Mills, et al., Improving Climate Resilience in Public Private Partnerships in Jamaica 2020). Using this work as a basis, a toolkit for regional-level applications has been developed that identifies options for a low-cost and smooth implementation of a resilient PPP model (Frisari, Mills, et al., Climate Resilient Public Private Partnerships: A Toolkit for Decision Makers 2020).

III. IDB GROUP CLIMATE CHANGE ACTION PLAN 2021–2025

The IDB Group's *CCAP 2021–2025* presented here intends to guide the IDB Group's support to countries and clients as they work to respond to the challenges of climate change. It recognizes the need for all countries to reach net-zero emissions by 2050 (IPCC 2018) and emphasizes the need to address climate risk and ensure resilience. It is also useful for understanding the IDB Group's contributions to the global climate change agenda. Tackling climate change requires action in the public and private sectors, as well as coordination between them. The *CCAP 2021–2025* integrates the approach of the three windows of the IDB Group, bring together public, private, and innovative actions. There are important synergies between public sector policy and planning and private sector investments, with the IDB Lab playing a particularly important role in testing innovative actions in the areas of biodiversity, resilience, hydrogen, and retraining for the just transition, among others.

Based on the *Bahamas Resolution* and the continued importance of climate change as a cross-cutting issue of the *Second Update to the Institutional Strategy*, the 30% climate-finance goal has been extended as an annual minimum (floor) and included in the *CRF 2020–2023* (see **Box 1**). However, it has become increasingly clear that IDB Group climate finance must be complemented with other measures to ensure the consistency of all financial flows with low carbon and climate-resilient development. This plan presents actions aimed at helping countries and clients achieve low-carbon and climate-resilient development. It draws on lessons learned from the *CCAP 2016–2020*. Notably, future climate action at the IDB Group is inextricably linked to other ongoing processes, including the still emerging global response to COVID-19 and the implementation of the recently approved ESPF. Considering the emerging global response to the pandemic, as part of its annual progress briefings on the CCAP 2021 2025, the IDB Group will identify annual priority actions to help member countries build a better future and allow the plan to remain relevant amidst shifting country and client demand. Climate change specialists are relocating to country offices to facilitate country dialogue on climate change issues, build demand for low-carbon and climate resilient operations, and support the execution of the existing portfolio.



BOX 1. CLIMATE FINANCE IN CONTEXT

The term "climate finance" is often used interchangeably to refer to different concepts. For clarity, throughout this document, the following distinct terms are used:

1. *Sustainable finance:* Refers to restructuring global and country financial systems to guide resources toward delivering sustainable development.
2. *Climate finance:* Refers to local, national, or transnational financing—drawn from public, private, and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change (UNFCCC 2020).
3. *MDB or IDB Group climate finance:* Refers to amounts MDBs or the IDB Group commit to climate change mitigation and adaptation activities in the development projects they finance. These amounts are estimated following the **MDB climate-finance tracking methodology** and count toward the IDB Group's 30% goal.

MDB climate finance includes amounts from:

a. *MDB own-account:* In the IDB's case, this refers to Ordinary Capital (OC) and OC Strategic Development Programs.

b. *Partner resources:* Refers to the volume of operations supported through dedicated climate- finance entities such as the Global Environment Facility (GEF) and Climate Investment Funds (CIF). In the IDB's case, this means single-donor trust funds, multidonor trust funds, financial intermediary funds, and project specific grants.

MDB climate finance does not include complementary amounts from the following, although they are often reported alongside it:

a. *Public co-finance:* Refers to investments made by a public entity, including multilateral and bilateral financial institutions, export credit agencies, and any other institution whose primary purpose is to benefit or promote a specific national interest, regardless of ownership (MDBs 2018).

b. *Private direct mobilization:* Refers to financing from a private entity on commercial terms due to the active and direct involvement of an MDB leading to commitment (MDBs 2018).

c. *Private indirect mobilization:* Refers to financing from private entities provided in connection with a specific activity for which an MDB is providing financing, where no MDB is playing an active or direct role that leads to the commitment of the private entity's finance (MDBs 2018).

The *CCAP 2021–2025* is presented in four sections. Section A explains the MDB common approach to addressing the challenge of climate change, structured around six building blocks, and the corresponding IDB Group actions. Section B gives an overview of sector considerations. Section C presents the approach for monitoring this action plan, including indicators. Finally, Section D briefly considers risks, resources, and next steps for implementing the plan.

A. MDB Building Blocks and Corresponding IDB Group Actions

At the One Planet Summit 2017, MDBs and the International Development Finance Club **committed** to a shared approach to addressing the challenge of climate change. This was followed by a joint declaration in 2018 in which MDBs outlined six **building blocks** as the foundation for this approach: (1) provide policy support; (2) align operations with mitigation and temperature goals; (3) align operations with climate resilient development pathways; (4) accelerate contributions to the transition through climate finance;

(5) report; and (6) align internal activities (see **Figure 1**). At the United Nations Climate Action Summit in 2019, MDBs **announced** their intention to raise their collective ambition and that of their clients. The MDB building blocks are already well aligned to the mainstreaming work the IDB Group is doing to advance the climate change agenda.

This section presents a brief description of each building block, its context, and corresponding actions for each window of the IDB Group. A summary of actions and which window is responsible for implementing them is presented in **Annex I**.

FIGURE 1. MDB BUILDING BLOCKS

1. POLICY SUPPORT

The policy support building block focuses on engagement and policy development support for countries and other clients, building on efforts to support the revision of NDCs and put in place long term strategies (LTSs).

To transition to net-zero emissions by 2050, countries will need to undertake profound socioeconomic transformations, which must begin without delay (IPCC 2018). The *Second Update to the Institutional Strategy* recognizes that LAC needs to transition to net-zero emissions. Under the PA, countries have agreed to periodically submit Nationally Determined Contributions (NDCs) and strive to formulate and communicate long-term low GHG emission development strategies (LTSs). NDCs represent an important part of the process, but thus far, they are collectively inconsistent with global emissions pathways that will limit the global temperature increase to 1.5–2°C (UNEP 2017). NDCs' short time horizons (three years) and focus on marginal improvements may even risk investing in assets that are incompatible with long-term decarbonization and could later be stranded. A long-term perspective is essential for determining the consistency of investments with limiting the temperature increase and guiding countries' updates to their NDCs. The formulation of LTSs requires technical capacity at the local level that is not always available and must include a wide range of stakeholders to foster a shared vision of the future. **Action:** Support member countries to develop LTSs, and update NDCs to be consistent with long-term temperature objectives (Climate Change Division (CCS), with IDB-wide collaboration). **Action:** Support private sector in designing sustainable strategies aligned with LTSs and NDCs (Advisory Services Division (ADV) with IDB Invest–wide collaboration). **Action:** Expand the scope of analysis on NDC design and implementation, including fiscal and sectoral policies and regulations, and publish the findings (CCS).

An effective policy and institutional context are essential to implement the LTSs. LAC countries have advanced toward implementing the PA. Challenges remain, though, for integrating NDC commitments into domestic legal and institutional frameworks and defining means of implementation (e.g., national and subnational coordination mechanisms). Policies related to fiscal management (including pro-poor energy subsidy reform and environmental taxes), promoting a just transition, innovation, and transparency, play a strategic role in supporting countries to create enabling conditions toward further advancing their domestic climate policies. To increase ambition, NDCs need to be: (i) designed with effective stakeholder engagement to build consensus and reflect sector development priorities; (ii) used to inform short-term policy and institutional and

regulatory actions at the ministries of finance and line ministries; (iii) executed and monitored by an effective institutional framework that takes into account the macroeconomic situation (including the fiscal impact of COVID-19); and (iv) consider the roles of the private and financial sectors. There is a risk that COVID 19 may affect the timing and resources for some countries to develop LTSs and update their NDCs. The IDB has helped some countries establish LTSs and implement them, but there is still much more to do (Figure 2).[12] **Action:** Support countries to establish effective policies for climate action, through policy based loans (PBLs) and other instruments (CCS, the Environment, Rural Development, and Disaster Risk Management Division (RND), and the Fiscal Management Division (FMM)).

12 The IDB Group is also supporting the implementation of existing NDCs in 25 countries by financing initiatives that are aligned with their NDCs and other climate commitments.

FIGURE 2. STATUS OF UPDATING NDCS, DEVELOPING LTSS, AND RELATED STRATEGIES BY COUNTRY

Country	Updated NDC	LTS Decarbonization	LTS Adaptation	Public Budget Expenditures Climate Analysis	Climate Finance Strategy	Implementation Plan or NDC Road Map	National Adaptation Plan or Similar	Climate Change Law
Argentina	●	○	○	○	○	●	●	●
Bahamas	●	●	●	●	●	●	○	●
Barbados	○	●	●	○	●	○	○	○
Belize	○	●	●	●	○	○	○	●
Bolivia	○	●	●	○	●	○	●	●
Brazil	●	●	●	○	○	○	●	●
Chile	●	○	○	●	●	○	○	●
Colombia	○	○	○	●	●	○	●	●
Costa Rica	○	●	●	○	●	○	●	●
Domican Republic	○	●	●	○	○	●	●	○
Ecuador	○	●	●	●	○	○	●	●
El Salvador	○	●	●	○	●	●	●	●
Guatemala	●	●	●	●	○	●	●	●
Guyana	●	○	●	●	●	●	○	●
Haiti	●	●	●	●	●	●	●	●
Honduras	○	●	●	●	●	●	●	●
Jamaica	●	○	●	●	●	○	○	●
Mexico	○	●	●	●	●	●	●	●
Nicaragua	●	●	●	●	○	●	●	○
Panama	○	○	●	○	●	○	●	○
Paraguay	○	●	●	●	○	○	○	●
Peru	○	○	○	○	○	○	○	●
Suriname	●	●	●	●	●	●	○	●
Trinidad and Tobago	●	●	●	●	○	●	●	●
Uruguay	○	●	●	●	○	●	○	○
Venezuela	○	●	●	●	●	●	●	●

Key: ● No work done; ○ In progress; ● Completed; IDB Supported

Note: Information as of September 2020.

Countries need long-term plans for climate resilience. Considering adaptation in LTSs is especially important for LAC given its vulnerability to climate change. Governments are starting to incorporate climate resilience and adaptation into their planning processes and projects. However, the region still faces significant challenges, including limited institutional capacity, lack of comprehensive information to inform decisions, limited access to financial resources for adaptation, weak coordination among stakeholders, and lack of awareness in the private sector. Efforts continue to vary by country (Figure 2). **Action:** Support member countries to incorporate adaptation into LTSs (CCS with IDB-wide collaboration). **Action:** Increase awareness among private-sector clients of the benefits of embedding resilience into their operations (ADV with IDB Invest–wide collaboration).

Climate change is a key driver of innovation in some sectors, but there is room for improving public policies to further promote that innovation. The *Second Update to the Institutional Strategy* promotes accelerating and expanding investments in the preconditions and analog complements of digital technology adoption. Technological innovation offers an

avenue to develop solutions that can lead to positive impacts in both the mitigation and adaptation agendas in ways that are unknown today. Moving forward, developing incentives for the science, technology, and innovation system to concentrate efforts for climate action will be fundamental. The private sector offers key opportunities to promote an enabling environment where new market-driven solutions for climate can emerge. With most innovation flowing from the private sector, accelerating this process of development of solutions is key. IDB Invest has created a product offering financial institutions the liquidity they require during the COVID-19 crisis through a subordinated zero-coupon bullet loan if they meet two climate milestones by the end of the five-year tenor: (i) support, align with, and annually disclose according to Task Force on Climate-related Financial Disclosures (TCFD)[13] recommendations; and (ii) meet pre-determined increased green lending portfolio targets or reduce portfolio exposure to high-emitting sectors by a pre determined percentage. Additionally, if the financial institution meets some of the requirements but not all, it is eligible for a reduced-interest rate as defined in the term sheet. Such innovative products provide key private sector players with the incentives they need to rapidly advance on long-term climate goals. **Action:** Promote policies that address market barriers, foster competition, provide incentives for green innovation and sustainable investments, and aim to achieve multiplier effects (Competitiveness, Technology and Innovation Division (CTI), Connectivity, Markets and Finance Division (CMF), and CCS). **Action:** Deploy initiatives to accelerate the development of early-stage solutions for environment and climate action (IDB Lab, the Natural Capital Lab, and Innovation and Creativity Division (ICD)). **Action:** Develop and deploy instruments that promote state-of-the-art technology, incentivize and scale sustainable finance solutions, and nurture innovation for climate applications (ADV, ICD, and TMT).

High-quality data and analysis are required for robust and transparent decision-making. The *Second Update to the Institutional Strategy* indicates that institutional transparency is essential for the effective delivery of public services and building an environment that encourages private-sector development. The need for transparency applies equally to climate policy, but decision-making processes must also factor in that climate change impacts are characterized by deep uncertainty. **Action:** Offer support to strengthen country measuring, reporting, and verification (MRV) systems to meet the enhanced transparency requirements defined in the PA (CCS).

The complexity of these issues underscores the need to take a cross-cutting approach to integrate climate change into policy issues. The IDB Group can play a key role in providing comprehensive development solutions. **Action:** Deepen collaborative efforts with the Institutions for Development Sector (IFD), the Integration and Trade Sector (INT), and the Social Sector (SCL) and across the IDB Group (CCS).

2. ALIGNMENT OF OPERATIONS TO THE PARIS AGREEMENT

The MDB approach on alignment to the PA includes two building blocks focused on making operations consistent with the countries' low carbon and climate-resilient development pathways. One of the building blocks is focused on emissions, and the other, on resilience. In addition, a number of overarching issues apply to both emissions and resilience. This subsection (subsection 2) addresses these overarching issues, whereas subsections 3 and 4 address the emissions and resilience aspects.

Country Development Challenges (CDCs), Country Strategies (CSs), and Sector Framework Documents (SFDs) provide upstream opportunities to further align the work of the IDB Group with the decarbonization and resilience goals. CDCs and CSs have the potential to consider the countries' long term decarbonization perspectives, the constraints and opportunities for achieving a just transition, the key physical climate risks in the country, and the readiness of the country's infrastructure (i.e., whether infrastructure

13 In 2015, in response to a request from G20 ministries and central bank governors, the Financial Stability Board established the TCFD to develop voluntary, consistent climate related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks. In 2017, eight central banks established the Network of Central Banks and Supervisors for Greening the Financial System (NFGS) to evaluate the climate risk exposure as a systemic risk for the financial sector. It has since grown to more than 70 members, who are developing tools and methodologies for scenario analysis, stress testing, and approaches to prudential supervision. The network now includes representatives from Brazil, Chile, Colombia, Costa Rica, and Mexico (whose Central Bank was among the founding members).

is being designed taking into account the need to decarbonize and to manage climate change impacts). As SFDs are updated, the IDB will need to consider: (i) the sector's role in reaching net-zero emissions; (ii) the effects of expected changes to sector policies and technology; (iii) the transition risks faced by the sector; (iv) the sector's contributions to a just transition; (v) the vulnerability of the sector to natural disasters and uncertain climate change impacts; and (vi) the tools available to face those risks. **Action:** Systematically provide support services to teams developing CDCs, CSs, and SFDs to reflect long-term decarbonization and climate risk and resilience objectives (CCS and the Environmental and Social Risk Management Unit (ESR)). **Action:** Further integrate the climate agenda in CDCs and CSs, according to country needs (CCS, the Vice Presidency for Countries (VPC), and ESR).

