

# INTER-AMERICAN DEVELOPMENT BANK SUSTAINABILITY REVIEW 2005





*Note:* All monetary amounts are in U.S. dollars, unless otherwise specified.

*Note:* Data referring to IDB operations and investments in sustainability (environment, indigenous peoples, gender issues and socially excluded groups) was calculated by the relevant departments, divisions and units of the Bank.

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## About the IDB

The oldest and largest regional multilateral development bank, the Inter-American Development Bank (IDB) is the primary source of multilateral development financing in Latin America and the Caribbean, fostering sustainable economic and social development and reducing poverty in the region through its lending operations, leadership in regional initiatives, research, knowledge dissemination activities, institutes, and programs. Since its founding in 1959, the Bank has approved more than \$137 billion for projects that total over \$325 billion with supplemental funding from other sources. The Bank assists its 26 borrowing member countries to formulate development policies and provides financing and technical assistance to achieve environmentally and socially sustainable economic growth and increase competitiveness, enhance social equity and fight poverty, modernize the State, and foster free trade and regional integration.

By year-end 2005, the Bank had a portfolio with a value of \$55 billion in loans and guarantees, as well as \$2.1 billion in grants and technical cooperation financing. With the necessary guarantees from the government concerned, the IDB may make loans or provide loan guarantees to any member country; any political subdivision or government organization unit thereof; any independent agency, semipublic enterprise, or private enterprise in the territory of a member country; regional organizations composed of member countries, and the Caribbean Development Bank. The Bank can lend directly to the private sector without sovereign guarantee, if such lending is made with the concurrence of the member country government. This lending must not exceed 10 percent of loans outstanding (excluding emergency loans, as established in the Bank's policies for private sector operations).

## The IDB's Mission

The IDB's mission, as stated in its Charter, is to *"contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively."* Although this statement of purpose was written almost half a century ago, the Bank continues to work toward that objective, adjusting the focus of its activities and operations to meet the shifting development needs of its member countries in Latin America and the Caribbean.

## The IDB and Sustainable Development

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. *Needs* implies not only needs for resources, including environmental resources, but requirements such as security, dignity, and opportunities. Its long-term and inclusive nature means that sustainability must be a consideration from the very beginning of planning development efforts. It requires efficient governance and effective partnerships among governments, civil society, and the private sector.

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## About this Sustainability Review

As our first effort to report on our commitments to promote sustainable development in Latin America and the Caribbean, this review provides a baseline of information for future reporting, which will be more fully developed in the coming years. The document reviews activities, data, and experiences from 2004 and 2005 for two members of the IDB Group: the **Inter-American Development Bank (IDB)** and the **Multilateral Investment Fund (MIF)**.

This first publication is a “review” because it looks back at the Bank’s work over recent years. It also outlines future actions required to achieve the IDB’s sustainability agenda. The Bank will improve this publication as it develops new mechanisms and indicators to capture sustainability impacts and outcomes and report on them effectively, rather than simply reviewing them. Understanding the inherent challenges in this, the Bank has designed a gradual reporting schedule that will take it from where it is today to a “steady state” annual Sustainability Report by 2009.

The IDB made a firm commitment in 2005 to issue its first sustainability review in 2006. This commitment was endorsed by the recommendations of a **Blue Ribbon Panel** established by the IDB in 2004 to advise the Bank on ways it can better contribute to achieving sustainability in the region. The Panel recommended that the IDB report publicly on its efforts in this area. The Bank is also identifying ways to “green” its own corporate activities, including actions to fulfill its corporate responsibilities and reduce its environmental footprint. This first review describes some of these efforts; the Bank will report upon them more fully in future issues.

This review presents important information to the Bank’s stakeholders, internal and external. It is not intended to cover the same information as the **Annual Report** or be a subset of it, but rather to stand on its own, complementing other reports, such as the **Annual Report on Economic and Social Progress in Latin America**, the **Annual Report on Portfolio Management, Performance and Results**, and the **Annual Poverty Report**.

The IDB hopes that this first Sustainability Review is both useful and interesting. It looks forward to comments and suggestions that will help improve the report in coming years.

## President's Foreword: Our Commitment to Sustainability

Sustainable development – meeting the needs of the present without compromising the ability of future generations to meet their own needs – is essential for the long-term economic growth and future well-being of the people of Latin America and the Caribbean. As such, sustainability is a fundamental guiding concept of the Inter-American Development Bank's efforts to contribute to poverty alleviation and the promotion of economic growth in the region.

The price of neglecting the environmental, social, and cultural dimensions of development is unacceptably high. Latin America and the Caribbean face particular challenges in terms of inequality and social exclusion that threaten their democratic governance and compromise their long-term development potential. Besides, the annual costs of environmental degradation range between 4 and 10 percent of GDP for many countries in the region. The poor are especially vulnerable to this problem, as many live in fragile environments and are dependent on natural resources for their livelihoods. To effectively address these and other sustainability concerns, institutions like the IDB must go beyond managing the environmental and social impacts of its projects and help clients and communities to identify opportunities to enhance the environmental and social value of investments.

The IDB wishes to position itself as a leader amongst multilateral development banks in pursuing sustainability in its operations and in promoting development that is environmentally and socially sound in Latin America and the Caribbean. In February 2005, after six months of work, the Bank's Blue Ribbon Panel on the Environment – composed of some of the world's leading experts on the subject – provided the Bank with a series of recommendations on how to become more relevant in meeting the region's environmental and social challenges. We are committed to acting upon that advice. To this end we are taking steps to strengthen the products and services we can offer our clients to help them achieve sustainability. We are working with countries to develop better policy, regulatory, and institutional frameworks for sustainable environmental and social management. We are financing projects to enhance the long-term productivity of natural resources and the ecosystems on which people's livelihoods depend. And we are working with private sector clients to help them respond to sustainability risks and opportunities – and in the process, to improve their performance and competitiveness.

In 2005, the IDB achieved a number of milestones in its efforts to improve its sustainability performance, expertise, and accountability. We began to look at footprint issues for the first time and initiated an assessment of where the Bank has made important progress in greening its facilities, as well as areas for future attention. Based on this analysis we will be working through 2006 to minimize our corporate footprint. Moreover, we approved the Action Plan for Promoting Sustainable Energy and Mitigating Greenhouse Gases, which will enable the Bank to address the critical global issue of climate change at the same time as securing important benefits for our region. Early in 2006, we put into place two fundamental cornerstones for a new sustainability framework that will help us serve our clients in a better and more comprehensive way. Our new Environment and Safeguards Compliance Policy will enable the Bank to better identify and manage environmental and social risks and, where possible, transform these risks into opportunities. We also recently approved a new Operational Policy on Indigenous Peoples, which will help us to safeguard the rights of indigenous communities in our region. This sustainability framework is of fundamental importance to the Bank as it begins to meet the needs of our region, especially in infrastructure development.

We are proud of these accomplishments, but we know we need to do more. This year we will continue to work on new policies on disaster risk management and gender, as well as to strengthen our accountability instrument: the Independent Investigation Mechanism. Moreover, we will strive to better align our incentives, resources and capacity with the strategic actions and commitments established by the new environment and indigenous peoples policies.

This, our first Sustainability Review, reinforces our firm commitment to sustainable development. In it we outline actions we are undertaking to advance the Bank's sustainability agenda. We approach these complex issues optimistically, believing that we have much to contribute, but mindful that we must work hard to continue our efforts to achieve our purpose. We welcome your comments as we move forward in this process.

*Luis Alberto Moreno, President*





*“There is room for the IDB to take significant new measures that will enhance the environmental quality and sustainability of its planning, policies, and operations. We are confident that the proposals of the Blue Ribbon Panel, if adopted, in addition to the implementation of the new environment and indigenous peoples policies will enable the IDB to attain a position of leadership in the multilateral financial community.”*

Bruce Babbitt, Chairman, Blue Ribbon Panel

# Policies, Processes and Accountability

## **A BASIS FOR SUSTAINABILITY: STRATEGIES, POLICIES, AND PARTNERSHIPS**

The IDB has played a critical role in helping countries in the region establish instruments and institutions for environmental and social management. In 1979, it was the first multilateral development bank to adopt an environment policy to ensure the environmental quality of operations and to support environmental projects in the region. In the past two years, the IDB has taken a number of steps to position itself as a leader in environmental and social sustainability. These steps will require innovative action and thinking as the Bank develops strategies, directions, and lending products, builds on relationships with client countries and other stakeholders, and creates mechanisms to promote sustainability within both public and private sector lending. This chapter describes some efforts in those directions. The region has made progress, but significant developmental challenges remain. Meeting these challenges will require strategic support and assistance from the IDB and the strengthening of the Bank's own institutional capacities.

### **Building a Solid Foundation for Sustainability**

In recent years, the IDB has worked to position itself as a leader in pursuing sustainability through its operations and activities. There is no one-size-fits-all definition for sustainability. The Bank sees sustainable development as forms of progress that meet the needs of the present without compromising the ability of future generations to meet their own needs. Thus short-term gains must not be allowed to constrain opportunities for future development. Yet the existence of so many poor and excluded in the region, whose needs are not now being met, shows the urgency of sustainability as a political issue.



Balancing the long- and short- term goals of sustainability, as well as its economic, social, and environmental aspects, requires effective governance and effective governments. It also requires close cooperation among governments, civil society and the private sectors, to develop a common vision of sustainable progress and assign roles and responsibilities. Some pressing requirements of sustainability include paying increased attention to issues such as the effects of climate change in the region, adopting a preventative approach to disaster risk management, and creating innovative opportunities for the conservation and sustainable use of the region's natural resources. It means addressing indigenous peoples' issues more systematically; identifying opportunities for enhancing the social value of projects while mitigating negative social impacts and ensuring that traditionally excluded groups share the benefits of development. Governments facing these challenges must do so with the best tools, policies, and approaches. Therefore the IDB emphasizes the modernization of the State to ensure good governance. This entails both improving the quality of governments and developing a complimentary process of strengthening civil society.

The Bank is positioning itself based on its long-standing commitment to sustainability concerns in the region. Historically, the Bank has been an important partner for countries in Latin America and the Caribbean in building the necessary environmental and social management systems in keeping with the growing international understanding of the importance of such systems to long-term economic growth. In the early 1990s, only a handful of Latin American and Caribbean countries had environmental institutions, and legislation was minimal. The Bank committed more than \$312 million between 1992 and 2002 to develop environmental institutions. Major operations funded the start-up of or strengthened environmental ministries or authorities in Argentina, Bolivia, Chile, El Salvador, Guyana, Panama, Paraguay, and Peru, among others. These operations supported the development of new legislation, norms, systems for environmental management, training, environmental education, and information systems. The Bank has invested more than \$10 billion in natural resource management and environmental protection programs across the region to date.

The **Eighth General Increase in Resources** of the Bank, approved in 1994, was a landmark for environmental management at the organization. Its mandates put the environment at the forefront of the Bank's priorities, and as a result the Bank was able to substantially increase environmental financing throughout the region, as well as to develop a comprehensive environmental management system within the institution. The Replenishment mandated the Bank to support borrowing member countries in the following areas: strengthening the environmental, legal, and regulatory framework and applying requirements for environmental impact assessment; strengthening environmental institutions; improving the environmental quality of all operations financed by the Bank; promoting the conservation and efficient use of energy in the Bank's projects; improving the urban environment; management of natural resources, including the adoption of sustainable agricultural practices, sustainable management of forestry resources, and conservation of biological diversity; management of maritime resources; addressing resettlement issues; providing access and availability of environmental



information; and ensuring consultations processes. The creation of the **Bank's Committee on Environment and Social Impact** and of the regional operation divisions in charge of environmental and natural resources management followed the mandates of the General Increase. Since its approval, the Bank has become the largest source of environmental lending in the region.

That increase in resources also redirected the Bank's portfolio toward poverty reduction and social equity promotion by setting the goals for more than 50 percent of the amount and 40 percent of the number of regular loans approved by the Bank to be oriented to poverty alleviation and social equity enhancement. The Bank reports on loans targeted to the poor in its annual **Poverty Reduction and Promotion of Social Equity Report** (Chapter 3).

### *Responding to New Challenges: Welcoming the Advice of the Blue Ribbon Panel*

Globalization is bringing new challenges to the region and increasing the need to respond effectively to market trends. The financial markets are placing new and increasingly stringent demands on financial institutions to adopt and pursue environmental and social policies that meet international standards. To help the IDB respond to these challenges, the Bank asked a group of high-level experts to advise it on how it could position itself as a leading partner to Latin American and Caribbean countries in their pursuit of sustainable development. The panel's recommendations included improving borrowing countries' capacity in environmental and social management; identifying sustainability opportunities and challenges early and directing lending to those areas; developing a more robust approach to managing environmental and social risks; ensuring consistency in IDB policies and strategies with international benchmarks; addressing sustainability issues in the planning stage of infrastructure initiatives; developing innovative approaches for encouraging civil society participation in designing and executing projects; and aligning incentives, learning, reporting, and accountability with sustainability objectives. The Bank welcomed the panel's recommendations and will be taking various follow-up actions throughout 2006 and beyond.

@ [www.iadb.org/sds/doc/env-ManagementResponseBRP.pdf](http://www.iadb.org/sds/doc/env-ManagementResponseBRP.pdf)

In response to the Panel's recommendations the Bank has committed to

- Develop country environmental analyses to support country strategies
- Establish and implement a safeguard management system and tools, including procedures for screening and classification, indicators, and verification measures
- Approve a new Environment Policy and guidelines to ensure IDB equivalence with international standards
- Update the Bank's Forestry Policy
- Develop strategic frameworks for increased activity in the areas of biodiversity, renewable energy, and water
- Develop a statement on labor
- Develop a client training and capacity building program and provide it to at least two countries each year
- Align incentives with sustainability objectives
- Develop indicators to measure sustainability outcomes
- Establish a system of clear monitoring and tracking of IDB projects' sustainability performance
- Produce a sustainability review
- Develop guidance and good practice on civil society participation in the project cycle.

## *Approving a New Environment Policy*

In 2003, the Bank's Board of Executive Directors approved an **Environment Strategy** that lays out a course of action for enhancing sustainable development, particularly by mainstreaming environment into broader development strategies. In January 2006, the new **Environment and Safeguards Compliance Policy** was approved, which establishes clear directives consistent with international benchmarks set by other multilateral development banks and private sector banks.

