Inter-American Development Bank

Sustainability Report 2009

ENTER

The IDB in Brief

The Inter-American Development Bank (IDB) is the main source of multilateral financing for Latin America and the Caribbean. Since it began operations in 1961, the IDB has provided more than US$183.2 billion in loans and guarantees to countries in the region for projects to reduce poverty, raise standards of living, spur economic growth, protect natural resources, foster integration and trade, and others. Loan operations approved in 2009 totaled US$15.5 billion, up from $11.2 billion in 2008, and Bank disbursements on approved loans amounted to US$11.9 billion in 2009, compared with US$7.1 billion in 2008.

The IDB is owned by a global partnership of 48 member countries in which the 26 borrowing countries of Latin America and the Caribbean hold the majority of shares. The Bank's 22 nonborrowing countries in North America, Europe, the Middle East, and East Asia provide resources and technical expertise. The voting authority of each member corresponds to its subscriptions to shares in the Bank's ordinary capital. The IDB holds a credit rating of AAA/aaa, the highest available.

Each member country is represented on the IDB's Board of Governors, which delegates oversight of Bank operations to the Board of Executive Directors. The Bank's senior officers are its president, executive vice president, and four vice presidents.

Other IDB affiliates are the Multilateral Investment Fund (MIF), which fosters private sector growth through grants and investments, and the Inter-American Investment Corporation, which supports small and medium-size businesses.

Leader in Social Lending

The IDB was a pioneer in financing social sectors such as water and sewage, microenterprise, and institutional strengthening. A foremost Bank priority is to safeguard the environment and protect vulnerable populations. It has extensive relations with civil society and community groups, which are consulted in policy formulation and participate in planning and carrying out Bank-financed projects.

IDB People and Locations

The IDB's 1,837 employees are located at its Washington, D.C. headquarters, country offices located throughout Latin America and the Caribbean, and in offices in Tokyo and Paris. Some 70 percent of IDB staff are nationals of the Bank's borrowing countries. Women make up nearly 45 percent of the Bank's professional staff.

Available Separately for Download
IDB Corporate Environmental and Social Responsibility Report
http://www.iadb.org/CSRAnnualReport/

About This Report
This Fifth Annual Sustainability Report covers sustainability progress and performance in the 2009 fiscal year for the Inter-American Development Bank. The IDB has used the G-3 sustainability indicators and the Financial Services Sector Supplement of the Global Reporting Initiative as guidance for this review.

This document is available in electronic format in English and Spanish. Printed copies may be ordered in English. A bilingual summary brochure of the report is available in both digital and print format.

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Message from the President

Sustainability issues inform every aspect of the IDB's work in Latin America and the Caribbean. It is how the Bank does business, in the projects it finances, and in its relations with governments, the private sector, and partner institutions.

Our commitment to sustainability reflects the challenging times in which we live. As a regional leader, the IDB must show the way in addressing critical issues such as climate change, increasing prevalence of natural disasters, growing scarcity of water, and loss of biodiversity and ecological integrity. Long after the present financial crisis has faded from the headlines, these global issues will continue to determine our success in promoting sustainable development and reducing poverty.

The IDB's sustainability mandate is based on a set of strategies and policies that establish rigorous standards for our investments. Our staff has developed a suite of sustainability tools and works with clients and partners in the region to go beyond compliance. The Bank also solicits inputs on sustainability from outside groups and individuals. In addition to its permanent dialogue with member governments, the Bank continuously draws on the knowledge and expertise of civil society, including the private sector. An Independent Advisory Group on Sustainability, composed of distinguished experts from IDB member countries, is currently examining the Bank's sustainability performance and will advise us on how we can better ensure that our support to the region leads to sustainable development outcomes.

As part of the institutional strategy currently under discussion by its shareholders, the Bank will establish five corporate priorities, which include social and environmental sustainability. A strategy for action on climate change will guide the Bank in this key issue, and a new operational policy on gender will make the Bank the first multilateral development bank to apply gender-based safeguards in its lending program. Additional measures to ensure greater institutional accountability are on track for adoption.

In 2009, the Bank achieved record lending levels, which included 33 new loans totaling more than US$3.5 billion for environmental improvement, climate change, and renewable energy. We have also applied a strengthened suite of instruments, including policy-based lending and knowledge and capacity building products, to ensure that sustainability plays a major role throughout the IDB's operational portfolio. Our efforts to promote sustainability have also benefited enormously from the expertise and resources of a dedicated group of partners. Among them are the Bank member countries whose donations support the technical cooperation on which so much of the Bank's innovative work depends; the Global Environmental Facility, which helps to finance initiatives to protect critical environmental services; and the Spanish government, whose grant program for improving water and sanitation services in the region is benefiting millions of low-income people.

In moving forward, we will continue to strengthen these sustainability policies and investments, and together with our member countries and partners we will sharpen the IDB's focus for meeting the region's pressing needs. In doing so, we will be guided by the knowledge that environmental and social sustainability is key to achieving the Bank's mission of poverty reduction and economic growth.

Luis Alberto Moreno

President
Inter-American Development Bank

Sustainability Report Highlights 2009

Record Sustainability Lending
The Bank in 2009 approved 33 new loans totaling more than US$3.5 billion for environmental improvement, climate change, and renewable energy, more than double the 2008 total. Of these loans, 15 (US$2.0 billion) were directed toward climate change and renewable energy. The Bank complemented this with a further US$62.4 million in technical cooperations, investing heavily in energy efficiency, renewable energy, biodiversity, and disaster risk management. These included the approval of eight new Global Environment Facility (GEF) operations (US$23.1 million). The year also saw increased investment in projects affecting indigenous peoples, gender issues, and Afro-descendants. Page 35

Water and Sanitation Goals Met
The IDB approved US$1.8 billion for projects in water and sanitation to benefit nearly 1.2 million low-income people. These investments helped the Bank achieve critical milestones in its Water and Sanitation Initiative, in many cases exceeding projected goals. To date, projects benefiting 30 million people have been financed in 112 cities, surpassing the goal of financing water and sanitation operations in 100 cities with more than 50,000 people; in 1,500 rural communities, toward the goal of 3,000 communities; and in 21 microwatersheds, surpassing the goal of projects for 20 such watersheds. Technical assistance has been provided to 62 water and sanitation operators in the Bank's Efficient and Transparent Utilities Program. Page 40

Record Funding to Cut Disaster Risk
The Bank approved record financing for natural disaster risk management totaling US$55.3 million for 13 operations. In 2009, these included the first operation of a conditional credit line for implementing an integrated strategy for managing natural disaster risks in Honduras. In addition, the Dominican Republic was the first country to tap a new IDB contingent credit facility for natural disaster emergencies that was established to cover urgent spending needed to respond to hurricanes and earthquakes. Page 43

New Guidelines to Limit Emissions
The Bank took initial steps to reduce the impact of its projects on climate change with the approval of guidelines for coal-fired power plants. Guidelines for land use change, cement plants, and landfills are in preparation. Each set of guidelines specifies criteria for reducing greenhouse gas emissions. Page 28

Strategy on Climate Change
Preparatory work began on an IDB strategic framework for supporting climate change action in the region, including plans for consultation with a wide range of stakeholders. The purpose of the strategy is to help define how the IDB would direct funding sources to the countries for adaptation and mitigation projects, including funding existing and new mechanisms emerging in the context of post-2012 financial architecture. Page 37

Safeguards for Complex Projects
Ten approved operations that had been given Category A designations for potential significant environmental and/or social impacts in many cases exceeded safeguard standards. They included wind power projects in Mexico that will protect flocks of migrating birds, a highway project in Colombia that the government called the nation's "First Environmentally Sustainable Road," and a road project in Jamaica that will support that country's efforts to reduce vulnerability to climate change. Page 44

More Staff Support for Sustainability
The Bank increased budget and staffing for IDB sustainability standards and launched a knowledge and learning program that included 24 training sessions for Bank staff on applying these standards. Page 49

Advisory Group on Sustainability
An Independent Advisory Group on Sustainability was formed to advise the Bank on addressing emerging sustainability issues and to recommend improvements to the Bank's Environment and Safeguards Compliance Policy and on how the Bank can play a sustainability leadership role in the region. Page 21

New Channel for Voicing Grievances
A draft proposal for an Independent Consultation and Investigation Mechanism that will considerably strengthen the Bank's existing mechanism for providing recourse to affected groups that claim noncompliance with Bank safeguard policies was developed and submitted to consultation with civil society. In addition, measures were initiated to strengthen and expand the Bank's Disclosure of Information Policy. Page 33

Knowledge Building for Sustainabiliy
In 2009, the Bank's Vice Presidency for Sectors and Knowledge carried out over 100 knowledge and capacity-building products (KCPs). The Bank has directed a large portion of its nonfinancial products and KCPs to the area of environmental and social sustainability in response to the need to stay abreast of major policy developments and new technical knowledge in such emerging fields as climate change and water resources. Page 49

Key Figures 2009

	2007	2008	2009
The Bank's operations			
Current volume of portfolio ($ billions)	34.7	38.2	39.7
Number of projects in portfolio	580	626	613
Volume of projects approved ($ billions)	8.8	11.3	15.5
Total number of projects approved	87	126	152
Volume of technical cooperations approved ($ millions)	167.8	183.8	213.0
Number of technical cooperations approved	430	511	451
Total disbursements ($ billions)	7.1	7.6	11.9
Cumulative volume of approved sovereign guaranteed operations that support poverty reduction and social equity enhancement (% of total financing)	51	50	50
Number of approved loans that support environmental improvements, climate change, and renewable energy	13	17	33
Value of approved loans that support environmental improvements, climate change, and renewable energy ($ billions)	0.3	1.2	3.5
Environmental and social risk management			
Approved loan operations by environmental and social safeguard category (number)			
Category A	2	3	10
Category B	22	36	51
Category C	40	27	61
Other (B.13)	36	34	46
No Category	7	6	1
Projects not proceeding due to noncompliance with IDB Environment and Safeguards Compliance Policy	0	0	2
Approved loan operations with an environmental and social safeguard (ESG) specialist assigned			
Category A	2	3	10
Category B	6	13	28
Category C	7	6	13
Other (B.13)	14	16	32
Nonsovereign guaranteed projects in operation			
Projects in operation with an ESG specialist assigned	73	46	133*
Projects with conducted site visit	11	27	22
Sovereign guaranteed projects in operation			
Projects with an ESG specialist assigned	n.a.	29	38
Projects with conducted site visit	n.a.	29	12
Becoming a knowledge bank			
Number of registrations in training on environmental and social safeguards	n.a.	112	379
Training hours delivered on safeguards	n.a.	836	1,771
Number of external registrations for client training	1,220	1,059	2,003
Training hours delivered to clients	108,416	98,944	103,629

* Includes trade finance facilitation program operations.

The Bank's Road to Sustainability

Tracking Progress on Sustainability Commitments

The IDB's sustainability strategic lines of action are based on IDB management's response to recommendations proposed in 2005 by a group of outside experts making up the Bank's Blue Ribbon Panel on Environment. Since then, the Bank has used these as a point of reference for assessing the institution's progress in meeting its objectives in this area.

The sustainability lines of actions are:

- **Enhancing governance for sustainability**
- **Strengthening stakeholder relations**
- **Improving environmental and social impact management**
- **Expanding the portfolio of investments in sustainability**
- **Increasing knowledge and learning in sustainability issues**
- **Minimizing the IDB's environmental footprint**

The IDB's sustainability lines of action build upon a series of prior efforts to integrate sustainability within the full spectrum of the Bank's operations and promote sustainability practices to its stakeholder groups. The Bank's formal commitment to sustainability was made in 1979 when it became the first multilateral bank to adopt an environmental policy. In 1994 the agreement on the IDB's Eighth Capital Replenishment declared the environment, together with poverty reduction and social equity, as priority areas for Bank support, and included specific mandates that have guided the Bank's work in these areas to the present. These mandates call on the Bank to strengthen support for client countries' environmental, legal, and regulatory frameworks and institutions; improve the environmental quality of Bank operations, including promoting energy conservation and efficiency; and promote sustainable management of natural resources.

The next IDB sustainability milestone took place in 2003 with the approval of its Environment Strategy, which called for integrating environmental and social components in the Bank's full range of projects as well as improving its environmental performance. In 2006 the Bank approved the Environment and Safeguards Compliance Policy and the Operational Policy on Indigenous Peoples, which strengthened the Bank's mandate to set more rigorous standards for lending operations to help the region's countries improve the quality of life of their citizens and their prospects for improved economic growth. In applying these policies, the IDB has contributed to the region's progress in meeting the Millennium Development Goals by 2015, as set by the United Nations. It has been estimated that meeting these goals will lift 118 million persons in the region out of poverty and 53 million out of extreme poverty while providing 120 million people with access to safe drinking water.

For the past four years, a Blue Ribbon Panel on the Environment, and now the Independent Advisory Group on Sustainability, have advised Bank management on the development and implementation of its safeguard policies. Current plans to increase the Bank's capital and lending volume will be accompanied by additional measures to ensure the Bank's continued commitment to sustainability.

Commitments and Progress

The following chart shows progress the Bank is making in improving its ability to help the region's countries achieve sustainability. This progress includes new measures to strengthen environmental and social safeguards and integrate them into IDB project preparation and implementation. As new sustainability issues emerge, such as those related to social and environmental impacts of climate change, these policies and processes will be modified and strengthened as necessary.

Tracking Progress on Sustainability Commitments

Commitments 2009	Progress Achieved 2009	Commitments 2010
1. Enhancing the Bank's sustainability governance		
Define the relevant scope of sustainability for the Bank and its activities, including impact indicators for reporting purposes.	Completed. A first set of impact indicators was developed and built into internal reporting systems.	Inclusion of more-detailed reporting on Category A and B (as per the Environment and Safeguards Compliance Policy) based on impact indicators developed. Page 28
Approve a new gender equality policy, replacing the Policy on Women in Development.	In process. A policy profile was approved. Page 33	Approve Operating Policy on Gender Equality in Development.
Develop options for aligning incentives with sustainability objectives based on study of similar efforts at other institutions.	No progress.	Develop options for aligning incentives with sustainability objectives based on study of similar efforts at other institutions.
Develop a policy statement on labor, including occupational health and safety.	In process. A draft guidance note was prepared.	Approve guidance note as part of internal policy guidelines for IDB staff.
Develop an internal professional environment network.	Completed. An internal network has been set up to foster sustainability mainstreaming in the Bank.	
		Enhance collation of data on environmental investments (subcomponents) mainstreamed into Category A and B loans (as per the Environment and Safeguards Compliance Policy).
		Undertake review of Disclosure of Information Policy.
2. Strengthening the Bank's stakeholder relations		
Develop project-level stakeholder consultation internal guidance.	In process. A discussion paper was prepared. Page 50	Finalize project-level stakeholder consultation internal guidance.
Implement guidelines for Civil Society Consulting Groups (ConSOCs).	In process. Guidelines for ConSOCs have been proposed and will be approved in 2010. Page 32	Approve ConSOC guidelines.
Publish report on implementation of Information Disclosure policy	Completed	
Continue to consult ConSOCs on projects, programs, and policies.	Completed. ConSOCs consulted on Bank policies and operations in specific countries. Page 32	
Initiate independent review of the implementation of the Environment Safeguards Compliance Policy.	Completed. Independent Advisory Group on Sustainability has been formed and has begun a process of review. Page 21	Facilitate independent review of Environment and Safeguards Compliance Policy.
Develop annual report on civil society participation.	Completed. Report has been drafted.	Publish and distribute 2009 report.

Tracking Progress on Sustainability Commitments

Commitments 2009	Progress Achieved 2009	Commitments 2010
3. Improving the Bank's environmental and social impact management		
Integrate the disaster risk management toolkit into the IDB's environmental and social safeguards toolkit.	Completed. Disaster risk management filters incorporated into the Bank's internal safeguard policy screening tools.	
Develop a mechanism for monitoring and collecting data on the Bank's operations to assess compliance with the Operational Policy on Indigenous Peoples.	Completed. Tracking of projects that trigger specific policy directives such as number of indigenous families negatively affected (Category A projects).	
Allocate dedicated budget to ensure adequate management of environmental and social risk in all IDB projects.	In process. Dedicated safeguard management funds for sovereign guaranteed operations and one additional headcount.	Increase financial and human resources to ensure continued safeguard management and supervision commensurate with expanding portfolio.
Finalize and launch a decision support instrument to facilitate early identification of risks to natural habitats from infrastructure and other projects.	Completed. Natural Habitats Decision Support System used as part of environmental analysis of potential Bank projects. Page 26	
Implement methodology to calculate the greenhouse gas emissions associated with the Bank's portfolio.	In process. 2009 data are currently being tabulated and will be reported internally in early 2010.	Publish results of IDB portfolio greenhouse gas emission calculations.
4. Growing the Bank's sustainability investment portfolio		
Strengthen and integrate the Sustainable Energy and Climate Change Initiative (SECCI) in the Bank's operations.	In process. A dedicated climate change unit was established in 2009, with increased financial and human resources.	
Achieve targets for Water and Sanitation Initiative of reaching 100 cities, 3,000 rural communities, and 20 watersheds	Completed. Goals have been exceeded for cities and watersheds. Page 40	
Conduct country environmental assessments (CEAs) for four countries.	In process. CEA completed for the Dominican Republic. Page 22	Undertake internal review on the application of country environmental analysis tools through Bank matrix structure for improved mainstreaming.
Increase investments in disaster risk management.	In process. Record financing approved. Page 43	
Launch a contingent credit facility to help countries in the region better cope with natural disasters.	Completed. The facility was established and the first loan approved. Page 43	
Launch a gender and diversity fund to help foster gender equality, combat discrimination, and support development with identity.	Completed. US$10 million fund launched in May 2009. Page 33	
		Develop and approve IDB Climate Change Strategy.
		Develop and approve Regional Environmentally Sustainable Transportation (REST) Action Plan
		Operationalize the Forest Investment Program (FIP) and begin programming FIP resources in selected countries.

Tracking Progress on Sustainability Commitments

Commitments 2009	Progress Achieved 2009	Commitments 2010
5. Expanding the Bank's knowledge and learning activities		
Expand staff training on safeguards to support infrastructure, agriculture, and energy sectors.	Completed. 24 safeguard sessions held. Page 49	
Develop and conduct Bank-wide training on disaster risk management.	Completed. Integrated into environmental safeguards workshops.	
Develop indigenous training module for employees.	In process. New training modules are under development.	
Define client training on environmental and social risk management.	In process. Annual training carried out for financial intermediary clients in collaboration with the Inter-American Investment Corporation.	Deliver pilot training on environmental safeguards and better environmental projects to specialists in environmental ministries.
6. Minimizing the Bank's environmental footprint		
Conduct energy audit at IDB headquarters and identify potential energy efficiency projects.	In process. Request for proposals for consulting firm issued, with proposals due in January 2010.	Conduct energy audit at IDB headquarters and identify potential energy efficiency projects for 2011–2013. Include suggested projects in business plan and assign adequate budget.
Begin Leadership in Energy and Environmental Design (LEED) certification phase at IDB headquarters.	Completed. LEED existing buildings, operations, and maintenance audit of IDB headquarters completed in October 2009.	Hire LEED consultant to guide IDB through certification process at IDB headquarters.
Set greenhouse gas emissions reduction targets.	Completed. In December 2009 annual climate leaders meeting, the IDB pledged to achieve zero net emissions and maintain this level through 2011.	

Section I: The Challenges of Sustainability

The countries of Latin America and the Caribbean are faced with major development challenges that can only be effectively addressed by a shift in favor of the sustainable use of natural resources. Climate change, deforestation, loss of biodiversity, and diminishing water resources are just some of the environment-related concerns that the region must confront in coming years.

The increasing pressures of environmental issues such as global climate change and the pressing need to meet large-scale development priorities pose significant challenges to Latin America and the Caribbean in securing a sustainable future. Unless countries take a more proactive approach to the use of natural resources and mainstreaming environmental management in decision making, their future development options may become severely constrained and past gains could be lost due to continuing, or exacerbated, environmental degradation.

In coming years, governments and international assistance agencies must enhance their ability to examine – and to incorporate in their development interventions – the interrelationships among issues such as climate change, water resources allocation, biodiversity protection, and others, if they are to address the root causes of current failures and embark upon a path of true environmental sustainability. Success will depend in large part on a renewed commitment and enhanced capacity by governments to ensure protection for the ecological goods and services the natural environment provides and upon which both national economies and human welfare depend.

The future effectiveness of the IDB will rest on its ability to better mainstream environmental considerations in country programming and integrate its support for environmental planning and management in its lending and technical cooperation operations. In large measure this can only be achieved through the Bank's ability to acquire and apply cutting-edge knowledge with respect to environmental challenges, risks, and opportunities. The opening section of this report highlights these critical linkages among emerging environmental issues and the Bank's mission to help its country clients spur economic growth and reduce poverty in the context of sustainable development.

The Realities of Climate Change

The effects of climate change are increasingly apparent at the global, regional, and local levels. Global air and ocean temperatures are rising, glacial snow and ice are melting at an unprecedented rate, and increasing sea levels are threatening many coastal communities. At the regional level, many natural systems are being adversely affected, particularly by temperature increases, as is the case in the Andean and Amazon regions of South America.[1] In terms of human welfare, less-developed countries and the poorest communities are already suffering the impacts of climate change, and will continue to be harmed the most in the future. Climate change also has the potential to reverse hard-earned development gains of past decades, including progress made in achieving the Millennium Development Goals. It may also lead to mass migration and conflict over land and other increasingly scarce natural resources.