MDBs are collaborating to develop common approaches for PA alignment that reflect long-term temperature (decarbonization) and resilience objectives. The IDB Group is working with other MDBs to develop approaches to characterize the consistency of operations with the countries' long-term low-carbon, climate-resilience development pathways.[14] Different methodologies are needed to assess operations that utilize different financial instruments. Some of the methodologies are currently being tested internally. At the IDB, the methodologies for direct investment operations are expected to be finalized in 2021, applied in 2022, and reported on in 2023, followed by methodologies for intermediated finance and policy loans. Action: Integrate PA alignment into IDB and IDB Invest operations procedures (CCS, ADV, and Environmental, Social and Governance Division (SEG)).

The sovereign guaranteed nature of IDB lending suggests that it will be able to manage most climate-related risks in its portfolio by focusing on making its operations consistent with decarbonization and climate-resilience objectives. Nevertheless, the IDB does face residual climate exposures that could potentially pose reputational and credit risks. There are clear examples of the relationship between sovereign risk and extreme weather; these are especially visible in Caribbean economies (Mallucci 2020). In fulfilling its mandate to support member countries in addressing their development needs, the Bank may increase its own climate-related exposure. Fortunately, there is also evidence that enhancing structural resilience through mitigation and adaptation, strengthening financial resilience through fiscal buffers and insurance schemes, and improving economic diversification and policy management can help cope with the consequences of climate change for public finances in particular and economic development in general (Cevik and Jalles 2020). An internal working group of CSD and the Office of Risk Management (RMG) has been formed to consider how to manage the residual climate exposure of the IDB. In addition, a new Environmental and Social Risk Management Unit (RMG/ESR) has been established with responsibility for quality assurance of the environment and social solutions and the risk management analysis of the sovereign-guaranteed loan portfolio.[15] There are also climate-related risks to the IDB Group's liquidity and treasury operations and its own physical assets (e.g., offices). Sustainability-related exposures are monitored by the Investment Team (FIN/TRY) and the Credit Risk Management Unit (RMG/RMC). **Action:** Further evaluate the applicability of the TCFD for the IDB (RMG, the Finance Department (FIN), the Budget and Administrative Services Department (BDA), and CCS). **Action:** Define a methodology for a climate change risk assessment of the portfolio (RMG, SPD, and CCS). **Action:** Conduct a new materiality assessment to update the indicators for the IDB's annual **Global Reporting Initiative** annex to reflect the findings of the working group (CCS with IDB wide participation).

At IDB Invest, transition and physical risks at the portfolio level are a concern, given that private companies may default or renegotiate in cases where investments and projects do not deliver financially. IDB Invest is working to align with the TCFD recommendations, signaling to the market and to member countries its commitment to managing climate-related risk and enhancing climate risk management practices at the institutional level. Following the TCFD recommendations, IDB Invest will launch an internal carbon shadow pricing exercise to measure in dollar terms the transition risk of its existing portfolio to a low-carbon economy. Additionally, IDB Invest is applying a climate

14 These methodologies include one to assess alignment with the temperature objective (decarbonization), described on page 17, and one for resilience, described on page 20.

15 Institutional Arrangements for Environmental and Social Sustainability (GN-2965-10).

physical and transition risk assessment to all direct investments with the goal of managing risks at transaction level and classifying the portfolio into low, medium, and high exposure projects. **Action:** Align with TCFD recommendations by drawing on a cross functional working group and make disclosures on progress in upcoming annual reports (ADV and SEG, with IDB Invest wide collaboration).

Sustainable practices in the procurement of goods and services financed by projects are another important means of making operations low-carbon and climate-resilient. The *Policies for the Procurement of Goods and Works Financed by the IDB*,[16] approved in 2019, includes a provision on sustainable procurement and the IDB has a *Green Procurement Manual* to support project teams. **Action:** Continue training staff to apply sustainable practices in project procurement (FMP and CCS).

3. MITIGATION AND TEMPERATURE GOALS

The mitigation and temperature goals building block focuses on making operations consistent with countries' low carbon development pathways, including assessing operations against transition risks and opportunities related to climate change. A net zero carbon economy is technically possible. Governments, international agencies, academics, and think tanks concur that to get there it is necessary to preserve and regenerate natural carbon sinks and restore other carbon-rich ecosystems, to produce zero carbon energy and undertake massive electrification, and to increase the share of public transportation and non-motorized transportation in total mobility and reduce demand for transport (IDB 2019).

The region needs a territorial approach to prioritize a better understanding of the role agriculture, land use, and forestry play in regional decarbonization pathways. Almost 50% of emissions in the region are in land use, land-use change, and forestry, compared with 19% globally. LAC is the only region whose share of land area used for agriculture has increased notably between 2000 and 2015—an increase that coincides with a roughly equivalent decrease in the region's share of land area under forest cover over the same period. The dynamics underlying land-use changes and conversion of forests to agricultural lands are complex, touching on poverty, inequality, land rights, traditional communities, technical capacity, food security, ecosystem services, markets and market failures, environmental governance, and trade, among others. Therefore, systems and policy frameworks are needed to drive a more sustainable use of land. In 2019, seven Amazon countries signed the Leticia Pact to strengthen coordination on the sustainable development of the Amazon.[17] **Action:** Increase operations supporting agriculture, forestry, land use, and coastal zone management, as agreed in the CRF (RND and CCS). **Action:** Develop a platform to better visualize activities and parties working on the Amazon, as well as underlying data on environmental and social conditions (IDB Lab and Natural Capital Lab).

To avoid carbon lock-ins, governments need to act early and consider all sources of GHG emissions to reduce emissions by focusing now on options that are consistent with a rapid transition to net zero emissions. The decarbonization of energy systems requires massive investments in renewable energy and energy efficiency. Several countries in Latin America have successfully led auctions that helped decrease the cost to generate electricity from renewable sources (particularly wind and solar) while costs to store energy (including batteries) continue to drop. Energy efficiency measures also play an essential role in reducing emissions in the sector. Many technology choices that marginally reduce emissions, such as using natural gas to replace coal power plants or efficient gasoline cars to replace inefficient gasoline cars, despite reducing emissions in the short term vis-à-vis a business-as-usual scenario, would still lead to substantial committed emissions (IDB 2019). In LAC, natural gas represents 52% and 63% of committed emissions from existing and planned power plants,

16 Document GN-2349-15.

17 The Leticia Pact seeks the integration of countries that share the Amazon biome to generate joint responses to disasters that can occur in the region by strengthening regional action to tackle deforestation, selective logging, and illegal exploitation of minerals; accelerating restoration and reforestation initiatives in degraded areas; strengthening the mechanisms that support and promote the sustainable use of forests, value chains, and other sustainable production approaches; and enhancing the strong leadership of local communities in the sustainable development and conservation efforts of the Amazon region, among other commitments. The initiative is devoted to mobilizing public and private resources, including from the multilateral banks, to implement this initiative. Its signatories are Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, and Suriname.

respectively. Replacing planned coal plants with natural gas plants would only reduce committed emissions by around 10% (R. González-Mahecha, et al. 2019). The decarbonization of transportation, buildings, and industry involves challenges such as electrification (or use of hydrogen), the development of new processes for emissions-intensive sectors such as cement and steel, and the accelerated transformation of linear economic models to ones that maintain or regenerate the value of products, materials, and resources for as long as possible while minimizing the generation of waste (circular economy). In particular, the decarbonization of the electricity grids will require providing increasing flexibility to accommodate a growing share of electricity generation from variable renewable energy sources while ensuring security of supply and inclusiveness. **Action:** Provide support to governments to implement decarbonization technologies in the different sectors (Infrastructure and Energy Sector (INE), CTI, and CCS). **Action:** Develop decarbonization financing schemes for private companies (and, when possible, their supply chains) to transition to low-carbon energy and transportation (ADV and Infrastructure and Energy Division (IEN)). **Action:** Design insurance mechanisms (within purchase power agreement contracts or standalone) to address renewable energy first mover risk in new markets as well as de-risking schemes for battery storage and green hydrogen (ADV and IEN).

Decarbonization will create uncertainty for fossil fuel producers and has important implications for fiscal management policies. If the world implements the goal of limiting the temperature increase to 1.5°C, global oil demand will be reduced drastically, affecting fiscal revenues from oil extraction. Between 66% and 81% of oil reserves in LAC would remain unused by 2035, and in this case, many LAC governments that currently rely on oil for fiscal revenues would need to replace them with other revenue sources (Solano-Rodriguez, et al. 2019). Current low oil prices create a favorable environment for supporting oil-exporting countries to diversify their economies away from fossil fuel dependence and present circumstances for cutting expensive and market-distorting energy subsidies. In the longer term, some countries in the region (e.g., Uruguay) will also need to reform fiscal strategies that currently include generating revenues from taxing gasoline and diesel consumption because this tax base will be eroded as they decarbonize. To this end, FMM and CCS have established an interdepartmental working group to develop and implement a work program to prioritize climate change issues in fiscal management. A coordinated effort is needed in the policy dialogue with governments to emphasize the links between climate change, fiscal management, and social protection, considering also the negative fiscal impact of COVID-19. **Action:** Further prioritize climate change issues in fiscal management (FMM and CCS, in coordination with INE and the Social Protection and Health Division (SPH)).

Countries need to take steps to decarbonize their economies in a socially acceptable way to ensure compatibility with other sustainable development goals and ensure an inclusive and just transition. Unmanaged impacts on concentrated groups could jeopardize the political economy of emission reduction policies (Vogt-Schilb and Hallegatte 2017). Stranded assets and stranded jobs are a particularly important risk. Rising temperatures can also affect worker productivity (e.g., construction and agriculture) (Kjellstrom, et al. 2019). Beyond political feasibility, care should be taken to protect vulnerable populations and ensure that the transition to a low carbon economy is inclusive and just. Further research is needed at the country level about aligning fossil fuel subsidy reform with poverty-reduction and energy-access goals. **Action:** Develop studies, dissemination activities, and training—including policy dialogue—to improve knowledge and promote a just transition to a low-carbon economy (SCL and CCS).

The MDB approach for assessing the consistency of operations with the temperature (decarbonization) objective will rely on: (i) a list of activities considered to be always aligned regardless of country context; (ii) a list of activities known to be systematically inconsistent (e.g., upstream fossil fuel exploration);[18] and (iii) a

18 Per the ESPF, the IDB will not knowingly finance, directly, or indirectly through financial intermediaries, projects involved in activities that are inconsistent with the IDB's commitments to address the challenges of climate change and promote environmental and social sustainability, such as: (i) thermal coal mining or coal fired power generation and associated facilities; (ii) upstream oil exploration and development projects; (iii) upstream gas exploration and development projects. Under exceptional circumstances and on a case by case basis, consideration will be given to financing upstream gas infrastructure where there is a clear benefit in terms of energy access for the poor and where GHG emissions are minimized, projects are consistent with national goals on climate change, and risks of stranded assets are properly analyzed.

questioning framework to assess remaining activities in the context of country pathways and the latest climate science.[19] IDB Invest has developed a decision tree for investment officers to use proactively, while doing outreach and building the pipeline in the manufacturing, agriculture, and vehicle financing sectors. IDB Invest will use this tool along with the MDB framework and NDCs to determine the alignment of each transaction prior to approval and at the portfolio level as a post-investment evaluation. The tool will enable IDB Invest to monitor its progress against its commitment to align its investing and portfolio. **Action:** Develop a screening tool for investment alignment with low-carbon pathways to be included in client selectivity criteria in all sectors and train investment officers to use it (ADV and Strategic Planning and Knowledge Division (SPK)).

Estimating gross and net GHG emissions can allow the IDB Group to better understand the impact of its operations. At the IDB Group, estimates of gross emissions are required for projects that produce more than 25,000 tons of carbon dioxide equivalent (CO_2e) annually.[20] In some cases, net emission estimates are also required for projects to obtain access to external concessional climate finance. Both gross and net emissions are reported externally. GHG emissions estimates are most valuable when used to identify operations that can support countries' long term decarbonization pathways, which typically center on understanding the expected performance of an operation vis-à-vis the desired pathway. GHG emissions estimates can be used to estimate the GHG emissions intensity of IDB Group operations and to include shadow carbon pricing in economic analyses and risk whenever relevant,[21] although the variables used to estimate GHG emissions have some uncertainty. **Action:** Continue to estimate GHG emissions for operations and consider options for using the data to inform decisions (Environmental and Social Solutions Unit (ESG) and CCS, in consultation with the Office of Strategic Planning and Development Effectiveness (SPD)). **Action:** Develop a GHG-emissions tracking tool for transactions that can provide information on the alignment of the portfolio to long-term scenarios (ADV and SEG). **Action:** Design processes for the credit-risk division to consider material climate risks (SEG and Credit Risk Management Division (MCR)).

4. ADAPTATION AND CLIMATE RESILIENCE

The adaptation and climate-resilience building block focuses on managing physical climate change risks and identifying opportunities to make operations more climate resilient. It further seeks to support a significant increase in countries' and clients' abilities to adapt to adverse climate change impacts.

Climate change impacts society and natural resources through both gradual impacts and more frequent and more intense climate-related shocks (IPCC 2014b). Over time, temperatures will increase, sea levels will rise, water-resource availability will change, oceans will acidify, biodiversity will be reduced and its distribution modified, mass extinctions will occur, and crop yields will vary (projected to decline in most places and increase at low latitudes), among other effects (IPCC 2014b). Climate shocks, including heat waves, droughts, floods, hurricanes, and wildfires, affect societies by disrupting ecosystems and food and water supplies, damaging infrastructure and productive capital, and increasing mortality and morbidity. Exacerbated conflict, humanitarian crisis, and migration are possible impacts (Burke, Hsiang and Miguel 2014). Development in LAC countries is and will continue to be affected in several ways. In Central America and the Caribbean, extreme events such as hurricanes and droughts threaten livelihoods and infrastructure. In the Andes, changes in water availability due to changing runoff and glacier retreat impact rural and urban populations and major economic activities such as mining and hydropower. The Amazon faces forest degradation

19 The action dealing with the implementation of this approach is described on page 15.

20 The cut-off value of 25,000 tons of CO_2e is consistent with the **recommendations** of the Group of International Finance Institutions for GHG accounting.

21 While the IDB does not have a mandatory policy or guideline for the use of shadow carbon prices, project teams that do include shadow carbon prices in their economic analysis are recommended to use low and high estimates following the ***Report of the High-Level Commission on Carbon Prices***. SPD recommends that project economic analysis use a low and high estimate of the carbon price starting at US$40/$tCO_2$ and US$80/$tCO_2$, respectively, in 2020 and increasing to US$50/$tCO_2$ and US$100/$tCO_2$ by 2030. Given that the High-Level Commission report does not prescribe any specific carbon price values beyond 2030, the low and high values on carbon prices are extrapolated from 2030 to 2050 using the same growth rate of 2.25% per year that is implicit between 2020 and 2030, leading to values of US$78/$tCO_2$ and US$156/$tCO_2$ by 2050.

and biodiversity loss, which threaten local communities. In the Southern Cone, commodities exports are at risk due to loss of production from intensive agriculture. And in Mexican dry subtropical regions and northeastern Brazil, increasing drought threatens rural livelihoods and health (Potsdam Institute for Climate Impact Research and Climate Analytics 2014).