The new policy

- Emphasizes early identification of challenges and opportunities with borrowing countries in the course of establishing country strategies and priorities for Bank support
- Shifts emphasis from identifying environmental impacts to managing risks sustainably, whereby project risks and opportunities are identified and proactively managed in partnership with clients
- Establishes a robust procedure for effective management of environmental and related social, and cultural impacts
- Requires early and ongoing engagement with communities affected by a project in order to foster community support before financing large projects
- Quantifies and monitors project greenhouse gas emissions
- Analyzes policy-based loans\* for sustainability risks and opportunities
- Supports biodiversity by focusing on transboundary areas, conservation, and protection from all significant threats to biodiversity.

The new policy takes into account new realities that influence environmental sustainability, including the development of institutional capacities among borrowing member countries; the increased role of civil society participation; the convergence of policies and harmonization among multilateral and bilateral development institutions; the need to enhance development effectiveness; the increased role of private sector investments and public/private partnerships; the commitments of leading private sector financial institutions to the **Equator Principles** (a framework for financial institutions to manage environmental and social issues in project financing); and the growing importance of global and regional opportunities and challenges.

The Policy (effective in July 2006) grew out of a year-long consultation process with stakeholders. During 2004 and 2005 representatives from government, civil society, and the private sector participated in one-day consultation workshops in Rio de Janeiro, Lima, Panama, Barbados, Washington, D.C., and Brussels. In addition to these consultation meetings, the IDB invited stakeholders and interested groups to provide written comments during the development of the policy. Through its website, the Bank maintained open communication with participants and the general public, providing them with access to the documents being used, a full record of comments, and the Bank response to those comments after the consultation period was over.

@ [www.iadb.org/sds/env](http://www.iadb.org/sds/env)

## *Promoting the Inclusion of Indigenous Peoples*

The Bank's Board of Executive Directors approved the Bank's first **Operational Policy on Indigenous Peoples** and **Strategy on Indigenous Development** in February 2006. These two documents were developed through a consultation process involving more than 45 regional and national meetings with some 1,600 participants.

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\* Policy-based loans, sometimes also called "sector adjustment loans", provide flexible support for institutional and policy changes on the sector or sub-sector level, through fast-disbursing funds.



Together these documents provide a framework to promote the inclusion of indigenous peoples and their own initiatives in Bank projects and activities and to ensure the sociocultural sustainability of the operations financed by the IDB. This framework enables the Bank to address indigenous issues more systematically, drawing on good practices it has developed in some countries and sectors. They will also support indigenous peoples “development with identity”, safeguard their rights and establish measures to avoid, mitigate or compensate for any negative impacts.

The policy and strategy include provisions that

- Increase the visibility of indigenous peoples and the development challenges that are unique to them and promote the search for specific solutions
- Recognize the rights of indigenous peoples and individuals originating from applicable legal norms, including national legislation, international law, and indigenous juridical systems and customary rights
- Require good-faith negotiations and agreement with affected indigenous communities
- Recognize the rights of indigenous peoples to freely enjoy the use of their territories and of the related natural resources
- Address specific issues related to societies of indigenous peoples who live in more than one country and those who have not been contacted and wish to remain in isolation
- Strive to avoid ethnically-based discrimination
- Protect and support indigenous culture, language, identity, and traditional knowledge and recognize the role of cultural land uses in land management sustainability
- Promote better access by indigenous persons to social services including support for intercultural systems
- Improve the access of indigenous peoples to financial, productive and labor markets
- Support the evolution and institutionalization of indigenous capacity for governance and management
- Support institutional strengthening of the indigenous and nonindigenous sectors with respect to development with identity and its mainstreaming.

During 2006, the Bank will also prepare operational guidelines and an implementation plan, which will contribute to strengthening the IDB's institutional capacity and expertise, and further institutionalize indigenous issues as part of the planning and implementation of Bank projects. The guidelines will include a set of internal procedures and technical guidance documents, as well as a Sourcebook on Good Practice which are being prepared jointly by the IDB, the World Bank, and Asian Development Bank.

@ [www.iadb.org/sds/ind](http://www.iadb.org/sds/ind)



### *Promoting Sustainable Energy and Mitigating Greenhouse Gases*

To provide greater support for clean energy investment and various forms of carbon trading (“carbon finance”) the Bank in 2005 approved an Action Plan for increasing investment in greenhouse gas mitigation, renewable energy, and energy efficiency over the next several years (Chapter 5).

#### The Action Plan

- Supports increased investment in energy efficiency and renewable energy through technical assistance in identifying new project opportunities and issues
- Provides new tools and methods for incorporating carbon finance in projects related to solid waste landfills, urban transport, and energy services
- Identifies new instruments and approaches for the Bank to mainstream clean energy and carbon finance in the projects it finances
- Creates new technical capacities for support to the region in its access to carbon markets.

The Plan responds to a growing interest among IDB borrowing countries and other experts to broaden energy options and to increase participation in the carbon market.

### **Focusing on Emerging Initiatives**

In addition to the important steps undertaken in 2004 and 2005, the Bank has begun work on new strategies in the area of sustainable tourism and gender and development.

### *Promoting Sustainable Tourism*

Properly planned and managed tourism can contribute to sustainable development by increasing the value of ecosystems and providing new economic opportunities for people in remote areas. In the 1990s, international tourist arrivals to developing countries doubled, and new forms of tourism grew, such as nature-based tourism and ecotourism. The growing demand for tourism generated new opportunities for economic development in many Latin American and Caribbean countries, at the same time creating awareness of the importance of caring for the natural systems that underpin tourism. IDB member countries are increasingly aware of the need to foster conservation and diversify the incomes of local people through tourist services. Thus conserving natural resources is fundamental to successful and long-lasting tourism, which offers an alternative to unsustainable ways of exploiting natural resources.

## Box 1.1

### Preventing and Combating Corrupt Behavior

Corruption affects all societies; public and private institutions, both domestic and international, are working to prevent and combat corrupt behavior. Corruption affects the public and the private sector, distorting economic realities and creating perverse incentives that degrade all levels of society. It threatens democratic institutions, slows economic and social development, and, if condoned and permitted to flourish, can seriously undermine the credibility of state institutions and structures.

The Bank is increasingly asked to support borrowing member countries in their efforts against corruption, primarily through its activities in governance and modernization of the State. The Bank's institutional strategy refers to the modernization of the State and to competitiveness as priorities. The Inter-American Convention Against Corruption (1996) was the first regional convention specifically designed to attack corruption. The Bank has been challenged to fund programs that support transparency and good governance and responsible participation of civil society.

@ [www.iadb.org/LEG/corruption.pdf](http://www.iadb.org/LEG/corruption.pdf)

The Bank also finances programs that help borrowing member countries strengthen their governance, enforce the rule of law, and combat corruption, in line with the Bank's institutional strategy of modernization of the State. Its efforts to help countries fight corruption include, for example, a \$63 million loan to Bolivia to strengthen fiscal management that includes support for the improvement of tax administration and an institutional reform of the public "Pay as You Go" pension system. In this last area, the program, which targeted the reduction of ballooning pension costs, focused on re-indexing pension costs and preventing and correcting fraud and corruption. These efforts have resulted in an annual reduction of pension costs by a significant percentage of GDP.

The Bank has a clear mandate from all of its member countries to help them fight corruption. It will continue to support the countries' efforts toward more responsible, efficient, and professional public action. It will also address the corruption problem in projects other than those related to state reform, in the understanding that corruption is a restriction to good governance.

The Bank is preparing a strategic framework and an action plan to improve its support to the tourism sector and to better support the efforts of borrowing countries to develop sustainable tourism by protecting and enhancing their natural and cultural tourism attractions. The Bank will also encourage and support local governments to ensure adequate land planning and zoning, manage urban growth, and provide the public services necessary to ensure environmental quality.

### *Strengthening Gender Equality*

The links between gender equality and people's well-being, sustainable growth, and poverty and inequality reduction are inextricable. Inequality between women and men in terms of rights, human capital, control of productive assets, quality of labor force participation, and capacity to participate in public life has direct consequences for women, and the costs of gender inequality are ultimately borne by society as a whole. Investing in gender equality is an ethical imperative and makes economic sense. Looking forward to 2015, the IDB is updating its **Operating Policy on Women in Development** and its **Strategic Gender Outlook**. The latter will review the advances in the situation of women in the past decades and identify remaining challenges and emerging issues for gender equality in the region to define priority areas for Bank action. It will also review the experience of the IDB, other multilateral institutions, governments, and civic organizations to determine the most effective methods of Bank support in this area. These will be monitored with appropriate indicators.

@ [www.iadb/sds/wid](http://www.iadb/sds/wid)

### **Strengthening the Roles of State, Governance, and Civil Society**

Sustainable development is a complex long-term goal that requires both good governance and effective relations between governments and civil society. It requires a democratic, modern, and efficient State that promotes equitable economic growth and provides a regulatory framework conducive to the functioning of markets; guarantees a stable and reliable macroeconomic environment, legal

# Chapter 1

A Basis for Sustainability: Strategies, Policies and Partnerships





### Box 1.2

#### Collaborating with Civil Society Groups in Guatemala

Guatemala's northernmost department of Petén is carrying out a sustainable development program to protect natural resources and the tourism potential of archeological sites. In the program, six NGOs contracted by the government executing agency are currently helping local groups of farmers to increase their production to improve living standards and reduce incentives to invade protected areas to extend cultivation.

The NGOs, acting as the program's co-executing agencies, are promoting intensive cattle raising, honey production, managed forestry, ornamental plants, and other activities. This sustainable development program, which is being financed by a \$19.8 million IDB loan approved in 1996, also includes regularization of land titles for some 4,500 families in the buffer zone outside of the Maya Biosphere Reserve, protection and restoration of Mayan archeological complexes, and strengthening public institutions, including local municipalities.

predictability, and political security; is capable of adopting appropriate economic and social policies for poverty reduction and environmental protection; and implements these policies efficiently, transparently, and responsibly.

Recognizing these requirements, the IDB supports the modernization and reform of states to consolidate democratic governance and strengthen civil society in the region's countries. The Bank has been working since 1992 in innovative fields such as judicial reform, modernizing the legislative branch, and strengthening control and supervisory agencies, as well as designing operations that promote a cooperative relationship between the state and civil society organizations. Its work in these areas is guided by two strategies: the **Strategy for the Modernization of the State** and the **Strategy for Promoting Citizen Participation in Bank Activities**.

#### *Modernizing the State*

**The Strategy for the Modernization of the State**, approved in 2003, identifies four action areas: democratic systems; rule of law and judicial reform; state, market, and society; and public management. Bank lending and technical cooperation support the modernization and decentralization of the state and the public sector to improve their effectiveness, efficiency, transparency and accountability, and combat corrupt behavior (Box 1.1). Programs often work with legislative and judicial institutions and public agencies, including those responsible for fiscal and customs administration. The strategy links this work to achieving sustainable economic growth by helping these institutions build sustainability concerns into their core operations. The Bank's **Annual Report** provides a detailed overview of the Bank's operations in these areas.

@ [www.iadb.org/sds/scs/site\\_1463\\_e.htm](http://www.iadb.org/sds/scs/site_1463_e.htm)

#### *Engaging Civil Society*

Achieving sustainable development will require a solid relationship among the Bank, civil society, and governments based on mutual respect and open communication. To ensure that nongovernmental organizations (NGOs), civic organizations, communities, and individual citizens play active roles in the development process, the IDB is broadening its engagement with civil society at various levels. At the policy level, NGOs and interest groups review and comment on draft strategies and guidelines for lending. At the project level, the Bank and its borrowers will seek out the views of civil society organizations and affected populations during project prepara-

tion and implementation and evaluation of Bank projects and other activities. Many examples exist of implementing agencies involving civil society during execution, or having civil society organizations as the executing agencies of Bank activities (Box 1.2). On the institutional front, the Bank works with civil society groups to strengthen their capacity to act as democratic agents, a capacity indispensable to democratic societies.

The Bank's **Strategy for Promoting Citizen Participation in Bank Activities**, approved in 2004, establishes general criteria and guidelines for getting civil society more involved in Bank activities. It encourages citizen participation in the development of IDB policies and country strategies, in the preparation and implementation of Bank projects, and in the evaluation of Bank activities, through a consultation mechanism.

@ [www.iadb.org/sds/SCS/site\\_3704\\_e.htm](http://www.iadb.org/sds/SCS/site_3704_e.htm)

The Bank has a number of instruments to operate under the strategy:

- **Civil Society Advisory Councils.**

The Bank maintains a dialogue with local civil society through the 26 Country Offices in the borrowing member countries. In many cases, it sets up *ad hoc* Civil Society Advisory Councils, including representatives from various sectors of civil society.

@ [www.iadb.org/topics/cs.cfm](http://www.iadb.org/topics/cs.cfm)

- **Civil Society Outreach on Special Topics.**

The IDB holds regular meetings with NGOs to keep abreast of emerging developments and concerns, explore innovative means to address environmental and social issues, and identify opportunities for collaboration. In 2004 and 2005, seminars were held on environmental issues relating to infrastructure development, sustainable tourism, soybean production, and opportunities for effective IDB involvement in the Millennium Ecosystem Assessment.

- **Policy and Strategy Consultations.**

Since 2002, drafts of the Bank's new sector strategies and policies have been circulated through a consultation process with relevant actors and civil society organizations before being submitted to the Board of Executive Directors. The Bank takes the results of these consultations into account in further developing strategy and policy documents. This process also helps the civil society organizations consulted to become more familiar with the nature of the Bank and its operating procedures and to make suggestions for their implementation. In 2004 and 2005, a number of strategies and policies were submitted to broad consultations, including: **The Citizen Participation Strategy; The Improvements to the Independent Investigation Mechanism; The Environment and Safeguards Compliance Policy** and **The Operational Policy on Indigenous Peoples**.

@ [www.iadb.org/aboutus/iii/public\\_consultation.cfm](http://www.iadb.org/aboutus/iii/public_consultation.cfm)

- **Regional IDB-Civil Society Meetings.**

The Bank periodically hosts meetings with civil society organizations on a national, sub-regional, and regional level. Since 2000, the Bank has focused on Bank-civil society relations before the IDB's Annual Meetings of the Board of Governors. Senior Bank managers, including the President and Executive Vice Presidents, have participated in such meetings. The gathering in 2005 in Panama focused on issues of sustainable development, the environment, and indigenous peoples, as well as proposed improvements to the Bank's **Independent Investigation Mechanism** (Chapter 2). In cooperation with the Caribbean Development Bank, the IDB began, in 2004, to host annual sub-regional meetings with civil society organizations in the English-speaking Caribbean, with objectives similar to the larger regional meetings.