Latin American and Caribbean countries account for 8.6 percent of the world's population and 8.2 percent of the world's GDP, and for 12 percent of total global greenhouse gas (GHG) emissions, according to 2008 estimates.[2] Almost half of its GHG emissions are produced by deforestation and other land use change. According to the United Nations Environment Programme (UNEP), deforestation in the region is responsible for 48 percent of carbon dioxide emissions from land use change worldwide, with nearly half of the total coming from Brazil alone, mainly Amazonia.[3] Energy generation presently accounts for a comparatively low proportion of carbon emissions in the region, owing to its significant reliance on hydroelectricity.

In 2008, Latin American and Caribbean countries accounted for 8.6 percent of the world's population, 8.2 percent of the world's GDP, and 12 percent of global GHG emissions.

Under current climate change mitigation policies and related development practices, global GHGs will continue to grow over the next few decades, causing further warming and altered climate systems in this century and beyond. Major changes will take place in seasonal precipitation, water availability, and other weather patterns, which could have serious economic and social consequences for the region given its substantial dependence on agriculture, the potential for resource-driven conflicts, and possible shortfalls in meeting the needs of growing populations.

Changing Precipitation and Temperatures

Changing patterns of precipitation and temperature could reduce agricultural productivity, causing economic losses at a national level, impairing living conditions, and undermining livelihood opportunities for millions of people. Significant decreases in agricultural productivity in some parts of the region are likely to have adverse consequences for food security and export revenues. For example, climate change could lead to a 10 percent reduction in maize yields in Latin America and Africa by 2055, representing a US$2 billion annual loss.[4] In the Andean countries and Central America, subsistence production of maize could fall an average of 15 percent by 2055. Net revenues of South American farms could decrease by more than 60 percent by 2020, and the value of their land might fall by up to 15 percent.[5]

In the Amazon, replacement of tropical forest by savannah, due to land use changes combined with altering climate patterns, threatens other parts of South America as well. The Intergovernmental Panel on Climate Change (IPCC) estimates that a temperature increase of 2–3º C could result in a potential loss of between 20 and 80 percent of the Amazon rainforest, which would likely alter the continent's precipitation patterns and trigger a process of desertification on the continent.[6] This dieback, or even collapse, of the Amazon forest could potentially shift the basin's role from that of a carbon sink to that of a carbon source.

In the Andean countries and Central America, subsistence production of the staple crop maize could fall an average of 15 percent by 2055 as a result of climate change.

Recent studies suggest that the initiation of forest dieback may be perilously close.[7] Meanwhile, it must be kept in mind that the Amazonian forests are home to some 1 million people of 400 different indigenous groups, and provide income and medical and pharmaceutical supplies to millions more. However, according to a recent study, hundreds of medicinal plant species, which contain chemicals used in more than half of all prescription drugs, are faced with extinction.[8] The problems are by no means limited to the Amazon. Brazil's *cerrado*, or savannah, rivals the tropical forest in biodiversity and in its importance for carbon storage. Like the Amazon, the *cerrado* is under increasing pressure from agricultural—particularly soybean—expansion, which poses serious regional and global consequences.

Impacts on Development

Changes in rainfall patterns are already affecting water quality, quantity, and availability for human consumption, agriculture, and energy generation. At least 77 million people may be affected by water stress as early as 2020 as a result of disappearing tropical glaciers in the Andes, with very serious consequences for cities such as Quito, Lima, and La Paz. Many more millions will likely be affected by the increased intensity and frequency of extreme weather events, including hurricanes and other tropical storms. Major impacts are foreseen on electricity generation capacity in South America, where hydropower is the main source of electricity in many countries, including Ecuador (more than 50 percent), Bolivia (70 percent) and Peru (50 percent).[9]

Along with much of the rest of the developing world, the region faces growing water shortages due to pollution, overuse of both surface and underground sources, and

The Realities of Climate Change (cont.)

poor watershed management. Conflicts are already occurring in places such as along Brazil's São Francisco River, where competition for the river's water is a development and political issue of particular concern to the country's arid and poverty-stricken northeast. Disputes over water are also occurring in river basins shared by two or more countries.

At least 77 million people may be affected by water stress as early as 2020 as a result of the possible disappearance of tropical glaciers in the Andes.

Efforts in the region to expand and improve water supply and sanitation services, to establish and operate interjurisdictional river basin commissions, and to promote better-coordinated use of national water resources have proven only partly successful. In part this reflects the perception that countries may have relatively bountiful water resources, which may cause inadequate water pricing and cost recovery policies and significant institutional capacity constraints.

The Mounting Impact of Altered Climate Regimes

If left unattended, climate change threatens to have—and, judging from the recent increase in extreme weather events, already appears to be having—substantial adverse economic, social, and environmental consequences for many parts of the region.

The number, frequency, duration, and intensity of tropical storms and hurricanes in the North Atlantic Basin have increased since 1987, causing increased flooding and landslides and associated damage in parts of the region, especially Mesoamerica and the Caribbean. In South America, El Niño–related flooding and landslides had huge impacts during the first half of the present decade, and droughts occurring during the same period caused serious social dislocation and economic losses for more than 1.2 million people in Bolivia, Brazil, Cuba, El Salvador, Guatemala, Honduras, Haiti, Jamaica, Mexico, Nicaragua, Paraguay, Peru, and Uruguay.[10]

Based on findings of the IPCC, likely climate-related impacts of particular concern for Latin America and the Caribbean in the short and medium term are rising sea levels, higher rainfall, increased risk of drought, stronger wind and rains from hurricanes, more pronounced droughts and floods associated with El Niño and La Niña events, reduction in water supplies stored in glaciers, and declines in crop and livestock productivity. Particularly vulnerable are the tropical rainforests of Mesoamerica and the Amazon basin, mangroves and coral reefs in the Caribbean and other tropical areas, mountain ecosystems in the Andes, and coastal wetlands. Small island states face multiple threats of surface warming, droughts and reduced water availability, floods, beach erosion, and coral bleaching, all of which would degrade local resources and threaten tourism.[11]

Between 1970 and 2008, climate-related disasters (storms, floods, droughts, landslides, extreme temperatures, and forest fires) cost the region US$81.4 billion per year.

An increase in intensity and frequency of hurricanes and tropical storms will cause extensive economic losses and human suffering, particularly for poor communities in vulnerable sites such as coastal areas and marginal zones, where people are exposed to increased risks from flooding, landslides, and other hazards.

A recent study by the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that between 1970 and 2008, climate-related disasters (storms, floods, droughts, landslides, extreme temperatures, and forest fires) cost the region an annual US$81.4 billion.[12] Another study claims that, on average, climate-related natural disasters account for a 0.6 percent decrease in real GDP per capita in affected countries.[13] Estimates suggest that if no action is taken in the region to slow down climate change impacts in the coming decades, the cost of climate-related disasters could rise to an annual US$300 billion. In coastal zones alone, damage due to rising sea levels represents an economic cost for the region of between 0.54 percent and 1.30 percent of the region's GDP for a one- to five-meter rise, respectively.[14]

Threats to Ecosystems and Biodiversity

As noted, climate change and other alterations in the natural environment also threaten to undermine the region's past development gains and diminish prospects for those needed in the years ahead. The future may be further compromised because an impaired environment is less able to provide the very ecological goods and services upon which development substantially depends. Biodiversity is integral to sustaining these goods and services, yet its loss is accelerating and the associated social and economic impacts remain underappreciated. Contrary to the Millennium Development Goal (No. 7 "Ensure environmental sustainability") which calls for a reduction in biodiversity loss, there is a growing body of evidence to suggest that the rate of biodiversity loss is, in fact, accelerating.

Latin America and the Caribbean possess some of the world's richest biodiversity. Amazonia alone contains about half of the world's species, while at the same time storing and cycling a significant share of the world's carbon. Brazil, Colombia, Ecuador, Mexico, Peru, and Venezuela each have more species of plants, vertebrates, and invertebrates than most of the other nations on the planet together.

Many of the region's most species-rich areas are under serious threat from human activities. The region contains all or portions of the region's nine species-rich but threatened "biodiversity hotspots," including remnants of the Atlantic rainforest, the Brazilian *cerrado*, or savannah, the tropical Andes, and a forest region in Chile with a unique rainfall regime. Forty-one percent of the world's threatened endemic plants are in the tropical Andes, some 30 percent are in the Caribbean and Mesoamerica (including the Choco-Darien-Esmeraldas area between Panama and Colombia), and 26 percent are in the Brazilian Atlantic Forest and *cerrado*.[15] Five of the 15 countries in the world whose fauna is most threatened with extinction are in Latin America, namely, Brazil, Mexico, Colombia, Peru, and Ecuador.[16]

Forty-one percent of the world's threatened endemic plants are in the tropical Andes, some 30 percent are in Mesoamerica and the Caribbean, and 26 percent are in the Brazilian Atlantic Forest and *cerrado*.

In all, an estimated 3.1 million square kilometers in the region, or 15.7 percent of its total land area, are degraded; in Mesoamerica, the proportion rises to 26 percent of the land area.[17] In areas of rainfed agriculture, poor watershed management frequently reduces soil fertility. Chemical fertilizers and pesticides contaminate both land and waterways and cause human illness. Poor irrigation practices increase soil salinity, deplete groundwater aquifers, and pollute local surface water. Desertification resulting from deforestation, overgrazing, and poor irrigation practices affects an estimated quarter of the region's productive land area.

Marine ecosystems are also under pressure. Warming and acidifying oceans will result in more frequent bleaching and increased diebacks of coral reefs in the Caribbean. These reefs serve as nurseries for an estimated 65 percent of Caribbean fish species, and provide natural protection against storm surge. Both climate change and impacts from the tourism industry are leaving coral reefs bleached and lifeless. Depleted fisheries are threatening livelihoods in several countries, Peru and Chile being prime examples. Loss of mangrove wetlands and coral reefs eliminates nurseries for marine species as well as protection against shoreline erosion, such as around the Gulf of Mexico, where wetland loss will make the coast more vulnerable to increasingly frequent hurricanes. In Jamaica, for example, benefits from coral reefs and mangroves in the Portland Bight Protected Area have been estimated at about US$19 million for fisheries, about US$11 million for tourism, US$4 million for carbon sequestration, US$366,000 for coastal protection, and US$18 million for biodiversity.[18]

As climate change progresses, these ecosystems may increasingly lose their ability to provide these economic services. Caribbean countries in particular are likely to suffer high economic losses in tourism due to dieback of coral reefs, which has been estimated at 30 percent since the 1980s. It has been estimated that global inaction on climate change will cost the Caribbean's tourism sector between US$0.4 billion and US$2.0 billion per year by 2053. In addition, net revenues from fishing in this subregion could fall by as much as US$140 million per year by 2015.[19]

The region's countries have begun to take steps to conserve the natural capital resources that are fundamental to their economic development agenda. These range from creating protected areas to establishing payment for ecosystem services mechanisms. The region as a whole doubled its land area under formal protection between 1985 and 2006, with greater protection levels in comparative terms in South America and Mesoamerica (including Mexico). Programs to promote payment for environmental services are encouraging biodiversity protection as well as helping to avoid deforestation and associated land degradation, which also reduce greenhouse gas emissions.[20]

While specific mechanisms to implement such programs are still under development, several countries, including Brazil, Colombia, Costa Rica, and Mexico, have started to apply this approach for watershed protection and/or to preserve forested areas. Similar initiatives include the Mesoamerican Biological Corridor, including the barrier reef that extends from southern Mexico to Panama, and the recently concluded G-7 Pilot Program to Conserve the Brazilian Rain Forests, which focuses on both the Amazon and the even more threatened Atlantic Forest, which has been largely eliminated over the past two centuries by agricultural development.[21]

But greater efforts must be made to protect the region's many biodiversity "hot spots" and other biodiversity-rich areas, including buffer zones and agricultural and other productive landscapes. A common challenge is adequate enforcement of laws

Threats to Ecosystems and Biodiversity (cont.)

and regulations for environmental protection. While the increasing involvement of local institutions and communities has resulted in a greater degree of vigilance and compliance, a critical need remains for adequate funding for this purpose by responsible governmental authorities.

Ecosystems and biodiversity provide important services at global, regional, and local levels. Often the areas in the region with the richest biodiversity and the best-preserved ecosystems are often inhabited by the poorest people, particularly indigenous groups. While the services provided by these ecosystems provide important benefits to the global community, such as storage of carbon and protection of wild varieties of genetically valuable plants and animals, the costs of conserving them are often borne by the local communities. This provides international institutions with an opportunity to help resolve this imbalance and to provide local support. In these cases, regional initiatives can help ensure both that environmental degradation is halted or reversed and that measures are taken to enable local inhabitants to benefit from biodiversity and improve their living conditions.[22]

Enforcement of environmental laws in these protected areas has met with limited success, even in high-profile places such as the Galápagos and Guatemala's Petén. In nearly all cases, budgets for effective protection fall far short of needs, even though estimated potential benefits often far exceed costs. According to a report by The Economics of Ecosystems and Biodiversity, a major international initiative hosted at

The IDB's challenge is to help reconcile the objectives of economic growth, poverty reduction, and biodiversity protection.

UNEP, conservation costs have been found to be as little as US$0.01 to US$1.00 per hectare per year in remote and densely populated areas, respectively, while the benefits of services derived from different ecosystems vary from US$5.00 to several hundred dollars per hectare annually, and in some cases—for example, coral reefs—much more. This report further notes that protection costs in developing countries are considerably less than those in developed countries. Although developing countries represent 60 percent of the world's biodiversity reserve areas, actual budget allocations for their conservation come to just 10 percent of the global total.[23]

Some countries are making encouraging progress with regard to biodiversity conservation, often in collaboration with local communities and based on common property approaches. However, in most cases there is insufficient recognition at the policy level of the crucial role that ecosystems and their biodiversity play in providing human populations with critical services, such as fresh water, timber, genetic resources, water flow regulation, pollination, recreation, and protection from natural hazards. The Millennium Ecosystem Assessment (MEA)—a four-year international scientific appraisal of the consequences of ecosystem change for human well-being—concluded that the majority of the planet's ecosystem services has declined over the past 50 years and that this degradation was likely to grow significantly worse over the first half of this century. However, the MEA also maintained that environmental sustainability is not only compatible with the objectives of multilateral development banks, but essential for achieving their broader goals. Various organizations are seeking to raise the profile of ecosystem services among national decision makers, such as through the Mainstreaming Ecosystem Services Initiative of the World Resources Institute, which is developing and disseminating information on ecosystem services and helping government, business, and multilateral institution decision makers use this information in pursuit of their development goals.

The IDB's challenge in helping to reconcile the objectives of economic growth, poverty reduction, and biodiversity protection will hinge on its ability to work with countries to integrate ecosystem valuation into project planning, including environmental assessments. This analysis will not only provide a clearer and more comprehensive picture of project impacts, but also help to identify opportunities to enhance environmental quality, including the use of local knowledge to help ensure that benefits are distributed equitably.

The Human and Economic Costs of Pollution

Latin America and the Caribbean is the most urbanized of the world's major developing regions. Not surprisingly, therefore, many of the most serious environmental problems, particularly those impacting human health and the poor, occur in its towns and cities, including megacities such as Mexico City, São Paulo, and Buenos Aires. Air and water pollution and solid waste collection and disposal are among the most serious urban environmental problems, exacerbated by poorly controlled land use and unplanned informal settlements. These settlements, which are generally occupied by the poor, including recent migrants from rural areas, are also often particularly vulnerable to natural hazards such as floods and landslides. Growing cities have been identified as a priority environmental issue in the region, where air pollution, insufficient water, sanitation, and waste collection services, and inadequate urban planning and management, more generally, must be addressed.[24]

Noting the overwhelming contribution of fossil fuel use in the transport and industrial sectors to urban air pollution, UNEP indicates that only one-third of the countries in the region have established air quality or emissions limits. While air quality has improved substantially over the past decade in some of the largest metropolitan areas, including Mexico City, São Paulo, Santiago, and Bogotá, due to industrial pollution abatement, transport system improvements, and use of cleaner fuels and vehicles, it continues to deteriorate in many medium- and smaller-sized cities.[25] Indoor air pollution is likewise a persistent problem in some countries, such as Guatemala and Colombia, particularly in rural areas and for people who use firewood for cooking and heating.[26]

The heaviest burden of urban pollution falls on the most vulnerable population groups, especially poor children. For example, the United Nations Development Programme (UNDP) notes that some 15 million children under the age of two are at risk of ill health from lead pollution. The economic cost of urban pollution, combined with natural disasters, has been estimated at more than 3.7 percent of Colombia's GDP in 2004, mainly due to health impacts and decreased productivity. According to 2002 data from the Pan American Health Organization, the proportion of disability-adjusted life years in Colombia attributable to unsafe water alone is in the range of 1.0 to 1.9 percent of GDP. The situation is similar in other Latin American countries, with the exception of Bolivia, Ecuador, Guatemala, Peru, and Nicaragua, where the proportion is even higher.[27]

The same is true with respect to urban sanitation, where inadequate services can have significant adverse public health and productivity consequences, again especially for the poor. According to UNEP, while the coverage of sanitation services grew from 67.9 percent of the region's population in 1990 to 77.2 percent in 2004, including 85.7 percent of that in urban areas, just 14 percent of the sewage collected was adequately treated in the latter year. Surface and groundwater resources were frequently polluted with nitrates, heavy metals, and other contaminants.[28]

Water pollution also has substantial impacts on coastal areas,[29] where increasing urbanization has led to a significant expansion in solid and hazardous waste generation over the past two decades. Figures provided by the Pan American Health Organization in 2005 indicate that, even though 81 percent of municipal solid waste in the region is collected, less than a quarter of this total is adequately disposed of, with the rest being "discarded in an uncontrolled manner at unofficial dump sites, in watercourses, and along roadsides or . . . burned, polluting land, air, and watercourses."[30]

Urban pollution and sanitation problems must be addressed through a coordinated, multisectoral, and often multijurisdictional approach to environmental management that employs economic incentives, enforcement of environmental laws, and participation in planning and implementation by local residents.

Although the challenges are great, a number of Latin American cities have carried out innovations in urban and environmental management that make them global models. Examples are Curitiba, Brazil, with its trend setting integrated public transport, land use, and solid waste management systems, and similar collective transport initiatives carried out in Bogotá, Santiago, Mexico City, and São Paulo. Integrated programs for air quality management have been undertaken in major Mexican cities, including the capital. The IDB has participated in financing many significant urban environmental and poverty-oriented initiatives, but, as cities continue to grow, the needs remain great and will intensify in the future.

The Challenge of Environmental Governance

During the past several decades, substantial resources have been dedicated in the region to capacity building for environmental management. Environmental institutions and laws have been established, assessment procedures have been applied, and government staff have received training. However, despite these efforts, much remains to be done to effectively mainstream environmental planning and management in decision making. The Bank has been historically active in this area, helping countries to take systematic steps towards developing and improving country systems for managing and conserving natural resources. While considerable progress has been made, a great deal needs to be done, particularly at the subnational level.

Environmental governance has been identified as one of the region's principal drivers of change over the past several decades as governments have made significant advances in establishing frameworks for creating, monitoring, and enforcing environmental policies. By 2002, most countries possessed a broad array of environmental laws, institutions, regulatory regimes, and policy instruments. Some 23 countries had general national laws on the environment and natural resources, including some, such as Brazil, Chile, Colombia, Ecuador, and Peru, whose constitutions contained explicit provisions for protecting the environment and natural resources. Parallel to these developments, networks of civil society and private sector groups emerged that have both participated in environmental governance and called attention to its failings, thereby helping to strengthen public sector transparency and accountability.

Sustainable development also has become a nominal part of the regional agenda, as evidenced by the number of countries that have signed multilateral environmental agreements and the inclusion of sustainability issues in agendas of regional organizations such as the Central American Commission on Environment and Development and the Andean Community of Nations, as well as in the language of trade agreements and in the policies and programs of individual countries. At present, all of the countries of the region have national institutions charged with environment and natural resources policymaking and protection, whether they are ministries, as in the case of Brazil, Colombia, and Peru, and high-level commissions, such as in Chile, or special agencies, such as Panama's National Environmental Authority. Within these institutional frameworks, countries have developed a wide range of policies for specific issues and sectors, such as water and sanitation, forests, biodiversity, coastal ecosystems, land degradation, and energy, and utilize a variety of policy instruments for activities, including environmental impact assessments, regulatory requirements, and economic incentives. In addition, efforts are underway to strengthen state/provincial and municipal environmental management capacity.

The region has made significant advances in creating an institutional framework for environmental governance. However, it has been less successful in applying this framework to effectively resolve many environmental problems. The priority given to environmental management and conservation in most countries continues to be low, which becomes evident when a choice must be made between environmental protection and economic growth and social development initiatives. Often a higher value is given to short-term economic development and poverty reduction than to longer-term environmental protection. Partly as a result, public expenditures for environmental management and protection are generally low, thereby depriving public institutions of the technical, financial, and logistical resources needed to carry out their formal responsibilities.

In frontier regions, biodiversity is often greatest and most intact, but governmental institutions tend to be the weakest.

An analysis recently undertaken in the context of the IDB's country environmental assessment for the Dominican Republic[31] found that the average annual national budget for environment from 2005 to 2008 was approximately US$82 million, or 0.5 percent of total annual governmental expenditures. The country's environment secretariat received approximately 90 percent of that very small amount, but it was required to transfer 59 percent of this total to affiliated agencies such as the national hydrologic resources institute. Most of the remaining amount was spent on personnel and material support. Citing ECLAC figures, the same study showed similarly low levels of environmental governance expenditure as a percentage of GDP for other countries, including Argentina (0.38 percent), Brazil (0.33 percent), Chile (0.48 percent), Colombia (0.68 percent), Costa Rica (0.64 percent), Ecuador (0.72 percent), Mexico (0.70 percent), and Peru (0.60 percent). In almost all cases, the largest share of environmental budgets is allocated to water and sanitation projects, leaving very little for environmental conservation.[32]

The subject of environmental governance is not immune to the complexities that permeate sustainability issues more generally. For many years the countries of the region, often with the support of the IDB, have worked to bring government closer to the people through decentralization of finances and political decision making. However, many newly empowered state and local governments have found it very difficult to exercise their new responsibilities due to lack of budget and trained personnel. Additional responsibilities for environmental management and protection will challenge these governmental jurisdictions even further. The problem is particularly serious in agricultural and extractive frontier regions, where biodiversity is often greatest and most intact, but where governmental institutions tend to be the weakest.