Climate change affects food security and increases poverty in the region. In 2019, 3.4 million people in the LAC region were facing severe food insecurity, and it is estimated that in 2020, due to the COVID-19 pandemic, 10 million more people will be facing poverty and hunger in 11 countries of the region (especially in Haiti, the Dry Corridor of Central America, and small islands of the Caribbean (World Food Program 2020)), which favors more migrations. **Action:** Promote policy changes toward more resilient and inclusive agriculture systems; support small and medium producers to recover their capacities, knowledge, and tools to produce food; scale up successful models of climate-resilient technologies and practices in the region; redesign current extension systems and types of technology being promoted; and recover the organizational base as a platform to achieve competitiveness to access financing and markets (local or external) (RND, Investment Operations Department (INO), and IDB Lab).

A strong governance framework for disaster and climate change risk is essential to protect development and shield investments. The IDB developed the Index of Governance and Public Policy (iGOPP) to establish criteria for a governance framework for disaster risk management (DRM). It considers the existence of formal legal, institutional, and budgetary conditions fundamental to implementing DRM processes. The index has been applied in all 26 member countries, and several studies confirm a strong positive correlation between the index score and DRM performance in terms of reductions in human and economic losses caused by disasters. Considering the technical robustness of the iGOPP in measuring DRM governance, some countries, including Mexico and Chile, have expressed interest in adopting it as a tool for reporting their progress on the Sendai Framework Agreement Priority for Action on DRM Governance.[22] **Action:** Take stock of lessons learned using iGOPP in the region, investigate whether it can be updated to further consider climate change resilience, and train IDB clients in how to apply the tool (RND).

A crucial element of managing disaster risk is assessing it. This requires improving the quantity and quality of information about disaster risk in all its dimensions (hazard, exposure, and vulnerability) and improving clients' capacity to generate, manage, and use the data to better inform development policies. **Action:** Continue to support disaster risk assessments at the multi-country, national, subnational, sector, and project levels, including climate change scenarios for climate hazards, and apply the assessments to prepare and publish Disaster Risk Profiles aimed at informing national DRM and financial-protection strategies and investments in risk reduction and disaster preparedness (RND and CCS). **Action:** Study the socioeconomic and fiscal impacts of increasing extreme-weather events (FMM and CCS).

The size, geography, and location of SIDS makes them particularly vulnerable to climate change impacts. Development in islands is complicated by a number of factors: (i) the majority of the world's islands are resource poor from a land-based perspective, have few marketable products other than tourism, and have high transportation costs to external markets; (ii) production costs in islands are high because of the absence of economies of scale and because most raw materials must be brought from the mainland; and (iii) islands usually face a shortage of trained human resources because the resident population size is usually small and training is costly (Watkins and Cruz 2007). Climate change makes development even more complicated by bringing sea level rise, salinization of fresh water resources, and increased natural disasters such as hurricanes (IPCC 2019). However, improved understanding

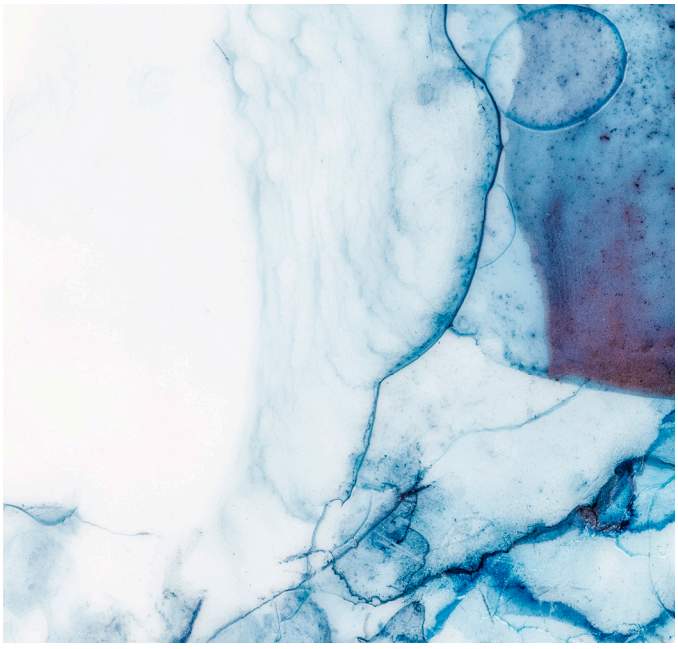
22 The Third UN World Conference on Disaster Risk Reduction in March 2015 led to the adoption of the Sendai Declaration and the Sendai Framework for Disaster Risk Reduction 2015–2030. This framework seeks "the substantial reduction of disaster risk and losses in lives, livelihoods and health and in the economic, physical, social, cultural and environmental assets of persons, businesses, communities and countries." This goal is translated into multiple targets for 2030 such as reducing global disaster mortality and direct disaster economic loss in relation to the global gross domestic product and increasing the availability of and access to multi-hazard early-warning systems and disaster risk information and assessments.

of climate change impacts on oceans (IPCC 2019) and the role that oceans and coastal resources can play in building resilience and addressing these impacts (Because the Ocean 2019) presents a significant opportunity for islands. Islands may be limited in land space, but their ocean space, if sustainably managed, is resource-rich (Hoegh-Guldberg. O., et al. 2019). In 2017, the IDB initiated the Sustainable Islands Platform to promote innovative development pathways, with a focus on the blue and circular economies, and to strengthen capacity to transition to a low-carbon and climate resilient future. A series of projects has been supported under the platform, including the UK Blue Carbon Fund program on restoration of blue carbon in LAC. **Action:** Expand the **Sustainable Islands Platform** by engaging all Country Department Groups in supporting long-term adaptation planning, financing innovative approaches to protecting ocean resources, and increasing islands' resilience while strongly emphasizing social equity in the benefits from ocean resources (CCS). **Action:** Continue to develop and implement bespoke strategies for the private sector for SIDS (IDB Lab and ADV with IDB Invest–wide collaboration).

Central America is also one of the most vulnerable regions to climate change impacts in the world. It is home to forests and ecosystems with high levels of biodiversity and is constantly affected by droughts, hurricanes, and tropical storms. Most of the countries often find themselves in the top 10 places of the Global Climate Risk Index and DARA's Climate Vulnerability Monitor, which predicts an increase in vulnerability that will reach high and severe levels toward 2030. Climate change is exacerbating socioeconomic vulnerabilities in Central America and will increasingly affect its economic progress, with relevant impacts in sectors such as water resources, hydropower, agriculture (specifically, basic grains and coffee, affecting food production and security), infrastructure, biodiversity and forests, human health, and fiscal and trade policy. There is an important opportunity to work on these sectors not only to build climate resilience but also to contribute to national development goals such as food production and security, employment generation, poverty reduction, migration reduction, and protection of water sources.

The draft MDB methodology to determine whether projects are considered aligned with climate-resilient development pathways is based on three elements: (i) establishment of a climate-risk and vulnerability context; (ii) definition of climate resilience measures; and (iii) assessment of inconsistency of the project with the national/broad context for climate resilience.[23]

Assessing disaster and climate change risks in operations provides opportunities for building resilience. At an operation level, the IDB's DCCRA **methodology** takes a phased approach to allow resources to be used commensurate with risk. The methodology provides practical guidance to teams, executing agencies, technical experts, and external consulting and design firms about how to integrate disaster and climate change risk considerations into operations in a meaningful and relevant way. Ignoring the potential impact of future climate conditions puts investments at risk, but it is also possible to overengineer solutions and apply costly or inappropriate mitigation measures. The DCCRA methodology relies on a gradual and sequential process to allocate resources commensurate with risk levels, from screening to project-level assessments. The methodology has three phases: (i) screening and classification; (ii) qualitative assessment; and (iii) quantitative assessment (**Figure 3**; see **Electronic Appendix I** for details). The IDB's Credit Contingency Facility (CCF),[24] linked to the countries' disaster risk plans, can support them in addressing climate risks.



23 The action dealing with the implementation of this approach is described on page 15.

24 The CCF instrument guidelines were updated in 2019 to cover slow onsets such as drought.

FIGURE 3. IDB DCCRA METHODOLOGY

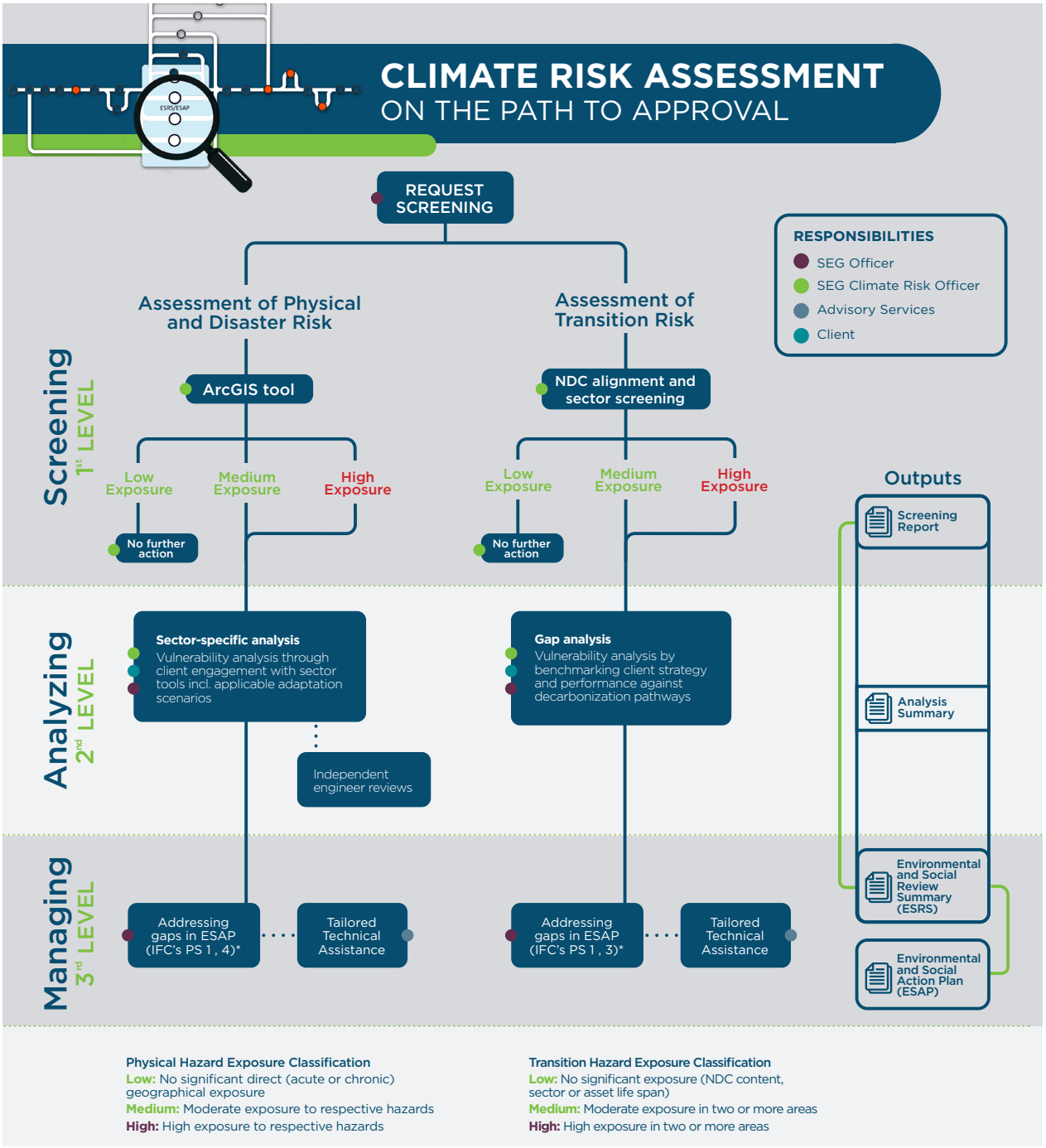
The IDB's commitment on disaster and climate risk will be monitored through the *CRF 2020–2023* with a goal to have 100% of projects with moderate or high disaster and climate change risk analyze risks to identify resilience actions by 2023 (i.e., completing Step 3 or beyond in the methodology). The process to modernize the IDB's safeguard policies could necessitate updating responsibilities for applying the DCCRA methodology. **Action:** Fully implement the DCCRA methodology and consider the potential implications of implementing the new updated IDB ESPF (ESG, RND, and CCS). **Action:** Carry out pilot studies that illustrate the costs and benefits of resilient infrastructure in the LAC region, and explore options for sustainably incorporating the costs of considering disaster and climate risks into project budgets for those projects that face substantial climate risks (ESG, RND, INE, and CCS).

At IDB Invest, the project appraisal procedure includes a Climate Risk Assessment (CRA) as part of the Environmental and Social Due Diligence (ESDD). The CRA assesses direct investments for risks related to natural disasters, climate change impacts, and the transition to a low-carbon economy (**Figure 4**). **Action:**Conduct CRAs for all direct investments and enhance the CRA methodology, including the development of sector-specific tools (SEG). **Action:** Increase capacity for qualitative and quantitative scenario analysis (ADV and SEG).

Nature-based solutions[25] (NBS) can be used as a cost-effective way to build infrastructure resilience in response to a changing climate while also delivering other benefits (Watkins, Silva, et al. 2019). Oceans are critically exposed to climate change, with particular risks to coastal and marine biodiversity. NBS in mangroves, seagrasses, and coral reefs can help make infrastructure investments more resilient and more attractive financially (Thiele, et al. 2020). Cities can benefit from a wide array of ecosystem services—including flood management and urban heat island mitigation—by leveraging their local biodiversity and deploying NBS (Almenar, et al. 2018, Raymond, et al. 2017). Incorporating NBS into traditional infrastructure projects would allow the IDB Group to harness the power of nature to achieve development goals. Unfortunately, despite the many benefits NBS has to offer, the approach continues to be used only sporadically due to policy, technical capacity, and financial hurdles. **Action:** Engage team leaders and specialists from ESG, INE, and CSD to identify concrete options for addressing the institutional, financial, and operational challenges of delivering NBS as part of IDB operations, and identify within the project cycle the different stages for carrying out technical, environmental, and social assessments that could provide relevant inputs for applying those concrete options to build resilience (INE and CCS). **Action:** Consider NBS opportunities in the development of private-sector projects (ADV).

25 Activities associated with the protection, management, enhancement, and restoration of natural capital to develop climate-resilient infrastructure (Watkins, Silva, et al. 2019).

FIGURE 4. IDB INVEST CLIMATE RISK ASSESSMENT



Shock-responsive cash transfers can sustainably build resilience to climate change impacts. Shock-responsive cash transfers are a type of cash transfer that automatically scales up amounts and increase the number of beneficiaries in the aftermath of a crisis. Making cash transfers shock-responsive means that when the next pandemic, earthquake, or flood hits, governments will be able to respond in a more timely, transparent (mitigating corruption risks of urgent, ad hoc responses), efficient, and orderly way (Hallegatte, Vogt-Schilb, et al. 2017). Making cash transfers shock responsive requires explicitly setting rules in advance for: (i) increasing the amount transferred through an existing program or relaxing conditionality so that the transfers increase; (ii) extending the coverage of an existing program to include new beneficiaries; and (iii) introducing extraordinary payments or creating an entirely new program (Hallegatte, Vogt-Schilb, et al. 2017). **Action:** Promote the strategic use of cash-transfer programs to provide immediate, time bound, and transparent support to populations hit by disasters (RND, SPH, CMF, and CCS).