### Box 1.3

#### Promoting Young People as Agents of Development

The long-term nature of sustainable development means that people must be involved at an early age. To be agents of change, young people need access to basic resources, including quality education that responds to market needs, training that emphasizes employability and personal development, a healthy environment, safe places in which to recreate and learn, and opportunities to contribute to the community. The IDB aims to provide youth in Latin America and the Caribbean with these resources through its loans and grants.

The IDB Youth Network is made up of more than 5,000 organizations that represent all sectors of society and thousands of youth entrepreneurs, politicians, environmental activists, women's rights advocates, volunteers, and leaders. The IDB supports the network through information exchange, networking, communications, capacity building, grant making, and partnerships. Members of this dynamic network have affected programming and policy making at local, national, and international levels.

@ [www.iadb.org/exr/mandates/youth/youthnetwork.htm](http://www.iadb.org/exr/mandates/youth/youthnetwork.htm)

## Working through Partnerships

The Bank works with partners to achieve sustainable economic growth and poverty reduction. It has partnerships with governments to administer funds for sustainable initiatives. The IDB enters into agreements with other financial institutions, international organizations, NGOs and civil society, and the business community. These partnerships take varying shapes and forms, including global agreements, trust funds for specific development and technical assistance, and agreements and other arrangements with NGOs and multilateral development organizations (Box 1.3).

### *The Global Environment Facility*

The **Global Environment Facility** (GEF), established in 1991, helps developing countries fund projects and programs that protect the global environment. GEF grants support projects related to biodiversity, climate change, international waters, land degradation, the ozone layer, and persistent organic pollutants. The IDB acquired full and direct access to the GEF for the design and implementation of new projects in June 2004. The Bank's first full-sized GEF project was approved in 2004, addressing ecosystem management and biodiversity conservation in the Bay Islands of Honduras (\$2.8 million). Two other projects are being implemented, and another eight projects are under design. Funding has totaled \$15.8 million (including funds for project design).

### *Environmental Dialogues*

The Bank facilitates regional cooperation and dialogue through the **Inter-agency Technical Committee** (UNDP, UNEP, World Bank, ECLAC, and IDB) of the Forum of Environment Ministers, and the IDB's **Regional Policy Dialogues on the Environment and on Natural Disasters**, which assists vice-ministers of borrowing countries in the organization and facilitation of regional and sub-regional meetings to discuss key policy issues.

The **Environment Dialogue** has marshaled resources for analytical work and best practice studies on critical environmental management topics such as water and solid waste management, sustainable use of coastal marine resources and air pollution control, trade and environment policy priorities in the context of major regional

trade initiatives, and environmental services in forest and agricultural sectors. These products and the discussions held during vice-ministerial meetings have improved capacities for policy making and increased collaboration among countries while addressing key regional and national environmental priorities. In 2004 and 2005, three vice-ministerial meetings were held (Andean, Southern Cone, and Mesoamerica). A final review of the results of the sub-regional discussions, as well as agenda setting and Bank response to regional priorities, is carried out at an annual vice-ministerial meeting held at IDB Headquarters in Washington, D.C.

@ [www.iadb.org/int/drp](http://www.iadb.org/int/drp)

### *Donor Technical Cooperation and Funds*

The IDB has partnership and co-financing agreements with multilateral and bilateral institutions, as well as governments targeting environmental and social concerns.

- **Dutch Environmental Partnerships**

The Bank has two key partnership programs with the Government of the Netherlands focusing exclusively on environment and water concerns. The **IDB–Netherlands Water Partnership Program** (INWAP) was established in 2002 to help strengthen the Bank's policy and sector work in integrated water resources management. The donor's \$10 million contribution covers a four-year period ending in 2006. INWAP became fully operational in August 2002. Since then, 53 operations have been executed (26 in policy and operational support and 27 in capacity building) @ [www.iadb.org/sds/inwap](http://www.iadb.org/sds/inwap). The **IDB-Netherlands Partnership Program in Environment** (NPPE) is a technical cooperation trust fund, established in 2000, concentrating on environmental management and innovation tools, climate change (mitigation and adaptation), and biodiversity and forests. The Fund became fully operational in March 2001. Since then, 50 technical cooperations have been carried out, with \$1 million available for 2001, and \$2 million for each of the following three years.

- **German Work Program for Renewable Energy and Energy Efficiency**

In 2005, the Bank initiated a three-year program to promote renewable energy and energy efficiency in collaboration with Germany. Growing out of a 2004 strategic partnership with the **German Ministry for Economic Cooperation and Development**, the program aims to improve institutional capacity in renewable energy and energy efficiency activities in the region, while building up a pipeline of projects. The **Deutsche Gesellschaft für Technische Zusammenarbeit** (GTZ) will donate €2.6 million to the effort. The German development bank **Kreditanstalt für Wiederaufbau** (KfW) will also participate. The program entails collaborative efforts throughout the Bank for technical assistance and dissemination of good practices, support for incorporating renewable energy and energy efficiency in country programming, and seed funding for identification and initial assessment of potential investment projects (Chapter 5).

- **The Gender Mainstreaming Trust Fund**

This **Gender Mainstreaming Trust Fund**, established in 2005, channels resources to strengthen gender mainstreaming at all phases of the project cycle, including programming, project design, monitoring, and evaluation. It also supports studies, consultations, technical meetings, and training. The Government of Norway is the first contributor, committing \$3 million for a five-year period.

@ [www.iadb.org/sds/wid](http://www.iadb.org/sds/wid)



*“The IDB’s stakeholders, including the governments and the citizens of our region, are asking us to help them assure that the economic development that we support, respects environmental realities and improves the social well-being of all. It is a challenge that we have accepted.”*

Antonio Vives, Acting Manager, Sustainable Development Department



# Policies, Processes and Accountability

## INTEGRATING ENVIRONMENTAL AND SOCIAL DIMENSIONS INTO OUR CORE ACTIVITIES

The IDB is making sustainability a strategic priority by integrating sustainable development throughout its operations. This begins with early discussions with countries on fundamental issues related to governance, policy, incentives, and priority setting for investments across sectors. It continues with the choice of lending and other activities, the design of those activities, and their execution and monitoring, and carries forward to the Bank's own purchasing decisions. Good organization and management can enable the Bank to promote sustainability in all that it does. It is not enough, however, for the IDB to simply say that it is charting a new course in sustainable development. It must provide proof to its member countries and other stakeholders. One of the first steps in this process is to ensure transparency and accountability in its work.

### Offering a Range of Products and Services

The IDB is the main source of multilateral financing for economic, social, and institutional development and for regional integration in Latin America and the Caribbean. The IDB Group uses loans, grants, guarantees and investments to fund development programs in Latin America and the Caribbean. Loans, grants and guarantees are used for public and private investment projects, for policy reforms, to help countries cope with financial crises or disasters, and for national and regional technical cooperation. The IDB's main line of business is its lending portfolio, the core of which is public sector loans to governments. Since 1995, however, the Bank, through its Private Sector Department, has been able to lend directly to the private sector, without government guarantees, including trade finance and support to local capital markets (Chapter 4). The IDB also invests in some small business projects and provides private sector investment financing through the **Multilateral Investment Fund**, an independent fund managed by the Bank (Chapter 4) and the **Inter-American Investment Corporation** (@ [www.iic.int](http://www.iic.int)).

## Box 2.1

### The IDB Project Cycle

Each operation the Bank finances passes through a series of stages known as the project cycle. Throughout this cycle, documents are produced that can be valuable sources of information.

**PREPARATION:** For public sector operations, this phase begins with strategy development, identification of potential projects, and programming activities. Projects grow out of broad discussions with governments, civil society, the private sector, and others about specific projects needed to meet strategic and programming objectives. Once a particular project is identified, a series of studies is undertaken, including project profiles and concept notes, design and feasibility studies, environmental and social impact assessments, consultations, and/or draft project reports. A loan proposal is drawn up for the proposed project.

**APPROVAL:** The Bank reviews various background documents: the loan or guarantee proposal documents, the logical framework, the required environmental and social management report, procurement plans, and loan contracts and conditions agreed with the borrower. If everything is in order, the Board of Executive Directors approves the loan.

**IMPLEMENTATION:** This stage prepares for the on-site implementation of the project that the loan is financing. These activities include the follow-up of all procurement needs, preparation of annual operating plans, Bank portfolio reviews, mid-term project reviews, and implementation of Project Performance and Monitoring Systems.

**COMPLETION AND EVALUATION:** Once the project has been completed, the Bank prepares a Project Completion Report and conducts evaluations as needed.

A step-by-step guide to the project cycle, the documents that are produced as part of the process, and information about how to access them is available online.

@ [www.iadb.org/projects/cycle.cfm](http://www.iadb.org/projects/cycle.cfm)

Loans to the public sector are made as part of an overall country strategy that defines the support that the Bank provides according to the needs of the country. Loans or guarantees to private sector clients are made on a project or corporate basis. During the preparation of an operation, the Bank and the borrower agree on a series of objectives, outcomes, and performance indicators, and on an implementation plan. In the implementation plan, an environmental and social management plan is included if there are significant environmental or social issues or opportunities to be addressed. It is the borrower's responsibility to implement the project according to the terms set out in the implementation plan. The Bank supervises the implementation of the loan or guarantee and evaluates its results.

In addition to its lending program, the IDB also provides analytical work for its clients through research, technical studies, client training, and workshops. Sector and country analytical work is carried out to support the dialogue between the Bank and its clients, the resulting country strategies and improvements in lending programs. The Bank also channels technical cooperations to its borrowers. The IDB administers more than 50 trust funds to provide technical assistance. These funds are used mainly to co-finance Bank lending projects and fund technical assistance activities.

### Integrating Sustainability into the Project Cycle

The programming exercise that the Bank carries out with the borrowing countries defines the scope of potential lending that the country will undertake with the Bank. This process includes analytical work and discussions (policy dialogue) to develop country strategies that guide the country and Bank investments to support these strategies. There is no programming exercise for private sector operations, since these are made directly to private sector entities. However, one of the advantages that the IDB offers is that it can facilitate complementary investment opportunities in both the private and public sectors of a country. Each loan goes through a careful process of selection, design, implementation, and evaluation known as the project cycle (Box 2.1). As such, environmental and social sustainability are integrated into each stage of this programming exercise.



Through its new **Environment and Safeguards Compliance Policy**, the Bank will address sustainability issues upstream in the programming phase. The policy stipulates that the Bank will undertake country environmental analytical work as part of its programming process. It will regularly identify, in collaboration with borrowing countries, the main opportunities and risks associated with key areas of social and economic development, assess the state of enabling conditions for environmental management, and establish a set of strategic priorities for action, in the sectors identified. Taking a comprehensive look at environmental and social considerations early in the programming phase will have many advantages. The Bank will be better able to complement and incorporate sustainability components in operations that support key economic sectors such as tourism, energy, and transportation; strategically address trans-boundary and regional integration issues; track and monitor performance indicators; and address and manage risk in potentially sensitive sectors in a timely manner.

The Bank carried out two country environmental analyses (CEA) on a pilot basis in 2005: one in Belize and one in El Salvador. The CEAs identify environmental opportunities and risks on a strategic level in areas identified by the country as priority sectors for development and growth. Both pilot analyses focused on establishing environmental links to enhance competitiveness. In Belize, the environmental analysis centered on the risks and opportunities in the expanding tourism industry. In El Salvador, the analysis focused on the environmental conditions that would allow the country to take advantage of new trade opportunities and access to new markets.

The country analytical work resulted in collaboration among various ministries and a strengthened dialogue between finance and environmental authorities. The process also allowed participation by different civil society groups and private sector representatives. The pilot studies helped inform the development of the new **Environment and Safeguards Compliance Policy** and its guidelines. The Bank followed up the initial two pilots with another CEA for Suriname in 2005. For 2006, several CEAs are planned or underway including Bolivia, Chile, Ecuador, Guyana, Honduras, Jamaica, Nicaragua, Paraguay and Peru.

## Ensuring the Environmental and Social Quality of Operations

Environmental and social quality control occurs at key stages in the project cycle: first and foremost during the due diligence process\* but also during committee reviews prior to and after due diligence. It also occurs once the operation is approved through monitoring of projects under execution.

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\* A in-depth appraisal of the financial, technical, institutional, economic, environmental, and legal aspects of a proposed project that is carried out by Bank staff and consultants through an analysis mission to the borrowing member country and careful review of project documentation.



During the preparation phase, the project team has the primary responsibility for the quality of the projects. The teams undertake detailed environmental and social due diligence, which verifies the environmental and social aspects associated with the project, including the regulatory framework and associated environmental licensing, governance issues, and the specific environmental and social studies prepared for the operation. The due diligence process also helps the potential borrower in the identification of issues, in the design of the operation, taking into consideration environmental impacts, and in the implementation of strategies to ensure that the operations are environmentally and socially sound.

The environmental and social aspects of the project are reviewed by Bank committees, including the **Committee on Environment and Social Impact (CESI)**. The CESI is a multi-departmental review group consisting of staff from both operational and nonoperational departments experienced in environmental and social assessments. The CESI reviews the environmental and sociocultural viability of Bank operations and reports its findings to the Loan Committee. The CESI screens Bank operations with respect to environmental and sociocultural impacts, reviews and confirms the level and scope of assessment required, provides guidance with respect to the assessment of impacts and management plans, and reviews compliance of Bank operations with its own recommendations.

The CESI procedure includes a review of the environmental and social concerns at the conceptual stage (the project concept document), and when required by CESI at the final proposal stage, before the operation is submitted to the Loan Committee and Board of Executive Directors for final approval.

In addition, the Legal Department has quality control responsibilities for aspects relating to contracts, and the External Relations Department covers disclosure of information. The Board may also ask the Office of Evaluation and Oversight to review a project.

Another instrument for quality control is the **Independent Investigation Mechanism (IIM)**, where affected people can solicit a review of a project based on alleged non-compliance with the Bank's policies. Such reviews are undertaken by an independent panel of experts.

## Identifying and Minimizing Risks

The Bank's new **Environment and Safeguards Compliance Policy** requires that all Bank-financed operations be screened early in the preparation process based on their potential environmental impacts. The screening process will consider potential negative environmental impacts of the operation, including environmentally-related social and cultural impacts, whether direct, indirect, regional, or cumulative. Bank operations will be classified in one of three categories according to their potential impacts.

**Category A**

operations are those likely to cause significant negative environmental and associated social impacts, or have profound policy reform implications affecting natural resources.

**Category B**

operations are those likely to cause mostly local and short-term negative environmental and associated social impacts, for which effective mitigation measures are readily available.

**Category C**

operations are those likely to cause minimal or no negative environmental and associated social impacts.