In addition to limited funding, and adequate technical staff, the effectiveness of environmental management institutions is also limited by internal bureaucratic inefficiencies and lack of continuity from one administration to the next. The result is often insufficiently comprehensive and/or up-to-date information for decision making, monitoring, and evaluation, as well as scarcity of logistical resources for effective fieldwork. The lack of resources and skilled personnel is often exacerbated by excessively complex and lengthy review and approval processes and cumbersome coordination requirements with other agencies. It is essential to strengthen not only

The Challenge of Environmental Governance (cont.)

national governmental units in environmental management, but regional and sectoral institutions as well.

The limited effectiveness of environmental governance in the region is also due to shortcomings in integrated land use planning. Currently used tools of analysis do not take into account the impact of complex interactions among multiple human actions on the environment's many goods and services. For example, traditional environmental impact assessment, which is widely used for planning and decision making, has limited usefulness for broader environmental management due to its focus on the immediate impacts of specific projects with little reference to interactions among many factors or the cumulative effects of multiple projects in and on the same areas. Strategic environmental assessment has been designed to help correct this bias, but has yet to be extensively adopted in most countries.

Active public participation is also a cornerstone of effective environmental governance. Measured in terms of the growing numbers of nongovernmental organizations (NGOs) and the increasing activism of civil society organizations, the region has witnessed considerable progress over the past 20 years. These groups have helped put environmental and human rights issues squarely on the public agenda and have also made public officials more accountable for their actions. Occasionally, however, civil society activism has polarized the debate about environmental issues to such an extent that public authorities or private investors reject the very idea of participation and negotiation. In countries

National policies give insufficient recognition to the crucial role that ecosystems play in providing human populations with critical services.

where the highest priority goes to economic growth and poverty reduction, systematically integrating environmental concerns with an eye toward longer-run sustainable development is essential.

The role of the region's private sector has also changed markedly over the past decade. It is no longer rare to find companies that have adopted International Organization for Standardization (ISO) 14001 certification or other environmental management approaches. Concepts of eco-efficiency, energy savings, and emissions reductions are no longer rejected out of hand, and a growing number of national enterprises, as well as multinational firms, have committed to active programs of corporate social responsibility. Undoubtedly, enterprises vary widely in their degree of commitment to environmental principles. But in many countries there are forward-looking business groups, such as the Business Councils for Sustainable Development in Argentina, Brazil, and elsewhere, that can—and do—play an important role in encouraging greater environmental accountability in their countries' governments as well as in the private sector itself. Public-private partnerships provide opportunities to work together to improve environmental governance.

All sustainability issues are interrelated, but environmental governance has the potential to move the subject from disagreement, conflict, and business as usual to consensus, collaboration, and change. Only governments have the ability to convene all relevant national stakeholders—the private sector, academia, civil society, communities, indigenous peoples, and new groups just entering the public arena—to mobilize the wide range of skills and knowledge needed to adequately address the critical challenges discussed here, from climate change and biodiversity to urban problems and beyond. The IDB can, therefore, provide an important service to its country clients in their pursuit of sustainable development by helping them to strengthen their environmental governance.

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Section II: Operating Sustainably

The Bank addresses sustainability challenges with a suite of policies, guidelines, tools, resources, and training that are continually strengthened and expanded to meet changing needs.

Environmental mainstreaming lies at the heart of the IDB's strategy for ensuring that its operations meet the complex and changing sustainability challenges of the countries of Latin America and the Caribbean. Through the matrix management approach that resulted from the Bank's recent realignment, staff members from throughout the institution—in its country offices as well as IDB headquarters—work with clients to apply rigorous safeguard policies and guidelines to operations, from their initial identification to completion. In many cases, Bank projects exceed these requirements by taking advantage of opportunities to incorporate additional sustainability measures.

Knowledge and training are also critical to the IDB's ability to operate sustainably. The Bank has strengthened its comprehensive program of staff training and knowledge on the Bank's environmental and social safeguard functions, increased resources for safeguards management, and doubled safeguards staffing over levels three years ago.

The Bank also benefits from input on sustainability issues provided by the Bank's nongovernmental partners in development. These inputs result in stronger Bank operations and a greater sense of client ownership.

Structure and Responsibility for Sustainability

For the institution as a whole, responsibility for achieving the Bank's sustainability mission lies with the **President**, supported by the Executive **Vice President**, four vice presidents, and specialists in the different programming, operational, and technical areas of the institution.

The **Vice Presidency for Countries** (VPC) works with borrowing countries to develop and agree on country strategies that have mid- to long-term horizons; country programs have an annual horizon and implement country strategies. This process includes the identification of sustainability priorities and opportunities. VPC also monitors the performance of the country portfolios with regard to achieving programming and strategy goals.

The **Vice Presidency for Sectors and Knowledge** (VPS) is responsible for the technical soundness of Bank sovereign guaranteed operations and their execution, including that relevant environmental and social safeguards are met. The vice presidency's Infrastructure and Environment Sector develops, executes, and supervises operations related to water and sanitation, environmental and natural resource management, rural development, natural disasters, energy, transport, and climate change, through dedicated sectoral divisions. It also manages two of the Bank's flagship initiatives: the Sustainable Energy and Climate Change Initiative (SECCI), through a new dedicated climate change unit, and the Water and Sanitation Initiative, as well as the technical aspects of operations carried out by the Bank with financing from the Global Environment Facility and the Climate Investment Funds. Its Social Sector participates in operations related to gender and diversity, social protection, and health.

The **Environmental and Social Safeguards Unit** (ESG), within the Vice Presidency for Sectors and Knowledge, has Bank-wide responsibility for anticipating and addressing environmental and social issues in the Bank's portfolio and coordinates implementation of the Environment and Safeguards Compliance Policy in Bank-supported operations. ESG specialists work with project teams to ensure that all Bank projects meet social, health and safety, and labor standards; that all project-related impacts and risks are addressed; and that all opportunities are utilized for improving project sustainability outcomes. ESG specialists are assigned to sectoral clusters to foster expertise in specific subject areas, improve response to problems, and provide feedback from lessons learned. In addition, the unit helps the Bank respond to emerging sustainability issues and opportunities, and organizes training for Bank staff, executing agencies, and private sector clients.

The **Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations** (NSG) invests in private sector projects that advance the Bank's development agenda. Each of the Bank's four private sector windows is strategically focused on projects that engage the private sector—as sponsors, investors, lenders, and contractors—in demonstrating the environmental and social benefits derived from such operations. The Opportunities for the Majority initiative and the Multilateral Investment Fund promote the Bank's sustainability agenda through accessing new markets and developing new products and business models.

The **Vice Presidency for Finance and Administration** (VPF) manages sustainability issues for the IDB as an institution by reducing the Bank's environment footprint and promoting social equity.

The **Office of Institutional Integrity** (OII) is responsible for preventing fraud and corruption in Bank-financed activities and investigating allegations when they occur.

The **Independent Inspection Mechanism** (IIM) is available to parties adversely affected as a consequence of an IDB-financed project. Parties can seek resolution through mediation or through an investigation into whether the Bank has followed its own operational policies. Page 33

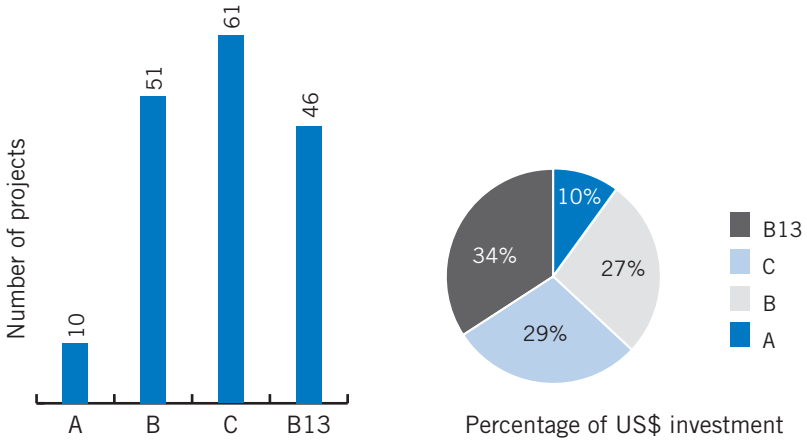
The **Office of Strategic Planning and Development Effectiveness** (SPD) sets and implements standards for the design and execution of the Bank's development products, including periodic assessments of the Bank's application of its environmental and social safeguards, in order to ensure their relevance, effectiveness, and efficiency.

The **Office of Evaluation and Oversight** (OVE) carries out independent evaluations of the Bank's strategies, policies, programs, activities, delivery support functions, and systems, including the application of social and environmental safeguards for projects under evaluation. It disseminates findings of these evaluations so that recommendations for improvement can be used in the design, appraisal, and execution of new operations.

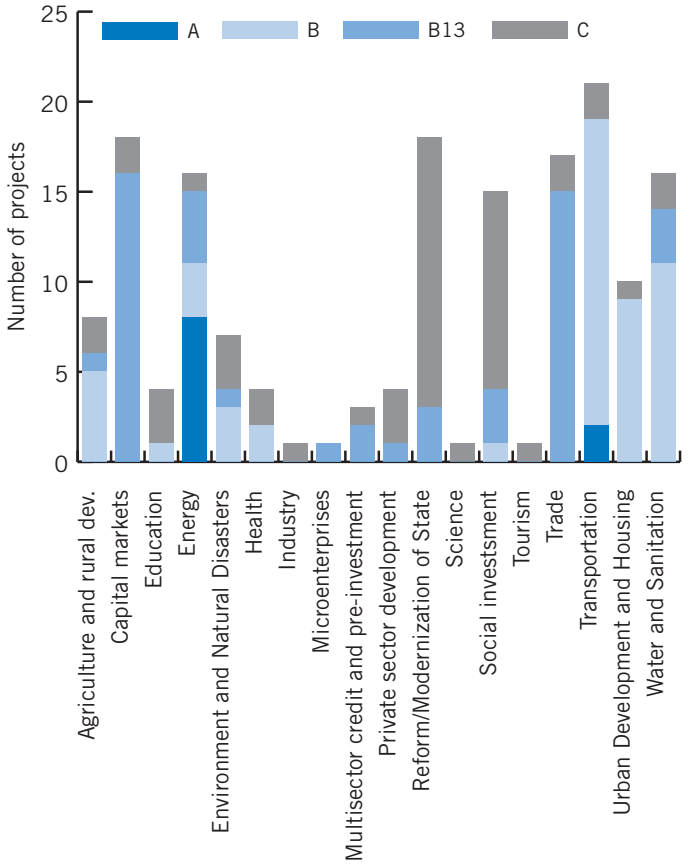
The **Office of the Executive Auditor** (AUG) provides periodic, independent, and objective appraisals and audits of financial, accounting, operational, administrative, and other activities. It identifies possible means of improving the efficiency and economy of operations and the use of resources. In 2010 an audit will be undertaken of the effectiveness of the Environmental and Social Safeguards Unit in implementing the Bank's safeguard policies.

Safeguards in Numbers, 2009

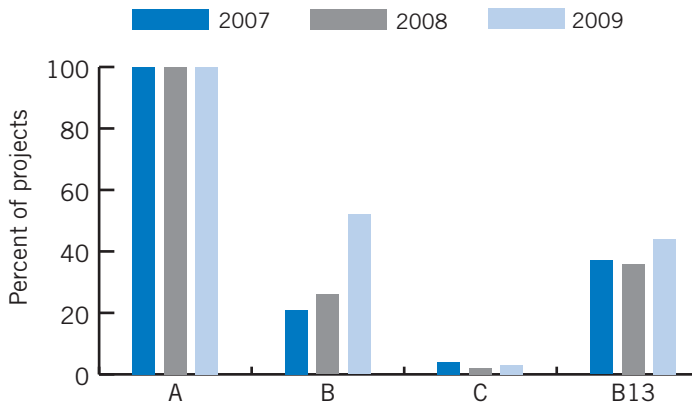
IDB loan approvals, 2009 by environmental and social impact classification



IDB loan approvals, 2009, by sector and by environmental and social impact classifications



IDB loan approvals, 2009, with an environmental and social safeguard (ESG) specialist assigned



The Bank's Sustainability Policies: An Overview

The Bank in 2009 initiated the process of updating several of its safeguard policies and related policy instruments. An Independent Advisory Group on Sustainability (IAG), made up of leading international environmental experts, was formed to review the Bank's experience in implementing its Environment and Safeguards Compliance Policy and make recommendations on how the Bank can better ensure that its support to its clients leads to sustainable development outcomes. In the course of its work, the IAG will be holding consultations throughout the region.

In addition, a profile for a new Operating Policy on Gender Equality in Development was proposed to the Bank's Board of Executive Directors in 2009. Finally, consultations have been carried out on the new Independent Consultation and Investigation Mechanism, and the Bank is moving forward with a mandate to strengthen its Disclosure of Information Policy by making public a wider range of information about Bank administrative operations, documents, and other materials, and to increase the timeliness of its availability.

Policies for Sustainability

The IDB's suite of policies ensures that development results are environmentally, socially, and economically sustainable. The policies are the following:

Environment and Safeguards Compliance Policy: Requires that Bank operations incorporate environmental measures that will ensure their long-term social and economic development objectives.

Operational Policy on Indigenous Peoples: Sets forth specific requirements both to protect rights of indigenous peoples and to foster indigenous development priorities in all IDB operations.

Involuntary Resettlement Policy: Aims to minimize disruption for populations required to relocate from project sites, establish criteria for resettlement, and ensure that relocated people share in project benefits, where possible.

Disaster Risk Management Policy: Emphasizes risk reduction as a way of proactively protecting socioeconomic development and improving the effectiveness of Bank assistance.

Policy on Women in Development: Commits the Bank to integrate women into its lending and technical assistance programs and fund specific initiatives to improve women's social and economic status. This policy will be replaced by a new Operating Policy on Gender Equality in Development that will provide for more direct investment in projects to promote gender equality and empowerment of women as well as introduce safeguards in IDB projects to prevent exclusion based on gender. **Page 33**

Disclosure of Information Policy: Requires that information concerning the IDB and its activities will be disclosed to the public unless there is a compelling reason for confidentiality. A report authorizing the initiation of a review of the policy was sent to the Board of Executive Directors in 2009 and a review of the Policy will begin in 2010.

Independent Consultation and Investigation Mechanism: Enables parties who believe they have been adversely affected by an IDB operation to request an investigation into whether the Bank followed its policies during preparation and/or execution of the project. An update of this mechanism is currently underway. **Page 33**

The Critical Path to Sustainable Projects

Priority sectors for lending are determined in a country strategy process that ensures the best use of Bank resources to support strategies agreed upon with authorities of borrowing member countries. These country strategies, which examine the country's development challenges, sector performance, and goals, identify potential Bank operations and other interventions. Annual programming exercises are carried out to implement the agreed-upon strategies and report on achievements in implementing the strategy.

After IDB projects have been identified during the programming process, they must pass through sustainability checkpoints from the time they are submitted to the Bank for financing, through preparation and implementation, and on to the final stages of completion and evaluation. At every step throughout this process, called the "project cycle," Bank staff ensures that projects comply with a suite of safeguard policies and guidelines.

Programming Stage: Mainstreaming Sustainability in Country Programming

The development of country strategies (CSs) lies at the heart of the mainstreaming process. Prepared by Bank staff in consultation with national authorities, CSs analyze social and economic development priorities for each country. As such, they are one of the key decision-making instruments that sets Bank lending priorities through the country's strategy period.

The process of mainstreaming environment has been a gradual one for the multilateral community, including the IDB. The mainstreaming process took an important step forward with the approval of the IDB's 2006 Environment and Safeguards Compliance Policy, which incorporated recommendations by a Blue Ribbon Panel on Environment to ensure that sustainability issues are incorporated in the Bank's CSs. Additionally the IDB's new country strategy guidelines refer to the inclusion of environmental and social sustainability issues.

The Bank has, to date, used country environmental assessments (CEAs) as one of the vehicles for mainstreaming environmental issues in country programming. To date a total of 10 CEAs have been prepared, seven of them since the approval of the Environment and Safeguards Compliance Policy in 2006, including one for the Dominican Republic that was completed in 2009 (see box).

✦ New in 2009

Mainstreaming Environment in Country Programming

A CEA prepared for the Dominican Republic in 2009 identified priorities in two sectors that are the subject of present or possible future IDB lending. They are tourism, which is an important economic engine for the country, and mining, where knowledge regarding environmental management is currently limited. The CEA was prepared through a dialogue with national authorities in a process that will help to ensure that its findings form part of IDB country programming, including the country strategy set for completion in 2010. Technical studies prepared for the CEA were discussed at a meeting attended by some 25 representatives of civil society, the private sector, and bilateral and multilateral agencies.

The study determined that the Dominican Republic's legal instruments have the potential to establish the basis for achieving environmental standards equivalent to those required by the IDB's Environment and Safeguards Compliance Policy. However, institutional shortcomings prevent their effective application, particularly in complex, high-impact projects. The study further identified the country's major environmental challenges, including pollution from solid waste and water, unplanned urban settlements and tourism development, high environmental impact of extractive industries, weak management of protected areas, deterioration of marine and coastal ecosystems, and vulnerability to natural disasters and the effects of climate change. The CEA calls for increasing the country's effectiveness in environmental management, such as mainstreaming sustainability in the planning and execution of public policies, strengthening the country's environmental protection agency, and developing financing mechanisms to increase investments in sustainability.

The Challenge of Mainstreaming Sustainability

Environmental mainstreaming in country programming is increasingly being recognized as a significant opportunity for helping countries strengthen their capacity for management of natural resources, as well as to make informed decisions about development options.

To date, the Bank has used CEAs as one of the vehicles for mainstreaming environmental issues in country programming. The Bank's experience with CEAs shows that while these can play a useful role, other mechanisms to mainstream environmental issues in broader development programming processes need to be pursued. Strategic Environmental Assessments (SEAs), Sectoral and Regional Assessments, and analyses such as the costs of climate change are among some of the tools which can be applied to encourage greater appreciation of environmental and social needs at the cross-sectoral level and for the longer term.

The Bank recognizes both the challenges and opportunities that mainstreaming sustainability poses. In particular, one of the lessons learned from the Bank's experience to date with different mainstreaming tools is the importance of ensuring that country-level environmental analysis generates the kind of information useful for incorporating targeted environmental considerations in the country programming process. This involves overcoming barriers such as lack of geospatial data, which is necessary to develop the level of information from a scientific and economic perspective (such as data on environmental quality and its impact on health or poverty as well as the costs of environmental degradation in terms of foregone national economic growth). This data would help countries make good development decisions, particularly at the sectoral level.

Environmental analysis at the sectoral level can provide a valuable opportunity to analyze indirect and cumulative environmental and social impacts of development projects. Specifically where there are shared regional environmental goods or transboundary ecosystems, it is important to take cumulative impacts into account and their impacts on the ecosystems' ability to provide critical services. Such analysis also plays an important role in the Bank's own knowledge of environmental issues, the challenges these pose and the opportunities that exist for Bank client countries, enabling the Bank to provide the kind of advice that the countries of the region are looking for as they begin to face increasingly complex environmental issues.

As part of its suite of country environmental analysis tools, which include CEAs, SEAs, and regional environmental assessments, other analytical tools will need to be developed to help assess and establish potential stresses on ecosystems. In addition to employment of SEAs and other analytical tools to help mainstream environmental planning and management in country work, the Bank has begun to use geospatial tools to improve the identification of ecosystems and their potential services. (Page 26) These tools create strategic links between development options and the resource base, which helps to upstream attention to safeguards, including risks to sustainability.

Looking to the future, the Bank will:

- Improve efforts to enhance country-level analytical work and sector policy dialogues on environment, linked to poverty reduction and competitiveness goals.
- Integrate environmental issues into sector notes.
- Include agreed performance indicators, including realistic and relevant environmental goals in country strategies.
- Work with other donors and MDBs on complementing efforts for environmental mainstreaming.

Initial Stages: Identification, Planning, and Preparation

At a project's identification and eligibility stage, Bank environmental and social safeguards specialists prepare an Environmental and Social Strategy (ESS), which forms part of the Project Profile. This document summarizes major potential environmental, social, health, safety, labor, and other safeguard compliance issues of the proposed project and proposes a due diligence and analysis strategy to be conducted in the preparation phase.

During the project's preparation and due diligence, the Bank safeguard specialists evaluate the adequacy of its environmental and social assessments, plans and procedures, and institutional arrangements as they relate to environmental and social risks and impacts. In areas where a proposed project does not follow Bank policies and meet safeguard standards, mitigation measures are proposed. The results of this analysis make up the environmental and social management report (ESMR), which contains the Bank's environmental and social requirements that will become part of the loan agreement at the approval stage. If the due diligence process reveals serious problems for which reasonable remedies are not immediately available, the IDB financing does not go forward—at least until there is an acceptable plan to resolve the issues.