The science in climate models is improving, but their conclusions remain uncertain, as does how to apply them for climate adaptation at a project level. This reinforces the need for innovative approaches to address uncertainties in a way that permits adequate modeling of risks and design of adaptation measures. Probabilistic models and techniques for decision-making under deep uncertainty are examples of approaches that seek to address this, but further refinement, testing, and evaluation of them is needed. Successful implementation of the DCCRA methodology will also require increasing internal and external capacity. **Action:** Provide training for IDB Group employees and clients to better understand the uncertainties of climate change and the tools available to manage those uncertainties (CCS, IDB Lab, and ADV). **Action:** Continue delivering sessions of the online courses on DRM that draw on the DCCRA methodology (ESG, RND, and CCS) and CRA (SEG).

5. CLIMATE FINANCE

The climate-finance building block focuses on scaling up climate finance and operationalizing approaches to bridge the climate-finance gap and effectively support countries and private-sector clients to accelerate the transition. This includes building country capacity for sustainable finance systems, providing IDB Group climate finance, supporting country access to partner resources, and mobilizing private-sector investments (see **Box 1** for definitions).

Challenges in LAC for building sustainable finance systems and upstream resource planning include insufficient technical expertise and underdeveloped markets and policy frameworks. **Action:** Use technical assistance to support the public and private financial sectors to adopt and implement taxonomies, methodologies, processes, regulatory and supervisory practices, and nontraditional instruments to channel and mobilize resources for sustainable development (CMF, CCS, ADV, and Financial Products and Services Division (FNP)). **Action:** Use technical assistance and non-reimbursable grants as de-risking instruments in the form of guarantees or equities to develop innovative financing structures that combine traditional and nontraditional instruments, pilot them, and analyze conditions for scaling them (CMF and CCS).

Market practices linking sustainability to financing conditions of loans or bonds have gained momentum globally but remain incipient in Latin America. For example, investment and corporate banking clients can access better financial conditions by improving ESG risk management. More recently, with COVID-19, many recovery packages from the public sector have been designed for private companies and financial actors to incentivize green recovery. **Action:** Incentivize private banks to develop a sustainability strategy to decarbonize their portfolios and implement TCFD recommendations, including when responding to COVID-19 needs (ADV, FNP, and Financial Institutions Division (FLI)).

Countries must consider the implications of the transition to net-zero emissions for their financial systems. There is growing **awareness** of climate risk among investors and credit-rating agencies, and some jurisdictions are calling for **mandatory reporting** of climate risk assessment. In LAC, while many supervisors and regulators have not yet explicitly included or addressed climate related risks in binding regulations and supervisory measures, most of the countries already feature high-level initiatives to integrate climate change considerations in the countries' financial systems (Frisari, et al. 2019). **Action:** Support countries and private clients to understand and respond to climate change transition risks, including knowledge sharing for stress testing and scenario analysis and developing frameworks to identify, assess, manage, and disclose climate risks within existing supervisory and regulatory frameworks (CCS, CMF, ADV, and SEG).

MDB climate finance is key for countries to implement their commitments to low carbon and climate-resilient development. As agreed in the CRF 2020–2023, the IDB Group is maintaining its 30% climate-finance goal.[26] At the IDB, the COVID 19 emergency response drove approvals in 2020 (more than 70% of the amount approved was classified as COVID-related). Based on initial analysis of the 2021 and 2022 program, the pandemic is expected to continue affecting country priorities and portfolios, with strong demand for PBLs and investments that provide short-term liquidity to governments and the financial sector, as well as support for fiscal management, health programs, employment generation, and digitalization. Meeting the IDB Group climate finance goal in this context will

26 MDBs are considering approaches to reflecting the emergency response to COVID-19 in their climate-finance accounting.

depend on the institution's ability to prioritize sustainable recovery investments. To support countries in 2020, the IDB established four rapid response operation prototypes.[27] In future operations responding to the crisis, it will be essential that climate change and sustainability feature prominently to enable the IDB to contribute to a green recovery in the region. In addition, drilling down the climate finance mandate into sector divisions can serve as an important incentive for operational teams. Following the approach used at other MDBs for private-sector operations, IDB Invest will begin estimating climate finance at financial close rather than at Board approval to better reflect any changes during the volatile period between approval and close. In addition, similar to other MDBs that work with the private sector, IDB Invest will count long-term financing and exclude short-term facilities from the universe of commitments when reporting to MDB working groups, while including short and long-term financing when reporting to the CRF. **Action:** Continue mainstreaming efforts throughout the project cycle and across sectors toward achieving the 30% IDB Group climate-finance goal (CCS, ADV, and IDB Lab).

Partner resources play an important role in sustainable development in LAC but can also be complex and resource-intensive to access, particularly for small economies. The IDB Group will focus on using funds in cases with the greatest potential value added (e.g., away from subsidies toward de-risking mechanisms), applying the Blended Finance Principles for private-sector operations, and on using a regional and programmatic approach to allow access to all member countries while also minimizing transaction costs. **Action:** Support equitable and efficient access to concessional and other partner climate funds (Office of Outreach and Partnerships (ORP) and CCS). **Action:** Build country and client capacity to access partner climate funds (CCS and ADV). **Action:** Explore new funding sources and seek the replenishment and consolidation of existing funding sources (e.g., the NDC Pipeline Accelerator Multi-donor Trust Fund) for sustainable development, taking into account the efficiency of obtaining the resources (ORP, CCS, ADV, and FNP). Work is underway to prepare a Sustainable Landscape Fund with two windows: (i) grants and technical cooperation to support countries to strengthen or create systems and policy frameworks; and (ii) resources for strengthening the IDB's capacity to support countries through the structuring of a Sustainable Landscapes Cluster. **Action:** Design and implement the Sustainable Landscape Fund (Climate Change and Sustainable Development Sector (CSD)).

The Amazon Biome spans about 40% of the South American territory, covering some 670 million hectares across nine countries. This expansive region is home to more than 30 million people, including over 6.5 million members of indigenous and traditional ethnic groups, as well as the most extensive rainforest in the world, harboring an estimated 20% of the world's known species. The Amazon Rainforest is a highly complex, mega-diverse system that provides essential ecosystem goods and services, ranging from food, materials, and elements of cultural importance for local populations, to water-quality and -regulation services, soil fertility, and recreational opportunities for the region, to being the engine of nutrient and hydrological cycles for the continent. Responding to increasing interest from the countries that form part of the Amazon Biome, the IDB Group is developing an Amazon-driven initiative focused on: (i) bioeconomy; (ii) sustainable agriculture and livestock management; (iii) human capital; and (iv) infrastructure and cities. **Action:** Support sustainable and inclusive, place-based development models in the Amazon, within the framework of the Amazon Initiative, to be presented to the Board of Executive Directors for approval, and with supporting financial mechanisms (CSD).

Mobilizing private-sector investment is essential to meet sustainable financing goals, particularly given limited fiscal space in countries. The *Second Update to the Institutional Strategy* emphasizes increasing overall resource mobilization by building partnerships, developing innovative instruments, and adjusting internal incentives. The IDB plays an important role in advance planning, providing capacity building and project-preparation grants to mitigate risks involved in the early stages of project development. At later stages, IDB Invest can deploy a wide range of long-term financial

27 (i) Immediate Public Health Response to Contain and Control Coronavirus and Mitigate its Effect on Service Delivery, (ii) Support for Vulnerable Populations Affected by Coronavirus, (iii) Global Credit Program for Safeguarding the Productive Fabric and Employment, and (iv) Program to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused by COVID-19.

instruments at competitive prices to further de risk targeted projects and crowd in investors. Blending with concessional climate finance can further enhance the commercial viability of these investments. **Action:** Support the creation of country pipeline accelerators and infrastructure observatories to deliver bankable project pipelines for private-sector investment (CCS, CMF, INE, and IDB Lab). Action: Facilitate dialogue between regulators, governments, and financial institutions (CMF, CCS, ADV, and FLI). **Action:** Use guarantees and forms of equity as first-loss pieces for a more efficient use of capital to mobilize private-sector investments (CMF, IDB Lab, and FNP) and B Bond structures, including sustainability linked products, to reach institutional investors (FNP and ADV). **Action:** Support national development banks to structure sustainable infrastructure financing under PPP structures (CMF and the Public-Private Partnership Unit (PPP Unit)).

In recent years, interest in green and sustainable bond frameworks has increased. Green bonds (bonds whose proceeds are designated for climate and environmental projects) are a powerful tool for mobilizing investment to meet climate targets. Since the first green bond in 2014, sovereign and private issuance in LAC has reached US$12.6 billion.[28] To increase issuance in the region, issuers require initial support in understanding the requirements and processes that lead to the labelling and certification of such bonds. Further work is also needed to explore how thematic bonds can be made available at a sub-national level. **Action:** Continue to improve the quality and scope of thematic bonds by defining frameworks and acquiring second-party opinions and certification when available (INO, SEG, and Development Effectiveness Division (DVF)). **Action:** Assess, develop, and issue IDB Invest thematic bonds (INO). The IDB's Green Bond Transparency Platform, currently in its beta stage and set for official launch in 2020, aims to provide a greater level of confidence in the market by bringing greater transparency and facilitating harmonized issuance reporting and verification procedures. Issuers, investors, and other market actors can upload and research information on transaction details, bond performance, use of proceeds, and environmental impacts of green bonds. The platform is supported by more than 30 organizations. **Action:** Leverage the Green Bond Transparency Platform to address the heterogeneity of green bond reporting to attract new market players and funds to the region (CMF, CCS, and INO).

While it has long been perceived that the public sector must play the leading role in financing adaptation, alternative means of financing are critical. Resource availability can be problematic, especially for highly indebted countries where national budgets are insufficient to catalyze investment. In these cases, new and innovative resources to complement national budgets can allow countries to establish the necessary policies and enabling environment. Policy makers can use a range of policy and financial instruments to mobilize private-sector finance toward investments that build climate resilience and promote the adoption of adaptation technologies. One emerging solution is resilience bonds, which link insurance premiums to the resilience of projects and thus provide a way to monetize avoided losses through a rebate structure (Watkins, Silva, et al. 2019).[29] **Action:** Support ministries of planning at the national and subnational levels to incorporate elements of sustainability and climate resilience into their infrastructure plans, and support ministries of finance and planning to incorporate sustainability indicators into their cost-benefit analysis for the prioritization of infrastructure investment expenditures (FMM, CCS). **Action:** Support ministries of planning at the national and subnational levels to include sustainability elements in the design of PPP frameworks (PPP Unit and CCS). **Action:** Support governments to use financial instruments such as catastrophe bonds, resilience bonds, and parametric insurance to transfer risks to the private sector (CMF, RND, and TRY). **Action:** Support national development banks in promoting guarantee instruments and sustainable PPP frameworks to mobilize new sources of capital, particularly from domestic markets (PPP Unit, CMF, CCS, and INO).

28 The sovereign bonds issued by Chile are a good example. According to the Chilean Ministry of Finance, "Chile demonstrated its firm commitment to climate action and leading role in international green financing by becoming the first country in the Americas to issue green bonds." With the issuance of the bonds, Chile achieved several financial milestones, "including the lowest yields obtained ever in both currencies ..., low spreads ..., record demand from global markets ..., and a ... broadening of its investor base towards institutional investors with green mandates" (Ministry of Finance of Chile 2019).

29 There are some experiences with resilience bonds outside LAC. For example, the European Bank for Reconstruction and Development recently issued the first-ever climate-resilience bond, which raised US$700 million.

To fill the infrastructure gap, LAC countries need to almost double investments (Serebrisky, et al. 2015). Doing so while ensuring that infrastructure contributes to resilience and to the decarbonization goal requires the appropriate enabling environment (Cavallo, Powell and Serebrisky 2020). The IDB Group's ***Sustainable Infrastructure Framework*** is already proving to be a valuable tool for investors to use in defining the sustainable infrastructure asset class. The framework provides many of the key elements of the core standards mentioned in a recent **G20 report**. The IDB Group is responding to demands from nine countries[30] to use the framework as a reference to incorporate sustainability criteria into national and subnational policy and planning, PPP arrangements, and investor-pipeline generation. **Action:** Build country platforms using the NDC Invest model and the *Sustainable Infrastructure Framework* as the basis for taxonomies in countries (CCS). **Action:** Ensure that the design of private unsolicited proposals for infrastructure investment includes sustainability criteria consistent with the sustainable infrastructure framework (INO).

The PA allows its parties to establish international carbon markets. While economic theory suggests that more ambitious markets could contribute to providing incentives for private-sector investment in low carbon solutions, existing carbon markets have resulted in little measurable progress toward zero net emissions so far (Lilliestam, Patt and Bersalli 2020). Pre-market examples using concessional resources can provide lessons for countries and private-sector companies preparing for the establishment of future carbon markets, before any such markets are implemented. **Action:** Support pre-carbon-market financial products that can unlock sustainable investments linked to countries' NDCs (INO).

6. REPORTING

The reporting building block focuses on further developing ways to characterize, monitor, and report on activities responding to climate change, building on the MDB climate-finance methodology. This subsection considers the actions needed to track development effectiveness in a climate change context, to ensure reliable data, and to report in ways that inform decisions and promote accountability. Specific indicators for monitoring the *CCAP 2021–2025* are presented in Section C.

To date, existing IDB Group monitoring and reporting tools have been generally well-suited for operations with IDB Group climate finance. Going forward, as work progresses on the approach to characterize the consistency of operations with countries' long-term low-carbon development pathways and climate resilience, modifications to such tools may be needed to fully capture the approach. **Action:** Explore options for improving consideration of climate change and sustainability issues through the Development Effectiveness Framework (DEF) instruments and associated processes (CCS and SPD). **Action:** Explore options to streamline climate change and sustainability issues considered during the alignment of operations to the PA within the IDB Invest's Tool for Development Effectiveness Learning, Tracking and Assessment (DELTA) (SEG, ADV, and DVF).

The CRF provides an opportunity to further institutionalize indicators relevant to climate action and leverage existing data collection, validation, and reporting mechanisms. Further work is needed to ensure that the CRF 2020–2023 indicators, particularly new ones and those that have climate change disaggregations, are used systematically to enable reporting of aggregate results of climate action across the IDB Group's portfolio. **Action:** Systematically encourage the use of climate relevant CRF indicators, including by offering training (CCS, SPD, ADV, and DVF).

MDBs and members of the International Development Finance Club have developed a framework and principles for climate-resilience metrics. They support institutions in developing their own climate-resilience metrics systems that will allow them to track how financing climate change adaptation is contributing to climate resilience goals at a project level. IDB is currently developing its own guidelines for climate-resilience metrics and piloting respective metrics across various sectors. IDB also has developed indicators to focus on assessing policy support through NDC Invest. **Action:** Identify and implement mechanisms to promote the use of climate-resilience indicators at the project level (CCS and ADV).

Impact takes time to materialize and project-specific indicators and evaluations will remain valuable in understanding the impact of the IDB's climate change efforts. Action: Using technical

30 Argentina, Barbados, Belize, Brazil, Chile, Colombia, Jamaica, Mexico, and Peru.

cooperation (TC) resources, increase the use of impact evaluations to determine the impact of IDB's climate efforts at the project level (Vice Presidency for Sectors and Knowledge (VPS) divisions and SPD). **Action:** Elaborate innovation testing with clients that have undergone climate actions, when possible (ADV and DVF).