In addition to environmental impacts, the Bank will identify and manage other risk factors that may affect the environmental sustainability of its operations, including, when relevant, the governance capacity of the implementing agency. Then, following the screening process, an environmental assessment will be prepared for those operations with environmental or social impacts. The result of the assessment will be incorporated in an environmental and social management plan which will set out the management actions and measures to be implemented during the execution of the operation.

**Monitoring Compliance**

Environment and social requirements identified during the preparation of an operation are incorporated in the project contract documents. During implementation the Bank monitors compliance with these requirements. The Bank supervises and monitors the compliance of the agency carrying out the project with the terms set out in the loan or guarantee agreement. During the execution of public sector projects, the country office is responsible for monitoring environmental and social contractual clauses. Private sector projects are monitored by the Bank's Private Sector Department, under the responsibility of the department's environmental and social unit.

The Bank reports on follow-up in applicable bank documents such as project monitoring reports, mid-term reviews, and project completion reports. Under the new policy, safeguard requirements and indicators will be incorporated into the relevant project documents. The Bank will also review Category A operations at least once a year to assess safeguard compliance.

In the past, the Bank has focused on the project preparation stage. However, it has become evident that project execution must be strengthened to ensure the desired results and outcomes. In recent years, the Bank has been developing new tools, such as the project performance and monitoring systems, which are evolving as risk management tools to strengthen development effectiveness in the field.

**Evaluating Performance**

The Bank's Office of Evaluation and Oversight undertakes evaluations to assess the effectiveness of Bank development policies, the results of Bank-financed activities, and related processes to ascertain how well these activities have met their goals and to better determine the impacts of these activities. Impact evaluations of programs and projects attempt to measure the changes in beneficiaries' welfare that are attributable to the project. These changes could include intended and/or unanticipated effects. Evaluation activities are incorpo-



rated into every phase of the project cycle, beginning with the studies and impact analyses carried out during the preparation process and continuing until the project is completely implemented. These are used as learning and planning tools by the country and the IDB during subsequent programming, as well as in the planning and development of future projects, both in the country and across the region. The most rigorous evaluations tend to be designed as the project is designed, and hence include elements that take place before, during, and after project execution.

The Bank uses various tools to help a project achieve its stated objectives. These include formal portfolio reviews, administration missions, and regular examinations half way through the implementation of a project. The most valuable support, however, is the day-to-day support that IDB country offices can provide to governments and executing agencies. Thus these Bank country offices must have the right set of skills, and not every office has specialists to monitor and follow up social and environmental requirements and impact evaluation. Therefore, as part of the implementation of its new **Environment and Safeguards Compliance Policy**, the Bank will be strengthening of country offices and sharpening the tools currently used for risk management.

The Bank's country offices and borrowers jointly produce project completion reports on all public sector projects within three months of the end of project implementation. For private sector projects, the Bank started recently to conduct self-evaluation of projects that reached operating maturity. For the overall performance of the Bank's portfolio, the Bank also prepares an **Annual Report on Portfolio Management, Performance, and Results** for the Board of Executive Directors.

@ [www.iadb.org/projects/arpre](http://www.iadb.org/projects/arpre)

In 2003, the Board of Executive Directors approved a new **Ex-Post Policy**, which mandated the review and validation of project completion reports and the implementation of ex-post project evaluations. Under the **Ex-Post Policy**, at the borrower's request, evaluations may be conducted after the project is completed. The Bank can also decide to conduct its own in-depth evaluation of the results (project performance and continuity of benefits) two or more years after completion. These include two types of assessment: **Performance and Sustainability Assessments** (EPSAs) and **Impact Evaluation Reports** (IERs). EPSAs are carried out on at least 20 percent of completed projects. IERs are carried out each year on at least two projects completed in the previous four or more years. Such evaluations seek to establish the long-term benefits of the project, and to estimate the value added by the Bank to the long-term results. Ex-post evaluations provide the Bank with valuable information about the sustainability outcomes of an operation. During the first year of its implementation the Bank undertook 16 pilot ex-post evaluations, reporting the evaluation findings and lessons learned in the **Ex-post Project Evaluations 2004 Annual Report**. Principally this first-year program was designed to provide information on the costs and benefits of impact evaluation in order to establish the resources required in the future to comply with the new ex-post evaluation policy.

@ [www.iadb.org/ove](http://www.iadb.org/ove)

## Ensuring Responsible Procurement in Bank Projects

The Bank is working to incorporate environmental and social considerations more comprehensively and thoroughly into its purchasing decisions (Chapter 6). Through responsible project procurement, the Bank can promote practices that would improve public and worker health, conserve natural resources, and reward environmentally conscious suppliers and consultants, while remaining fiscally responsible.



The new **Environment and Safeguards Compliance Policy** sets out provisions to encourage environmentally responsible procurement of goods and services in Bank-financed activities. The Bank will foster approaches that help provide goods and services that are produced in an environmentally and socially responsible manner, in terms of the use of resources, the work environment, and community relations. The IDB will also encourage borrowers and executing agencies to procure environmentally responsible works, goods, and services. An exclusion list of environmentally harmful products will be prepared in 2006, as mandated by the Policy.

The current **Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank** do not contain explicit provisions to promote the use of those suppliers/consultants that promote environmental and social responsibility. In 2006, the Bank will develop appropriate language and make amendments to these policies, where necessary. Criteria for the procurement of goods and works will be revised taking into careful consideration such factors as the impacts of the goods, materials, or services on the environment, economy, the region's communities, and human health and well-being; consideration of market factors, such as specifications, quality, delivery date, and price of the good, material, or service; and preference for the purchase of environmentally preferable goods and materials, whenever they perform satisfactorily and are available at a reasonable price.

### Ensuring Accountability and Transparency

Accountability and transparency are prerequisites for sustainability. To that end, the Bank has a number of mechanisms which ensure accountability and transparency in the work it carries out: in 2004 it approved a new and expanded **Information Disclosure Policy** and continued to work on improvements to its **Independent Investigation Mechanism (IIM)**.

#### *Information Disclosure*

The IDB has been a leader in requiring disclosure of information regarding the activities of the Board of Executive Directors; including agendas of future meetings, committee reports, and minutes. A new, considerably expanded **Information Disclosure Policy** took effect in January 2004, updating the original one from 1994. The new policy

stipulates that information concerning the Bank and its activities will be disclosed to the public, unless there is a compelling reason for confidentiality. The policy provides for timely disclosure of two broad new categories of information – on financial and institutional matters – in addition to documentation concerning operational activities. Important new information “products,” such as project completion reports, loan contracts, debt service projections, and project procurement plans, are being released for the first time.

The Bank has emphasized the need to make information available in the language of affected populations and with sufficient lead time to enable stakeholders to use it meaningfully. Neither governments nor the IDB can foresee all of the possible consequences of an operation. Having recourse to the opinions of affected parties can improve project design and execution.

@ [www.iadb.org/exr/pic/vii/policy\\_disclosure.cfm](http://www.iadb.org/exr/pic/vii/policy_disclosure.cfm)

The IDB's **Public Information Center (PIC)** offers electronic and hard-copy versions of documents under the terms of the **Information Disclosure Policy**, both at the IDB headquarters and in borrowing member country offices. These include operational policies, documents related to the Bank's loan operations, and evaluations conducted by the IDB's Office of Evaluation and Oversight.

@ [www.iadb.org/exr/pic](http://www.iadb.org/exr/pic)

### *The Independent Investigation Mechanism*

The Bank's **Independent Investigation Mechanism (IIM)**, established in 1994, helps the Bank ensure the Bank's transparency, accountability and effectiveness by allowing affected parties to request an investigation to determine whether the Bank has followed its own operational policies. The Bank's Board of Executive Directors decides whether an investigation should be conducted. If it determines that an investigation is warranted, the Board appoints a panel of three members. Each investigator is independent of the Bank and is of a different nationality. An investigation normally ends in a report to the Board that contains the panel's findings and recommendations. The Board determines what action should be taken.

To date, five cases have been processed under the mechanism (Yacyretá Hydroelectric Project, 1997 and 2002; Termoeléctrica del Golfo Project, 2003; Cana Brava Hydroelectric Project, 2003 - Box 2.2; and the Emergency Flood Rehabilitation Program, 2005).

In 2003, the IDB began to review the IIM, resulting in the **Draft Policy and Operating Guidelines for the Consultation and Compliance Review Mechanism**. The Bank made the draft policy available for public comment during meetings held in Mexico City, Brasília, and Washington, D.C. in the summer of 2005. A new proposal based on these comments is currently before the Board of Executive Directors for its consideration.

@ [www.iadb.org/aboutus/iii/independent\\_invest/consultation\\_compliance.cfm](http://www.iadb.org/aboutus/iii/independent_invest/consultation_compliance.cfm)

## Box 2.2

**Investigating the Cana Brava Hydroelectric Project**

The Bank activated its Independent Investigation Mechanism review of Cana Brava, in 2003, in response to a request from persons affected by construction of the project represented by the Movimento dos Atingidos por Barragens (MAB), which alleged deficiencies in resettlement as well as other issues concerning social and environmental sustainability.

In its final report in July 2005, the Independent Panel found that the Bank had complied with many of its operational policies, but it also found that the Bank failed to fully comply with the Bank Operational Policy OP-710 on Involuntary Resettlement. Management's response did not agree with the Panel's conclusions and contended that the Bank complied with all policies.

Following discussion at the Board, the Executive Directors were not able to reach consensus on whether the Bank's Resettlement Policy was violated and, if such violation occurred, whether there were material adverse effects. Board members noted that the area of the project was affected by economic and social disadvantages before the initiation of the project.

The Board fully supported the Independent Panel's key recommendations regarding the need for additional social and environmental safeguard staff and budget resources, sufficiently early resettlement component screening, and clarification of the lines of communication between the IDB's Private Sector Department and the Bank's country offices. The Board welcomed the commitment of IDB management to continue to implement actions related to these Panel recommendations and an initiative supported by several local companies, with the potential support of the Multilateral Investment Fund, to establish an economic and social development fund to address broader economic and social issues in the Cana Brava project area.

*“The governments of Latin America and the Caribbean understand that sustainability is the key to long-term economic growth that benefits all. We will strive to ensure that the projects that we finance fulfill their expectations by offering loans and technical cooperation to promote environmental improvements and sustainable human progress.”*

Ciro de Falco, Executive Vice President





# Responsible Investments, Performance and Sustainability

## PROMOTING SUSTAINABILITY IN THE PUBLIC SECTOR

The Bank invests in sustainable development in its operations, through the provision of loans and technical cooperations targeting environmental issues such as water and sanitation, biodiversity and urban environmental management and social projects that target improvements for indigenous peoples, women, Afro-descendants and youth, amongst others. It also promotes environmental and social sustainability by encouraging governments to make it a key component in all their development efforts, including infrastructure, rural and urban development, and health. Given that sustainable development is about meeting present needs, the Bank also works closely with governments in poverty reduction and income generation.

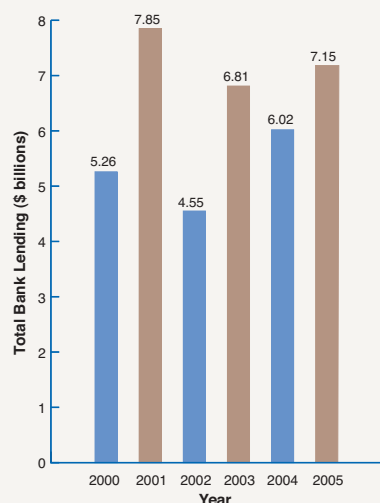
### The IDB's Lending Portfolio

In 2005, the IDB approved \$7.15 billion in loan assistance to its borrowing member countries, an increase of 18.4 percent over approved loan totals of \$6.02 billion in 2004 (Figure 3.1).

Over a third of total IDB investment in 2005 was dedicated to social investment loans in areas such as social inclusion, family, childhood, youth, and support for indigenous groups. A further 15 percent of loans was directed to the reform and modernization of the State: including reform and public sector support, financial management reform, fiscal reform, and trade policies. Another 16 percent of approved loans focused on the energy sector, including rural electrification, power distribution, and hydro power generation. The Bank also administered \$150 million in technical cooperation in 2005 on behalf of donors. More information on the Bank portfolio is available in the Bank's **Annual Report** and online.

@ [www.iadb.org/EXR/ar2004](http://www.iadb.org/EXR/ar2004)

Figure 3.1  
**Approved Loans,  
2000 to 2005 (\$ billions)**



Source: IDB data, 2005.

The IDB provides products and services that respond to the challenge of sustainable development in Latin America and the Caribbean. The Bank offers loans, technical cooperation, and a wide range of projects that focus on environmental improvement, indigenous peoples' issues, gender equality, Afro-descendants (those of African descent based on self-determination), HIV/AIDS, and disability, among others.

## Environmental Improvements

The Bank designs loans for environmental improvements in such areas as natural resource management, water and sanitation, urban environmental management, and sustainable tourism. Since 2000, the Bank's environmental lending in natural resource management and environmental conservation has amounted to 6.6 percent of total lending, some \$2.4 billion. In 2005, core environmental lending rose to \$572 million (Table 3.1). The Bank supplemented its own funding for environmental operations with \$326 million in financing from other sources (counterpart financing) in 2005 (Table 3.2). In 2005, the IDB lent Mexico \$150 million to improve potable water and sanitation in rural areas, and made a number of sizeable loans in urban environmental management, including \$140 million to Brazil to restore urban wetlands and develop solid waste disposal.

Table 3.1  
**Approved Environmental Loans, 2000 to 2005**

Year	No. of projects	Total amount (\$ millions)	Total Bank lending (\$ billions)	Share of total Bank lending (%)
2000	13	521.33	5.26	9.9
2001	14	407.65	7.85	5.2
2002	19	373.90	4.55	8.2
2003	11	402.00	6.81	5.9
2004	11	147.95	6.02	2.5
2005	15	572.46	7.15	8.0

Source: IDB Environment Division data, 2005.

Water and sanitation and urban environmental management loans accounted for more than 60 percent of the IDB's environmental lending in both 2004 and 2005. Urban environmental management projects accounted for 31 percent in 2004 and 27 percent in 2005. These projects improve environmental conditions in urban areas by reducing human and industrial impacts on the environment, provide access to environmental goods such as clean water and air, improve waste management practices, prevent and mitigate impacts of natural disasters, and enhance institutional capacity to manage the urban environment.