The Bank's Information Disclosure Policy requires that the Bank publicly provide project abstracts, financial details, client information, and environmental documentation before an operation is submitted for consideration to the Board of Executive Directors. When the IDB classifies an operation as Category A (and also in the case of complex Category B projects) an environmental assessment must be carried out, normally in the form of an environmental impact assessment (EIA).

In 2009 the Bank continued to add planning and preparation tools, including the following:

- New guidelines setting forth specific requirements that must be met for IDB-financed projects to mitigate greenhouse gases in coal-fired power plants. Guidelines for cement production, landfills, and land use change were initiated and are in preparation (Page 28).
- Updated and new tools: a geospatial mapping instrument to identify critical habitats, a tourism scorecard, an updated biofuels scorecard, and knowledge materials for Bank staff (Page 26).

Evaluation of Potential Risk and Impact

Early in the project cycle, projects presented to the Bank are screened and classified according to their potential environmental and associated social impacts, in addition to the assessment of financial and reputational risks, according to the Bank's Environment and Safeguards Compliance Policy.

Category A projects are those likely to cause significant negative environmental and social impacts. They must undergo an environmental impact assessment before they become eligible for Bank financing; all are assigned safeguard specialist staff, and the borrower is required to prepare a robust EIA. Ten Category A loan operations were approved in 2009. Page 44

Category B projects are likely to cause mostly local and short-term negative impacts, for which mitigation measures are readily available. Fifty-one Category B loan operations were approved in 2009.

Category C projects are likely to cause minimal or no negative impacts.

Uncategorized or "B-13" operations (so designated for a section in the Environment Policy) are for the most part operations in which the executing agency on-lends IDB resources for projects to be later defined during implementation. These present a different series of risks and require alternative sustainability assessment and monitoring procedures.

PROJECT SNAPSHOT

Preparing Wind Power for the Birds

Eurus and La Ventosa, Mexico

✓ Project approved in 2009

Although wind turbines provide economical carbon-neutral renewable energy, they are not without environmental impact. Measures included in two IDB-financed wind farm projects approved in 2009 for Mexico's southern state of Oaxaca are taking special precautions to minimize one of the few environmental threats posed by the machines' giant rotors: danger to birds.

The Eurus project, financed by a US$50 million IDB non–sovereign guaranteed loan, and a US$30 million IDB-administered CTF loan, consists of a wind farm of 167 wind turbines with a total capacity of 250 megawatts (MW) and a transmission line. The EDF La Ventosa project, also financed by a US$21.9 million IDB non–sovereign guaranteed loan, consists of 27 wind turbines with a capacity of 67.5 MW and a transmission line.

The generation capacity of the Eurus project, the largest of its kind in Latin America, could be sufficient to power a city of 500,000 people while reducing carbon dioxide (CO_2) emissions by 600,000 metric tons annually. Mexico hopes to boost the nation's wind energy capacity to 5,000 MW, which is about 10 times the country's current wind power output. Wind energy now accounts for less than 2 percent of electricity production in Mexico.

In 2009, the IDB obtained approval for its Clean Technology Fund (CTF) Renewable Energy Program for Mexico, which will deploy IDB and CTF funds to scale-up

The Bank required programs for monitoring the migrating flocks. In the event of imminent risk to birds, the turbines will be shut down.

renewable energy investment in order to transform Mexico's energy matrix. The wind projects are part of this much broader program, in which individual activities are designed to leverage off each other to maximize their impact. Besides the direct funding of the Eurus project, the program incorporates the policy and regulatory support, technical cooperation, and knowledge management needed to create feedback loops to catalyze the sector.

Prime wind site. The La Ventosa ("windy" in Spanish) region where the projects will be located is one of the best sites in the world for wind power generation, and has become the site of extensive wind power development. The region's strong and consistent winds originate in the Gulf of Mexico. Meeting land, they punch through a gap in the Sierra Madre Mountains, which accelerates their velocity to an average annual speed of over 30 kilometers per hour 40 meters above ground level.

However, the region's mountains also serve as a major bird migration route. Most migrating raptors (hawks and other birds of prey) travel during the day, while songbirds such as warblers and orioles journey mostly at night. The birds generally fly far above the tips of the turbines' rotors. But particularly strong winds could cause the migrants to alter their flight routes and drop to lower altitudes.

In view of the potential risk the turbines could pose to the migrating birds, the IDB took steps to address possible risks triggered by its sustainability safeguards. Particularly relevant was the provision in the Bank's Environment and Safeguards Compliance Policy for cumulative impacts. While posing only a moderate environmental threat on their own, the two IDB-financed projects are in addition to several other extensive wind farms already in operation and others under construction or planned for the future. They include approximately 143 MW of private wind auto-generation capacity erected at three wind farms during 2008, including the Eurus project's first 37 MW of installed capacity, the first 79.9 MW of Iberdrola's La Ventosa wind project, and Gamesa Energia's first 26 MW installed in its Bii Nee Stipa wind farm.

Bank-financed surveys documented migratory patterns and calculated chances of collisions of birds with the wind machines. As a result, the Bank worked with the projects' sponsors to develop programs for monitoring the migrating flocks, both by radar and by visual means. In the event of imminent risk to birds, the turbines would be shut down.

Birds migrating through the Isthmus of Tehuantepec each spring and fall include more than 90 percent of the total population of three raptors: Swainson's hawk (*Buteo swainsoni*), broad-winged hawk (*Buteo platypterus*), and the Mississippi kite (*Ictinia mississippiensis*). A measureable reduction in their numbers could put the species at risk. In addition to migratory birds, the La Ventosa region is also home to a number of endemic species that nest in the bushy vegetation near the project site. One is the cinnamon-tailed sparrow (*Aimophila sumichrasti*), considered to be nearing threatened status.

New and Improved Project Preparation Tools

✦ New in 2009

In 2009 new tools were developed and existing ones improved and implemented for tourism, biofuels, and biodiversity protection as the Bank responded to safeguard needs in areas of emerging importance.

Fostering Sustainable Tourism. A new interactive Tourism Sustainability Scorecard was developed in 2009 and opened to a six-month period of public consultation. The scorecard will help maximize the social, economic, cultural, and environmental benefits of private sector tourism projects. The scorecard will also be used by private sector developers to ensure more sustainable projects at the earliest planning stage. Although the scorecard was specifically designed for the private sector, it can also be a valuable tool for governments, nongovernmental organizations, and others to assess private sector initiatives.

The IDB scorecard is based on the Global Sustainable Tourism Criteria, which were developed by a group of over 40 private and international organizations to set minimum standards to protect natural and cultural resources while alleviating poverty. The scorecard's 52 criteria and corresponding indicators are arranged according to management practices, socioeconomic issues, cultural heritage issues, environmental issues, impacts on the tourism destination, and real estate activities associated with the tourism project. It will be used throughout the life of projects to help decision makers identify problem areas and measure the impact of improvements.

The criteria used by the guidelines are already employed in designing tourism projects financed by the IDB, including the Bank-administered Multilateral Investment Fund (MIF). The MIF approved six tourism development operations in 2009 aimed at boosting competitiveness of locally owned small and medium-size enterprises. The MIF will expand its program in this area through a cooperative initiative with the National Geographic Society's Center for Sustainable Destinations, which promotes a concept of sustainable tourism called "geotourism." In 2009, the MIF approved a line of up to US$10 million in grants to finance projects that meet geotourism criteria.

The Bank also finances tourism as part of regional development programs, such as the Maya Biosphere Reserve in Guatemala (Page 31) which is providing economic opportunities to indigenous communities and other groups. In addition, a US$15 million loan approved in 2009 to help Brazil's tourism industry expand at the national, state, and municipal levels will strengthen capacity of the country's Tourism Ministry to provide technical assistance to the states to prepare and implement tourism programs, including social and environmental measures.

Promoting Sustainable Biofuels. Also launched in 2009 was an updated Biofuels Sustainability Scorecard that enables users to better anticipate the impacts of potential biofuels projects. The scorecard, launched in 2008, and based on the principles of the Roundtable on Sustainable Biofuels, is an interactive, web-based tool that addresses 29 key variables including greenhouse gas emissions, water management, biodiversity and critical natural habitat, and poverty reduction. The IDB proactively solicited feedback on the scorecard from a wide range of stakeholders through a series of regional workshops and issued a revised version in September 2009. This version takes into account the practical experiences of the IDB and its private sector clients as well as valuable insights from academia, NGOs, multilateral institutions, and the investment community. With the addition of new categories, including indigenous peoples, local grower arrangements, and impacts on food security, the revised scorecard better captures the environmental and social dimensions of biofuels investments.

Another new scorecard feature is a spatial analysis tool that provides quick access to geographic information system data on protected areas and areas with high biodiversity. Bank staff and stakeholders will use the tool to determine if proposed new projects could threaten valuable natural ecosystems. Future editions will provide additional data layers on areas of water scarcity, those with outstanding cultural significance, and those with high carbon sequestration rates, among others.

The IDB will continue to improve the scorecard as part of its participation in the Global Bioenergy Partnership and the Roundtable on Sustainable Biofuels, both global efforts to develop sustainability criteria for biofuels.

Flagging Biodiversity Values. The Natural Habitats Decision Support System (DSS) was launched in 2009 to give the IDB fine-scale biodiversity information about specific locations for proposed or existing projects. The DSS was developed by a consortium made up of BirdLife International, Conservation International, NatureServe, World Wildlife Fund U.S., The Nature Conservancy, and the UNEP World Conservation Monitoring Centre. It is available for use by IDB stakeholders and clients.

Use of the DSS tool improves the application of the Bank Environment and Safeguards Compliance Policy's critical habitats requirements and represents a significant first step toward incorporation of biodiversity considerations into the IDB's internal screening and safeguards process. IDB project specialists routinely perform a DSS check on projects of "greenfield" nature, even if an EIA has already been performed.

PROJECT SNAPSHOT

Green Energy from Marginal Lands
Maple Ethanol, Peru

✓ Project approved in 2009

The IDB is helping the region to make the transition to both new conventional and innovative energy sources to address the challenges of climate change. The Bank recognizes that this transition must reflect the realities of energy production in coming years, as countries change their energy matrices to address the need to increase their use of fossil fuels to keep pace with increasing energy demand and to develop new energy sources, such as biofuels. The Bank has made a commitment to support biofuels projects in the region that demonstrate high levels of environmental and social sustainability.

Biofuels as an alternative energy source provide important environmental advantages compared with other traditional fuels: they are renewable, with more neutral carbon balance, and generate lower levels of air contaminants and greenhouse gases. Ethanol from sugarcane produces 91 percent less greenhouse gas emissions per kilometer traveled than gasoline.

In keeping with its commitment to support the region's sustainable energy transition, the Bank in 2009 approved a US$25 million non-sovereign guaranteed loan to Maple Ethanol S.R.L. to help finance construction of a sugarcane ethanol plant with production capacity of 35 million gallons of fuel per year in the province of Piura on the northwest coast of Peru. The project also includes a 14,000-hectare sugarcane plantation on marginal land that parent company Maple Energy plc purchased from the government of Piura and private individuals.

Maple Ethanol provided the IDB with the opportunity to apply new biodiversity tools and other safeguard measures to make an innovative sustainable energy project even better.

The project was evaluated early in the preparation process using the Bank's Biofuels Sustainability Scorecard, and was found to meet the Bank sustainability standards for biofuels. As presented to the Bank, the project included state-of-the-art technology, significant social and environmental investments, and management practices to ensure compliance with local regulations. The technology that will be used includes water-saving drip irrigation, which will help minimize land degradation and the project's impact on the region's scarce water resources. A fully mechanized harvest system will eliminate the need for manual harvesting and burning of the cane residue that is common practice in traditional sugarcane production. The liquid effluent from the ethanol production, called stillage or vinasse, will be used to fertilize the sugarcane fields, which are expected to produce yields 50 percent above the global average. Through its investment in infrastructure, technology, and best management practices in agriculture and industrial processes, the project will convert degraded desert and/or arid areas, unsuitable for food production, into a highly productive agricultural system. In addition, the project will produce its own electricity with a 37 MW cogeneration facility fueled by sugarcane waste. The significant surplus power generated will be sold to the Peruvian National Grid, providing additional competitiveness and sustainability to the project and opening the way for future carbon revenues while diversifying Peru's energy matrix, reducing its carbon footprint, and helping to comply with international agreements. Maple Ethanol will create approximately 1,000 jobs during the construction phase of the project and 500 ongoing jobs in the operating phase, while increasing local demand for such services as transportation and food.

IDB participation in the project enabled Maple Ethanol to complete its financing and derive additional benefits from the Bank's experience in reducing the potential of reputational impacts with complex projects, which are sometimes associated with biofuels. Recognizing both the opportunity that the project presented but also its complexity, the Bank reclassified the project as a Category A, as per the Environment and Social Safeguards Compliance Policy, in order to better address its potential adverse risks and provide positive additionalities.

During project preparation, Maple Ethanol became one of the first Bank projects to benefit from an early evaluation using the Natural Habitats Decision Support System, in which the IDB project team and the client determined the project's impact on natural habitats and measures needed to reduce impacts from converting land to sugarcane production.

As a result of the IDB's involvement, the project will achieve long-term competitiveness and sustainability through additional investments in social and environmental mitigation and compensation measures, which will help restore and conserve significant portions of natural habitats. The project also will mitigate potential impacts on the aquatic ecosystem of the Lower Chira River and water availability to local residents. Other measures required by the Bank include ensuring livelihoods for local residents, restoration of natural habitats, a strong communication plan, and engagement with local stakeholders to ensure a transparent and participatory approach for water management and the efficient implementation of compensation measures.

Climate Change Guidelines for Project Preparation and Execution

✦ New in 2009

The Bank in 2009 launched an effort to reduce its contribution to climate change in its investments through the development of guidelines for Bank investments, in particular, sectors and subsectors that are known to significantly contribute to climate change. The new guidelines provide clear and quantitative minimum greenhouse gas performance criteria as well as guidance on assessing and managing a given project's potential impacts on climate change. In this regard they will support the implementation in 2010 of a climate change strategy for the IDB Group that will include both an increase in lending and technical cooperation operations in this area and the development of a knowledge base for mitigation and adaptation measures.

In 2009, the first set of emissions criteria was developed and guidelines were approved for IDB investments in coal-fired power plants. Guidelines and criteria for cement production and landfills were prepared in 2009 and are being distributed to some 40 firms, financial institutions, academics, and think tanks for comments. Once comments are received and incorporated, the guidelines will be submitted for approval in 2010. Guidelines for land use change are in preparation.

Reconciling Coal with Climate Change

Energy forecasts indicate that hydro, wind, and other renewable power sources will not meet the region's mid-term growth in electricity demand. As a result, the IDB expects to receive increasing requests to finance fossil fuel thermoelectric generation capacity, including coal-fired plants.

Guidelines approved in 2009 for coal-fired plants set standards for minimum performance criteria in terms of efficiency and GHG emissions intensity. In addition, plants must use the best appropriate available technology, which would include cogeneration, supercritical, and ultra-supercritical boilers and turbines, integrated gasification combined cycle technology, and carbon capture and sequestration. The guidelines also encourage engagement with country authorities to discuss the potential for increasing energy efficiency on the demand as well as the supply side (for example, retrofits of existing hydroelectric power plants). The IDB may also use technical cooperation funding for research and development and implementation of pilot projects.

As set forth by the guidelines, the IDB also will strengthen its support for national regulatory frameworks that reflect environmental cost factors, including CO_2 emissions, in least-cost requirements. The Bank will also support changes in countries' energy matrix for renewable electricity generation sources, including analysis and evaluation of alternative generation scenarios with nonconventional renewable energy sources.

Standards for Coal-Fired Plants

For a project to be eligible to receive IDB financing, it must comply with the minimum performance and efficiency criteria specified by the guidelines. The minimum performance criteria are set forth below.

Technology	(PCC) Super-critical	(PCC) Ultra-super-critical	Circulating Fluidized Bed Combustion (CFBC)	Integrated Gasification Combined Cycle (IGCC)
Net Plant Higher Heat Value (HHV) Efficiency (%) (Bituminous coal)	>38.3 (1)	>42.7 (1)	>36.0 (2)	>38.2 (3)
Net CO_2 Emissions Intensity (kg CO_2/net MWh)	<832 (4)	<748 (4)	<890 (4)	<832 (4)

Sources: (1) US Environmental Protection Agency (EPA), Environmental Footprints and Costs of Coal-Based Integrated Gasification Combined Cycle and Pulverized Coal Technologies, 2006; (2) International Energy Agency, Developments in Fluidized Bed Combustion Technology, 2006; (3) US Department of Energy, Cost and Performance Comparison Baseline for Fossil Energy Power Plants, 2007; (4) Based on US EPA emissions factors for bituminous coal (93.47 kg CO_2/MMBtu) and minimum net plant efficiency.

Sustainability in Execution, Completion, and Evaluation

After a project is approved and enters the implementation phase, IDB staff monitor its compliance with IDB environmental and social requirements. This monitoring identifies the level of risk in relation to environmental and social aspects and gauges how affected stakeholders perceive the project. Based on this assessment, the Bank determines if corrective actions are needed.

In 2008 the Bank approved the Development Effectiveness Framework (DEF) which allows for improving development effectiveness of all the Bank's interventions. DEF instruments strengthen project monitoring and evaluation capacity during design, execution, and completion. An integral part of the DEF is increasing the projects' evaluability at entry (at approval) with the implementation of the Development Effectiveness Matrix (DEM). The DEMs for sovereign guaranteed operations have already been rolled out. Instruments for improving project monitoring at execution include the roll out of the new Progress Monitoring Report (PMR) starting in 2009. The PMR uses a new methodology to classify projects that are in "alert" or "problem".

Upon completion of projects, the improvements include changing the design of the Project Completion Report (PCR) to Progress Monitoring Reports at Exit (XPMR) to be designed in 2010. The XPMR includes comparing the DEMs at entry with the ones applied at exit as well as improving the way information on lessons is collected. In a project's completion stage, safeguard specialists work with the project team to draw lessons for the benefit of future operations.

Additionally, in 2009 the Bank approved a new approach to the management of project risks, which will be rolled out in 2010. This approach includes the ability to integrate data on environmental and social results and risks, including numerical ratings, in Bank monitoring reports. By increasing the visibility of these data, Bank management will receive early warning of possible problems related to project risks identified and implement corrective actions.

✦ New in 2009

Tracking Sustainability Components and Indicators

Over the past five years the Bank has attempted to calculate its sustainability investments by identifying both those operations whose primary objective is related to environment, social (narrowed to indigenous and resettlement) issues and disaster risk management, and those operations which include additional sustainability components which go beyond the primary function of a project. The Bank has referred to the former as environmental and social "sustainability operations" and the latter as "sustainability components." While the Bank has been quantifying and following the former for some years now (Page 34), tracking sustainability components embedded in sectoral operations has been more complex. To that end particular attention in 2009 was focused on the integration of new features in the Bank's internal safeguards tracking system to identify and monitor sustainability components of IDB-financed operations.

The changes in the Bank's internal system will enable the Bank to evaluate its success in mainstreaming sustainability investments in the Bank's portfolio, including the extent to which IDB participation provides additional benefits beyond safeguard requirements. For 2010, data will be entered for all Category A and high-risk Category B projects; the following year, data will be collected on all Bank projects.

Similar focus in 2009 was on the integration of new features in the Bank's internal safeguard tracking system to identify and monitor critical sustainability impact indicators in particular for Category A and B operations, including:

- Number of resettled families
- Number of indigenous families affected
- Natural habitat converted or degraded
- Critical natural habitat converted or degraded
- Number of cultural sites affected
- Water/energy consumption during operation
- Hazardous waste expected during construction/operation
- Hazardous material expected to be used during construction/operation
- Greenhouse gas emissions

These indicators will be tracked beginning 2010.

Sustainability Oversight

In addition, the Office of Evaluation and Oversight (OVE), an independent unit reporting directly to the Bank's Board of Executive Directors, evaluates Bank performance at the country, sector, and project levels, including effectiveness of sustainability policies and instruments. In 2009, OVE carried out a Socioeconomic Impact Evaluation for the Resettlement Component of the Hydropower Project Porce II in Colombia and developed the approach paper for the Ex-Post Evaluation on the Environmental Impact of Watershed Management Projects. In addition, OVE has included environmental notes for evaluation of the sustainability performance of the environmental portfolio in program evaluations for several countries. More

PROJECT SNAPSHOT

✸ Project in execution in 2009

Power Company Pioneers in Environmental and Social Sustainability

Bandeirante Investment Program, Brazil

A project to improve electricity distribution in the state of São Paulo, Brazil, exceeded its original goals by putting in place an environmental and social management system in 2007 that is being replicated elsewhere in the company and throughout the country.

Bandeirante Energia S.A. received a total of US$100 million in loans approved in 2003 from the Bank's capital and from a syndicated borrowing to support a three-year plan to extend service to new customers and rural areas in the state of São Paulo while improving the reliability of the existing system. Bandeirante provides electric energy to about 4 million people in 28 municipalities of three regions in the state of São Paulo: Alto Tietê, Vale do Paraíba, and Northern Coastal, located in the most urbanized and industrialized area of the country and representing a 12 percent share of distribution coverage in the state of São Paulo.

Bandeirante's initiatives won its parent company a place on the "Index of Business Sustainability" of the Brazilian stock exchange BOVESPA.

At the time of the loan approval, the company had one full-time environmental specialist, who collaborated with members of the company's operational departments to implement environmental procedures and standards and a health and safety plan.

During preparation of the loan, the IDB proposed that the company take a more systematic approach for managing social and environmental aspects of its work by creating an integrated environmental, social, health and safety management system that would be carried out by a newly constituted department. The new department, which was subsequently staffed with a manager and five employees, would be responsible not only for activities related to the IDB financing, but also for managing the environmental and social aspects related to all of the company's operations. During the execution of the project, the Bank safeguard staff performs regular monitoring activities, which included one safeguards site supervision mission in 2009.