The Sustainable Development Goals (SDGs) provide a universal platform for considering the interrelated aspects of the development agenda. Making explicit links from the IDB's climate change agenda could enable a better understanding of the IDB's contributions to the global agenda. **Action:** Improve the reporting of how IDB climate change operations contribute to the SDGs (CCS).

TCs and Economic and Sector Work (ESW) constitute an important part of the IDB's climate change efforts, but the results achieved through these instruments cannot be easily aggregated given that climate change is cross cutting. **Action:** Facilitate the design and implementation of cross-cutting TCs and ESW related to climate change, and develop a systematic approach to tracking their results (CCS).

Giving special consideration to the execution of some operations with climate finance would contribute to even greater confidence in the reliability of ex ante IDB Group climate-finance estimates. In multiple works programs, climate finance is estimated based on a representative sample of works designed before Board approval. Other works are expected to be similar to the sample, but there is no explicit assurance that they will meet the criteria defined in the climate-finance methodology. Energy efficiency and other planned aspects of green buildings and urban upgrades only materialize during execution, and changes can occur. **Action:** Encourage the use of relevant indicators in the project-results matrix (e.g., reduction of energy consumption) that will enable improved monitoring (CCS and project teams).

Better data are needed on private-sector mobilization for climate action. As discussed in **Electronic Appendix I**, various factors have contributed to comparatively lower private-sector mobilization per dollar of climate finance than those of other MDBs at the IDB. **Action:** Implement a more systematic approach to tracking private-sector mobilization and co-financing volumes associated with climate change operations, consistent with the *MDB Methodology for Private Investment Mobilization and the CRF 2020–2023* (ORP, SPD, and CCS).

Transparent reporting is essential for accountability. Action: Continue to prepare annual joint progress briefings for the Board of Executive Directors (CCS, IDB Lab, SPK, and ADV). **Action:** Leverage existing reporting mechanisms, including the annual *Sustainability Report*, to report progress to external audiences (CCS). **Action:** Consolidate IDB Invest actions in an annual Sustainability Report (INO, RSM, and DSP).

7. INTERNAL ACTIVITIES

Recognizing the environmental impacts of its internal activities (offices, fleet, employee business travel, financial investments), the IDB Group is taking actions to further align its internal (corporate) activities. The internal-activities building block explores ways of aligning corporate activities with decarbonization and climate resilience objectives, including IDB Group facilities, travel, treasury functions, and retirement-fund investments.

The IDB Group's Corporate Sustainability Program in the Budget and Administrative Services Department (BDA) leads the IDB's commitment to reducing and offsetting corporate emissions by saving electricity, using renewable energy sources, monitoring business travel, transitioning to a more efficient IDB Group fleet of vehicles, promoting green commuting, reducing waste, and purchasing carbon offsets. Health and safety concerns and other lessons learned from COVID-19 will inform future sustainability actions, including the potential for reducing travel-related emissions. See the ***IDB Sustainability Report*** for more information about internal actions related to IDB Group offices.

Electricity used to heat, cool, and power IDB Group offices—purchased from the local grid and produced on-site from stationary fuels—is one of the largest contributors to the IDB Group's direct carbon footprint. Occupancy sensors, building control systems, and LED lights are being installed at headquarters and in many country offices to save electricity. Plans are underway for the construction and renovation of other country offices with energy-saving features. The IDB purchases Renewable Energy Certificates to cover 100% of the energy used at its headquarters offices. Solar systems have been installed in the offices in Brazil, the Bahamas, the Dominican

Republic, Haiti, Jamaica, Nicaragua, and Uruguay. In 2019, IDB management committed to investing in expanded solar capacity for country offices over the next two years. **Action:** Increase the amount of electricity coming from on site solar systems (BDA, in coordination with VPC).

International air travel is an important part of conducting business at the IDB, but it also comes at a high carbon cost. In 2019, emissions from employee business travel comprised 56% of the IDB Group's carbon footprint. **Action:** Analyze business travel patterns, investigate drivers, gather lessons learned from COVID-19-related teleworking, and contemplate ways to sustain reductions in travel (BDA in coordination with VPS and VPC).

While just 2% of the IDB Group's emissions come from its corporate fleet, there are still opportunities to reduce them through more efficient or alternative-fuel vehicles. Electric-vehicle chargers have been installed at IDB Group offices in Barbados, Brazil, Costa Rica, the Dominican Republic, and Jamaica. **Action:** Based on country-office business needs and local market conditions, replace vehicles with more efficient, hybrid, or all-electric models (VPC in coordination with BDA).

Although not currently estimated in the organizational footprint, employee commuting by car is a source of GHG emissions, and the IDB Group has several programs aimed at supporting greener alternatives. For example, the MetroCommute program supports staff at headquarters to use public transit. Likewise, events and facilities (e.g., lockers, showers, shared bicycles) in headquarters and country offices encourage bicycle commuting. **Action:** Continue the MetroCommute program, explore its possible expansion, and continue and expand Bank-wide employee-engagement activities on green commuting (BDA and the Human Resources Department (HRD)).

Given the emissions associated with plastic production and food waste, reducing waste from IDB Group offices is also important. Steps have already been taken at headquarters and several country offices to: (i) reduce or eliminate single use plastics and other disposables; (ii) donate uneaten food; (iii) compost food scraps; and (iv) recycle plastics, paper, metal, glass, and e-waste. **Action:** Identify further opportunities and implement measures for waste diversion at headquarters and country offices based on the 2019 waste audit, existing initiatives, and COVID 19-related health and safety considerations (BDA).

While the IDB Group continues to seek ways to reduce emissions where possible, it also offsets those it cannot avoid by investing in projects that reduce GHG emissions in LAC. As part of a 2018 commitment to the United Nations Carbon Neutral Now program, the IDB is sourcing a portion of future offsets from Clean Development Mechanism projects.

Climate transition risks are relevant for the IDB Group's retirement fund. Some countries are implementing new regulations requiring pension funds to disclose how they are considering climate change risks. All investment and administration of the IDB Group's retirement plans are subject to fiduciary governance principles and structure—specifically, the oversight of Pension and Managing Committees and compliance with the Boards' policies and documents—and are independent of the Bank's Administration. **Action:** Investigate the environmental, social, and governance practices of asset managers where the IDB Group retirement funds have investments; environmental, social, and governance indices and metrics; and environmental, social, and governance practices of the IDB Group's MDB peers' retirement plans (SRP).

B. Sector-Specific Considerations

The COVID-19 pandemic has shown that sustainability issues are linked.[31] As we work to

31 Three-quarters of new infectious disease are zoonotic (i.e., come from animals), and deforestation and destruction of wildlife habitats expose humans to new diseases. Preserving biodiversity and forests for climate change reasons will, therefor, also reduce the risk of future pandemics. On the other hand, building socioeconomic resilience to climate change impacts also builds resilience against pandemics. For instance, the pandemic has shown how critical health systems and robust social safety nets are for protecting the vulnerable and has highlighted the need to build social resilience, which will also be pivotal in the context of climate adaptation. The pandemic has caused substantial socioeconomic impacts and demonstrated the need for incentives and policies that foster a sustainable future. It has revealed weaknesses in supply chains and urban mobility. The effects of COVID 19 vary geographically (e.g., urban-to-rural migration due to related unemployment and risks in the longer term for increased urban sprawl). Emergency spending has stretched budgets thin and intensified the need for private finance and sustainable financial systems.

rebuild the global economy together, we must consider the sustainability of all our actions so we can have a lasting impact.

While Section A provides an overview of key priorities at IDB Group and regional level, specific country pathways to low-carbon and climate-resilient development depend on individual country circumstances. This Section B presents an overview of considerations for infrastructure, territorial approaches, social development, and institutions. Consistent with the demand-driven nature of the IDB Group, further details of sector-specific actions are presented in **Electronic Appendix II** as a menu of *possible* interventions to support member countries. This comprehensive approach is particularly necessary in the medium term as the IDB Group responds to evolving country demands due to the COVID-19 pandemic. Once more countries have completed the process to develop LTSs and update NDCs, they may be used to analyze need patterns and specify annual priorities.

1. INFRASTRUCTURE

Infrastructure is an engine for inclusive growth and crucial to the delivery of services —it provides energy, transportation, water, sanitation, and communication services for increasingly urbanized populations. Infrastructure assets are long-lived, making their sustainability key. Increasing infrastructure's resilience to climate change impacts has become a high priority, along with developing nature-based solutions for infrastructure challenges.

Meeting the region's energy needs in an environmentally, socially, and economically sustainable manner is a critical challenge. GHG emissions from energy (including transportation) represent 46% of emissions in LAC,[32] although with significant variations across countries. Fossil fuels continue to dominate the supply of primary energy in LAC, with nearly 75% coming from oil, gas, and coal,[33] and fossil fuel subsidies are hindering the process of decarbonizing energy in LAC. Low oil prices in the wake of the COVID-19 crisis could deter oil-importing countries from progressing on decarbonization agendas, although prices for renewable energy that are already very competitive may keep the agenda on track. Renewable energy and energy efficiency play essential roles in reducing emissions in the energy sector. The electrification of other sectors, such as transportation, industrial processes, and household cooking and space-heating applications, presents a significant opportunity for decarbonization and local health benefits, but it also requires designing new policies and regulations for energy markets, strengthening energy-sector institutions, and making large, upfront investments. The decarbonization of high-emitting sectors such as cement and steel will require a substantial innovation effort to transform the production processes, while the decarbonization of the construction of new buildings will require rethinking the building materials and processes and opting for alternatives with a lower GHG footprint (González-Mahecha, et al. 2020).

LAC's reserves and high production of metals, minerals, and hydrocarbons make the extractive industry key in the regional economy, generating significant fiscal resources and representing high proportions of the region's exports. A critical challenge for the extractive sector is the drastic reduction of emissions and the transition away from fossil fuels in the coming decades. Although natural gas has lower emissions than coal or oil, it, too, will have to be phased out if the world is to limit warming as indicated in the PA. Natural gas will also face increasing competition from renewables, and continued investments risk becoming stranded assets (Cantzler, et al. 2017, Pfeiffer, et al. 2018, E. González-Mahecha, et al. 2019). The mining sector will play a key role in the development and manufacturing of energy storage, electromobility, electric appliances, and renewable energy equipment (e.g., windmills and solar panels).

Connectivity has been critical for maintaining productivity during social distancing (e.g., telework, telehealth, online education) and has also demonstrated opportunities for reducing commutes and business travel (and thereby lowering emissions). While short term emissions reductions resulting from COVID-19 lockdowns will have only minor direct effects, they may serve to facilitate deeper and longer-term human, business, and institutional changes (Hepburn, et al. 2020). However, the digital shift is also widening inequality because some jobs cannot be done remotely and due to lack of access to technology. An IMF paper estimates that 100 million people in 35 countries are at high risk of layoffs because

32 WRI, 2018.

33 IDB calculations, based on International Energy Agency data and other sources, 2018.

their jobs cannot be done remotely (Brussevich, Dabla-Norris and Khalid 2020).

Transportation is an important, and growing, source of GHG emissions in LAC. In 2014, transportation made up 32% of energy-related emissions.[34] From 2000 to 2012, transportation-related emissions in the region grew by nearly 49%, a trend that is expected to continue, driven by a fast rate of urbanization, some of the world's highest motorization rates, and a rapid expansion of freight transportation (Vergara, Fenhann and Schletz 2015). Options for decarbonizing transportation center on electrification, transit-oriented urban development, and modal shift to public transportation and nonmotorized transportation. The transportation sector, particularly the road network, is vulnerable to the impacts of natural disasters. Resilient transportation interventions and policies can significantly reduce future losses in assets and well being. This is relevant for the resilience of the road infrastructure itself and the resilience of the road network.

Climate change will directly affect the availability and quality of freshwater resources worldwide (Schewe, et al. 2014). The water supply in coastal and island regions is particularly at risk due to changes in precipitation patterns and sea level rise. It is essential for countries to understand water availability (quantity and quality), water balances at the watershed and subwatershed levels, and the temporal and spatial variability of water in order to prepare integrated adaptation plans and design infrastructure that is more resilient. Improving water-treatment plans and waste management can reduce emissions by reducing energy consumption, using renewable energy sources, and recovering methane.

2. TERRITORIAL APPROACHES

A territorial approach is needed to align social, environmental, and economic objectives for disaster risk management (DRM), agriculture and rural development, natural resources, urban development, and tourism.

LAC is exposed to multiple natural hazards, and climate change is making many of these hazards more frequent and severe. The impact of disasters triggered by natural hazards is devastating, in both human and economic terms. Insufficient natural resource management and land-use planning, weak mainstreaming of risk analysis in investment decisions, and feeble enforcement of safe construction regulations are increasing the region's vulnerability. DRM is called upon to reduce vulnerabilities before hazard events strike, to respond quickly to overcome the consequences of such events, and to recover and reconstruct under the principle of building back better. Building resilience is a good investment: Empirical evidence shows a cost-benefit ratio of between US$4 and US$7 per dollar invested in resilience.

Agricultural practices need to be transformed to ensure food security for a growing population while adapting to climate change effects and minimizing environmental impact. Agriculture and land-use change, which is primarily driven by agriculture, account for 42% of GHG emissions in LAC. To reduce its impact on the environment, the agriculture sector needs to implement fundamental changes, including the sustainable intensification of production systems and the adoption of agroecological approaches. A global transition to healthier diets, with less meat, would have substantial benefits for human health while also contributing significantly to mitigating climate change (Springmann, et al. 2018). Climate change will have an adverse effect on agricultural production and productivity (FAO 2018, Mall, Gupta and and Sonkar 2017) due to increased climate variability. To adapt to climate change, the agriculture sector can adopt a broad spectrum of measures, including resilient inputs (e.g., drought-resistant seed varieties), irrigation infrastructure, and improved market access (Fanzo, et al. 2017, Loboguerrero, et al. 2019).

Managing natural resources is an integral part of mitigating and adapting to climate change. Increasing demand for provisioning ecosystem services (e.g., food, water, energy, minerals, and forest products) often comes at the cost of decreasing the supply of regulating ecosystem services. If tradeoffs between ecosystem services and human well being are not accounted for, it can result in overexploitation and degradation of natural capital and pollution. Climate change–related impacts such as increase in sea surface temperature and ocean acidification are altering the region's marine and coastal biodiversity (Rijnsdorp, et al. 2009, Cheung, et al. 2010). Climate change will continue to impact ecosystems, and it will threaten LAC's terrestrial biodiversity due to species range shifts, changes in predator-prey relationships, food availability,

34 Based on 2018 data from World Resources Institute.

and changes in the cyclical behavior of plants and animals. Forest management and conservation are key climate change mitigation actions in LAC (Griscom 2017).

Cities are increasingly on the front line of the global response to climate change. They are a key source of GHG emissions and centers of economic activity, and they have large populations that are vulnerable to the impacts of climate change. Urban decision makers can implement solutions to climate change impacts and risks, including: (i) promote density coupled with careful planning; (ii) establish public transportation; (iii) use ecosystem-based approaches for disaster preparedness, emergency response, post-disaster recovery, and reconstruction (The Global Platform for Disaster Risk Reduction 2019); and (iv) incorporate green building and infrastructure strategies. Besides being particularly difficult for cities, the COVID-19 crisis has shown that city management is key in times of crisis. The crisis may thus strengthen the capacity of cities to design and implement a climate agenda at the city level. Some emerging examples of urban revitalization through green space, walkable and bikeable city centers, and increased use of nonmotorized or electric transportation illustrate such positive outcomes. There is a risk of prolonged urban sprawl if urban residents fear continued outbreaks in dense city centers and if employers offer permanent or extended options to telework.