Environmental activity increased significantly in two areas in 2005. The IDB invested \$52.8 million in integrated natural resource management (an increase from \$12 million in 2004). Such projects generally combine institutional capacity building, watershed protection and natural resource conservation, sustainable economic activity, infrastructure development, and environmental quality controls within a single Bank operation. Some innovative schemes are generally introduced in these operations, such as participatory mechanisms to engage local communities in the natural resource management activities, or community monitoring programs to assure delivery of outputs and development effectiveness. The Bank also increased its investment in sustainable tourism in 2005, largely because of tourism's role as a driver of the economic development of coastal areas (Table 3.2).

Table 3.2

**Approved Environmental Loans by Category, 2004 and 2005 (\$ millions)**

Environmental category	IDB Investments		Leveraged investment <sup>a</sup>	
	2004	2005	2004	2005
Coastal management	12.40	-0-	2.00	-0-
Disaster risk management	-0-	31.70	-0-	5.60
Environmental policy and institutions	20.00	5.00	8.60	0.05
Renewable energy, energy efficiency, and climate change	5.00 <sup>b</sup>	-0-	-0-	-0-
Integrated natural resource management	12.00	52.80	1.22	26.10
Sustainable agriculture	-0-	48.10	-0-	12.70
Sustainable tourism	1.30	78.86	-0-	37.08
Urban environmental management	46.50	156.00	31.00	62.00
Water and sanitation	50.75	200.00	22.70	182.78
<b>Totals</b>	<b>147.95</b>	<b>572.46</b>	<b>65.52</b>	<b>326.30</b>

*a* Leveraged investment refers to financing by the borrowing country government to complement an IDB loan and/or a co-financing investment by another financial institution.

*b* Equity investment.

Source: IDB Environment Division data, 2005.



Table 3.3

**Approved Environmental Technical Cooperation Programs, 2004 and 2005 (\$)**

Category	2004	2005
Biodiversity	3,100,000	4,120,000
Coastal management	150,000	- 0-
Disaster risk management	792,545	2,743,542
Environmental policy and institutions	1,350,000	3,074,512
Integrated natural resource management	6,662,000	7,075,000
Pollution abatement	1,776,800	- 0-
Renewable energy, energy efficiency, and climate change	1,438,000	1,778,900
Sustainable agriculture	100,000	502,127
Sustainable tourism	989,780	548,000
Urban environmental management	584,380	2,889,300
Water and sanitation	4,821,874	5,415,865
<b>Totals</b>	<b>21,767,383</b>	<b>28,147,246</b>

Source: IDB Environment Division data, 2005.

In addition to loan operations, the IDB finances technical cooperation programs to address environmental issues. The total value and volume of environmental technical cooperation programs grew in 2005, from 68 grants totaling \$21.77 million in 2004 to 89 grants totaling \$28.15 million in 2005 (Table 3.3). The increase in the value of the grants was due primarily to the use of special operation funds, such as the **Global Environment Facility** (Chapter 1), which have helped boost traditional technical cooperation funding. Technical cooperations represent the Bank's growing efforts to use grants to improve the design of loans. Funding in 2005 focused on biodiversity, disaster risk management, integrated natural resource management, urban environmental management and water and sanitation projects.

## Investing in Water and Biodiversity

The IDB has traditionally invested in environmental sectors, reflecting the needs and requests of member countries. In 2005, in response to the **Blue Ribbon Panel** (Chapter 1), the Bank agreed on the importance of increasing environmental lending, particularly in *water*, a consolidated area of Bank support, as well as two emerging areas: *biodiversity* and *renewable energy-climate change* (Chapter 5). In 2006, the Bank will begin to review trends and the effectiveness of targets in these areas. It will also continue to explore ways to improve its work with the private sector to pursue opportunities and propose innovative actions to enhance the Bank's activity in these areas. A snapshot of the Bank's approach to water and biodiversity follows.

## Box 3.1

**Managing Watersheds in Costa Rica and Panama**

The Sixaola River Basin – one-fifth of which lies in Panama and four-fifths in Costa Rica – is an area of vast biodiversity importance. More than 80 percent of the basin is either a protected natural area or an indigenous reserve. The national systems of protected areas have some weaknesses, however. Some management plans are not operational, bilateral coordination was lacking in the drafting of the plans and in the environmental administrations of the two countries, and intensive agricultural activities have caused pollution. The region is one of the poorest in both countries.



The IDB approved a \$15 million loan in 2002 to improve living conditions in the watershed on the Panamanian side. Recognizing the regional nature of the issues affecting the watershed, the IDB, using grant funds, presented a proposal to prepare a bilateral initiative, which led to a request by the Costa Rican government for a similar operation. In 2005, the Bank approved an \$11 million loan to Costa Rica for a similar and complementary project. The program finances activities to reduce the exposure of the population and of their economic activities to natural risks, improve the capacity of the local management, and diversify the productive structure in a sustainable manner.

*Water*

One of the region's top social, economic, and environmental priorities is the availability of and access to clean and abundant water. While demand is growing for this resource, its supply remains constant or is diminishing in some areas. Meanwhile, water-borne diseases, increased pollution, aquifer losses, and increased conflicts among users are on the rise. The environmental services associated with water are at the top of the development and competitiveness agenda of most countries in the region, as these services support key economic activities such as tourism, agriculture, fisheries, and energy, as well as public health needs and biodiversity conservation.

The Bank continues to make the protection, treatment, provision, and management of water resources a key priority for lending and grant-making. This is reflected in projects categorized as water and sanitation, but also in the way water components have been incorporated under an integrated water resources management approach. Examples include rural and urban development programs, sustainable tourism, disaster risk management, and watershed management (Box 3.1). The Bank is supporting the formulation and implementation of integrated water resources plans and strategies in Brazil, Bolivia, Costa Rica, the Dominican Republic, Guatemala and Haiti. The Bank approved three loans dedicated to water investments totaling \$50.75 million in 2004, and two in 2005 totaling \$200 million.

In addition to loan-based operations, the Bank leverages significant funds from technical cooperations in water resource management. In 2005, technical cooperations included those focused on water management and gender issues, technical training, innovative financing of water management models applied to local governments, and governance mechanisms for integrated water resource management, among others. At its 2005 Annual Meeting, the IDB organized a seminar on water and sanitation investment needs required to meet the **Millennium Development Goals** in the region.



## *Biodiversity*

The Bank is expanding its activities to conserve protected areas, improve the management of tropical forests and curb deforestation, and support reforestation and agro-forestry programs. The IDB approved \$3.1 million for five grants in 2004 and approved a further \$4.1 million for nine grants in 2005, including a \$1.9 million Regional Public Goods Grant to coordinate and foster knowledge about regional biodiversity in the Amazon (Box 3.2). Many other IDB loans contain biodiversity components.

The Bank is developing a framework to better focus its work and expand its activity in biodiversity. A seminar held in December 2005 took a closer look at the implications of the **Millennium Ecosystem Assessment** for biodiversity in the region, particularly the important role that ecosystem services play.



### Box 3.2

#### **Protecting Biodiversity in the Amazon**

The management of biodiversity in the Amazon Basin for sustainable use has been strengthened by a \$1.9 million grant made in 2005 by the IDB's Regional Public Goods Fund. Established in 2004, the Fund finances programs which address opportunities or problems shared by countries in the region which can be dealt with more effectively at a regional level through international cooperation in the production of public goods.

This operation is being carried out in coordination with the eight countries that make up the Treaty for Amazonian Cooperation: Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Suriname, and Venezuela. This will help create and strengthen mechanisms and conditions for regional institutional management to generate data for shared use, facilitate procedures for concerted action, and foster joint actions to encourage regional private and public investment, promoting the sustainability of Amazonian biodiversity.

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## Integrating Environment into Infrastructure and Social Operations

In addition to its investment in traditional environmental sectors (\$148 million in 2004 and \$572 million in 2005), IDB also finances environmental components in “nonenvironmental” loans to the public sector. Such environmental components totaled approximately \$206 million in 2004 and \$63 million in 2005. Countries or counterparts supplemented this with another \$77.8 million for environmental components in 2005 (Table 3.4). This investment reflects the Bank’s vision of the environment as a cross-cutting issue that should be integrated into traditional sectors of Bank activity that go far beyond the traditional environment areas. The decentralized structure of the Bank facilitates this, as environmental specialists work in a wide range of sectors. In 2004 and 2005, sectors where environmental components were incorporated in nonenvironmental loans included urban development, transportation, energy and industry, rural development, and health.

Most environmental components in nonenvironmental operations finance activities that mainstream the environment into traditional sectors. Mainstreaming is carried out primarily through such activities as addressing water and sanitation needs, building environmental capacity through training and resources, improving environmental sustainability of agriculture and other productive sectors, or including biodiversity or reforestation components in infrastructure projects. Investments include mitigation and safeguarding activities such as environmental impact evaluation, environmental auditing, environmental monitoring and supervision, and impact mitigation and compensation measures required in the environmental and social management plans (Box 3.3).

Table 3.4  
**Environmental Investments, 2004 and 2005 (\$ millions)**

	2004		2005	
	IDB investment	Leveraged financing <sup>a</sup>	IDB investment	Leveraged financing <sup>a</sup>
Environmental loans <sup>b</sup>	147.95	65.52	572.46	326.30
Environmental components in nonenvironmental loans	206.14	n.a.	62.79	77.80

n.a. - Not available.

a Leveraged investment refers to financing by the borrowing country government to complement an IDB loan and/or a co-financing investment by another financial institution.

b See categories in Table 3.2.

Source: IDB Environment Division data, 2005.

### Box 3.3

#### Mainstreaming Environmental Sustainability in a Large-scale Infrastructure Project in Venezuela

The protection and sustainable management of Venezuela's Caroní River watershed is linked to the long-term viability of the hydroelectric complex on the Lower Caroní. Recognizing this, the Government of Venezuela requested two separate but complementary loans from the IDB. The first, approved in 2005, provided \$750 million to a further \$2.3 billion investment by the Venezuelan government to complete the Tocoma Hydroelectric Project. The second, also approved in 2005, provided \$14 million (with an additional \$6 million by the Venezuelan government) to begin implementing an integrated water management plan for the Caroní River watershed.

The Bank has been involved in the development of the hydroelectric potential of the Lower Caroní River since 1984. The power plant now under construction will be the last of a series of Bank-financed hydroelectric development projects in the river basin. The energy produced will replace thermoelectric generation, reducing the use of nonrenewable resources while cutting operational costs. The project will help boost productivity and economic growth in Venezuela's nonoil and oil sectors. The Venezuelan government will dedicate \$38 million to implementing an Environmental and Social Management Plan for the project. This includes prevention, mitigation and compensation measures, as well as the monitoring and auditing of social and environmental impacts. Noteworthy is the establishment of a protection area of approximately 16,000 hectares, the reintroduction of fauna in the protection area, the ecological re-vegetation of the banks of the reservoir, and the recovery of all areas spoiled or affected during construction.

The second loan is based on an integrated watershed management plan prepared for the Caroní River Basin. It will support efforts to establish an institutional framework to manage the basin, and tools to address public consultations. The plan will also support the identification and solution of environmental and sociocultural problems related to development in the basin. This includes, for example, components that support vulnerable communities (including land titling, education and health programs) as well as the provision of technical programs for affected indigenous groups (agriculture, ecotourism, and sustainable agroforestry management).

## Targeting Social Sustainability

Sustainable development implies many complex social concerns, stretching from the goal of meeting the material and immaterial needs of present generations, to involving all people in making decisions about the trade-offs that are part of sustainable human progress and in equably sharing the benefits of that progress. When the IDB speaks of issues of “social sustainability,” it is referring to the social concerns associated with a project and the social “additionalities” that have been or should be included in a project. As part of its commitment to sustainable development, the IDB helps identify opportunities for enhancing the social value of projects. It also works to identify and manage social impacts associated with a project and to ensure that normally excluded groups help plan and share in the benefits of projects affecting them.

In consultation with the countries of the region, the IDB helps identify and promote new opportunities for projects that will accelerate economic growth and improve the well-being of people. The Bank assists in priority issues for women and indigenous groups and supports efforts in the areas of early childhood development, health, labor markets, youth participation, violence prevention and control, and the formulation of social policy. In this context, the Bank plays an important role in helping borrowing countries adapt and implement an agenda to meet the **Millennium Development Goals**.

The IDB also channels special donor funding (technical cooperation) to support social sustainability. The multi-donor **Social Inclusion Trust Fund** was established in 2003 to support small-scale initiatives serving five main target groups: indigenous peoples, Afro-descendants, people with disabilities, people with HIV/AIDS, and women.  
@ [www.iadb.org/sds/SOC/site\\_5594\\_e.htm](http://www.iadb.org/sds/SOC/site_5594_e.htm)

### *Promoting Gender Equality*

The Bank invests in gender equality and the empowerment of women through both loans and technical cooperation programs. While no loan operations approved during 2004 and 2005 were exclusively dedicated to addressing gender issues, nine loans (13 percent of all projects approved, with a total value of \$572 million) mainstreamed gender specific actions into their designs. The Bank also approved 28 technical cooperation programs that directly address gender issues, investing approximately \$2.7 million. In addition, the Bank approved a further 37 technical cooperation programs, with a total value of \$5.5 million, that integrate gender issues into the project or that include women as one of the main project beneficiaries (Table 3.5).

Table 3.5  
**Approved Technical Cooperations focusing on the Promotion of Gender Equality and Women’s Empowerment, 2004 and 2005**

Year	Gender-specific technical cooperations (number of operations)	Investment (\$)	Technical cooperations with gender issues mainstreamed (number of operations)
2004	12	961,600	10
2005	16	1,748,100	27

Source: IDB Gender Unit Report to the Board of Executive Directors 2003-2005.

### Box 3.4

#### Reducing Gender Inequality and Enhancing Opportunity in Honduras

The Honduras Comprehensive Social Safety Net program encourages poor families, with some 22,000 children, in 70 of the country's poorest municipalities to participate in their own development. Demand-side incentives are extended in the form of conditional cash transfers for: greater use of health services, consumption of more nutritious foods, and increasing primary school enrollment and completion of girls and boys. Transfers are delivered directly to mothers, contributing to their empowerment by giving them control over resources and increasing their bargaining power in family decisions, and in recognition of their key involvement with family development, and the well-documented fact that resources controlled by women are more likely to positively impact children's health, nutrition, and education.



Supply-side incentives are facilitated by providing conditional cash transfers and capacity building to local organizations to improve the quality and maintenance of social services and infrastructure. The program also provides education for mothers and fathers in family planning, HIV/AIDS prevention, child health, parenting skills, and domestic violence prevention.