The company gave the new department extensive support, including a training program for employees throughout the organization on managing social and environmental procedures. At Bandeirante's 2005 annual meeting, the company invited Bank staff to receive recognition for their role in establishing the department and the new integrated management system.

The new department and system also helped the company improve its relations with communities, local authorities, and other stakeholders through informational meetings where people could raise issues, such as the siting of a new substation, impacts of construction activities, or electrical interference with home appliances. The new department is also responsible for ensuring that the company's contractors employ safe and environmentally responsible methods.

As part of its commitment to corporate social responsibility, Bandeirante is implementing a program at a 1,680-unit multistory residential building to improve energy and water efficiency for its low-income residents. Features include solar panels for heating water, and water valves that shut off automatically after an established period of use. In addition, residents are being provided with compact fluorescent lights to reduce electricity usage.

Company gains recognition. The company's growing expertise in environmental and social management have begun to attract outside attention. In 2007 it won the Eloy Chaves Award gold medal for companies with more than 2,000 employees for its low rates of accidents among employees, contractors, and the general public.

In addition, the program Brazilian Environmental Benchmarking consistently ranks Bandeirante Energia among the small group of institutions recognized for leadership in actions to benefit the environment, communities, and institutional competitiveness.

As a result of Bandeirante's progress in social and environmental management, its parent company, Energias do Brasil, in 2006 gained inclusion in the São Paulo Stock Market's "Index of Business Sustainability," one of 33 companies selected out of 60 that applied. The index is used as a point of reference for corporate social responsibility and an indicator of good practices.

Following the example of Bandeirante, the companies in the Energias do Brasil family in four different Brazilian states also established environmental and social units. Like Bandeirante, they too aimed to receive ISO 14000 certification, a standard for environmental management systems aimed to reduce a business's environmental footprint, such as by reducing the pollution and waste created by its activities.

Beyond the Energias do Brasil family, electric companies participating in other IDB-financed operations in Brazil are adopting environmental and social management systems. They include companies in the states of Paraíba, Sergipe, and Minas Gerais, in a project being carried out by the Energisa S.A.; and companies in the states of Mato Grosso, Pará, and Tocantins that belong to Rede Group.

PROJECT SNAPSHOT

Fostering Sustainable Development in the Land of the Ancient Mayas
Maya Biosphere Reserve, Guatemala

✸ Project in execution in 2009

Guatemala's northern department of Petén is an iconic region of biodiversity and Mayan cultural heritage, but also of extensive deforestation caused by a rapid settlement and the use of unsustainable agricultural methods. Petén's problems are complex, and the IDB has taken the lead in addressing them through a group of multisectoral initiatives that are fostering social and economic development as an integral part of achieving permanent protection for the region's forests and archeological sites.

New agricultural methods that increase production while protecting the environment are giving Peten's farmers a reason to remain on their land and not invade national parks and archeological reserves.

IDB investments in Petén have included the Petén Development Program for the Conservation of the Mayan Biosphere Reserve (PDPCRBM), which is being financed with a loan for US$30 million approved in 2006; and its predecessor, the Petén Sustainable Development Program (PDS), which was financed with loans totaling US$19.8 million. In addition, the Multilateral Investment Fund approved a technical cooperation grant for US$907,780 in 2009 for tourism development in Petén and a US$400,000 grant in 2007 to incorporate payment for environmental services into Petén multiple-use zones. Other operations include a US$3.66 million grant from the IDB/GEF Trust Fund to strengthen government institutions, and three technical cooperation grants for program planning and design.

Through these operations, the IDB is carrying out the mandate of its Environment and Safeguards Compliance Policy to mainstream environmental objectives across sectors, which in Petén include agriculture, microenterprise, tourism, water and sanitation, and environmental governance. An additional policy provision on fostering regional initiatives is being supported by a US$800,000 regional public goods project for environmental protection in the Mayan forest shared by Mexico, Guatemala, and Belize.

The value of the country offices that the IDB maintains in each of its borrowing countries is demonstrated in the Bank's hands-on involvement in the PDPCRBM as well as other Petén initiatives. The project's team leader, who is also the IDB's Guatemala natural resources specialist, maintains close contact with executing agency staff and local officials through frequent monitoring missions to the project area, which numbered at least five during 2009.

Pressures in Petén. In the centuries after the Mayas abandoned their temple complexes in Petén, the region remained a virtually empty wilderness. But recent decades have brought increasing numbers of settlers from Guatemala's densely populated highlands and an annual population increase of about 10 percent. The result has been widespread deforestation and erosion that threaten the 21,130-square-kilometer Maya Biosphere Reserve, Central America's largest protected area.

Part of the IDB's strategy in Petén has been to introduce sustainable crops and improved agricultural methods as incentives for people to remain on their present land and not repeat the cycle of deforestation and degradation. In the PDS, local nongovernmental organizations helped 66 groups of rural producers apply new techniques for raising cattle, producing honey, growing ornamental plants for export, managing forests, and other activities. An additional 20 such projects are planned under the PDPCRBM. Studies have indicated that the rate of return on many of these projects has exceeded 17 percent.

Tourism benefits for local people. Tourism will provide additional income for local communities. Restoration of Mayan temples in Yaxhá Nakum-Naranjo National Park and other sites carried out under the PDS have created additional attractions that encourage tourists to remain in Petén longer, thus increasing demand for lodging, food, and other services. In Yaxhá, annual visits have risen from about 3,000 in 1998 to 12,845 in 2007.

In the PDPCRBM, planning is underway to create tourism infrastructure in the area of Mirador–Rio Azul National Park, a vast archeological site in the pristine northeast corner of the reserve. These activities will be complemented by the MIF tourism development program, which will begin training and technology transfer in 2010 to provide support to some 300 microenterprises and community- and family-run businesses. In addition, community members in the Tayasal peninsula, near the departmental capital of Flores, are creating a museum highlighting Petén's ancient and present-day cultures and other attractions.

Fostering land security. The IDB initiatives also include land titling to stabilize land ownership and safeguard protected areas, including 48 percent of the buffer zone of the Maya Biosphere Reserve. Petén will also be a major beneficiary of a US$22 million loan approved in 2009 for a cadastral registry for protected areas in Guatemala—including the reserve—to help to establish land ownership and reduce disputes and environmental degradation in protected areas. Further protection for the reserve will be provided through a project financed by the IDB/GEF grant to construct five control posts within the protected area, with work starting in 2010.

Improving Partnerships with Civil Society

↑ Progress in 2009

Many civil society organizations have a vital interest in the IDB's sustainability actions, and the Bank in turn relies on the input of outside groups for the information and viewpoints needed to strengthen environmental and social projects. In this context, high-level IDB staff, including the IDB President and Vice President for Countries, met with 140 members of the civil society organizations from the region in November and agreed on a road map to foster transparency and greater participation of civil society in the Bank's activities. Other topics discussed at the annual IDB–civil society meeting, held in 2009 in Guadalajara, Mexico, included the Bank's capital increase, its upcoming Independent Consultation and Investigation Mechanism, a new policy on gender, disclosure of, and access to information and climate change.

Key points on the IDB–civil society road map included the following:

- Establish Civil Society Consulting Groups (ConSOCs) in each country by mid-2010. Form an IDB–Civil Society Working Group to provide input in the Bank's public consultation process following the Bank's review of its Information Disclosure Policy.
- Widely disseminate the Bank's proposed new Independent Consultation and Investigation Mechanism;
- Provide the Bank's governors with civil society inputs on the IDB capital increase, and share the public consultation experience with other multilateral organizations.
- Promote more participation of indigenous and Afro-descendant people in annual IDB–civil society meetings, in the ConSOCs, and in political dialogues in Bank member countries.

Consultations on replenishment. In the first phase of a consultation on the proposed capital increase, held in 2009, the Bank provided relevant documents to civil society organizations and other interested parties. A first working paper on the capital increase was posted on the Bank's website. A public consultation page on the website records questions about the process. Comments from civil society will be analyzed as Bank Governors move into their final capital increase review, which includes an examination of development needs in Latin America and the Caribbean and the Bank's ongoing institutional reforms. In meetings held in November of 2009, the Board of Governors set a goal to complet this review by the annual meeting in March 2010.

Strong stakeholder relations. The Guadalajara meeting was part of the IDB's effort to create a foundation for sustainability by building and maintaining strong relationships with stakeholders and promoting their participation in country development policies, plans, and agendas; project preparation and implementation; and evaluation of Bank activities. In particular, ConSOCs in borrowing countries help to foster dialogue between the Bank and local groups. In 2009, a new council was formed in Uruguay.

The Bank provides information to its external stakeholders on its activities under its Disclosure of Information Policy.

Civil Society Activities in Member Countries, 2009

The country offices the Bank maintains in each of its borrowing member countries serve as important points of contact with civil society organizations for collecting feedback on IDB programming and operations and for collaboration on project implementation. Recent activities have included the following:

In the Bahamas, the 10-member ConSOC was consulted in the preparation of the analytical work used in developing the current IDB country strategy. The Barbados ConSOC was also consulted for that country's strategy, and a mentoring project for young entrepreneurs is being carried out by the Barbados Youth Business Trust, a local NGO.

In Brazil, where more than a fifth of IDB public sector loans involve civil society participation, community groups have been given responsibilities for supervision and assessment in the Program for Sustainable Development in the state of Acre. In the Tietê River cleanup program in São Paulo, the conservation NGO SOS Mata Atlántica is carrying out educational activities for local communities on reducing pollution.

Jamaica's ConSOC has provided input in the Primary Education Support Project and the Citizen Security and Justice Program, in which civil society organizations have carried out activities in inner-city areas. The Dominican Republic Country Office met with civil society organizations on the proposed new Independent Consultation and Investigation Mechanism. In Trinidad and Tobago, civil society organizations have provided advice on early childhood education, mental disability, and trauma issues in conjunction with implementation of the Seamless Education Program.

Enhancing Bank Mechanisms and Policies through Civil Society Participation

A critical aspect of the Bank's work in preparing and adapting new strategies and policies to guide its work in various areas of development is its process of consultation with various civil society sectors to obtain comments and suggestions. The result of this consultation process is stronger policies, strategies, and ultimately projects. To this end, the Bank in 2009 met with civil society groups to discuss social and environmental sustainability issues and received comments on the proposed Independent Consultation and Investigation Mechanism (ICIM) and the proposed gender equality policy, and began planning a similar consultation for the upcoming revision of the Information Disclosure Policy.

Independent Consultation Mechanism Consultations

In 2009, the IDB held public consultations for its proposed new Independent Consultation and Investigation Mechanism in 12 countries. Through the ICIM, communities can voice concerns regarding the impacts of IDB projects. The new mechanism will upgrade the current Independent Investigation Mechanism, which has been in place since 1994.

The proposed ICIM focuses on potential violations of the Bank's environmental and associated safeguards policies—disaster risk management, indigenous peoples, involuntary resettlement—in addition to its Women in Development and information disclosure policies. ICIM provisions will remain in force during the entire life of a project.

The new mechanism will include a consultation phase that may include mediation or other alternative dispute resolution methods as well as a compliance review phase consisting of a fact-finding investigation by an independent panel of experts that reports to the Bank's Board of Executive Directors. The new ICIM will also provide the IDB investigative panel with training to improve the information it provides to the Bank's Board of Executive Directors, streamline procedures, and increase transparency.

The 2009 ICIM consultations were held with representatives from civil society, private sector organizations, project execution agencies, academic institutions, and others. The process marked the first time the IDB has used such social networking tools as YouTube and Facebook to publicize proposals. All comments received are accessible on the Bank's website. The final ICIM is expected to be approved in 2010.

Gender Equality Policy Consultations

The first round of the public consultations on the Profile for the Bank's Operating Policy on Gender Equality, which was approved by the Board of Directors in September 2009, took place during October and November online, by email, and at meetings in Washington, D.C., and Guadalajara, Mexico. The second round of public consultations will take place through March 2010, and the finished draft of the policy will be presented to the Board in 2010.

Diversity Conference Produced Recommendations

In November 2009, the IDB held a two-day IDB Leadership in Diversity Conference to help the Bank raise awareness of the issue, engage in dialogue on inclusion and diversity in the workplace, and set measurable targets for the advancement of women, indigenous peoples, Afro-descendants, and other minorities within the Bank Group. Attending the event were experts from academia, NGOs, the private sector, governments, and international organizations. Discussions conducted at roundtables and on Facebook resulted in more than 100 recommendations for promoting gender and diversity in the IDB.

At the conference, IDB President Luis Alberto Moreno noted that the IDB has launched a US$10 million Gender and Diversity Fund, approved new funding for the Program for Support of Women's Leadership and Representation, and formed a partnership with the Goldman Sachs 10,000 Women Initiative to support women entrepreneurs throughout the region.

The proposed gender equality policy will reflect changes that have taken place in the region since the current Women in Development policy was approved in 1987. It will provide for more direct investment in projects to promote gender equality and empowerment of women as well as introduce safeguards in IDB projects to prevent exclusion based on gender. In particular, the new policy is expected to increase the participation of women in projects to increase private sector production and strengthen government institutions. It will also correct deficiencies in monitoring and evaluating gender elements in projects in general. The IDB has already made progress in gender issues in social projects and through its support for microenterprise.

Section III: Investing Sustainably

IDB operations and other interventions carried out in 2009 illustrated that the Bank invests an increasingly large portion of its portfolio in projects that support environmental improvement, climate change, and renewable energy, while continuing to increase the environmental and social value of some of the more complex projects it finances.

In 2009, a total of 33 loans were approved targeting environmental improvement, climate change, and renewable energy. These loans represented a total investment of US$3.5 billion—more than double the 2008 total—to which counterpart funding represented an additional US$1.8 billion. Of these loans, 15 (US$2.0 billion) were directed at climate change and renewable energy. The year also saw increased investments in projects focused on issues surrounding indigenous peoples, gender, and Afro-descendants.

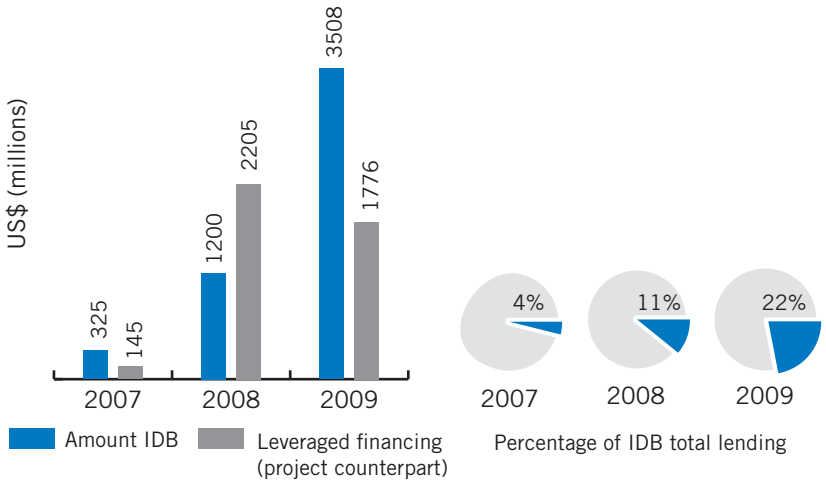
Other IDB operations approved in 2009 that promoted sustainability included small-scale technical cooperation projects that support the Bank's increasing ability to mainstream social and environmental investments throughout its portfolio. Operations are often financed in partnership with other agencies and donors, including the Global Environment Facility, and single- and multiple-donor trust funds established at the Bank.

The Bank also continued to strengthen its work on flagship priorities, notably: sustainable energy and climate change and on the Water and Sanitation Initiative, and saw record investments in disaster risk management.

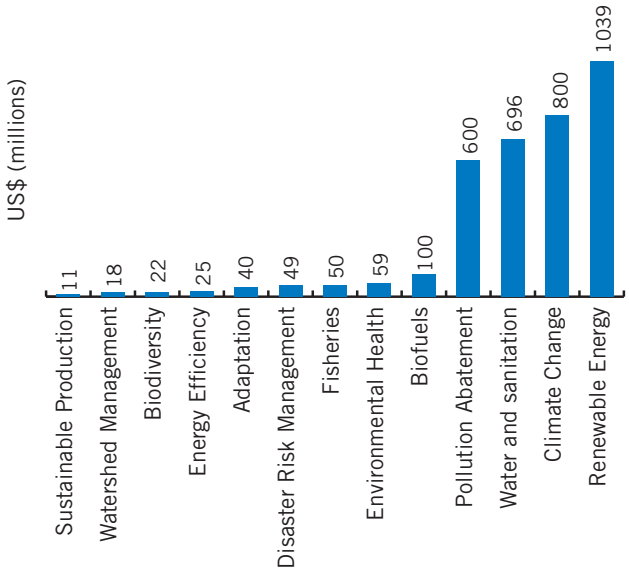
Also significant were 2009 lending operations not specifically focused on environmental or social improvement, but incorporating a wide range of measures to improve sustainability. These included 10 Category A projects (for their size and potential impact on the environment and local communities), which in many instances exceeded the IDB's sustainability standards.

Sustainability Investments: 2009 Data

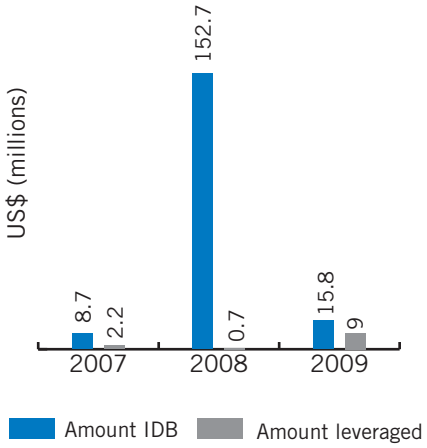
IDB investment in loan operations targeting environmental improvement, climate change and renewable energy (IDB and leveraged), approved 2007-2009



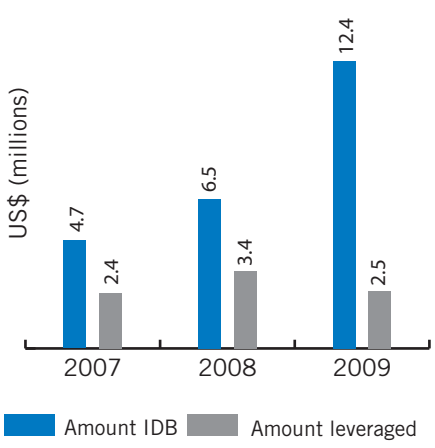
IDB loans targeting environmental improvement, climate change and renewable energy by category 2007-2009



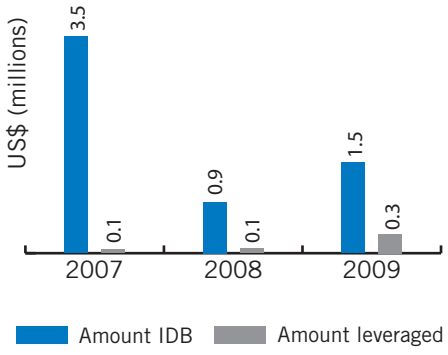
IDB investments in indigenous peoples issues, approved 2007 - 2009



IDB investments in gender, approved 2007 - 2009



IDB investments in afro-descendant issues, approved 2007 - 2009



Sustainability Investment Highlights

✓ Projects approved in 2009

Disaster Risk Management in Guyana
The IDB in 2009 approved a technical cooperation grant to Guyana for US$1 million for a project to support the design and implementation of a national integrated disaster risk management plan. The project will include preparation of an investment program that will address maintenance needs to improve flood control. Sea level rise due to global warming is likely to increase disaster risk in Guyana to levels that threaten the coastal zone. More

Stronger Water Management in Peru
In two separate 2009 operations, the IDB provided financing to Peru to strengthen water resource management. At the policy level, a US$10 million loan that builds on two prior operations will finance a program to adopt the policy, institutional, regulatory, and structural reforms needed to conserve water resources, use them more efficiently, and improve their quality and sustainability. Peru's policy objective of using watersheds as the unit of water management was supported with a second loan, also for US$10 million, to adopt integrated water resource management for three watersheds. The operations address the need to adapt to future water resource uncertainties resulting from climate change. More

Protection for Marine Ecosystems in the Caribbean
A US$3 million grant funded by the Global Environment Facility will help implement a management plan for the Seaflower marine protected area established in Colombia's San Andrés, Old Providence, and Santa Catalina archipelago in the Caribbean. The plan, which was designed with the participation of local communities, seeks to protect the reserve's biodiversity as a resource base for the local economy. More

"Greening" Project for Mexican Bank
A US$40 million IDB non–sovereign guaranteed loan approved in 2009 will help BBVA Bancomer, Mexico's leading commercial bank, in the construction of a new "green" corporate headquarters. The company is building a new US$900 million corporate campus in Mexico City for which it will seek Leadership in Energy and Environmental Design (LEED) certification. The Bancomer headquarters would be among the first buildings in Latin America to acquire such international recognition. The project will also help bring BBVA Bancomer's vast network of branches and commercial buildings into line with internationally certified standards of energy savings and efficiency. More

Sustainability Principles for Banks
In 2009, the Bank launched *beyondBanking*: Banking on Global Sustainability, a program to promote principles of environmental, social, and corporate governance sustainability in financial institutions in Latin America and the Caribbean. One program area, *planetBanking*, will help clients adapt and respond to climate change; *equalBanking* will support diversity and gender equality. A principal goal of the program is to encourage financial institutions in the region to include sustainability values in their own business models, turning them into a comparative advantage. More

Hydropower in Venezuela
An US$800 million supplementary loan to Venezuela approved in 2009 will finance completion of the Manuel Pilar hydropower project in the Lower Caroní River Valley. When the plant's 10 generators go onstream between 2012 and 2014, it will be the fourth in the Lower Caroní River Valley. The agreement for the IDB financing included an Environmental and Social Management Plan, which will be implemented with local resources. The plan will include compensation and resettlement for relocated families, creation of an ecological park, recovery of degraded areas, and environmental monitoring and management. More

Guatemala Strengthens Park Protection
An improved land registration system financed with the help of US$22 million in IDB loans approved in 2009 will improve Guatemala's ability to safeguard protected areas by preventing disputes and encroachments. The problem of encroachments has been particularly serious in the northern department of Petén, which has been under serious pressure from forestry interests and new settlement. The loan will enable Guatemala to establish a state-of-the-art physical cadastre that will provide units of the country's System of Protected Areas with legal and geographical certainty regarding their borders. More

Helping the Region Address the Challenges of Climate Change

In 2009, the Bank increased its financing considerably in the areas of sustainable energy and climate change with 15 loans for US$2.1 billion and 50 technical cooperation projects totaling US$35.7 million. Many of these projects helped to fund pilot programs, equipment, institutional strengthening, the introduction of innovative techniques, and studies. Others helped to prepare IDB investment projects that include sustainable energy and climate change components.