Tourism is both highly vulnerable to climate change and one of its causes. In terms of the tourism sector's vulnerability, models suggest that the main consequences of climate change for tourism are a loss of destination attractiveness due to increased risks to visitors and deteriorating natural and cultural assets, impacts on infrastructure and services, and challenges to the sustainability of tourism businesses, including the risk that assets will be rendered worthless due to their inability to generate future benefits (Caldecott, Harnett, et al. 2016). Of concern are small Caribbean island nations, whose economies tend to be heavily reliant on tourist income and related service industries (Caldecott, Harnett, et al. 2016). The decarbonization of tourism requires structural changes in mobility, along the tourism supply chain, and in tourism consumption patterns. At the same time, the tourism sector, when effectively planned and managed, can help to conserve biodiversity and protect the environment.

3. SOCIAL DEVELOPMENT

The region's prospects for improving social inclusion and reducing inequality may be undermined by the consequences of climate change. At the same time, countries need to take steps to decarbonize their economies in a socially acceptable way to ensure compatibility with other SDGs and ensure an inclusive and just transition.

With its direct effects on the labor market, climate change will play a key role in shaping economic development processes and development options in the region (ECLAC 2010, UNOCHA 2019, IDB and ILO 2020).The transition to net-zero emissions is expected to generate 15 million new net jobs in the region by 2030 (IDB and ILO 2020), with more green jobs created than brown jobs destroyed, but employment will be affected differently across sectors. Anticipating the effects of decarbonization on labor markets and training for the low-carbon jobs of the future is essential for minimizing stranded jobs and facilitating a just transition (IDB and ILO 2020). Job creation is also key for green post-COVID recovery, for which governments should focus efforts on sectors that are consistent with a net-zero carbon and resilient future, have substantial positive impacts in terms of job creation, can be deployed rapidly, and hinge on technologies that are still in early deployment, thereby offering opportunities for sustained growth (Hepburn, et al. 2020). Education and training will play a key role in the recovery from COVID-19. Programs such as temporary employment and "cash for training" will be needed, especially targeting informal workers. It is essential that these efforts focus on training for the jobs of a low carbon and climate resilient economy.

Today's children and the generations that follow will be the most affected by climate change. Students are expected to miss more days of instruction as a direct consequence of the increasing incidence of extreme-weather events (UNESCO 2012). A pollution-free environment is among the many different factors that come into play in ensuring health and well-being in early childhood. Education can also contribute to the global response to climate change, helping societies and individuals understand its causes and address its impacts, encouraging changes in attitudes and behavior, and helping people adapt to climate-change-related trends (UNESCO 2019). The education and labor market sectors can play a critical role in developing the skills needed for

occupations associated with the transition to a low-carbon and climate resilient economy.

Poverty is a critical driver of vulnerability to the effects of climate change, and climate change can push people into poverty. Social-protection programs substantially reduce vulnerability to the effects of climate change. Conditional cash-transfer programs offer a social safety net against adverse events, including natural disasters. Adaptive or shock responsive social-protection programs that expand the amounts disbursed or the number of beneficiaries after a natural disaster hits have been shown to be effective in the region, including in Ecuador, Haiti, and Peru (Beazley, Solórzano and Sossouvi 2017). Steps to decarbonize must be made through deliberate and coordinated policy choices, such as compensating energy subsidy removal and carbon pricing with cash transfers and other social-protection programs, to design climate policy packages in a pro-poor fashion (Feng, et al. 2018, Schaffitzel, et al. 2020, Vogt-Schilb, Walsh, et al. 2019).

Climate change is affecting human health through increases in the prevalence of water and vector-borne tropical diseases, the appearance of diseases in areas where they were previously not endemic (due to moving mosquito vectors and other causes), increases in the incidence of cardiovascular and respiratory diseases, food crises, droughts, malnutrition, and child growth stunting (Hallegatte, Bangalore, et al. 2016). Air pollution worsens the effects of respiratory diseases. The expected increase in extreme meteorological events creates risks for health infrastructure. Health systems need to be sustainable and climate resilient to respond to climate and other emergencies. Hospitals have a substantial carbon footprint because they operate year-round, have demanding standards for air temperature and filtration, and make use of specialized energy intensive equipment (Dhillon and Kaur 2015, Pollard, et al. 2014).

Women, indigenous peoples, Afro-descendant communities, and persons with disabilities are among the groups most vulnerable to the negative effects of climate change. Gender inequality increases women's vulnerability to climate change. A large portion of women's livelihoods is dependent on natural resources, and yet women have unequal access to, and control of, land, water, and other natural resources affected by climate change. Considering that these groups may not benefit equally from the creation of sustainable economic opportunities in the transition to a low-carbon economy, it is important to actively support equality through empowerment, participation in decision making processes, and active labor-market policies. Indigenous peoples and Afro-descendant communities are highly dependent on the natural resources available in their territories. Most territories of indigenous peoples and Afro-descendant communities preserve ecosystems services, biodiversity, and carbon stocks of global importance. These groups' territories and traditional ecological knowledge are vital assets for climate resilience that need to be preserved and valued. Persons with disabilities have special needs for evacuating during natural disasters.

Climate change and its effects are fast becoming a major challenge for contemporary human settlements in vulnerable geographies (e.g., coastal regions), threatening way of life by disrupting ecosystems, food, and water supplies and damaging infrastructure and productive capital (Burke, Hsiang and Miguel 2015). People in vulnerable natural disaster–prone regions have increasingly had to move in anticipation of or response to climate-related threats. Rising global temperatures and sea levels, altered precipitation patterns, and increased frequency of extreme-weather events are affecting habitability and livelihoods across the region, with the potential to spur outmigration from affected countries. It may be hard at times to disaggregate climate migrants or refugees from other types, hence the importance of a multipronged response.

4. INSTITUTIONS

The uncertainty of climate change poses challenges for long-term planning and generates a need for updated governance models that incorporate legal, regulatory, and institutional frameworks at various levels of government and across sectors. This includes solutions for long-term financing, fiscal management, decentralization and subnational governments, innovation and technology, integration and trade, and transparency.

One of the main objectives of the 2015 PA is to "make financial flows consistent with a pathway toward low-carbon and climate-resilient development." The IDB partners with financial-system regulatory authorities, national development banks, and standard-setting bodies such as the NFGS and the Coalition of Finance

Ministers to strategically address shortcomings in the financial sector. These include longer-term loans with adequate conditions, guarantees, and innovative insurance products complemented by a set of tailored technical assistance and capacity-building measures on environmental and social safeguards, credit strategy, risk-mitigation measures, thematic-bond issuance strategies, and financial-innovation roundtables. Emergency COVID-19 spending has intensified the need for long-term financing that is independent of public sources. With interest rates low, the main challenge is expected to be managing risks—including ESG risks—to reduce risk premiums.

Decarbonization will create uncertainty for fossil fuel producers and have important implications for fiscal management policies. The potential impacts of the physical and transitional risks of climate change on fiscal sustainability are still not clearly perceived, nor are they properly considered in decisions. Further cooperation with ministries of finance and planning is needed to develop the tools and capacities to manage the potential adverse effects of climate change on fiscal sustainability. This includes not investing in fossil fuels and helping countries that export fossil fuels understand transition risk and its fiscal impacts. With oil prices low, post COVID-19 recovery efforts could be leveraged to drive economies toward net-zero emissions and support oil exporting countries to reduce fossil fuel dependence and enact fuel-subsidy reform. The region makes scant use of taxes and other pricing instruments to correct negative externalities, particularly those associated with climate change, including the use of fossil fuels, traffic congestion, and carbon emissions from industries. The region also still needs to adopt best practices for green budgeting and managing public investments to ensure resilience.

Leveraging multi-governance is a key factor for NDC implementation, and recent efforts to operationalize vertical integration of NDCs have demonstrated the need to rely on local and subnational levels for effective governance and reinforced transparency frameworks, with national and subnational governments fostering constructive feedback loops[35] (UNEP 2015). Recent years have seen progress in devolving responsibilities to subnational entities, including aspects of environmental management, given the interest of local and regional governments in working with environmental pricing, resilient public investment, green procurement, and policies to tackle the impacts of natural disasters at the local level. Providing services online can both improve subnational responsiveness to local needs and reduce GHG emissions.

Existing production technologies are expected to produce positive outcomes only up to a point, beyond which depleting natural capital has negative consequences for overall growth and well-being. In this context, green innovation and the related process of creative destruction are called upon to play a fundamental role in decoupling growth from natural capital depletion. They serve to push the frontier on the generation and diffusion of new, environmentally sound technologies, enterprises, and business models, which in turn contribute to establishing new markets and creating jobs (Grazzi, Sasso and Kemp 2019). Examples of technologies relevant for climate change include energy storage and other grid-flexibility measures to integrate renewable energy, electric and hybrid vehicles, higher-yield seeds, and improved early-warning systems (Dutz and Sharma 2012). Appropriate policy mechanisms are needed to stimulate technology generation and diffusion, such as climate-related science, technology, innovation, and entrepreneurship support programs. Communication technologies are essential as well, to enhance the competitiveness of countries, flow of information, economic growth, and connectivity (critical to maintaining productivity and reducing commutes and business travel, thereby lowering emissions). Countries may need assistance to establish disaster-proof logistics and supply chains for essential supplies. The fallout of the crisis in this sector is likely to be significant, with liquidity constraints impacting the pace of investment in early-stage companies, especially the more innovative ones. Finally, the region requires support to adopt, implement, and monitor national strategies on the circular economy.

Trade in goods, by definition, increases GHG emissions, mostly due to transportation. Yet, trade and investment in green markets have the potential to reduce emissions since trade liberalization allows firms that are more productive to grow through exports, and export oriented firms are normally more environmentally friendly (Jingbo and Moschini 2016). Trade helps generate growth, which in turn increases opportunities

35 **http://napglobalnetwork.org/themes/vertical-integration/**.

for countries to adopt greener policies. There are also opportunities in consumers' growing interest in purchasing goods and services with a lower carbon footprint. Climate change can significantly affect global markets and trade flows through price based shifts, regulatory actions, and supply-chain disruptions (Caldecott, Harnett, et al. 2016). The physical effects of climate change can adversely affect trade, for example, through more frequent port closures due to extreme weather or decreased agricultural productivity. Trade-exposed companies risk losing competitiveness due to environmental regulations (Branger and Quirion 2014).

The PA established an enhanced transparency framework for action and support in which countries will regularly provide an inventory of emissions and removals, information on climate impacts and adaptation, and information on financial, technology-transfer, and capacity-building support provided, needed, and received (Singh, Finnegan and Levin 2016). Countries need to build capacity for reporting climate actions using comparable measurements (Singh, Finnegan and Levin 2016) and for consolidating or establishing systems that drive an evidence-based policy process, particularly in the case of adaptation policy (Dixit, et al. 2012). Increased public-sector capacity is needed to integrate high-quality data and analysis into the planning, coordination, and decision-making processes. A growing demand for support in this area is expected. Digital innovations improve access, transparency, and integration of justice services while also reducing GHG emissions and aligning government services to countries' decarbonization objectives. Green building standards and efficient appliances in penitentiary and other government facilities can reduce operational costs and emissions.

C. Monitoring

The action plan presented above aims guiding the IDB Group's support to member countries toward increasing resilience, limiting the global temperature rise to two degrees, and ensuring a just transition. To do so, countries must: (i) manage physical climate change risks and adapt to adverse climate change impacts; (ii) reach net-zero emissions by 2050; and (iii) develop policies and long-term strategies that address climate change in a way that is socially fair and acceptable.

This Section C proposes a set of indicators to monitor the implementation and results of the *CCAP 2021–2025*. Climate change indicators have been incorporated into all levels of the *IDB Group CRF 2020–2023*—Regional Context (Level 1), IDB Group Contributions to Development Results (Level 2), and IDB Group Performance (Level 3). The CRF indicators form the basis for monitoring climate action at a strategic level and are used with complementary indicators when more detailed or nuanced information is needed to monitor the implementation of the *CCAP 2021–2025*. Complementary indicators are for monitoring purposes only and do not have targets.

Management from the IDB, IDB Lab, and IDB Invest will present a joint progress briefing annually to the IDB's Policy and Evaluation Committee and IDB Invest's Committee of the Board. The briefing will summarize progress on planned actions, provide updates on the agreed indicators, and share priorities for the annual work program.

Regional Context (Level 1) indicators will provide information about how the region is progressing overall. Progress on indicators at this level cannot be directly attributed to the IDB Group and therefore do not include targets (see **Table 1**).

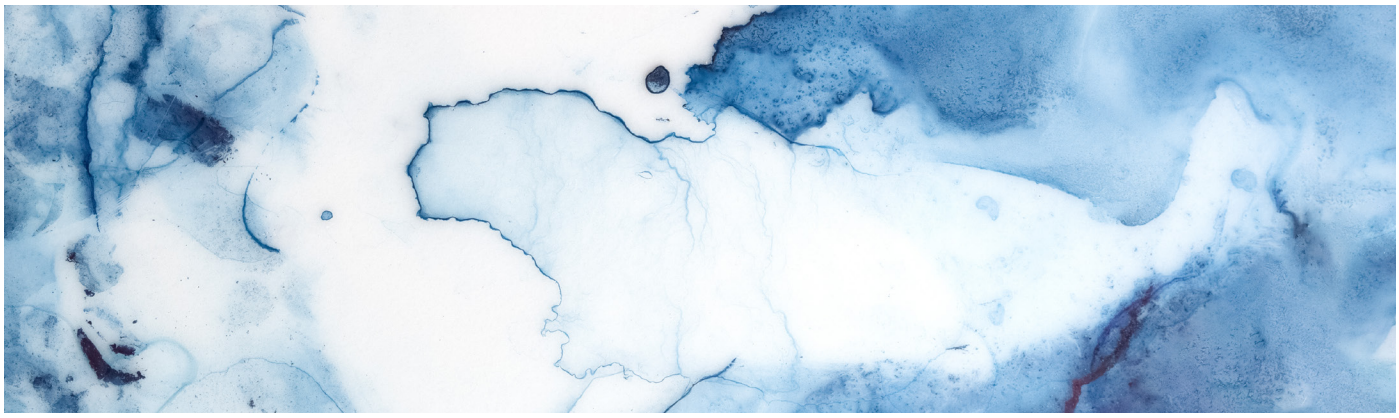


TABLE 1. REGIONAL CONTEXT INDICATORS (LEVEL 1)

Indicator	Definition	Baseline (year)
1. Borrowing member countries with LTSs (#)	Number of IDB Group borrowing member countries with an LTS submitted to the UNFCCC[36] (covering mitigation, adaptation, or both).	2 (2020)[37]
2. CO_2 emissions from fuel combustion (tons)*	Please refer to the technical guidance note for the *CRF 2020–2023*.	1.6 B (2016)
3. Forest area as a proportion of total land area (%)*	Please refer to the technical guidance note for the *CRF 2020–2023*.	46.2 (2016)
4. Annual reported economic losses from natural disasters (US$)*	Please refer to the technical guidance note for the *CRF 2020–2023*.	4.6 B (2018)

** CRF 2020–2023 indicator.*

IDB Group Contributions to Development Results (Level 2) indicators will measure the IDB Group's contributions to low-carbon and climate resilient development through operations. Consistent with the approach taken in the *CRF 2020–2023*, these indicators will not have targets[38] (see Table 2).