All public sector lending operations are classified annually to determine their level of gender mainstreaming. The Gender Mainstreaming Rating Criteria is a five-level scale used to assess gender mainstreaming in four specific aspects of each operation: problem identification and social assessment; project objectives and components; measures for project execution; and indicators for monitoring and evaluation. The nine loans reported in this document, mainly social sector projects, were classified at the two highest levels: best practice and significant gender mainstreaming, for their relevant incorporation of gender analysis and gender-specific actions (Box 3.4).

#### *Investing in Indigenous Peoples' Development*

People of indigenous origin in the region are disproportionately poor, making up more than a quarter of the total poor, but only 10 percent of the total population. In Bolivia, Ecuador, Guatemala, and Peru indigenous peoples account for at least half of the population. Despite large-scale migration to urban areas, 60 to 70 percent of indigenous peoples live in rural areas, where they account for 50 to 60 percent of the poor in Latin America.

The Bank works to ensure the systematic inclusion of indigenous issues in its policies and projects and the sociocultural appropriateness of Bank operations, mainly those related to poverty reduction and social equity. The IDB makes its most significant investment in operations dedicated wholly to indigenous peoples through the use of technical cooperations. In 2004 and 2005, the IDB approved 24 technical cooperations, leveraging a total \$2.2 million. The Bank approved a further 17 Technical cooperations that contained nonquantifiable components directed at indigenous peoples in 2004, and 10 in 2005 (Table 3.6).

While no loan operations approved during 2004 were exclusively dedicated to addressing indigenous people, five loans included components that mainstreamed indigenous peoples issues. In addition, the Bank approved a \$5 million GEF-WB-IADB co-financed special investment project for integrated indigenous ecosystem management for seven countries in Central America (Box 3.5). In 2005, the IDB approved a \$10.8 million loan to improve land tenure information in Brazil that contained components targeting indigenous peoples land ownership issues. The Bank made a second loan of \$11.1 million in 2005 to help improve the quality of life of the indigenous population of Honduras.





Table 3.6

### Approved Technical Cooperations focusing on Indigenous Peoples, 2004 and 2005

Year	Indigenous peoples technical cooperations (number of operations)	Investment (\$)	Technical cooperations with indigenous peoples mainstreamed (number of operations)
2004	13	934,633	17
2005	11	1,283,200	10

Source: IDB Indigenous Peoples Unit data, 2005.

#### Box 3.5

#### Traditional Knowledge as a Tool to Further Land Sustainability

A 2004 GEF-WB-IADB co-financed a special investment project for integrated indigenous ecosystem management in Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama which uses an innovative cultural land use analysis (CLAN) methodology developed by the Bank to assure land use sustainability in indigenous territories in Central America. The methodology builds upon traditional knowledge and customary law to identify culture-based land use categories in the field, assess their sustainability and design community defined interventions to further land use sustainability. Land management plans so designed can be enforced by indigenous traditional authorities through in-laws based on customary law.





## Targeting Socially Excluded Groups

Social exclusion affects an individual's opportunity to find good work, decent housing, adequate health care, quality education, and safe and secure living conditions. It also affects an individual's treatment by the legal and criminal justice systems. There is a high correlation between poverty and social exclusion. Even when not the majority of the poor, the excluded typically constitute the poorest. These trends make clear that poverty will not ultimately be reduced in the region without addressing the complex determinants of social exclusion. Traditionally excluded groups on which the IDB has focused include people with HIV/AIDS, people with disabilities, Afro-descendants and youth.

### People Living with HIV/AIDS

Some 2.4 million people are living with HIV/AIDS in Latin America and the Caribbean, and approximately 500,000 are infected every year. The face of the disease is changing and is increasingly becoming female, young, and poor. Responding to this challenge, the Bank, in 2004, developed a set of **Guidelines for HIV/AIDS and Reproductive Health Projects** for the region. Also in 2004, **the Social Inclusion Fund** approved a technical cooperation to sensitize people to gender issues in HIV/AIDS prevention programs in Jamaica, as well as a \$565,000 Caribbean regional program in support of building capacities in the education sector in partnership with UNESCO and CARICOM. In 2005, the Bank approved over \$1 million in technical cooperations in response to the HIV/AIDS challenge, including US\$750,000 to support a national strategic plan for HIV/AIDS in Suriname, and US\$150,000 for a regional capacity building effort for improved financial response to HIV/AIDS through the introduction of National AIDS Accounts. In addition, the Bank is represented in the Global Fund for AIDS, advising the region on global AIDS policy and leading efforts in the Fund's portfolio for the region. Recognizing the magnitude of the challenge that HIV/AIDS poses to the region, the IDB is working to increase its activity in this field in coming years.

### People with Disabilities

Up to 15 percent of the region's population live with a disability. Stigmas and physical barriers to the inclusion of people with disabilities (PWD) are common, and discrimination is often compounded by factors of gender, race, and ethnicity. Efforts to assist people with disabilities have been severely hampered by lack of data characterizing the prevalence and socioeconomic conditions of PWD. In 2004 and 2005, the Bank approved four regional technical cooperations totaling \$374,600 to improve the collection, analysis, and availability of disability data for the entire region. Studies are underway to assess the economic contribution of PWD to household incomes. The Bank has mainstreamed accessibility standards in its portfolio of transport, infrastructure, and urban design projects. It is implementing pilot projects in support of developing policies to better include people with disabilities in the education system and the labor market. Steps are also taken to build local capacities in disabled peoples organizations and give voice to people with disability in the region.



## Afro-descendants

Afro-descendants are often considered among the most “invisible” of disadvantaged peoples. Yet nearly one-third of the population of Latin America and the Caribbean is descended from African forbearers. Afro-descendants have a strong presence in Brazil, Colombia, Venezuela, Panama, Honduras, Nicaragua, and Ecuador, but are notably absent from positions of political and economic power. In any given set of socioeconomic indicators of well-being, Afro-descendants tend to rank disproportionately low compared to other ethnic/racial groups.

Over the past decade the IDB has carried out a series of actions to better promote the inclusion of Afro-descendants in the region. Between 2002 and 2005, the Bank approved eight projects (totaling \$225 million) that primarily benefited Afro-descendent populations. Some noteworthy examples are a Poverty Reduction Program in Honduras for Indigenous peoples and Afro-descendants, a technical cooperation grant in Nicaragua to increase information gathering on Afro-descendent and indigenous peoples, and a small project aimed at strengthening a coca production value chain in Afro-Ecuadorian communities. The **Social Inclusion Trust Fund** disbursed 13 small grants to strengthen capacity in Afro-descendant institutions and research on relevant topics.

## Encouraging Youth Development and Participation in Sustainable Development

More than four out ten people in Latin American and the Caribbean are under the age of 30. Most of this population is poor; 21 million young people live in extreme poverty. The state of the region’s youth thus has significant implications for economies, governments, and communities. The IDB recognizes that efforts to reduce poverty, unemployment, health crises, and social and economic divides must not only address young people’s needs, but engage youth as active partners in achieving sustainable development.

Since 2004, the Bank has invested over \$100 million in nine projects designed to directly support youth, and has trained hundreds of youth leaders. For example, the **IDB YOUTH Program** (Chapter 1) – which operates in partnership between IDB, MIF, and the **Inter-American Institute on Social Development (INDES)** – works directly with youth. Through holistic initiatives, the IDB aims to create enabling environments where youth can become productive, healthy, and contributing members of society.

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## Linking Sustainability with Poverty Reduction and the Promotion of Social Equity

The 1987 report of the World Commission on Environment and Development, which defined and popularized the concept of sustainable development, argued that *"inequality is the planet's main 'environmental' problem; it is also its main 'development' problem."* Reducing poverty and inequality is one of the greatest challenges facing Latin America and the Caribbean. National governments, international institutions, and donors are focused on addressing this challenge, but their efforts have often given limited attention to the many links between healthy ecosystems and sustainable livelihoods.

Many of the poor live in remote areas and depend directly on natural resources for daily necessities. Degrading the ecosystem degrades their livelihoods. The urban poor often live in areas of high environmental danger: pollution, traffic, vehicle exhaust, bad water, and disease vectors. Conversely, empowering the poor to help them better manage their environments and including traditionally excluded groups in decision-making over their environments, make livelihoods more secure and help reduce poverty. Economic growth must be environmentally sustainable, and environmentally sustainable economic growth is the only way to alleviate poverty over the long term.

The IDB understands that sustainable development cannot be achieved without reducing poverty and inequality, and thus the Bank must identify ways of promoting both poverty reduction and sustainability outcomes. Accordingly, the Bank has an institutional commitment to assist the region to reduce poverty and inequality, while recognizing the importance of reduction in efforts toward sustainable development.

This commitment stems from priorities adopted by the Board of Governors during the **Eighth General Increase in Resources** in 1994, which redirected the Bank's portfolio toward poverty reduction and social equity promotion by setting the cumulative goals of more than 50 percent of the amount and 40 percent of the number of regular loans approved by the Bank to be oriented to social equity enhancement. The Bank also started monitoring the portfolio share of investment loans that are specifically targeted to the poor, the progress and impact of which is reported annually as part of the **Poverty Reduction and Promotion of Social Equity Report** (Box 3.6).

The Bank's new **Strategy on Poverty Reduction and Social Equity Promotion** was approved by the Board of Executive Directors in 2003. It adopts poverty reduction and social equity promotion as one of the two overarching goals of the Bank, together with the generation of sustainable growth. The strategy adopts a multi-dimensional vision of poverty that comprises several interrelated aspects of well-being and recognizes that progress along several fronts is required to overcome it. Reducing poverty requires sustainable economic growth, macroeconomic stability, and democratic governance, as well as targeted activities such as creating productive opportunities for the poor and excluded populations; providing better access to physical and social infrastructure; establishing comprehensive social protection systems and dealing with social ills that disproportionately affect the quality of life



## Box 3.6

## Annual Poverty Reports

The Bank's poverty reduction activities and the promotion of social equity are described in detail in its annual poverty report. This report provides an update of poverty indicators in the region, and trends in Bank lending to support the implementation of its institutional strategy and achieve its targets, as well as a summary of the Bank's nonfinancial activities. In accordance with the recommendations of the Bank's Board of Executive Directors, the report also presents the results of rigorous evaluations of the impacts of the Bank's poverty reduction programs every two years. The value of Social Equity Promotion (SEQ) loans approved between 1994 and 2004 was the equivalent of 50.4 percent of the total value of regular loans approved by the Bank in that period, higher than the target of 40 percent established in the Eighth General Increase in Resources. The number of SEQ loans approved in the period 1994 to 2003 represented 48.2 percent of total loans, slightly below the targeted 50 percent. With regard to the evaluation of the impact of Bank's programs, the Bank has included impact evaluations in 45 out of 229 (19.7 percent) SEQ projects between 1999 and 2004. These show that the Bank's programs have had a mainly positive effect in poverty reduction and social equity promotion. Evaluations have proved useful not only for measuring impact, but also in identifying program weaknesses and leading to changes to increase their effectiveness. Results of the evaluations were later incorporated in project design in order to achieve better results. In several cases, program improvements were associated with design changes toward more comprehensive multi-sector approaches.

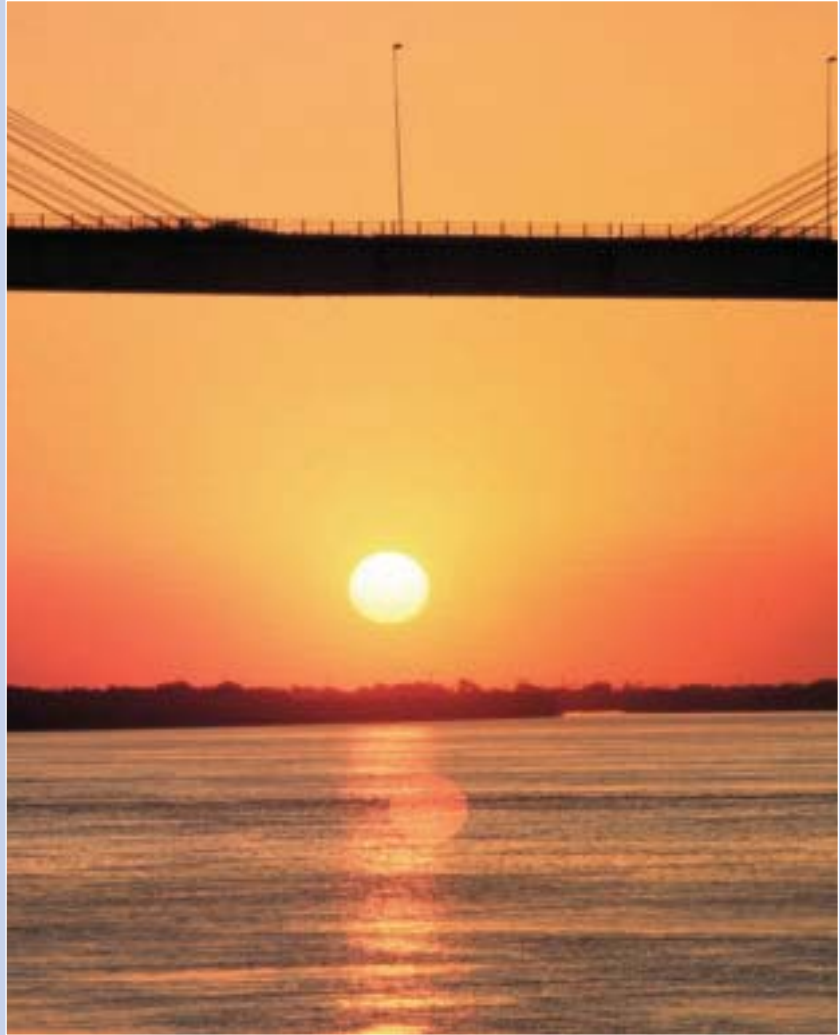
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of the poor; eliminating the social barriers that leave ethnic groups and women at a disadvantage; and promoting a more efficient and effective State that is more inclusive and sensitive to the needs of the poor, more accountable, and better recognizes the human rights of the poor. Likewise, a successful poverty reduction strategy requires that environmental sustainability be taken into account. @ [www.iadb.org/sds/doc/PovertyReductionStrat.pdf](http://www.iadb.org/sds/doc/PovertyReductionStrat.pdf)

The Bank promotes poverty reduction and social equity through four lines of activity: support for the countries' poverty reduction strategies; loans to finance projects for poverty reduction; knowledge management to improve the design and implementation of poverty reduction policies; and monitoring living conditions in the region. The cause-and-effect relationship between poverty and the environment is taken into account in all these activities; the environmental factors that directly affect the quality of life of the rural and urban poor are also considered.