The Bank's climate change activities are principally financed through the Climate Investment Funds (see below) and two IDB funds: the SECCI-IDB Fund, created with IDB resources currently totaling US$60 million (US$20 million original investment and a US$40 million replenishment), and the SECCI Multi-Donor Fund, currently totaling US$25.9 million, which receives contributions from Bank member countries Spain, Germany, Italy, Finland, United Kingdom, and Japan. The purpose of the funds is to finance activities to expand investment in renewable energy and energy efficiency technologies, increase access to international carbon finance, mainstream adaptation to climate change, and incorporate mitigation policies in IDB policies and programs across sectors in the region, as well as assist nations with climate change-relevant institutional strengthening.

In addition in 2009, the Bank created a new investment instrument to facilitate the use of funding from the SECCI Multi-Donor Fund for the procurement of works, goods, equipment and related services (transportation, insurance, etc.) and pilot projects in technology development and adaptation, as well as consulting services required for such investment. The IDB also maintains a pipeline of GEF-funded projects that provide financial support for climate change mitigation activities in the region.

Working with MDBs to Implement Climate Investment Funds

The IDB and the five other MDBs are currently implementing agencies of the Climate Investment Fund (CIFs), providing innovative finance instruments to help countries to transition to climate resilience and low-carbon development through scaled-up financing, involving both public and private investments. The CIFs were created in 2008, and the total amount pledged by 13 donor countries was US$6.3 billion as of December 2009. The Clean Technology Fund (CTF) became operational at the end of 2008 and provides concessional financing for scaled-up demonstration, deployment, and transfer of low-carbon technologies for significant greenhouse gas reductions. The Strategic Climate Fund (SCF) supports countries in their efforts to achieve climate-resilience, low-carbon development through three programs with dedicated funding to pilot new approaches to climate action.

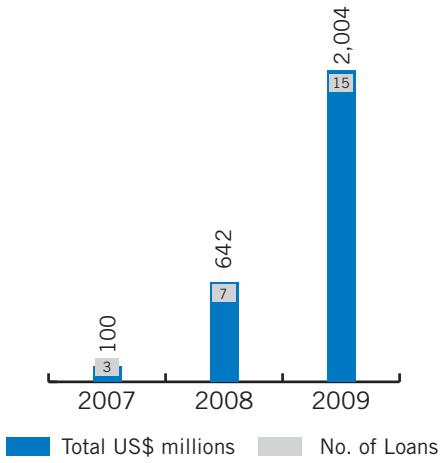
The Pilot Program on Climate Resilience (PPCR) was the first program under the SCF to become operational, in 2009. The program focuses on integrating climate resilience into national development planning and policies. Under the PPCR an independent expert group selected Bolivia, Haiti, Jamaica, and four Organisation of Eastern Caribbean States island states, countries particularly vulnerable to the impacts of climate change, as the first pilot countries from the region to access resources from this fund. Other programs that will become operational in 2010 are the Forest Investment Program, for investments in sectors that can lead to lower rates of deforestation and degradation and to promote improved sustainable management of forests, and the Scaling-up Renewable Energy Program, for increasing investment in renewable energy in low-income countries.

Mexico in 2009 became the first country to submit an investment plan to the CTF. Prepared jointly by the IDB, World Bank, and International Finance Corporation, the plan outlines how US$500 million in CTF concessional finance can be used to leverage US$6.2 billion in investments in Mexico. The IDB is accessing US$200 million for programs in renewable energy and energy efficiency, through both the public and private sectors. These programs are building upon existing IDB financing and technical assistance to Mexico, including a policy-based loan to support Mexico's climate change agenda. Also in 2009 the IDB approved the first investment under the CTF, a US$30 million loan (US$50 million total IDB investment) for the Eurus wind farm. Page 25

Developing an IDB Climate Change Strategy

In addition to these investments, preparatory activities in 2009 will lead to the launching of a detailed climate change strategy for the IDB Group in 2010, which will include stakeholder consultations and incorporation of results of the Copenhagen climate change conference. It is expected that the new strategy will stress the Bank's contribution to expanding the knowledge base for climate change mitigation and adaptation, and strengthening institutional frameworks and capacity building for governments in the region, including the use of programmatic policy-based loans. The Bank will also continue to increase technical cooperation and lending operations for climate change mitigation and adaptation.

IDB Sustainable Energy and Climate Change Operations (2007–2009)



Financing for Climate Change through Technical Cooperation

✓ Project approved in 2009

Credit Guarantees for Energy Efficiency in Brazil
A guarantee program to support energy-saving projects in privately owned buildings in Brazil will be financed by a US$10 million GEF grant and US$15 million from the Bank's capital. In the project, Brazil's Energy Efficiency Guarantee Mechanism will provide local-currency credit guarantees that commercial banks and other lenders or investors need to finance energy-saving projects, such as replacing inefficient lighting systems, air conditioning, and chillers, with more efficient models or technology, and installing or improving control systems that optimize energy consumption. It is estimated that some 200 such projects over five years would result in more than US$100 million in energy savings. More

Piloting Jatropha and Sunflower for Bio-Oil
A US$635,790 SECCI-IDB technical cooperation grant was extended to Bio Ventures for a feasibility study and pilot project for utilizing jatropha and sunflower for producing commercial bio-oil. The new initiative will be carried out in Barra in Brazil's state of Bahia. Jatropha, which is native to Bahia, is one of the most-promising sustainable biofuel feedstocks. It is well suited to arid climates and can grow in degraded and marginal agricultural and pasture lands that are not suitable for crop production. Bio Ventures will develop 30,000 hectares of jatropha and sunflower plantations and a dual-feedstock crushing plant with a 200,000-ton annual capacity. More

Support for Run-of-the-River Hydro Development in Panama
The IDB in 2009 approved a US$450,000 technical cooperation grant to Panama's Agua y Energía S.A. for the preparation of engineering studies and studies needed for access to carbon credits for three small run-of-the-river hydroelectric projects. The project is part of IDB efforts to support smaller non–sovereign guaranteed operations in the renewable energy sector in the smaller countries of the region. The Bank-financed studies will help to attract international financing for the construction of these plants and at the same time provide the IDB an opportunity to enter a market segment where it has typically not worked before and strengthen its capacity to respond to an increasing demand for financing of this type of projects. More

Chile to Test Second-Generation Biofuels
An IDB-financed feasibility study will explore the potential for producing sustainable biodiesel derived from forest industry byproducts and wood waste. The study is being financed by a US$1 million SECCI-IDB grant. The project will be carried out by ForEnergy S.A., a public-private venture, with the goal of developing second-generation biofuels using domestic materials that do not compete with food production. Wood chips and waste timber are available in large quantities as a byproduct of Chile's wood products industry. ForEnergy may also test other types of surplus biomass, such as agriculture wastes. More

Fostering Hybrid Bus Technologies in Colombia and Brazil
The IDB, in partnership with the Clinton Climate Initiative, will provide US$7.2 million to Bogotá, Colombia, and the Brazilian cities of Curitiba, Rio de Janeiro, and São Paulo to carry out programs to test hybrid buses. The goal of the project is to reduce initial costs for hybrid bus testing and implementation, and in this way encourage market acceptance of clean and energy-efficient transport technologies.

Colombia: Projects to Cut GHG Emissions
A technical cooperation project funded with US$195,765 from the Spanish government is supporting a program being carried out by the energy company Ecopetrol S.A. to develop a portfolio of projects that would qualify for internationally recognized accreditation for reducing GHG emissions. In 2009, a working group established in the company identified 38 projects with an emission reduction potential of approximately 2,000 kilotons of carbon dioxide per year. Of these, eight were identified for support as clean development market projects, and two as voluntary carbon markets. More

Carbon Footprinting in the Caribbean Tourism Sector
A pilot project for the Caribbean initially carried out in the Bahamas, Belize, Guyana, and Trinidad and Tobago will develop a methodology for assessing and reducing the carbon footprint of the tourism sector, identify financial options for climate change mitigation measures, and create a framework for accessing resources in the Strategic Climate Fund for integrating climate resilience within the tourism sector. More

Enhancing Dialogue for Climate Change

Setting the course for a strong national appropriate climate change agenda requires national actors to rethink their organization. From a policy perspective, in order for countries to successfully adapt to climate change, mainstreaming of the topic must be achieved so that this complex issue is properly addressed. A way to help countries prepare for such actions is policy dialogues that offer countries a forum for policy discussions and strategic thinking in key areas of development. In 2009, the Bank conducted two such dialogues.

The first one was organized in Mexico City and allowed for key regional decision makers and policymakers from the ministries of environment and finance to meet with relevant climate change specialists. The meeting aimed at bringing together the environment community and the finance community to discuss potential areas of cooperation and action. To achieve this result the following issues were addressed: a study of the impacts of climate change in Mexico and the implications for development in that country offering pertinent low-carbon policy choices; structural and market challenges for climate financing, including issues surrounding national and international financing options for adaptation and mitigation; and ways to move towards a programmatic approach in sustainable energy and climate change actions.

The second dialogure, held jointly with ECLAC and the UNDP, addressed financial flows. The objective was to enable countries and experts to identify already available and future financing options on climate change and to discuss the role of national and regional development banks and international organizations in these efforts. More than 60 Latin American and Caribbean governmental authorities—again, from the finance and environment ministries—along with representatives from the private sector and international organizations discussed key challenges to climate change investment and financial flows at the national and regional levels.

The Bank also promotes forums for dialogue among public and private sector groups, as well as among its own staff, that in 2009 included the following:

- In an initiative to promote dialogue among public and private sector groups, the Bank held three workshops on biofuels in 2009 in Colombia, the Dominican Republic, and Argentina. The events were cohosted with the Roundtable on Sustainable Biofuels as part of the Bank's regional consultations on its revised Biofuels Sustainability Scorecard. The consultations resulted in changes in the scorecard suggested by experts in academia, NGOs, multilateral institutions, and the investment community.
- As part of its efforts to help strengthen civil society organizations' capacities to increase public awareness of the climate change agenda, the IDB in 2009 collaborated with the Argentine NGO Periodismo Social to identify existing channels of communication among research centers in the region that work in renewable energy and energy efficiency (solar thermal, photovoltaic, wind, geothermal, small hydro, and marine energy) and propose networks among institutions involved in specific technical areas. The project included a series of workshops for journalists on renewable energy and energy efficiency to enable them to better inform the public on these issues.
- The first Private Sector Climate Change Round Table helped establish climate change as a strategic IDB priority for private sector operations. At the event, 46 staff members shared their experiences in financing climate change projects, made presentations on 15 projects recently closed or in preparation, shared information and identified potential synergies among the different private sector windows, and outlined the pathway for a future climate change action plan for the private sector.

Progress in Meeting Water and Sanitation Goals

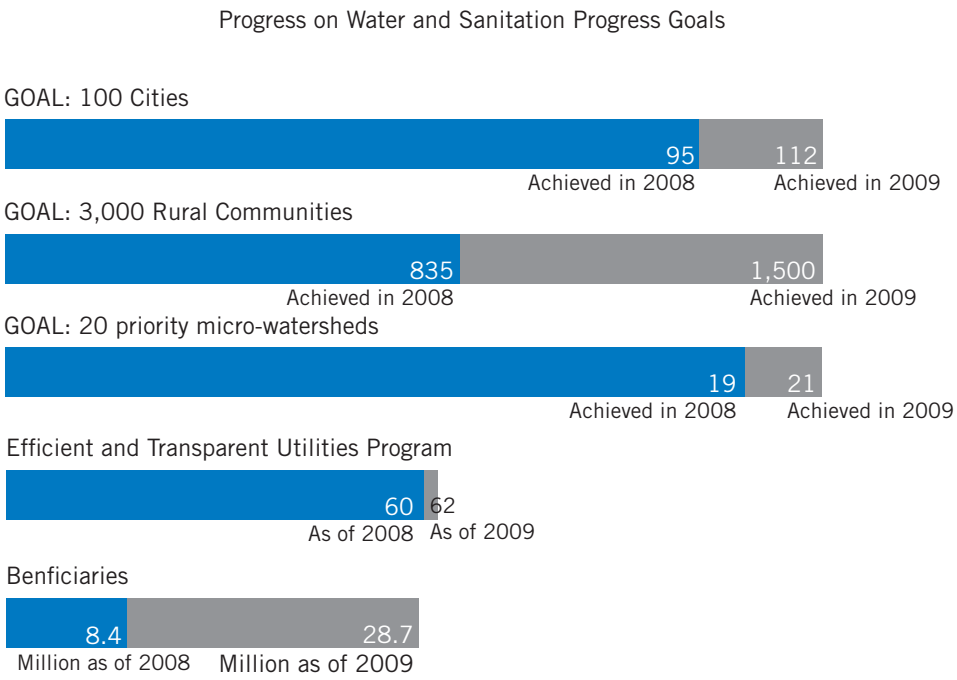
↑ Progress in 2009

The IDB in 2009 approved US$1.8 billion for water and sanitation projects in Latin America and the Caribbean, maintaining its role as the largest source of multilateral financing for the sector. Since launching its Water and Sanitation Initiative in 2007, the Bank has provided a total of nearly US$3.5 billion in loans and over US$28 million in technical assistance for water and sanitation projects that have benefited more than 28 million persons.

The initiative has already exceeded some of its goals: Projects benefiting 30 million people have been financed in 112 cities, surpassing the goal of financing water and sanitation operations in 100 cities with more than 50,000 people; in 1,500 rural communities, toward the goal of 3,000 communities; and in 21 microwatersheds, surpassing the goal of projects for 20 such watersheds. Technical assistance has been provided to 62 water and sanitation operators in the Bank's Efficient and Transparent Utilities Program. In addition, to date, sector plans for water and sanitation have been completed for 25 countries. In 2009 this included the completion of a sector plan for Paraguay and the initiation of one for Mexico.

The initiative has also used loans and technical cooperation to promote integrated management of water basins, stronger management capacity, greater transparency among operators of water and sanitation services, and planning, regulation, and monitoring.

Although long an IDB priority, new emphasis on water and sanitation recognizes increased demands on the sector that will be imposed by climate change in the coming years, particularly to ensure health, food security, renewable energy sources, and export competitiveness. A major objective of the Bank's Water and Sanitation Initiative is to help ensure that Latin America and the Caribbean meets the United Nations Millennium Development Goals on access to safe water. At present, some 85 million persons in the region still do not have a water connection to their homes, and 110 million lack access to proper sanitation.



Water Alliances in Action: New Projects and Training

↑ Progress in 2009

The main IDB strategic partner in the water and sanitation sector is The Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (Spanish Fund), which in 2009 helped to finance four projects with grants totaling US$190 million to benefit nearly 1.2 million low-income people. Other alliances and initiatives, including partnerships with the Netherlands, the United Nations, and donor countries, also continued to strengthen the region's capacity to plan and carry out vital water and sanitation services during 2009.

The Spanish Fund was created in 2008 when the Government of Spain pledged to donate US$1.5 billion to improve water and sanitation services for the poorest communities. Of that US$1.5 billion, US$496.5 million was transferred to the Bank in 2009 to finance projects in 12 Latin American and Caribbean countries, including the following:

- In Bolivia, the Spanish Fund will contribute US$80 million in grants and the IDB another US$20 million in ordinary and concessional loans to extend water and sanitation services to some 500,000 people in periurban areas of El Alto, La Paz, Cochabamba, Santa Cruz, and Tarija.
- In Guatemala, US$50 million in grants from Spain and US$50 million in IDB loans will finance water and sanitation works for some 600,000 people in 280 rural communities and 60 urban and periurban areas. The project will also strengthen community and municipal participation to ensure the sustainability of the systems.

The Spanish Fund and the IDB will fund additional projects through mid-2010 to benefit some four million people in low-income urban and rural communities in Brazil, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Peru, and Uruguay. In total, Spain will contribute US$407 million in grants for these projects, while the IDB will contribute US$213 million in grants and loans and assume most of the project preparation and execution costs. Governments in the region will contribute an additional US$77 million in counterpart funds.

The IDB's AquaFund is a fast-disbursing financing window that facilitates investments in water and sanitation, including solid waste. AquaFund financings in 2009 included the following:

- A regional program to promote water, sanitation, and hygiene in schools.
- Design and financing of desalination plants in northern Chile.
- Prioritizing water and sanitation investments in Panama.
- Preparation of a wastewater rehabilitation program in Trinidad and Tobago.
- Support for a national water program in Brazil.
- Evaluation of water costs in high-priority hydrographic river basins in Peru.
- Social and economic integration of solid waste pickers in Brazil.
- Preparation for a rural potable water program in Brazil.

The IDB-Netherlands Water Partnership Program in 2009 extended financing for integrated water resources management in two operations. In the Bahamas, a US$250,000 grant will help to modernize legislation to protect groundwater resources and improve the economic efficiency of The Water and Sewerage Corporation. In a regional project, a grant for US$107,320 will help to identify opportunities for collaboration between the IDB and private sector entities and donors. The IDB-Netherlands program became fully operational in August 2002 with US$10 million available for seven years.

The Water Operators Partnerships, led in Latin America and the Caribbean by the IDB and the United Nations Human Settlement Programme (UN-HABITAT), seeks to promote not-for-profit partnerships and good practices among water operators, and between operators and other interested parties. Events held in 2009 included the following:

- A workshop in Georgetown, Guyana, for 13 water operators from the Caribbean on key concepts in strategic planning to reduce water losses. Training in energy efficiency for water and sanitation operators was held in Quito, Ecuador.
- A workshop in Montego Bay, Jamaica, on integrated water management and managing wastewater treatment processes.
- A workshop on modeling processes for the design, operation, and optimization of wastewater treatment plants.

In addition, the Water and Sanitation Initiative promotes expansion of the Bank's role in gathering and disseminating sector knowledge. To this effect during 2009 the following activities were carried out:

- Completion and final preparation of Strategic Sector Plans for 25 of the 26 member countries of the region;
- Preparation of a Solid Waste Management Policy document;
- Publication of a Technical Note dealing with the development of an analysis tool for corporate governance in sector utilities;
- Initiation of a study to define parameters for certification of quality of management for water utilities;
- Development of five case studies of interest for Bank clients.

PROJECT SNAPSHOT

Post-Earthquake Needs Mount for New Infrastructure * Water and Sanitation for Intermediate Cities, Haiti

✓ Project approved in 2009

A water and sanitation project for Haiti approved by the Bank in 2009 took on added urgency following the country's earthquake both for meeting critical immediate needs and also for contributing to a long-term national plan to reduce demographic pressures in the capital of Port-au-Prince in order to help achieve long-term reconstruction and development goals.

The new project will be financed by a total of US$39 million in grants, US$20 million from the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean, and US$19 million from the IDB. The project was originally designed to improve water and sanitation services for some 150,000 people in the cities of Saint-Marc, Port-de-paix, Les Cayes, Jacmel, Ouanaminthe, and Cap-Haitien. The exodus of refugees to these cities from Port-au-Prince following the earthquake has effectively doubled the number of potential project beneficiaries. For this reason, the original IDB–Spanish Fund project retains its original objectives.

Meeting the needs of Port-au-Prince will be addressed with a second project, under preparation, that is part of the IDB work program for 2010. An IDB grant of US$15 million will be complemented by a US$35 million contribution from the Spanish Fund.

This new grant for Port-au-Prince, as well as grants for water and sanitation for intermediate cities, and the other existing IDB operations for the country's water and sanitation sector covering intermediate cities, rural areas, and strengthening of institutions, will be managed by Haiti's water and sanitation agency DINEPA (Direction Nationale de l'Eau Potable et de l'Assainissement).

A long-term program objective is to provide incentives for people to remain in smaller cities and not return to overcrowded Port-au-Prince.

Previous operations in the sector include a project for water and sanitation sector reform that has completed water preinvestment studies for the five intermediate cities, rehabilitated and expanded water distribution networks in Saint-Marc and Port-de-Paix, completed tender processes for works in Ouanaminthe and Les Cayes, and supported the implementation of sector reform. Funds from the IDB–Spanish Fund project will also finance institutional and technical strengthening for DINEPA; those actions will be complemented by bilateral support from the Spanish Fund, in close collaboration with the IDB.

Even prior to the earthquake, Haiti's water and sanitation services were among the most deficient in the hemisphere. A census carried out in 2003 indicated that just 8.5 percent of houses in Haiti are connected to a water distribution system. Thirty-two percent of the population takes water from rivers, and the same percentage uses springs for drinking water. The country has no sewer networks; approximately 80 percent of the population currently has latrines that are either malfunctioning or need to be replaced. The commitment of the IDB and the Spanish Fund to improve this situation has been expressed by their strong joint financial commitment towards the sector.