TABLE 2. IDB GROUP CONTRIBUTIONS TO DEVELOPMENT RESULTS INDICATORS (LEVEL 2)

Indicator	Definition	Results (year)
1. Countries with IDB Group support to consider long-term decarbonization or climate-resilience objectives in their LTSs or NDCs (#)	Countries consider IDB Group technical support (from loans or TCs) to inform the development of LTSs and NDCs that define objectives and actions to limit global temperature rise, as defined in the PA, and to strengthen countries' resilience.	7[39] (2018–2020)
2. Emissions avoided (annual tons CO_2e)*	Please refer to the technical guidance note for the *CRF 2020–2023*.	14.4 million (2016–2019)
3. GHG intensity of IDB operations • Electricity generation (g CO_2e/kWh) • Transportation (g CO_2e/passenger km) • Wastewater (g CO_2e/g BOD5) • Land-use, land-use change, and forestry (tons CO_2e/ha/year)	Applies to operations with available data for net and/or required gross emissions estimates (those with more than 25,000 tons).	Unavailable (new indicator)

36 **https://unfccc.int/process/the-paris-agreement/long-term-strategies**.
37 Costa Rica and Mexico.
38 Given the time required to prepare a project and begin reporting results, the achievement of targets during the CRF period is highly dependent on the results of projects approved prior to that period, making lagging performance not actionable.
39 Barbados, Bolivia, Chile, Colombia, Costa Rica, Peru, Suriname.

Indicator	Definition	Results (year)
4. Habitat that is sustainably managed using ecosystem-based approaches (ha)* • Forests • Grasslands • Wetlands and freshwater systems • Coastal and marine • Other	Please refer to the technical guidance note for the *CRF 2020–2023*.	Unavailable (new indicator)
5. Installed power generation capacity from renewable sources (MW)*	Please refer to the technical guidance note for the *CRF 2020–2023*.	5,083 (2016–2019)
6. Beneficiaries of enhanced disaster and climate change resilience (#)*	Please refer to the technical guidance note for the *CRF 2020–2023*.	Unavailable (new indicator)
7. Operations supported in applying climate and sustainability tools (#)	Tools and methods include: • Integrated territorial planning • Marine and coastal zone spatial planning • Multipurpose cadasters and titling programs with sustainability criteria • Integrated watershed management • IDB Group Sustainable Infrastructure Framework • Blue Spot Analysis (resilience in transport) • Decision-making under deep uncertainty techniques • Green procurement • Disaster and climate change risk assessments • Green building manual • Economic analysis with shadow carbon pricing • Climate budgeting • Green transmission lines • iGOPP This list may be expanded as advances are made in relevant tools. The use of tools and methods is verified by reference(s) in the project documents to one or more of the tools or methods listed above.	Unavailable (new indicator)
8. *Option for teams to disaggregate other CRF indicators for climate change** • Households with improved access to water and sanitation (#) • Beneficiaries of employment-support initiatives (#) • Farmers with improved access to agricultural services and investments (#) • Roads built or upgraded (km)	Please refer to the technical guidance note for the *CRF 2020–2023*.	Unavailable (new indicator)

* *CRF 2020–2023* indicator.

IDB Group Performance indicators (Level 3) will provide information on the IDB Group's actions to promote low carbon and climate-resilient development (see Table 3).[40]

TABLE 3. IDB GROUP PERFORMANCE INDICATORS (LEVEL 3)

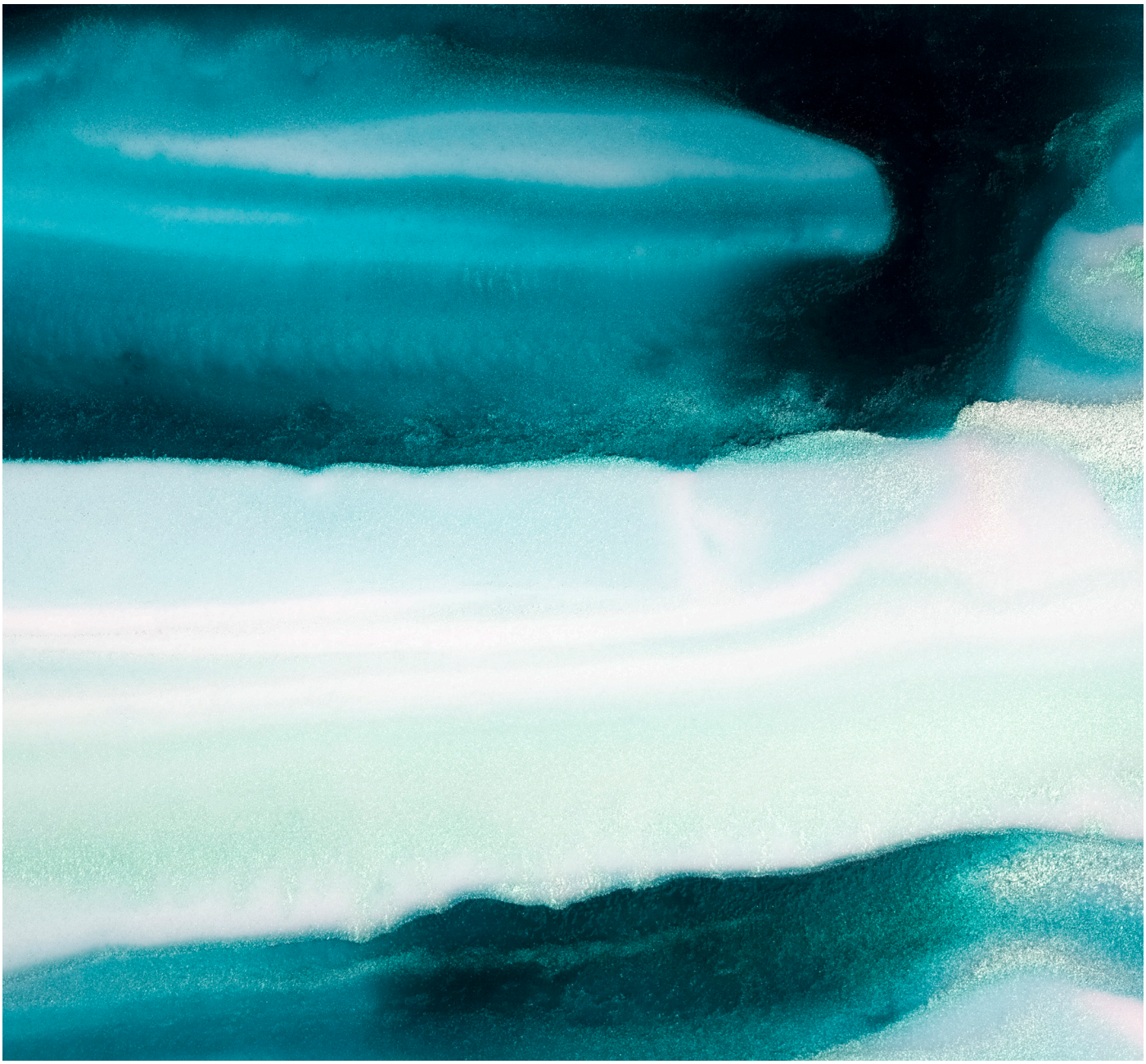
Indicator	Definition	Baseline (year)	Target (year)
1. New CSs considering country's official commitments on climate (%)*	Please refer to the technical guidance note for the *CRF 2020–2023*.	54% (2016–2018)	100% (2021–2025)
2. SFDs that reflect long-term decarbonization and climate-resilience objectives (#)	SFDs that consider: (i) the sector's role in long-term decarbonization; (ii) transition risks the sector faces by taking into account the effects of expected changes to sector policies and technology; (iii) the sector's contributions to a just transition; (iv) the vulnerability of the sector to natural disasters and uncertain climate change impacts; and (v) the tools available to face those risks.		Monitor
3. IDB Group operations aligned with the MDB methodology for PA (%)	Definition pending further discussion with MDBs on the approach and outcomes of the pilot exercise.	In pilot phase	Monitor
3.1 IDB Group operations assessed with the MDB methodologies on PA (%)	The portion of all IDB Group lending operations that are assessed following the MDB methodologies for PA alignment.	0%	100% (2022)
4. Projects with considerable disaster and climate change risk that applied risk analysis to identify resilience actions (%)*	Please refer to the technical guidance note for the *CRF 2020–2023*.	IDB: 16% (2017-2018)	IDB: 100% (2023)
5. ESWs related to climate change (%, by volume)	Based on a qualitative review of abstracts, summaries, and deliverables.	IDB: 7% (2016–2019)	Monitor
6. Climate finance in IDB Group operations (% of approved or committed amount)*	Please refer to the technical guidance note for the *CRF 2020–2023*.	IDB: 25% IDB Lab: 28% IDB Invest: 26% (2016–2018)	IDB: 30% IDB Lab: 30% IDB Invest: 30% (2020–2023)
7. Climate finance supporting small and vulnerable countries (%)	The portion of climate finance (all instruments) going to C and D countries.	IDB: 38% IDB Lab: 40% IDB Invest: 21% (2016–2019)	Monitor
7.1 Climate finance supporting small island developing states (%)	The portion of climate finance (all instruments) going to small island developing states**.	IDB: 11% IDB Lab: 16% IDB Invest: 1% (2016–2019)	Monitor

40 For some of the indicators where the target is "Monitor," the IDB is not currently monitoring the indicator, which makes it impossible to define a baseline.

Indicator	Definition	Baseline (year)	Target (year)
8. Projects supporting climate change mitigation and/ or adaptation (% of new approvals or commitments)*	Please refer to the technical guidance note for the *CRF 2020–2023*.	IDB: 53% IDB Lab: 34% IDB Invest: 40% (2016–2018)	IDB: 65% IDB Lab: 40% IDB Invest: 40% (2020–2023)
*8.1 Projects supporting agriculture, forestry, land use, and coastal zone management (% of new climate approvals or commitments)**		*IDB: 8%* *IDB Lab: 19%* *IDB Invest: 6%* *(2016–2018)*	*IDB: 10%* *IDB Lab: 25%* *IDB Invest: 8%* *(2020–2023)*
8.2 Projects supporting climate change by sector			*Monitor*
9. Portion of total IDB Group climate finance from partner resources (%)	Portion of IDB Group climate finance sourced from partner resources (single-donor trust funds, multidonor trust funds, financial intermediary funds, and project-specific grants).	8% (2016–2019)	Monitor
10. Direct third-party financing deployed through climate change operations ($)	"Direct third-party financing" is reported in a manner consistent with the approach used in the *CRF 2020–2023*. Amount of third-party financing through climate change operations is proportionate to the climate finance amount.	n/a	Monitor
10.1 Private direct third-party financing deployed through climate change operations ($)		n/a	Monitor
11. Indirect third-party financing deployed through climate change operations ($)	"Indirect third-party financing" is reported in a manner consistent with the approach used in the *CRF 2020–2023*. Amount of third-party financing through climate change operations is proportionate to the climate finance amount.	n/a	Monitor
12. Active IDB Group climate change operations with satisfactory performance classification (%)	Portion of active IDB Group climate change loan operations (any amount of climate finance greater than US$0) with a satisfactory performance classification based on the Project Monitoring Report (PMR) or Annual Supervision Report (ASR).	IDB: 77% (2016–2019) IDB Invest: 87% (2019)	Monitor

Indicator	Definition	Baseline (year)	Target (year)
13. Climate change projects with satisfactory development results at completion (%)	Portion of IDB Group climate change loan operations (any amount of climate finance greater than US$0) rated partly successful or better at completion based on the OVE-validated Project Completion Report (PCR) or validated Expanded Supervision Report (EXR).	IDB: 62% (2017–2018) IDB Invest: 100% (2019)	Monitor
14. IDB Group facilities and fleet emissions (tons of CO_2e)*	Please refer to the technical guidance note for the *CRF 2020–2023*.	11,200 (2018)	Less than 9,600 (2023)

* CRF 2020–2023 indicator.
** As defined in CII/GN-354.



D. Risks, Resources, and Next Steps

For the IDB Group to reach its full potential in supporting member countries to achieve their commitments toward low-carbon and climate-resilient development, continued and predictable human and financial resources will be needed. While the IDB Group has made significant strides on climate finance, the most challenging work still lies ahead. The work is both urgent and complex. Furthermore, MDBs, including the IDB Group, may face reputational, financial, and legal risks[41] if they do not act.

In addition to overall mainstreaming activities, climate change specialists in country offices must address bottlenecks, maintain open communications with executing agencies and HQ, and assist governments with resolving issues, particularly when a quick response is needed. The presence of CCS is necessary to better position the climate change issues within the countries' development agenda and within the Bank's activities, in coordination with VPC, Country Departments, and country representatives. Currently, CCS has staff stationed only in Brazil, Guatemala, Mexico, and Peru. To increase the country orientation of the IDB's support on climate change, it will be necessary to increase the field presence of sustainability staff. This can be achieved by relocating IDB climate change and sustainability specialists to the region and/or by establishing a climate change focal point for each country. Assigning specialists to country offices will depend on client demand for climate change and sustainability actions, available resources for relocation, and restrictions on relocations due to COVID-19. Priority locations for future staff are the IDB Group hubs in Argentina, Colombia, Jamaica, and Panama. Similarly, at IDB Invest, the climate practice was initially created in ADV and centered at headquarters to consolidate the overall strategy. In the coming years, climate investment officers will align to IDB Invest's field presence plan, working to decentralize staff to a ratio of 40/60 at headquarters vis-à-vis country offices.

There is a need to balance depth in key technical capacities against the broad agendas of countries. As staff in some sectors become adept in managing climate action (e.g., infrastructure), CCS will shift expertise to less conventional areas such as NBS, fiscal management, labor, social protection, institutional development, and financial systems and instruments. Expanding training of team leaders, specialists from other divisions, especially in these novel areas, and fiduciary and operative staff could fill gaps, help them be champions of these issues, and expand climate action in the IDB. The involvement of CCS staff in projects early in the project-preparation cycle also helps build capacities. Technical training on climate change will need to be ongoing and tailored to sector-specific solutions to maintain understanding among IDB Group employees. As evidence from ongoing actions and new technologies emerge, the IDB Group will need to keep abreast of advances, be at the research forefront, and disseminate these advances within the IDB Group and to countries and clients.

After this document is discussed with IDB Group Boards of Directors and their comments are considered, it will be adjusted and submitted for approval through IDB management's Operations Policy Committee and IDB Invest's Senior Management Committee. The approved version will be submitted to the IDB Group Boards of Executive Directors for information. Likewise, any subsequent revised version of this document will be approved by IDB Group Management and submitted to the IDB Group Boards of Executive Directors for information.

41 Climate litigation around the world has focused on governments and fossil fuel firms. Cases against governments have, inter alia, successfully argued that governments fail to implement biodiversity preservation or environmental goals stated in law or even basic human rights of future generations by not reducing GHG emissions sufficiently. Other cases have also been successful in arguing that governments that have access to information about climate change impacts have not acted sufficiently to adapt to climate change. See a compilation of climate litigation here: **http://climatecasechart.com/**. It is not clear whether the IDB, as an international organization, could face similar litigation.

ANNEX I. SUMMARY OF ACTIONS

The following tables summarize the actions presented in Part III Section A, organized around the MDB building blocks for low-carbon and climate-resilient development.