*"Increasingly, society is defining economic development not only in terms of the financial bottom line, but also in terms of impact on people and the planet. Especially for the more challenging projects, IDB has an important role to play to ensure projects are being managed to responsibly mitigate environmental and social impacts. By providing comfort to private financiers that related credit and reputation risks are being adequately addressed, IDB's involvement acts as an important catalyst in mobilizing private sector funding for the region."*

Madeleine Jacobs, Head of Group Sustainability, ABN AMRO, 2005

# Responsible Investments, Performance and Sustainability

## WORKING WITH THE PRIVATE SECTOR TO PROMOTE SUSTAINABILITY

The Bank's investments in the private sector aim to maximize the positive environmental and social impacts or benefits of projects. These investments produce direct benefits such as increased employment, economic development, and improved environmental conditions, as well as indirect benefits from clients' community investment programs. The Bank delivers these positive benefits through a number of mechanisms including the Private Sector Department of the IDB, which finances large-scale infrastructure projects (including water supply and sanitation and renewable energy), capital markets and trade finance; and the Multilateral Investment Fund, which focuses on development assistance to small and medium enterprises in the region. The Bank is engaging the private sector through socially and environmentally minded approaches such as corporate social responsibility.

### Helping Private Sector Clients Manage Environmental and Social Sustainability

The IDB helps private sector clients manage environmental, social, and health and safety aspects of their operations; it also promotes information disclosure, stakeholder involvement, and transparency, and has developed various types of guidance documents to assist the private sector in environmental and social impact and risk management (@ [www.iadb.org/pri/environmental.cfm](http://www.iadb.org/pri/environmental.cfm)). This proactive participation results in significant benefits for clients and other financial investors in the project, while improving protection of environmental and social resources and helping establish environmentally and socially viable and sustainable projects. The Bank is also working on innovative forms to address private sector project issues, such as creating more public-private partnerships to assist governments in fulfilling their environmental, social, and health and safety responsibilities (Box 4.1).

## Box 4.1

### The Camisea Project in Peru

The Camisea Project is enabling Peru to become one of the few countries in Latin America able to meet its own internal energy needs. However, the project presents significant challenges due to the area's rich biological diversity and the presence of indigenous populations.

The Camisea Project includes three separate project components managed by three different companies: upstream, consisting of the exploitation of the gas deposit, processing facilities at Las Malvinas, 431 kilometers east of Lima, and a fractionation plant and marine terminal for natural gas liquids on the Pacific coast south of Pisco; downstream, which includes 714 kilometers of a natural gas pipeline from Las Malvinas, over the Andes, to Lima, and a separate 540-kilometer natural gas liquids pipeline between Las Malvinas to Pisco; and distribution, consisting of gas distribution in Lima and Callao. The total project cost is approximately \$1.6 billion.

#### *The IDB's Involvement*

The IDB provided a \$75 million loan to Transportadora de Gas del Perú (TGP) to help finance a portion of the distribution component; and a \$5 million loan to the Government of Peru (GOP) to strengthen its capacity to supervise, monitor and inspect the project's environmental and social aspects and create mechanisms for sustainable and balanced development.

Although the IDB has helped to finance only the downstream component, which represents only about 8 percent of the project's cost, the Bank is bringing its expertise and commitment to environmental and social sustainability to bear on all project components. The IDB has established extensive contractually bound environmental and social safeguards with both the downstream and upstream components, including project design aspects to minimize impacts and risks and various detailed mitigation and monitoring plans

which were reviewed by numerous experts and civil society. Failure to meet IDB environmental and social requirements could lead to financial remedies, such as declaring the loan to be due and payable, or enforcement of all or any part of the security.

The IDB has worked to increase stakeholder involvement in the project. It held 13 public meetings in the project area and one in Washington, D.C. during the Bank's due-diligence, and plans to hold semi-annual public meetings until the end of the IDB loan. These actions are in addition to those of the project companies and governmental agencies, which have included over 400 consultations.

#### *The Government of Peru's Commitment*

The GOP, working with the IDB, established a series of formal commitments for dealing with direct, indirect and cumulative environmental and social impacts and risks associated with Camisea. These actions have resulted in pipeline right-of-way migration control, a management plan for the Lower Urubamba area, increased protection for the Nahua-Kugapakori indigenous area, and actions to enhance the GOP's environmental and social legislation and guidance related to future gas development in the area of Camisea Project. Financial and technical support to fulfill these commitments is provided as part of the IDB loan to the GOP.

#### *Supervision*

Supervision and monitoring to ensure fulfillment of the various requirements is being carried out by GOP agencies, independent environmental consultants reporting to the IDB, and community and civil society groups. A Camisea Project Ombudsman has been created and the "Defensoría del Pueblo" has been strengthened to respond to stakeholder concerns. Supervision results are made available to project stakeholders.



### *Environmental and Social Results*

Project construction has been completed and operations commenced in August 2004. Potentially major negative environmental and social impacts associated with construction activities have been avoided. Erosion control and revegetation have been successfully carried out along the pipeline pathway despite difficult terrain. Dredging and underground pipeline installation in Paracas Bay associated with the marine terminal has been taken place with minimal impact. Programs to compensate local communities have been effective, and there has been ample opportunity for stakeholder input.

As Camisea moves into the future, the IDB has identified some issues that require special attention. Of special importance are continued enhancements of environmental and social operational management systems, including staff training. Additionally, all issues associated with the recent five spills must be adequately resolved, including the necessary remediation, actions to help minimize future spills, and enhancements to spill response procedures. The IDB continues to work with the GOP in relation to their various commitments and with civil society to better satisfy their needs related to project supervision. Any future activities in the Nahua-Kugapakori reserve will take into consideration the experiences learned. The IDB continues to proactively work with relevant stakeholders to address these and other issues as they arise.

The Camisea project also has resulted in ancillary benefits, such as the reduction in air pollution in urban areas (due to the availability of natural gas). Also the GOP created four protected areas:

Otishi National Park, Ashaninka and Machiguenga Communal Reserves, and Megatoni Sanctuary, and various public and

private initiatives to help restore Paracas Bay have been carried out. In addition, the GOP has used resources from the IDB-financed Program for Land Titling to complement TGP's land titling activities along the right-of-way to benefit present residents and help to reduce the potential for migration into these areas.

### *Lessons Learned*

The IDB's experience with the Camisea Project also provides important lessons that will benefit the Bank, and other financial institutions, when financing future large infrastructure projects of this nature. Lessons include the importance of pre-construction planning for erosion control associated with pipeline construction and for works in sensitive environments and indigenous reserves, in particular to improve acceptance by stakeholders; challenges involved with creating credible and effective supervisory systems to serve the needs of various stakeholders for complex projects with extensive information and general lack of trust among stakeholders; importance of worker health and safety training during the early stages of pipeline construction; and the need for an effective communication strategy on environmental and social issues.

Further information on Camisea is available @ [www.camisea.com.pe/](http://www.camisea.com.pe/) ; [www.iadb.org/exr/pic/camisea/camisea.cfm](http://www.iadb.org/exr/pic/camisea/camisea.cfm) ; and [www.camisea-gtci.gob.pe/](http://www.camisea-gtci.gob.pe/)

Table 4.1

**Private Sector Investment in Environmental, Social, and Health and Safety Aspects, 2004 and 2005**

	Project Type	Number of Projects	Total Project Cost (\$)	Total IDB Loan or Guaranty (\$)	Total Project Cost for Environment, Social and H&S Management (\$)*
2004	Infrastructure Projects	3	871,400,000	174,000,000	33,902,400
	Capital Markets	5	1,525,000,000	245,000,000	50,000
	Trade Finance Loans	2	110,000,000	37,500,000	15,000
	<b>Totals</b>	<b>10</b>	<b>2,506,400,000</b>	<b>456,500,000</b>	<b>33,967,400</b>
2005	Infrastructure Projects	4	1,722,000,000	253,000,000	58,600,000
	Capital Markets	1	300,000,000	75,000,000	5,000
	Trade Finance Loans	2	220,000,000	85,000,000	5,000
	Regional Trade Facilitation Program	10	270,000,000	270,000,000	95,000
	<b>Totals</b>	<b>17</b>	<b>2,512,000,000</b>	<b>683,000,000</b>	<b>58,705,000</b>

Source: IDB Private Sector Department data, 2005.

\* Approximation

In the last decade the IDB has promoted an increasing reliance on the private sector and supported far-reaching reforms in the supply of the infrastructure services needed for national economic growth, as the region's governments seek to make their economies more efficient and competitive in a global economy. Since 1995, the Bank has had the authority to lend up to 10 percent of its resources directly to the private sector, without government guarantees. The IDB works in partnership with commercial banks, institutional investors, co-guarantors, and other co-lenders to provide private sector companies with the financing needed to meet the region's growing demand for infrastructure and enhanced financial markets and trade finance capacity.

During 2004, the Bank approved financing for 10 private sector projects, totaling \$456 million. Approximately \$34 million of the total project cost was invested in environment, social and health and safety management components associated with these projects (Table 4.1). In addition, in 2004 the Bank approved a guarantee program of up to \$400 million for the establishment of the Regional Trade Finance Facilitation Program under which partial credit guarantees may be issued to local banks on trade-related transactions. Individual guarantees were issued under this program, beginning in 2005.

During 2005, the Bank approved financing for 17 private sector projects, totaling \$683 million. Of such operations, ten were trade finance guarantees made under the regional trade finance facilitation program, three were direct infrastructure investments and one a guarantee for infrastructure; two were for capital market operations and one was a regional trade finance loan facility. Approximately \$58 million of the total project cost was invested in environment, social and health and safety management components associated with these projects (Table 4.1).

Three technical cooperation private sector projects were approved in 2004 targeting private sector environmental issues, totaling \$198,000. Another five were approved in 2005, amounting to \$600,000.



## Working through the Multilateral Investment Fund

The **Multilateral Investment Fund** (MIF), launched in 1993 as part of the Inter-American Development Bank Group, aims to promote broad-based growth and improve economic prospects for those less able to benefit from market reforms in the region. Using both grant and investment mechanisms, the MIF undertakes projects in partnership with business groups, NGOs, and public sector entities to improve the capabilities and skills of the workforce, broaden the economic participation of smaller enterprises, and strengthen the conditions for doing business (Box 4.2).

In 2000, the MIF launched an **Environmental Strategy** that specified areas that the MIF could support related to the environment. Chief among these areas are clean energy, cleaner production and environmental management (Tables 4.2 and 4.3). MIF has supported many projects in these areas which strive to improve the productivity of small enterprises, allowing them to achieve more with fewer inputs and thus reduce their level of emissions and use of natural resources (Box 4.3).

The MIF has recently become active in the area of sustainable tourism. Projects increase the competitiveness of locally-owned small and medium enterprises in the sector, to contribute to the sustainable development of tourism. Another recent effort has been in corporate social responsibility (Table 4.3).

The MIF helps to support some 45 different financial intermediaries such as banks and credit unions that in turn provide financing through a variety of financial instruments. The MIF requires that these financial intermediaries conduct the operations and investments with MIF in accordance with its **Environmental and Social Guidelines** (@ [www.iadb.org/mif/v2/envsocialguidelines.html](http://www.iadb.org/mif/v2/envsocialguidelines.html)). Financial intermediaries use this criteria in the due diligence process to help identify and eliminate potentially harmful deals from consideration. All deals must meet social

### Box 4.2

#### Working with NGO Partners

The EcoEnterprises Fund provides financing to environmentally and socially responsible businesses in Latin America and the Caribbean. It includes an investment fund of over \$5.2 million that provides venture financing to profitable businesses involved in sustainable agriculture (including organic, apiculture, and aquaculture), nontimber forest products, sustainable forestry, and ecotourism. The Fund also includes limited technical assistance funds to provide business advisory services to prospective clients. The Multilateral Investment Fund and The Nature Conservancy are the anchor investors in the Fund, providing both capital and grant resources.

The Fund has provided financing to 14 companies operating in eight countries and across multiple sectors. Each investee company maintains links to local nonprofit environmental or community organizations. Preference is given to environmental entrepreneurs who are unable to secure financing from conventional sources due to the small size of their companies, the innovative nature of their businesses, and/or the financial risks involved.

@ [www.ecoenterprisesfund.com/](http://www.ecoenterprisesfund.com/)

eligibility criteria, such as compliance with fair labor standards, worker health and safety provisions, and equitable access to employment. Representatives of the financial intermediaries must participate in a MIF/IDB-approved training course on environmental and social review and develop a manual for investments with MIF for the use of every officer when performing the due diligence on potential investee companies.

## Promoting Corporate Social Responsibility

Corporate social responsibility (CSR) is the umbrella concept under which companies define and work to fulfill their responsibilities to all of their stakeholders and to the planet and its inhabitants. An increasing number of companies in the Americas are voluntarily carrying out activities to improve the living conditions of their communities. These firms demonstrate social responsibility by creating value for their stakeholders, including shareholders, employees, customers, suppliers, public authorities, NGOs, and surrounding communities. Many issue regular CSR or sustainability reports on their efforts.

The IDB views CSR as a competitiveness tool that can help enterprises improve market access and enhance productivity. It promotes CSR in a number of ways, including conferences, research, technical assistance, and financial support.

In 2004 and 2005, the IDB Group participated in seminars in Bolivia, Colombia, the Dominican Republic, El Salvador, and Honduras to increase awareness of CSR and show how it can improve competitiveness. International experiences and the case for CSR for micro, small, and medium enterprises (MSMEs) were also covered. The IDB has the primary responsibility for organizing the annual **Inter-American Conference on CSR**, which aims to develop a more responsible private sector in the region. The third such conference, entitled “*Who is Responsible for Responsibility?*,” was held in Santiago, Chile in 2005 and attracted more than 400 participants from the public and private sectors, civil society, academia, multilaterals, and the media.

@ [www.iadb.org/csramericas](http://www.iadb.org/csramericas)

Table 4.2  
**MIF Equity Investments in Environment-focused SME Investment Funds, 1996 - 2005**

Type	Number of Funds	Total MIF Investments (\$)
Clean energy focused	4	27,279,500
Sustainable products and services	3	12,100,000
<b>Totals</b>	<b>7</b>	<b>39,379,500</b>

Source: MIF data, 2005.

Table 4.3  
**MIF Grant Support to Sustainability Related Projects, 2004 and 2005**

Type	Number of Projects	Total MIF Support (\$)
Cleaner production	6	2,726,000
Corporate social responsibility	4	4,139,450
Sustainable tourism	11	15,419,559
<b>Totals</b>	<b>21</b>	<b>22,285,009</b>

Source: MIF data, 2005.