In the new program, the implementation of this sanitation solution will be made in parallel with health education and institutions to increase awareness among the population and foster the use of low-cost and replicable solutions; maintenance of the individual sanitation systems will also be offered.

Demographic Decentralization. While the additional challenge of meeting the needs of displaced populations will add to the complexity of the project, the new operation will also promote the long-term objectives of the Haitian government to reduce overcrowding in Port-au-Prince. Prior to the earthquake, the capital's uncontrollable growth thwarted efforts to provide essential services and jobs. After the earthquake, an estimated 500,000 people left the capital to return to smaller cities, towns, and villages from which they had come. The long-term aim is to ensure that these secondary cities provide sufficient economic opportunities and social infrastructure, such as water and sanitation, to induce these people to remain and not to return to Port-au-Prince once the city's reconstruction gets underway.

The IDB estimates the cost of rebuilding Haiti's water and sanitation works, homes, schools, roads, and other infrastructure at nearly US$14 billion. The Water and Sanitation for Intermediate Cities program is one of the first approved by an IDB–Spanish Fund partnership that will channel US$620 million in grants and loans to benefit four million low-income people in 12 countries.

**Note: This article was updated after the January 12 earthquake struck Haiti.*

Strengthening Support for Integrated Disaster Risk Management

Many of the region's countries are vulnerable to earthquakes, volcanic eruptions, hurricanes, floods, and other natural-hazard events that can cause extensive loss of life and damage to physical and social infrastructure and that often reverse development gains. In order to minimize the social and economic impacts of these natural hazards and disasters, the Bank helps countries to better identify and understand risks, prevent and mitigate potential disaster impacts, and improve financial planning to cope effectively with an emergency once it occurs. The Bank also provides humanitarian assistance and resources for recovery in the aftermath of a disaster.

Although the Bank has traditionally provided natural-disaster-related assistance, the threat of climate change has injected new urgency into these interventions. Recognizing disaster risk reduction as a first line of action for climate change adaptation, the Bank in 2009 approved record financing for natural disaster risk management totaling US$55.3 million for 13 operations. Included were the first loans approved under a Conditional Credit Line for Investment Projects (CCLIP) and under the newly established Contingent Credit Facility for Natural Disaster Emergencies that support strategies for managing natural disaster risk. The Bank also approved technical cooperation grants to strengthen integrated disaster risk management in Belize, Guyana, Haiti, Jamaica, and Nicaragua, and in the wider Caribbean. The operation for Nicaragua will support preparation of a loan operation that will focus on mitigating the effects of climate change, including increased forest cover and activities to reduce impacts on vulnerable populations.

In 2009 the Bank approved record financing for natural disaster risk management totaling US$55.3 million for 13 operations

In support of knowledge and capacity building, the Bank also updated its disaster risk indicators for 10 countries and applied the risk indicators to two more countries, finalized country risk profiles for four countries, and completed a technical study and regional policy dialogue on integrating disaster risk management and climate change adaptation in national development policy and practice.

The IDB's Financial Approach to Natural Disasters

The IDB has developed an approach to improve financial planning and management of natural disasters aimed at smoothing out their economic impact with financial instruments that provide resources immediately after a disaster. The approach includes four main lines of action: strengthening reserve funds for natural disaster emergencies, implementation of the Contingent Credit Facility, development of a Regional Insurance Facility, and development of local insurance markets in the region.

✓ Project approved in 2009

Conditional Credit for Disaster Risk Management

The IDB in 2009 approved an initial US$19 million loan as part of a US$75 million CCLIP to assist the Government of Honduras to reduce the potential adverse economic impacts of natural disasters. The loan resources will be used to develop and adopt risk management plans, implement prevention and mitigation works in the most vulnerable municipalities, strengthen national and local-level institutions and build capacity to implement risk reduction measures, and improve interagency coordination in support of the implementation of an integrated disaster risk management strategy in Honduras.

Subsequent loans will be considered for reducing, avoiding, or transferring risks that arise. The CCLIP's 10-year term will allow the government to achieve measurable results in applying its integrated risk management strategy.

✦ New in 2009

Emergency Disaster Relief Linked to Long-Term Preparedness

In February 2009 the IDB approved a US$600 million Contingent Credit Facility for Natural Disaster Emergencies as one of the Bank's principal tools for financial management of natural disaster risks. All member countries are eligible to receive facility loans of up to US$100 million or 1 percent of their gross domestic product, whichever is less. Countries are required to have an adequate integrated disaster risk management program that includes provisions for risk analysis, prevention, mitigation, emergency preparedness, and disaster response.

Drawdown of funds is contingent upon the occurrence of a severe or catastrophic natural disaster of a type and intensity predetermined by the Bank and the country. The loan has no cost for the countries until it is triggered for a disbursement by an eligible event. After a natural disaster occurs, resources from the US$100 million contingent loan will be rapidly disbursed to pay for extraordinary emergency expenditures.

The Dominican Republic has hosted the pilot program, putting in place a natural disaster financial risk management strategy. During 2009 it was the first country to tap the new Contingent Credit Facility with a loan to cover urgent spending needs following hurricanes and earthquakes. In addition, to complement the Contingent Credit Facility, a Regional Insurance Facility has been designed and will be launched in 2010.

Strengthening Sustainability in Category A Projects

In 2009 the IDB continued to carry out its mandate of fostering economic and social development through investments in a full spectrum of projects that promote economic growth and meet the needs of people, particularly groups on the margins of their countries' economic and social mainstream. These projects, financed with loans totaling a record US$15.5 billion, range from those with relatively low environmental and social impacts, in such fields as health, education, governance, and tax reform, to potentially more complex projects. Principal among these latter, more difficult projects are those that build the infrastructure the region needs to grow and compete in an increasingly demanding global environment. Such projects, by their sheer size and nature, have the potential to produce negative sustainability issues, often on a very large scale.

Rather than shy away from such difficult projects, the IDB mainstreams sustainability into them through a series of safeguards and mechanisms to ensure that they cause minimum harm. Through this mainstreaming process, Bank participation often results in the inclusion of environmental and social components that create additional sustainability.

In 2009 10 approved projects were assigned to Category A, meaning that they are likely to cause significant negative environmental and/or social impacts, as per the Environment and Safeguards Compliance Policy. (Page 24) These projects accounted for 10 percent of the year's total lending. As Category A projects, these operations are closely monitored and supervised by IDB staff, from their initial preparation through implementation to completion, to ensure compliance with Bank policies and guidelines. In addition to its safeguards, the Bank is applying to these projects experience it has gained in managing Category A projects from prior years, and in particular the lessons learned from innovative undertakings in sensitive environments, such as the Camisea Natural Gas Project in Peru. (Page 48)

Mexico
Eurus Wind
Sector: Energy (Wind)
IDB Investment: US$50m
Approved: December 2009
Page 25

Peru
Maple Ethanol
Sector: Energy (Biofuels)
IDB Investment: US$25m
Approved: December 2009
Page 27

Bolivia
Misicuni Renewable Energy Hydroelectric
Sector: Energy (Hydroelectric)
IDB Investment: US$101m
Approved: November 2009
Page 47

Jamaica
Transjamaican Highway
Sector: Transportation (Major Highways)
IDB Investment: US$70m
Approved: September 2009
Page 45

Colombia
Pasto–Mocoa
Sector: Transportation (Major Highways)
IDB Investment: US$53m
Approved: December 2009
Page 46

Argentina
Norte Grande Electricity Transmission Program
Sector: Energy (Power Lines)
IDB Investment: US$300m
Approved: November 2009

Panama
Pando Monte–Lirio Hydropower
Energy (Hydroelectric)
IDB Investment: US$40m
Approved: December 2009

Venezuela
Manuel Piar (Tacoma) Dam
Sector: Energy (Hydroelectric)
IDB Investment: $800m
Approved: March 2009
Page 36

Brazil
Pecém Thermoelectric Power Plant
Sector: Energy (Thermoelectric)
IDB Investment: US$327m
Approved: March 2009

Brazil
TermoMaranhão Thermoelectric Power Plant
Sector: Energy (Hydroelectric)
IDB Investment: US$184m
Approved: March 2009

PROJECT SNAPSHOT

From Road Project to Development Initiative

Transjamaican Highway, Jamaica

✓ Project approved in 2009

Road projects often stir controversy, but seldom do they also spark a multifaceted development program that addresses issues as varied as disaster risk management, improving livelihoods for fishermen, and even protecting crocodiles. This will be the lasting legacy of Jamaica's new world-class Transjamaican Highway.

The Government of Jamaica in 2009 launched the Transjamaican Highway project, which would eventually consist in the construction, operation, and maintenance of a 230-km network of world-class roads. The project's first phase, completed during 2003–2006, consisted in the construction of a 45-kilometer multilane highway westward from Kingston. In 2009 the IDB approved a US$70 million private sector loan to finance a second 17-kilometer section. The borrower, Transjamaican Highway Ltd., will also use proceeds from the IDB loan to refinance existing loans used for the project's first phase.

A straight-forward engineering project turns into a multifaceted development program.

Since a portion of the IDB loan will refinance the first road segment, the Bank required that its social and environmental safeguards be applied to that as well as the new phase of the project. The Bank's policies will also be applied to both the 17-kilometer segment of IDB-financed highway as well as a second segment that will not receive Bank financing. Beyond application of IDB policies, the Bank project team found opportunities to use the operation as a vehicle for initiating further safeguard measures not directly related to the road and additional to the Bank's formal requirements.

Threats of Flooding. The road's design incorporates drainage specifications for a 100-year flood event. But in the three years since the first section of the highway was built, two severe flooding events have taken place, partially submerging the road. Although the road did not cause the flooding, the IDB project team decided that an issue involving public safety required extra protection—particularly with the threat of climate change and increased frequency of extreme weather events in the future.

Further talks resulted in agreement for an IDB-funded technical cooperation project approved in 2009 to identify critical drainage bottlenecks and develop solutions. This study will dovetail into an existing national-level study on flooding that is also being funded by the IDB.

New home for Fishermen. The IDB also went beyond its policy requirements in meeting the long-term needs of 74 fishermen and 23 fish vendors who had been relocated from the road's right-of-way. Formerly, these people landed their catch and sold it to passing motorists at a site on the Portmore Causeway, on the outskirts of the capital city of Kingston.

Although a new village for the fishermen has already been built, the IDB will also provide grant funding to support a new community association and to improve fish handling, storage, and marketing. A future ice plant and cold storage facilities would enable residents to sell their catch to hotels and restaurants.

Protecting Biodiversity. The roads project also had to meet IDB requirements to protect biodiversity. At first glance, there was not much to protect along the right-of-way, where 400 years of plantation agriculture and industrial development has greatly altered the landscape.

Nevertheless, part of the road passes just inside of the Portland Bight Protected Area. The Bank asked the construction company not to use any of the several licensed rock quarries in the protected area as a source of aggregate, fearing that expanded quarrying would eventually affect natural habitats. The company agreed, and in addition will carry out a plan of its own to create a 50-meter-wide green strip outside of the highway right-of-way.

Another priority was the survival of seven hectares of mangroves that had been replanted after removal during construction. Occupying an exposed location in the bay, the saplings needed protection before they themselves could protect the shoreline. The IDB included monitoring and management for the mangroves in its loan agreement.

Issues of protected species also came into play. During construction and maintenance, road workers come in contact with crocodiles, which are attracted to the dark, wet drainage culverts that pass under the road. The workers tend to react by dealing the endangered animals a quick blow with their shovels. For this reason, the IDB required the road's operating company to prepare an educational program to minimize encounters to protect both people and animals. More

PROJECT SNAPSHOT

New Road Leads to Improved Prospects for Biodiversity Conservation

Pasto-Mocoa, Colombia

✓ Project approved in 2009

While infrastructure road projects often lead to negative environmental impacts, a new road project in southern Colombia will instead create strong forest protection measures that will have far-reaching consequences in a large and biologically rich region.

The new 45.6-kilometer road segment will remove an east-west transport bottleneck between the Pacific port city of Tumaco and Mocoa, capital of Colombia's Department of Putumayo, and a south-north bottleneck between Ecuador and southern Colombia. Partially financed with the help of a US$53 million IDB loan approved in 2009, the project will cut travel time and reduce the high number of accidents on the present road, known as "death's springboard." The project will also facilitate Colombia's trade links with Ecuador and Brazil and contribute to the development of two major transportation hubs included in the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).

From an environmental perspective, the new road segment, which will link the town of San Francisco with Mocoa, poses what would appear to be a serious problem: some 68 percent of the route will cut across the 34,600-hectare Protected Forest Reserve of the Upper Mocoa River Basin (RFPCARM). This was one of the principal issues discussed over the past three years by some 1,844 persons who participated in more than 35 workshops to identify the environmental and social issues the project must address and to ensure that the eventual plan would accurately reflect local needs both for protecting the environment and for creating sustainable production opportunities for improving living standards.

> The San Francisco–Mocoa highway segment will be Colombia's "First Environmentally Sustainable Road"

As a part of these preparatory activities, the IDB invested nearly US$1.7 million in three major studies, including an evaluation of the road's environmental impact, an environmental and social management plan for the forest reserve, and one of Colombia's first strategic environmental assessments. Integration of these studies' action plans resulted in the Integrated and Sustainable Environmental and Social Management Plan (PMASIS, after its initials in Spanish), which is being financed with US$11 million from the IDB loan and executed by Colombia's national highway agency INVIAS and the public environmental and natural resource management agency Corpoamazonía.

More Environmental Protection. With the creation of PMASIS, the road project will transform the reserve into a managed area with monitoring and enforcement carried out by a newly strengthened Corpoamazonía. A corps of forest rangers stationed in five control posts will be equipped with communications, logistics, and transportation equipment and will be supported by satellite and radar imagery to track deforestation.

Even more significant, the reserve will nearly double in size, to 65,300 hectares. This expanded area, together with the creation or consolidation of other protected areas, will form the heart of a biological conservation corridor whose total area of 121,700 hectares will link the southern portion of the Colombian Massif with northern Amazonia. An additional connection to the southeast will include the creation of a theme park between Mocoa and the entrance to the reserve. By connecting these presently fragmented areas, the new corridor will expand breeding areas for key species and foster the genetic diversity essential for their long-term survival. Local communities will benefit from productive activities such as tourism development, as well as environmental education.

Continued Community Participation. The critical need for long-term sustainability will be addressed by measures to strengthen local governance, including support for administration of the reserve, encouraging citizen participation, and promoting alternative financing sources for managing the reserve. Another key move will be the creation of an independent technical advisory committee to monitor PMASIS as well as agreements through which local governmental entities and private groups will participate in PMASIS's implementation.

The road and conservation project has drawn praise even from sometime IDB critics. For example, the Washington, D.C.–headquartered Bank Information Center wrote the IDB president to affirm "our support and recognition to the work of the IDB in preparing and approving the Pasto-Mocoa road project as a reference point in the debate over sustainable transport infrastructure." The letter noted that the project includes many of the proposals made by civil society organizations.

For its part, Colombia's Ministry of Environment, in an article on its website, hailed the new highway segment as "Colombia's First Environmentally Sustainable Road." More

PROJECT SNAPSHOT

Power Plant Presents Opportunities for Better Land Management

Misicuni Hydroelectric Plant, Bolivia

✓ Project approved in 2009

The subject of water has a special meaning in Bolivia's departmental capital of Cochabamba, where people vividly remember the "water wars" that erupted there a decade ago after the newly privatized water company raised tariffs. Protests—some of them violent—spread throughout the country.

Water issues are now taking a very different turn in Cochabamba as a far-reaching project gets underway to tap the nearby Misicuni River for irrigation, municipal supply, and hydroelectricity.

The IDB in 2009 approved a loan for US$101 million to Bolivia's National Electricity Company for the project's hydroelectric plant. At the same time, the Bank's sustainability policies have provided the opportunity to address a wide range of environmental and social challenges presented by the Misicuni Multiple Purpose Project as a whole, not just the power plant receiving IDB funding. These additional challenges will be the subject of a second IDB loan of US$5 million for watershed management.

Protecting Livelihoods. The 120-meter-deep Misicuni Reservoir will inundate 467 hectares of land presently inhabited by some 200 indigenous families in eight communities. The conditions of their relocation had been the subject of extensive negotiations with the Misicuni Corporation, the public agency with overall responsibility for the multipurpose project. The land slated for inundation, while subject to strong climate and fertility limitations due to sustained intensive use, is used for raising livestock and cultivating potatoes and other subsistence crops. The 475 hectares of land earmarked for the people's relocation is more fertile, but its location on higher slopes would require new farming methods and soil conservation technology to ensure long-term sustainability of agriculture. As a result, in addition to the new land and payments previously agreed upon as compensation for the loss of this land, the Bank will direct a second loan operation (for US$5 million) to help affected farmers adopt new agricultural activities and increase the productivity of those already in use. Examples of areas in which assistance will be provided include sowing of cold-resistant varieties of potatoes and other crops, improvements in soil and water conservation, fish farming and fishing, and raising vegetables using solar tents.

A management plan for the Tunari National Park will both ensure the park's biological integrity and also include participation of local stakeholders.

New Plans for a Park. The project's dam and reservoir will be located within a small portion of the 300,000-hectare Tunari National Park, which is already the site of a great deal of human activity, with more in the offing as Cochabamba expands. But the park has no management plan to protect its critical habitats and species.

According to a preliminary biological survey, a number of vulnerable species likely depend on the park for habitat. One is the toad *Telmatobius hintoni*. Others include bird species with restricted ranges, such as the endangered Cochabamba mountain finch (*Poospiza galeppi*) and seven other potentially vulnerable species. The increasingly rare Andean condor (*Vultur gryphus*) is also a possible resident.

As the US$5 million loan is being used to protect the immediate watershed with engineering works and plantings, the Bank will be conducting discussions with the Bolivian government on taking an important first step to protect the entire national park area with the formulation of a management plan. The plan, which will be financed by a technical cooperation grant, will not only ensure the park's biological integrity but also involve local stakeholders in park management.

Safeguarding Water Quality. A final major issue was the impact of the dam on the water quality of the Misicuni River downstream from the reservoir. In many large bodies of water, the process of stratification results in relatively oxygen-poor water occupying the lowest level. Dams normally discharge water at this lower level. In the case of Misicuni, however, the Bank required that the dam discharge structure be located at a high level to ensure adequate oxygenation of discharge water. Another requirement was that the discharge flow will not drop below 95 percent of the normal dry season flow. More

PROJECT SNAPSHOT

Controversial Gas Project Raises Bar for Sustainability

Camisea Natural Gas Project, Peru

✸ Project in execution in 2009

The increasing pace of hydrocarbon extraction from the Peruvian Amazon has caused concern among those who understand the extraordinary biological and environmental value of this vast expanse of rainforest. They are worried not only about the direct impacts of energy exploitation, but even more about indirect effects of these projects in opening the door to an influx of settlers, logging interests, and others, in the process destroying the forest and the indigenous cultures that live in it.

In 2003, the IDB approved a US$75 million loan for the construction and operation of natural and liquid gas pipelines that would tap the Camisea gas fields in the Peruvian Amazon. Would the project repeat past experience in hydrocarbon extraction in the Amazon?

Not only has the project avoided these worst-case scenarios, but Camisea has pioneered in the development of environmental and social standards that can be applied to infrastructure projects elsewhere in the Amazon and other sensitive areas. This positive outcome was achieved in large measure through a proactive partnership with project sponsors who are committed to making Camisea a demonstration project for sustainable gas extraction and transportation, complemented by a major investment in the capacity building of government agencies and public participation.

Camisea has pioneered in the development of environmental and social standards that can be applied to infrastructure projects elsewhere in the Amazon and other sensitive areas.

Engagement of Local Communities. The strategy for engagement ranged from public consultations to establishing a Community Monitoring Program. Eleven public meetings were held from 2001 to 2002 with the participation of national and international NGOs and organizations representing local communities. From 2002 to 2003, the private companies carrying out the project held an additional 400 meetings. In addition, public meetings are held biannually to ensure an open line of communication among all parties. The consultations have also served a broader purpose of giving a voice to traditional communities to express and act on their concerns about the quality of the environment in general.

Early on in the project, the IDB secured agreement from the private companies to develop community development plans by providing services and other improvements to meet needs expressed by community representatives. The Community Monitoring Program has given local people the means and skills to identify and report environmental problems and infractions. Progress in these activities can be accessed through periodic environmental monitoring reports available on the Bank's website. In addition, a Camisea ombudsperson was established to help resolve disputes.

Minimal Ecological Footprint. At the present time, Camisea not only is proving an economic boom for the country, adding an annual percentage point to the country's GDP, but has also resulted in a solid list of environmental and social accomplishments. First, it was carried out with a minimum footprint. No new roads were built linking the gas extraction area and the plant to the outside, in this way minimizing the entry of settlers and the threat of deforestation and disruption of indigenous communities. All gas company personnel and equipment have been transported into the area by river or air. Second, as a result of IDB participation, large areas of rainforest were provided with protection, both legal and through the establishment guard posts and other measures. Among these areas are the 305,000-hectare Otishi National Park, the 216,865-hectare Machiguenga Communal Reserve, the 154,468-hectare Asháninka Communal Reserve, the 458,000-hectare Nahua Kugapakori Nanti State Reserve, and the 215,865-hectare Megantoni National Sanctuary. Finally, a Biodiversity Monitoring Program collects data in the project area that could indicate environmental changes resulting from direct and indirect impacts produced by the gas project. The data are gathered quickly and robustly to ensure that mitigation measures, if needed, can be identified and implemented on a timely manner. The information is also provided to the national and international scientific community. Meanwhile, indigenous communities in the project area are benefiting from development projects financed by the project that are beginning to produce returns, while learning negotiating skills that are serving them well in dealing with other energy companies.