1. Policy Support

Action	Responsible	Related Indicator(s)
Support member countries to develop LTSs and update NDCs to be consistent with long-term temperature objectives	IDB (CCS, with IDB-wide collaboration)	Level 1: 1 Level 2: 1
Support private sector in designing sustainable strategies aligned with LTSs and NDCs	IDB Invest (ADV with IDB Invest–wide collaboration)	
Expand the scope of analysis on NDC design and implementation, including fiscal and sectoral policies and regulations, and publish the findings	IDB (CCS)	Level 2: 1
Support countries to establish effective policies for climate action, through PBLs and other instruments	IDB (CCS, RND, and FMM)	Level 1: 1 Level 2: 1
Support member countries to incorporate adaptation into LTSs	IDB (CCS, with IDB-wide collaboration)	Level 1: 1 and 4 Level 2: 1
Increase awareness among private-sector clients of the benefits of embedding resilience into their operations	IDB Invest (ADV with IDB Invest–wide collaboration)	
Promote policies that address market barriers, foster competition, provide incentives for green innovation and sustainable investments, and aim to achieve multiplier effects	IDB (CTI, CMF and CCS)	Level 2: 8
Deploy initiatives to accelerate the development of early-stage solutions for environment and climate action	IDB Lab, IDB (the Natural Capital Lab), and IDB Invest (ICD)	
Develop and deploy instruments that promote state-of-the-art technology, incentivize and scale sustainable finance solutions, and nurture innovation for climate applications	IDB Invest (ADV, ICD, and TMT)	
Offer support to strengthen country MRV systems to meet the enhanced transparency requirements defined in the PA	IDB (CCS)	Level 2: 1
Deepen collaborative efforts with IFD, INT, and SCL and across the IDB Group	IDB (CCS)	Level 3: 5, 8

2. Alignment of Operations to the Paris Agreement

Action	Responsible	Related Indicator(s)
Systematically provide support services to teams developing CDCs, CSs, and SFDs to reflect long-term decarbonization and climate risk and resilience objectives	IDB (CCS and ESR)	Level 3: 1, 2
Further integrate the climate agenda in CDCs and CSs, according to country needs	IDB (CCS, VPC, and ESR)	Level 3: 1
Integrate PA alignment into IDB and IDB Invest operations procedures	IDB (CCS) and IDB Invest (ADV, and SEG)	Level 3: 3
Further evaluate the applicability of TCFD for the IDB	IDB (RMG, FIN, BDA, and CCS)	
Define a methodology for a climate change risk assessment of the portfolio	IDB (RMG, SPD, and CCS)	
Conduct a new materiality assessment to update the indicators for the IDB's annual ***Global Reporting Initiative*** annex to reflect the findings of the working group	IDB (CCS, with IDB-wide participation)	
Align with TCFD recommendations by drawing on a cross-functional working group, and make disclosures on progress in upcoming annual reports	IDB Invest (ADV and SEG, with IDB Invest–wide collaboration)	
Continue training staff to apply sustainable practices in project procurement	IDB (FMP and CCS)	

3. Mitigation and Temperature Goals

Action	Responsible	Related Indicator(s)
Increase operations supporting agriculture, forestry, land use, and coastal zone management, as agreed in the CRF	IDB (RND and CCS)	Level 2: 2 Level 3: 8.1
Develop a platform to better visualize activities and parties working on the Amazon, as well as underlying data on environmental and social conditions	IDB Lab and IDB (Natural Capital Lab)	Level 1: 3
Provide support to governments to implement decarbonization technologies in the different sectors	IDB (INE, CTI, and CCS)	Level 1: 2 Level 2: 3
Develop decarbonization financing schemes for private companies (and, when possible, their supply chains) to transition to low-carbon energy and transportation	IDB Invest (ADV and IEN)	
Design insurance mechanisms (within PPP contracts or standalone) to address renewable energy first mover risk in new markets as well as de-risking schemes for battery storage and green hydrogen	IDB Invest (ADV and IEN)	
Further prioritize climate change issues in fiscal management	IDB (FMM and CCS, in coordination with INE and SPH)	Level 3: 8.2

Action	Responsible	Related Indicator(s)
Develop studies, dissemination activities, and training—including policy dialogue—to improve knowledge and promote a just transition to a low-carbon economy	IDB (SCL and CCS)	Level 3: 5
Develop a screening tool for investment alignment with low-carbon pathways to be included in client selectivity criteria in all sectors and train investment officers to use it	IDB Invest (ADV and SPK)	
Continue to estimate GHG emissions for operations and consider options for using the data to inform decisions	IDB (ESG and CCS, in consultation with SPD)	Level 2: 2, 3
Develop a GHG-emissions tracking tool for transactions that can provide information on the alignment of portfolio to long-term scenarios	IDB Invest (ADV and SEG)	
Design processes for the credit-risk division to consider material climate risks	IDB Invest (SEG and MCR)	

4. Adaptation and Climate Resilience

Action	Responsible	Related Indicator(s)
Promote policy changes toward more resilient and inclusive agriculture systems; support small and medium producers to recover their capacities, knowledge, and tools to produce food; scale up successful models of climate-resilient technologies and practices in the region; redesign current extension systems and types of technology being promoted; and recover the organizational base as a platform to achieve competitiveness to access financing and markets (local or external)	IDB (RND), IDB Invest (INO), and IDB Lab	
Take stock of lessons learned using iGOPP in the region, investigate whether it can be updated to further consider climate change resilience, and train IDB clients in how to apply the tool	IDB (RND)	Level 1: 4 Level 2: 1
Continue to support disaster risk assessments at the multi-country, national, subnational, sector, and project levels, including climate change scenarios for climate hazards, and apply the assessments to prepare and publish Disaster Risk Profiles aimed at informing national DRM and financial-protection strategies and investments in risk reduction and disaster preparedness	IDB (RND and CCS)	Level 1: 4 Level 2: 1
Study the socioeconomic and fiscal impacts of increasing extreme-weather events	IDB (FMM and CCS)	
Expand the Sustainable Islands Platform by engaging all Country Department Groups in supporting long-term adaptation planning, financing innovative approaches to protecting ocean resources, and increase islands' resilience while strongly emphasizing social equity in the benefits from ocean resources	IDB (CCS)	Level 2: 1, 6

Action	Responsible	Related Indicator(s)
Continue to develop and implement bespoke strategies for the private sector for SIDS	IDB Lab and IDB Invest (ADV with IDB Invest–wide collaboration)	
Fully implement the DCCRA methodology and consider the potential implications of implementing the new updated IDB ESPF	IDB (ESG, RND, and CCS)	Level 2: 6 Level 3: 4
Carry out pilot studies that illustrate the costs and benefits of resilient infrastructure in the LAC region, and explore options for sustainably incorporating the costs of considering disaster and climate risks into project budgets for those projects that face substantial climate risks	IDB (ESG, RND, INE, and CCS)	Level 2: 6 Level 3: 4
Conduct CRAs for all direct investments and enhance the CRA methodology, including with the development of sector-specific tools	IDB Invest (SEG)	
Increase capacity for qualitative and quantitative scenario analysis	IDB Invest (ADV and SEG)	
Engage with team leaders and specialists from ESG, INE, and CSD to identify concrete options for addressing the institutional, financial, and operational challenges of delivering NBS as part of IDB operations, and identify within the project cycle the different stages for carrying out technical, environmental, and social assessments that could provide relevant inputs for applying those concrete options to building resilience	IDB (INE and CCS)	Level 2: 6 Level 3: 4
Consider NBS opportunities in the development of private-sector projects	IDB Invest (ADV)	
Promote the strategic use of cash-transfer programs to provide immediate, time bound, and transparent support to populations hit by disasters	IDB (RND, SPH, CMF, and CCS)	
Provide training for IDB Group employees and clients to better understand the uncertainties of climate change and the tools available to manage those uncertainties	IDB (CCS), IDB Lab, and IDB Invest (ADV)	Level 2: 7
Continue delivering sessions of the online courses on DRM that draw on the DCCRA methodology and the CRA	IDB (ESG, RND, and CCS) and IDB Invest (SEG)	Level 3: 4

5. Climate Finance

Action	Responsible	Related Indicator(s)
Use technical assistance to support the public and private financial sectors to adopt and implement taxonomies, methodologies, processes, regulatory and supervisory practices, and nontraditional instruments to channel and mobilize resources for sustainable development	IDB (CMF and CCS) and IDB Invest (ADV and FNP)	Level 2: 8 Level 3: 11
Use technical assistance and nonreimbursable grants as de-risking instruments in the form of guarantees or equities to develop innovative financing structures that combine traditional and nontraditional instruments, pilot them, and analyze conditions for scaling them	IDB (CMF and CCS)	Level 2: 8 Level 3: 10
Incentivize private banks to develop a sustainability strategy to decarbonize their portfolios and implement TCFD recommendations, including when responding to COVID-19 needs	IDB Invest (ADV, FNP, and FLI)	
Support countries and private clients to understand and respond to climate change transition risks, including knowledge sharing for stress testing and scenario analysis and developing frameworks to identify, assess, manage, and disclose climate risks within existing supervisory and regulatory frameworks	IDB (CCS and CMF) and IDB Invest (ADV and SEG)	Level 2: 8
Continue mainstreaming efforts throughout the project cycle and across sectors toward achieving the 30% IDB Group climate-finance goal	IDB (CCS), IDB Invest (ADV), and IDB Lab	Level 3: 5, 7
Support equitable and efficient access to concessional and other partner climate funds	IDB (ORP and CCS)	Level 3: 7,9
Build country and client capacity to access partner climate funds	IDB (CCS) and IDB Invest (ADV)	Level 2: 8
Explore new funding sources and seek the replenishment and consolidation of existing funding sources (e.g., the NDC Pipeline Accelerator Multi-donor Trust Fund) for sustainable development, taking into account the efficiency of obtaining the resources	IDB (ORP and CCS) and IDB Invest (ADV and FNP)	Level 3: 9
Design and implement the Sustainable Landscape Fund	IDB (CSD)	Level 1: 3, Level 2: 4 Level 3: 8.1
Support sustainable initiatives in the Amazon, including through designing a multidonor trust fund for approval by the Board of Executive Directors	IDB (CSD)	Level 1: 3, Level 2: 4
Support the creation of country pipeline accelerators and infrastructure observatories to deliver bankable project pipelines for private-sector investment	IDB (CCS, CMF and INE) and IDB Lab	Level 3: 11
Facilitate dialogue between regulators, governments, and financial institutions	IDB (CMF and CCS) and IDB Invest (ADV and FLI)	Level 2: 7, 8
Use guarantees and forms of equity as first-loss pieces for a more efficient use of capital to mobilize private-sector investments and B Bond structures to reach institutional investors	IDB (CMF), IDB Lab, and IDB Invest (FNP)	Level 3: 10,11

Action	Responsible	Related Indicator(s)
Support national development banks to structure sustainable infrastructure financing under PPP structures	IDB (CMF and PPP Unit)	
Continue to improve the quality and scope of thematic bonds by defining frameworks and acquiring second-party opinions and certification when available	IDB Invest (INO, SEG, and DVF)	
Assess, develop, and issue IDB Invest thematic bonds	IDB Invest (INO)	
Leverage the Green Bond Transparency Platform to address the heterogeneity of green bond reporting to attract new market players and funds to the region	IDB (CMF and CCS) and IDB Invest (INO)	
Support ministries of planning at the national and subnational levels to incorporate elements of sustainability and climate resilience into their infrastructure plans, and support ministries of finance and planning to incorporate sustainability indicators into their cost benefit analysis for the prioritization of infrastructure investment expenditures	IDB (FMM and CCS)	
Support ministries of planning at the national and subnational levels to include sustainability elements in the design of PPP frameworks	IDB (PPP Unit and CCS)	Level 3: 10, 11
Support governments to use financial instruments such as catastrophe bonds, resilience bonds, and parametric insurance to transfer risks to the private sector	IDB (CMF, RND, and TRY)	
Support national development banks in promoting guarantee instruments and sustainable PPP frameworks to mobilize new sources of capital, particularly from domestic markets	IDB (PPP Unit, CMF, and CCS) and IDB Invest (INO)	
Build country platforms using the NDC Invest model and the *Sustainable Infrastructure Framework* as the basis for taxonomies in countries	IDB (CCS)	Level 2: 8
Ensure that the design of private unsolicited proposals for infrastructure investment includes sustainability criteria consistent with the sustainable infrastructure framework	IDB Invest (INO)	
Support pre-carbon-market financial products that can unlock sustainable investments linked to countries' NDCs	IDB Invest (INO)	

6. Reporting

Action	Responsible
Explore options for improving consideration of climate change and sustainability issues through the DEF instruments and associated processes	IDB (CCS and SPD)
Explore options to streamline climate change and sustainability issues considered during the alignment of operations to the PA within the DELTA	IDB Invest (SEG, ADV, and DVF)
Systematically encourage the use of climate-relevant CRF indicators, including by offering training	IDB (CCS and SPD) and IDB Invest (ADV and DVF)
Identify and implement mechanisms to promote the use of climate-resilience indicators at the project level	IDB (CCS) and IDB Invest (ADV)
Using TC resources, increase the use of impact evaluations to determine the impact of IDB's climate efforts at the project level	IDB (VPS divisions and SPD)
Elaborate innovation testing with clients that have undergone climate actions, when possible	IDB Invest (ADV and DVF)
Improve the reporting of how IDB climate change operations contribute to the SDGs	IDB (CCS)
Facilitate the design and implementation of cross-cutting TCs and ESW related to climate change, and develop a systematic approach to tracking their results	IDB (CCS)
Encourage the use of relevant indicators in the project-results matrix (e.g., reduction of energy consumption) that will enable improved monitoring	IDB (CCS and project teams)
Implement a more systematic approach to tracking private-sector mobilization and co-financing volumes associated with climate change operations, consistent with the *MDB Methodology for Private Investment Mobilization* and the *CRF 2020–2023*	IDB (ORP, SPD, and CCS)
Continue to prepare annual joint progress briefings for the Board of Executive Directors	IDB (CCS), IDB Lab, and IDB Invest (SPK and ADV)
Leverage existing reporting mechanisms, including the annual ***Sustainability Report***, to report progress to external audiences	IDB (CCS)
Consolidate IDB Invest actions in an annual Sustainability Report	IDB Invest (INO, RMS, and DSP)

7. Internal Activities

Action	Responsible
Increase the amount of electricity coming from on-site solar systems	IDB (BDA, in coordination with VPC) Level 3: 14
Analyze business travel patterns, investigate drivers, gather lessons learned from COVID-19-related teleworking, and contemplate ways to sustain reductions in travel	IDB (BDA, in coordination with VPS and VPC)
Based on country-office business needs and local market conditions, replace vehicles with more efficient, hybrid, or all-electric models	IDB (VPC, in coordination with BDA) Level 3: 14
Continue the MetroCommute program, explore its possible expansion, and continue and expand Bank-wide employee-engagement activities on green commuting	IDB (BDA and HRD)
Identify further opportunities and implement measures for waste diversion at headquarters and country offices based on the 2019 waste audit, existing initiatives, and COVID-19-related health and safety considerations	IDB (BDA)
Investigate the environmental, social, and governance (ESG) practices of asset managers where the IDB Group retirement funds have investments; ESG indices and metrics; and ESG practices of the IDB Group's MDB peers' retirement plans	IDB (SRP)

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