Knowledge for Sustainability

The IDB in 2009 continued to strengthen its role as the economic and social development "knowledge bank" for the region through a variety of activities: seminars, conferences, and publications that aimed to capture the relevant knowledge produced by the Bank, the support of communities of practice and more generally knowledge sharing inside the Bank as well as with the region, and training exercises. These activities were aimed at capacity building and fostering innovation in the Bank's borrowing countries as well as to ensure that staff have the knowledge and tools necessary to add value to operations and apply sustainability policies.

Though its growing emphasis on knowledge and learning, the Bank is expanding the range of products it offers to its clients to include nonfinancial products, the "software" of social and economic development. In this way, the Bank is providing additional tools for strengthening institutional capacity, articulating actions among different public and private sector actors, and developing and disseminating knowledge and capacity-building products (KCPs).

The Bank's work in 2009 to improve both the quality and the relevance of its nonlending work had two objectives: to make the Bank a reference point in policy debates on key regional development issues, and to generate the type of analytical knowledge that adds value to the Bank's lending activities. In particular, it improved its framework for delivering nonfinancial value added in two ways. First, the Bank's Vice Presidency for Sectors and Knowledge (VPS) introduced a new programmatic structure for managing its administrative budget for KCPs, based on designating individual budgets for KCPs and linking them with specific deliverables. In 2009 VPS undertook over 100 KCPs. Second, the Bank developed a new strategy for Bank-wide KCPs, to be implemented in 2010, that aims to make KCPs a core business of the Bank, and adapts accordingly their funding, operational, and accountability arrangements.

The Bank has directed a large portion of its KCPs to the area of environmental and social sustainability, reflecting the need to stay abreast of major policy developments and new technical knowledge in such emerging fields as climate change and water resources. These included in 2009:

- A report and workshop reviewing the impacts of climate change in the region.
- A study on inclusive development for African descendants in Latin America, including case studies of five countries, as well as a study for exploring methodologies for the development of a regional inclusion opportunities index for African descendants in Latin America.
- An evaluation of different approaches for placing a financial value on forest ecosystems, both in terms of greenhouse gas emissions and in providing sustainable livelihoods.
- A technical and economic analysis of the Bank's approach to natural disaster financial risk management, including reserve funds and contingent credit loans and insurance.
- A draft paper on conducting consultations with project stakeholders that will form the basis for guidelines to be used by Bank staff and borrowers (Page 50);
- A publication, *A Blueprint for Green Energy in the Americas 2009*, presented at a briefing to help orient Bank sustainable energy and climate change planning activities (Page 50)
- Ten guidance notes for environmental and social safeguard specialists on topics including safeguard classification, strategic environmental assessment, community health, and safety and supervision.

Notably, in 2009 the Bank enhanced its learning activities with an extensive capacity-building program primarily directed at its own staff to improve the application of social and environmental safeguards to complex lending operations across different sectors. In coordination with the Bank's Knowledge and Learning Sector (KNL), the Environmental and Social Safeguards Unit (ESG) carried out 24 workshops and seminars in 2009. These events covered a wide variety of topics.

For example, in one event, KNL and ESG staff conducted a training session on applying the Environment and Safeguards Compliance Policy's natural habitats directive to transport, energy, industry, and other projects. In another, Bank specialists learned about consultation and participation requirements of the Bank's indigenous peoples policy and measures to support indigenous legal rights and strengthen economic opportunities and cultural identity.

Experts from outside organizations also conduct training sessions. For example, the Washington, D.C.–based Ecoagriculture Partners presented a seminar at the Bank on mainstreaming biodiversity conservation in IDB agriculture investments and the development of tools and methodological guides on the subject. Other subjects included disaster risk management and training for Bank staff on indigenous development.

New Knowledge and Learning Products

✦ New in 2009

Discussion Paper: The Challenge of Consultation in High-Risk Projects

IDB knowledge products for 2009 included a draft paper on conducting consultations with project stakeholders that will form the basis for guidance to be used by Bank staff and borrowers. The new guidance, which will be finalized in 2010, will build on the Bank's experiences in this area and consolidate lessons learned on critical consultation issues.

One issue is how to determine who should be consulted. According to the draft paper, in many projects, the challenge is to reach beyond the more established and vocal elites to include members of socially excluded groups and people who live in so-called stigmatized areas—neighborhoods that are considered to be outside of the social mainstream. In particular, consultation programs must make a specific effort to engage women and members of indigenous groups. Another issue is the role of NGOs in the consultation process. Although NGOs are often valuable sources of local knowledge, it is not always clear if they represent an entire community, a part of the community, or in some cases, primarily external sources of support.

The draft paper also addresses the issue of consultation costs and logistics. In most cases, the borrower is directly responsible for the consultation process; however, particularly in the case of public sector operations, government agencies may lack the resources and expertise required for transporting people from across a wide area to a meeting site. For private sector projects, resources are generally not a critical issue; in these projects, the major constraint is time.

Finally, the borrower must also understand the need for timely feedback to ensure the credibility of the consultation process in the eyes of the stakeholders. If consultations are carried out in a merely perfunctory fashion—"invite, inform, ignore"—the process may turn out to be counterproductive.

Publication Launch: A Green Energy Policy Gap

A Blueprint for Green Energy in the Americas 2009, a nearly 900-page report commissioned by the IDB to help orient Bank sustainable energy and climate change planning activities, was presented at a briefing in early 2009. The report presents in detail the region's enormous comparative advantages in the areas of biofuels, renewable energy, and carbon finance, while at the same time describing a disquieting trend that suggests that the region is falling behind much of the rest of the world in this field. The report was produced by Garten Rothkopf, a consulting firm specializing in energy and climate change. The analysis puts the Americas in a global context, examining trends shaping markets, policies, regulations, investment, and growth in the climate change field.

According to the report, the greatest barrier to development of green energy in the region is a "policy gap" produced by policymakers who lack the knowledge, interest, and political will to push the green energy agenda forward. The report suggests that the IDB and other multilaterals could help increase the interest of policymakers in green energy by providing more support for analysis that clearly indicates the economic impact of climate change. In order to be effective champions in this area, however, these same international organizations must increase their own capacity for environmental and energy economic analysis, according to the report. More

Investment Studies: Forests and Climate Change

In response to the increasing importance of addressing GHG emissions related to land use, land use change, and forestry in Latin America and the Caribbean, the IDB in 2009 approved a US$85,000 grant to carry out two studies: one on forest and climate change investment opportunities in the region, the second on the internal governance structure of the IDB with regard to increasing its involvement in this area. The results and implications of these studies were discussed at a November 2009 workshop attended by specialists from IDB headquarters and country offices, as well as external consultants and representatives from international NGOs. The subject has become particularly relevant with the rapid evolution of international agreements and financial and governance instruments in the land use and forestry sector.

Section IV: The Road Ahead

The Bank faces the challenge of leveraging its resources and expertise to address critical issues of environmental sustainability while continuing its commitment to expand investments in infrastructure. Going forward, the Bank is developing new approaches to harmonize economic growth with protection of environmental resources and ensure future economic and social development.

The traditional entry point for national and multilateral development agencies—the project level—provides limited opportunities for informed decisions on resource use, especially for the longer term. Thus, other approaches are necessary to more effectively identify options that reconcile conflicts over resource use and contribute to sustainable economic growth.

The Bank and its client countries must undertake the sectoral and cross-sectoral analysis required to adequately evaluate the sustainability of development alternatives. The tools for identifying and evaluating sustainable development options are readily available and include country environmental assessments, strategic environmental assessments, and sectoral analysis.

Underpinning these analyses must be concerted action to strengthen institutional capacity of governments at all levels and of the private sector to address the challenges that lie ahead.

Finally, the Bank recognizes the importance of defining and reporting on effectiveness of its efforts and results and outcomes of its investments. In this context, it is exploring options for developing sustainability indicators which it can report on. Benchmarks such as the Millennium Development Goals offer reference points for the development of such indicators.

The Road Ahead (cont.)

The Challenge of Infrastructure and Land Use Change

The IDB's proposed capital increase will support the Bank's efforts to help Latin American and Caribbean countries meet needs for physical infrastructure while at the same time safeguarding the natural infrastructure on which the region depends.

While investments in large-scale infrastructure investments such as roads and energy generation have occasionally brought about "win-win" environmental and developmental outcomes, many have also caused significant negative environmental and social impacts. Significant gains have been made in developing mitigation measures that effectively avoid or minimize direct impacts. However, it is acknowledged that the most serious impacts are the indirect impacts, often associated with the opening up of wilderness and sparsely populated areas, and affecting the livelihoods and cultural integrity of traditional communities. These are more difficult to minimize and manage.

The combination of new highways with continued agricultural expansion, and the demand for both traditional and new sources of energy, in particular hydroelectric, is increasing pressure on areas with intact ecosystems and traditional cultures. The history of major road-building activities in the Amazon—the region's last major agricultural and extractive frontier region—has shown that significant direct and indirect impacts result in illegal logging, conversion of previously forested land for agriculture (especially for soybeans and cattle), and migration of landless people into areas beyond the limits of the roads. For smaller road projects, the problem continues to be the "tyranny of small decisions"; for example, the cumulative impact of many small road construction and upgrading projects results in exacerbated impacts because cross-sectoral interactions are not addressed.

In the area of energy as well, the Bank is being asked to help countries find sustainable ways to construct and operate energy projects. The region is increasingly turning to hydroelectric development. It is estimated that new hydropower may represent 28 percent of the region's total energy generation by 2015 and 36 percent by 2030. Although the clean-energy benefits of hydropower are widely recognized, hydropower is frequently also associated with impacts such as loss of natural habitat and agriculturally valuable land, resettlement of families and communities, and in some cases, significant emissions of methane, a far more potent GHG than CO_2. Consequently, the Bank wants to be an active partner in helping to design and build hydropower investments that are models for sustainable hydroelectric power generation. Extraction of hydrocarbons has also been associated with deforestation, loss of habitat, and negative impacts on local and traditional communities. The Bank has several projects which provide the gold standard for hydrocarbon development while maintaining forest cover and the integrity of traditional communities.

Managing Environmental Concerns in Frontier Regions

Perhaps the most crucial area where the IDB can help countries make significant improvements is in "frontier" areas, where governance is weakest, and where local political economies often seek short-term private economic gains rather than long-term development benefits. Weak public sector institutions and environmental governance can lead to significant predatory—and often illegal—exploitation of natural resources, including valuable timber and minerals, unsustainable agriculture and ranching activities, widespread deforestation and land degradation, and harm to indigenous populations. This can also be the case regardless of official efforts to establish new protected areas.

The Bank has a wealth of experience that it can apply to further strengthen its capacity to support sustainable infrastructure. A recent example is the IDB-financed San Francisco–Mocoa road project in southern Colombia, where innovative measures have been taken to protect forest and other natural areas. In this project, approved in 2009, the road penetrates a protected area, but exceptionally strong provisions and limits were established to prevent entry of settlers and logging operations, thereby ensuring long-term protection of biodiversity. Lessons learned in this project include the importance of identifying and managing cumulative and indirect impacts, the essential role played by the direct involvement of local communities and civil society groups, and the need to strengthen governmental entities for achieving sustainability goals.

Another illustration of the Bank's increasing expertise in reconciling infrastructure development with sustainability is the Camisea Natural Gas Project in Peru and the Peru Liquid Natural Gas Project. Although these projects had the potential of causing extensive environmental and social damage, extraordinary measures were taken to protect the rights of local indigenous populations and the region's forests and to prevent pollution of waterways. Strict limits were placed on infrastructure construction to minimize its footprint and avoid opening the area to new settlement. As a result, the gas concession areas for these projects remain as largely intact forests. Both projects have extensive biological monitoring programs that also generate scientific information of value to the Peruvian and international scientific communities. Stringent rules govern contact between energy company workers and local communities so as to prevent negative social impacts and maintain the integrity of local communities. In addition, extensive consultations with affected communities and local governments proved invaluable in designing the program and for monitoring its implementation. An innovative community-based monitoring program initiated in Camisea and replicated in the Peru Liquid Natural Gas project is empowering traditional communities to investigate and raise environmental concerns associated with these projects and others as well. In relation to addressing cumulative, indirect, and long-term impacts, the Camisea project has demonstrated the

The Road Ahead (cont.)

importance of combining private sector investments in environmentally sensitive sectors with measures to establish or strengthen governmental institutions at the national level with qualified staff and resources and new laws and regulations.

For the future, the adoption of several principles for sustainable infrastructure could help ensure that the natural infrastructure of the region is restored and protected and continues to provide essential ecological goods and services. These include:

- Analyzing all options at an early stage to determine which ones can accomplish the desired development objective at the least environmental and social cost, to achieve the greatest benefits while not undermining the resource base.
- Performing adequate studies to assess specific direct, indirect, and cumulative impacts of projects and help identify development alternatives.
- Carrying out large-scale agro-ecological land use zoning to rationalize the location of rural productive activities in frontier areas.

Increasingly, making good decisions for the longer term requires drawing on a full complement of information and analysis. While project-specific environmental assessments will always remain relevant, especially for large projects requiring detailed management plans, the effective management of indirect and cumulative impacts can only be effective if there has been previous environmental analysis at the sectoral and programming levels.

Through its country programming process, the Bank has an opportunity to ensure that its country strategies provide the support countries need to resolve apparent conflicts between infrastructure development and sustainability, including attention to remote areas with often high biodiversity and valuable ecosystem services. For such environmentally and socially sensitive issues, a "mainstreaming framework" can take into account indirect environmental and social impacts emanating from investments.

As a further measure to ensure sustainability in the context of infrastructure development, the IDB will need to use opportunities to help clients incorporate ecosystem services valuation into policymaking and project planning. Here again, country programming is the Bank's key platform for mainstreaming the environment in development activities and driving forward the sustainability agenda. Country strategies that show the value of environmental services in economic terms will encourage ministers of finance as well as ministers of environment to debate development options and make decisions with more-informed judgment.

Addressing the Complexities of Climate Change in the Region

Curbing GHG emissions represents a major challenge for public and private investment. The International Energy Agency has forecast that between now and 2030, the region's energy needs will expand 75 percent, requiring as much as US$1.8 trillion in investment in energy supply infrastructure, 85 percent of which will have to come from private sources. Consequently, governments, the private sector, multilateral development banks, and the international community must be prepared to facilitate private incentives, enhance technical capacities and innovation, and improve access to financing for climate-friendly investments in order to smooth the transition to more climate-resilient, low-carbon growth in the region.

In addition to new investments in renewable energy production, climate change will also require increased Bank support for natural disaster prevention, continued expansion of lending to meet ambitious goals in urban planning that minimizes risks to people and structures, and renewed efforts to conserve water through increasing the efficiency of water and irrigation systems and watershed protection.

The Bank also has significant opportunities to help address climate change issues by promoting change in the agriculture sector, which ranks second after deforestation in its contribution to the region's share of global GHG emissions. Given the economic importance of agriculture and the imperative of ensuring food security, the Bank must ensure that investments in agriculture do not result in additional release of carbon stocks. Conversely, climate change may pose increased constraints on the region's capacity for biofuels production, as well as production of other crops for domestic use or for export. As environmental challenges in the agriculture sector increase, the IDB's substantial experience in water and soil conservation will become critical.

In responding to these challenges, the IDB and other development assistance agencies are working to increase their coordination of global climate funds, the Global Environment Facility, and other sources of financing to help their clients pursue a low-carbon development path for their energy, industrial, transport, and agricultural sectors. This includes encouraging countries to rely less on fossil fuels and more on the production and use of renewable and alternative energy sources, including hydropower and biofuels such as sugarcane-based ethanol and biodiesel. Some countries in the region, especially Brazil in the case of sugarcane-based ethanol production, already possess considerable experience and international comparative advantage in this regard, which needs to be further exploited. A good foundation for enhanced cooperation among multilateral development agencies has been laid with the IDB's participation in the establishment of the Climate Investment Funds (CIF) and in follow-up with the World Bank in terms of working jointly with countries to develop investment opportunities in low-carbon growth.

Along with reducing GHG emissions, more climate-friendly development paths are likely to boost regional employment and competitiveness. They should be regarded as "win-win" means for boosting economic growth and reducing poverty as well as for promoting long-term environmental sustainability. Doing so, however, will require that the IDB significantly change its approach in a broad range of sectors while evolving its policy dialogue, investment support, and technical cooperation with its client countries, especially the largest ones

The Road Ahead (cont.)

with the biggest carbon footprints. It will be essential to mainstream climate change in the full range of IDB operations. The IDB's new strategic framework for supporting climate change action in the region, which will receive input from a broad range of stakeholders, will help define how the IDB will direct funding sources now coming available to help countries finance projects for adaptation and mitigation. Moreover, it will bring public and private financing and capacity building into a single framework for climate action, and will orient the Bank's efforts to strengthen and consolidate its own capacities, readiness, and comparative advantages in order to mainstream climate change sustainability objectives into its operations.

As well, the Bank is developing an action plan to scale up investments in low-carbon urban transportation. The Regional Environmentally Sustainable Transportation Action Plan will set out a series of actions aimed at reducing GHG emissions and minimizing other negative externalities such as air and noise pollution, congestion, and accidents, without compromising economic growth and social inclusion. To achieve its goal, the Bank aims to stimulate demand in recipient countries for sustainable low-carbon transportation, work with recipient countries to improve local enabling environments, and increase the share of investment directed towards low-carbon sustainable transportation. The action plan builds on the Bank's progress throughout 2009.

Positioning the IDB for a Sustainable Future

The IDB's success in helping the region address these large and difficult issues will depend on the level of leadership the institution will be able to provide. For this reason, the Bank must invest in strengthening its own capacity to better address highly complex problems through the application of rigorous analysis and knowledge, and through its ability to define and pursue sustainability results in its operations.

In this regard, a number of key areas emerge which the Bank is addressing as part of its review of the implementation of the Environment and Safeguards Compliance Policy and overall efforts to enhance the effectiveness of its work:

- Increasing the sustainability value of knowledge and capacity products: *How can the Bank better help countries take into account long-term sustainability costs and benefits while facing short-term development concerns? How should the Bank invest in knowledge sharing and capacity building to deepen understanding of environment as a cross-cutting issue as well as a productive sector?*

- Improving environmental governance: *How can the Bank be a more effective partner in strengthening environmental governance processes specifically aimed at promoting sustainable infrastructure, smart growth, and competitiveness?*

- Ecosystem services: *How can the Bank assist countries in recognizing and allocating value to ecosystem services to contribute to better development decisions, as well as in incorporating ecosystem services as part of decision making on project design and development?*

- Targeting critical environmental regional public goods: *How can the Bank most effectively support regional environmental public goods as providers of vital services to the region's countries?*

The Bank believes that addressing these issues will enable it to better manage address emerging sustainability issues on a scale commensurate with the problems. As well, helping the region's countries on their path to sustainable development will also require building substantive and enduring partnerships to bring the best minds to bear on the issues, mobilizing the appropriate tools, and effectively upstreaming sustainability issues into the development process.

The 2009 Sustainability Report was produced by the Environmental and Social Safeguards Unit.
Janine Ferretti, Chief.

The IDB welcomes opinions on the content of this report as well as the Bank's overall performance in the field of sustainability. Should you have any comment or opinion to share, please contact the Managing Editor by e-mail: sustain@iadb.org

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IDB Footprint at a Glance

In-house environmental performance (IDB headquarters)	2007	2008	2009
Total CO2 emissions (tons of CO2 equivalent)	21,005	19,956*	21,031
Direct	189	253**	181
Indirect	11,791	11,696 *	11,327
Optional	9,025	8,007	9,523
Renewable energy use (through purchase of renewable energy credits)	100%	100%	100%
Paper use (tons)	117	89	75
Recycling—paper, cardboard, aluminum, plastics and glass (tons)	105	92	177
Waste generation (tons)	454	412	425
Utilities use			
Electricity (megawatt-hours)	23,600	22,510*	21,864
Gas (hundreds of cubic feet)	28,092	29,751	27,725
Water (thousands of gallons)	17,482	15,336*	15,218
In-house environmental performance (Country Offices)			
Total CO2 emissions (tons of CO2 equivalent)	4,277	4,123	3,940
In-house social performance			
Total number of staff	1,745	1,815	1,837
Male/female staff (%)	50/50	49/51	49/51
Male/female executive staff (%)	81/19	85/15	82/18
Male/female professional staff (%)	58/42	56/44	55/45
Male/female administrative staff (%)	14/86	13/87	15/85
Borrowing country/nonborrowing country	1,225/520	1,251/564	1,248/589
IDB headquarters/Country Offices (%)	70/20	65/35	69/31
Total consultants (full-time-employee equivalent)	726	832*	981
Community investment			
Donations in cash—IDB-DC Solidarity Program ($ thousands)	284	457	465
Number of donated items of surplus equipment—IDB-DC Solidarity Program	5,137	5,729	9,293
Number of volunteers—IDB-DC Solidarity Program	200	208	247

*Data correction made in 2009.

**A refrigerant leak resulted in the loss of 100 pounds of refrigerant, accounting for the increase in emissions in 2008.

The Bank's Corporate Environmental and Social Responsibility (CSR) Report is available online. The report describes the actions the Bank has taken as an organization through its internal CSR Program to improve the environmental footprint of its operations and to address social responsibility issues at the corporate level.

Institutionally, key impacts are in energy and water consumption, business travel, waste generation, and paper use. The Bank is tracking its impacts in these areas in order to create a road map to reduce the overall environmental footprint of the entire organization, and to increase awareness on the part of staff and constituents.

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