In 2004, the IDB organized the first in a series of seminars on CSR for its Board of Executive Directors and management. It has also created working groups to enhance social and environmental responsibility in project procurement and resource consumption, as well as to prepare guidelines for integrating corporate governance and corporate social responsibility into IDB private sector projects.

IDB research on CSR focuses on MSMEs, the business case for CSR, and the impacts of CSR on reducing poverty and meeting the **Millennium Development Goals**.

## Box 4.3

**Encouraging Environmental Management for Small and Medium Enterprises**

Flora Nova is a small family nursery in Colombia that mostly exports roses. Flora Nova is one of the more than 500 small and medium enterprises (SMEs) that have benefited from the Environmental Management+Productivity project (EM+P, or GA+P in Spanish) to improve the productivity and competitiveness of SMEs in Colombia through the use of cleaner production techniques. The project is managed by the Corporation for Socioeconomic and Technological Research (CINSET), with financial support from the MIF.

Flora Nova was chosen as an early candidate for the program because new regulations required it to reduce water use. With assistance from CINSET, Flora Nova implemented measures to conserve water use on the farm, including re-using treated domestic wastewater for flowers. A solid waste selection, collection, and disposal program was also implemented. Flora Nova thus demonstrated that minimizing environmental impact through good environmental practices such as reuse and recycling can yield economic benefits.

On the operational side, the IDB and the MIF approved several CSR-related projects on institutional strengthening, local capacity building, and support for MSMEs in responsible supply chains in Brazil, Colombia, El Salvador, Mexico, and Paraguay (Box 4.4). The MIF developed a CSR project in Chile that included the development of a CSR-based management system tested in three pilot groups of five SMEs each in the wine, fruit and manufacturing sectors; local consultants were trained in this CSR methodology, and CSR programs were implemented in 75 SMEs. A regional project developed a CSR manual for business managers, with more than 150 company executives participating in workshops on the manual; 70 local consultants were trained, as well as 60 SME participants. A manual on the management of CSR organizations was disseminated to more than 19 different CSR groups.

## Box 4.4

**Promoting CSR through Micro-enterprise Development**

Synergy is an IDB pilot initiative that promotes social responsibility through public-private partnerships among medium and large enterprises and micro and small enterprises. These micro and small enterprises must be potential clients, suppliers, or distributors.

The first Synergy facility was approved in 2003 in El Salvador. The Bank can contribute up to \$500,000 to the overall initiative; the minimum amount per project is \$50,000, and the maximum is \$200,000. The Bank can finance up to half the total amount required by each project, provided that the enterprise contributes the other half. Five projects are in execution, totaling \$363,000. Among projects being co-financed are support for a paper recycling cooperative and an eco-tourism park in a geothermal power plant.



*"The specter of climate change and proliferation of natural disasters, among other phenomena, affect the countries, industries and social groups in our region asymmetrically, in some cases threatening to worsen our already pronounced inequality indexes."*

President Luis Alberto Moreno's Inaugural Speech, October 3rd, 2005.

# Responsible Investments, Performance and Sustainability

## FOCUS ON NEW INITIATIVES

Each year's sustainability review will focus on special areas of concentration for the Bank. This first review focuses on two issues: mitigating greenhouse gases and promoting sustainable energy, and reducing the risks of natural disasters. 2006 will be an important year for the IDB in the area of tackling climate change, as it implements its Action Plan for Promoting Sustainable Energy and Mitigating Greenhouse Gases. 2006 will also see the Bank finalizing a new policy on Disaster Risk Management that will position the IDB to assist its borrowing members meet the increasing challenges to social development and economic growth of natural hazards.

### Mitigating Greenhouse Gases and Promoting Sustainable Energy

Greenhouse gases (GHG) are thought to cause climate change by trapping increasing amounts of solar radiation as heat in the earth's atmosphere. Decreasing GHG emissions can provide a variety of environmental, social, and economic benefits to Latin America and the Caribbean. GHG emissions can be reduced by making existing energy uses more efficient, using new and renewable forms of energy, and through other activities such as reforestation and improving solid waste landfill management. Countries that voluntarily reduce GHG can gain "emission reduction credits" that can be sold to other countries that need to reduce their GHG emissions because of obligations under international treaties. Carbon finance can generate revenue for Latin American and Caribbean countries while leading to more energy-efficient and environmentally friendly forms of production, transportation, and other activities.

The Bank has been working to improve GHG management and carbon finance within the region. Landfill gas and urban transport are major GHG sources; thus opportunities for decreasing them include landfill management, improving urban transit systems, including mass transit, and improved land use planning. The Bank supports assessments and investments to increase the efficiency of urban transit in a number of Latin American cities.

Many renewable energy, energy efficiency, and climate change projects promote solar, wind, biomass, geothermal, and mini-hydro energy; reduce energy costs; and reduce climate change pressures by reducing fossil fuel use, promoting cleaner production mechanisms, and supporting more efficient uses of energy. To



### Box 5.1

#### Promoting Renewable Energy in Rural, Low-income Populations in Nicaragua

Some 900 low-income households in isolated rural communities in southern and central Nicaragua will benefit from a project approved by the Bank in late 2005 to promote solar-powered energy systems. Financing includes a \$520,000 loan and a \$180,000 grant to a private Nicaraguan firm specializing in renewable energy systems throughout the country.

The project's main aim is to provide affordable, high-quality energy systems to low-income families, including solar panels, batteries, and maintenance and repair services, with low down payments (\$40–60) and small monthly payments (\$8–10) over the long term (up to 10 years). The project will also benefit 10 small enterprises acting as retailers.

reduce the use of fossil fuels, the Bank has started to invest more heavily in promoting renewable energy. Over the past few years, a number of energy generation projects in Central America (Costa Rica, El Salvador, Guatemala, Nicaragua, and Panama) and South America (Brazil, Chile, Guyana, and Peru) have incorporated lending or technical cooperation grants to support renewable energy (Box 5.1). In 2004 and 2005, the IDB invested \$1.4 million and \$1.8 million, respectively, in grants for these purposes, as well as several million dollars more in technical assistance for energy efficiency and rural electrification. In 2004, the MIF contributed \$5.5 million to the creation of a \$17 million facility for Renewable Energy and Cleaner Production in Central America (CAREC).

The IDB has held seminars, workshops, and briefings to advance initiatives under the **Action Plan for Promoting Sustainable Energy and Mitigating Greenhouse Gases** approved in 2005 to raise awareness and understanding within the region and the Bank. In addition to the July 2005 workshop on carbon finance, accompanied by briefings of the Bank's Board of Executive Directors, the Bank has initiated or participated in a series of workshops on energy efficiency and renewable energy in Bolivia, Central America, and Mexico. The IDB is an active partner in the follow-up to the Gleneagles Clean Energy initiative, which puts into place a new investment framework for clean energy and greenhouse gas management, working with international institutions such as the World Bank, other regional development banks, and the **Economic Commission of Latin America and the Caribbean** (ECLAC).

The focus in the near term will be the collaborative program with Germany on clean energy and related efforts to stimulate less oil-intensive energy options throughout the region in response to high oil prices. The Bank is considering a number of opportunities, including efforts to expand energy efficiency in households, commercial buildings, public lighting, water treatment services, industry, and transport. It is working to expand renewable energy, especially in the context of transport fuels and rural electrification.

## Box 5.2

### Calculating IDB's Private Sector Portfolio Carbon Footprint

For the first time in 2005, the IDB made an effort to calculate the climate “footprint” of its portfolio of private sector projects; that is projects that the IDB has partially financed by loans or guarantees. The portfolio reviewed included 83 projects in six sectors: energy generation (fossil-fired and renewable); energy transmission (gas and electricity); transportation (highways, trains, ports); water and sanitation; communications; and investment funds.

Energy generation projects accounted for roughly half of the portfolio by total project cost, and approximately 43 percent by IDB operation amount. Energy transmission projects account for another nine percent of total project cost and total private sector operations.

The greenhouse gas footprint of the energy sector portfolio was analyzed using operational data provided by the projects and standard carbon accounting protocols. The years covered by the operational data collected vary from project to project, but typically cover the period from 2003 to 2005. In general, the CO<sub>2</sub> emissions rates (tCO<sub>2</sub>/MWh) of the individual projects are in line with the typical range of values for the technologies and particular fuel types represented in the portfolio. A natural gas-fired, combined-cycle combustion turbine facility in Mexico had the lowest emissions rate of the fossil fuel-fired power projects, at 0.37 mtCO<sub>2</sub>/MWh. A petroleum coke/fuel, oil-fired steam cycle plant in Mexico had the highest, with an emissions rate of 1.106 mtCO<sub>2</sub>/MWh. The average emissions rate of the portfolio analyzed was 0.331 mtCO<sub>2</sub>/MWh. The carbon footprint when expressed as emission per dollar loaned is 0.002 tCO<sub>2</sub>/year per dollar loaned to private sector energy projects.



The Bank is expanding the scope for carbon finance in energy and other projects. These will include the development of new approaches for carbon finance in private sector investment supported by the Bank and the Inter-American Investment Corporation, as well as further efforts to include carbon finance in solid waste management. As the Bank secures additional resources, it will be able to expand its portfolio of projects containing carbon finance more rapidly, particularly projects in energy efficiency.

The Bank will also establish clear approaches for collaborating with other institutions that participate in the acquisition and brokering of emission reduction credits. In 2006, the Bank will improve its ability to systematically track its clean energy investments. It will expand its experience gained from calculating the greenhouse gas emissions of its private sector portfolio, applying it to its public sector (Box 5.2). This will help the Bank to establish a baseline with which to measure and monitor the emissions produced by its projects.

## Improving Disaster Risk Management

Disasters occur when vulnerable societies or communities are unable to absorb or effectively recover from the impacts of hazardous events such as hurricanes, earthquakes, droughts, or floods. While these events are often described as “natural” disasters, the degree and extent of vulnerability and hazard are conditioned by human activities. Two elements are crucial in mitigating the impact of natural hazards. The first is to identify the natural hazards risks a country, community, or economic sector faces, thereby providing decision makers with data to help them make sustainable investments that will reduce those risks. The second is to address the development challenges that increase the dangers of hazards and human vulnerability.

The region faces a large variety of natural hazards. Some result from climate variability, such as hurricanes, flooding, drought, landslides, and mudflows. Others relate to geological processes, such as earthquakes, tsunamis, and volcanic eruptions. Disasters have cost the region more than \$3.2 billion a year for the past 30 years, and costs are growing at a much faster pace than average GDP. Recent research has revealed that many Latin American and Caribbean countries are financially highly vulnerable to natural hazards. It is important for these high-risk countries to make significant investments in prevention and to prepare financially for reconstruction after a disaster, to avoid the danger that the next major disaster will destroy several decades’ worth of development gains.

### *Reducing Vulnerability to Natural Disasters*

Natural hazards are not uncontrollable events. Many hazards are foreseeable; most often they are cyclical events that can be reduced, and their effects in some cases prevented or mitigated. The link between natural hazard events, disasters, and a country’s economic and social development is *vulnerability*. Vulnerability is determined by factors such as poverty, social inequalities, the quality of critical infrastructure and institutions, and the extent of degradation of the natural environment. Development is not sustainable if approaches to address these issues do not take the risks of natural hazards into account. The vicious cycle linking poverty and disasters can be managed through a pro-poor development focus that integrates disaster risk management (Box 5.3). In some cases, vulnerabilities can be reduced by developing sustainable land-use practices and by creating viable and safe alternatives for urban settlers.

### *Helping Countries Invest in Reducing Vulnerability*

The Bank is developing a new **Disaster Risk Management Policy** that will adopt a preventative approach to disaster risk management. The policy recognizes that member countries have different adaptive capacities. It seeks to address disaster prevention through programming and project work, as well as building up effective responses to and recovery strategies after disasters.

The Bank has recently financed disaster indicators for 12 countries:

- **Macroeconomic indices** show potential financial resource shortfalls when a country faces major events.
- **Local risk indices** indicate less known disasters that, when acting together, may have serious developmental impacts for the countries.
- **Prevalent vulnerability indices** show the extent of vulnerability, especially to social and environmental impacts.
- **Risk management indices** indicate a country’s institutional capability to manage risk and disasters after they occur.

## Box 5.3

## Mitigating Disaster Risk in Costa Rica

A \$16 million IDB loan to Costa Rica will help launch a sustainable development program in the Atlantic Huetaar Region, a province with potential for tourism and production but also with high levels of poverty and vulnerability to natural hazards. The main goals are to promote economic and social development projects, reduce risks of disasters, improve natural resource conservation and management, and strengthen governance at the municipal and regional levels. The loan will finance the mapping of the risk of floods in key watersheds, expansion of the region's network of hydro-meteorological stations, development of early warning systems, prevention of illegal settlements in high-risk areas, and construction of small-scale flood control infrastructure.

The Bank is working with ECLAC to improve disaster risk information. This information will help countries make investment decisions, including their investments with the IDB. The plan will also help implement the proposed **Disaster Risk Management Policy**, mainstreaming it into all Bank activities.

The IDB has established a three-year **Disaster Action Plan** which includes the essential activities of a strategic and disciplined process to change the Bank's disaster-related intervention from one that is largely reactive, to one that is proactive.

- **Country programming and portfolio management:** The Bank will work with high-risk Latin American and Caribbean countries to assess potential losses due to natural disasters and their national capacity to finance recovery and reconstruction. In its dialogue with these borrowing member nations, the Bank will explicitly address the issue of disaster risk management in country strategy and programming documents. In the area of portfolio management, project performance and monitoring reports will consider the impact of disasters as a measure of effectiveness and sustainability.
- **The Bank's financial products:** The Action Plan also calls on the Bank to review its current instruments for disaster financing. Existing exploratory research identifies several complementary risk management strategies and the related mechanisms, e.g. calamity funds, contingent credit, reinsurance facilities and capital market instruments that can be considered in effective risk management structures to hedge the economic exposures to disasters related to the impacts of natural hazards.
- **An organizational approach that focuses on ex-ante risk reduction:** The Bank's organizational approach for delivering disaster risk management will be strengthened with the emphasis on ex-ante risk reduction. The Bank action builds on existing and additional staff, to equip itself to address the growing imperative for disaster risk management in the region. The new Action Plan will help increase internal and external awareness of the important links between disasters and development. It will consolidate the Bank's disaster risk management capacity including implementing a communication strategy for the Bank's work in this area.

The IDB is financing a number of loans and technical cooperation's to help manage disaster risk, such as those that will support institutions and infrastructure for an early warning system to protect against volcanic eruptions (Ecuador); multiple disasters (Dominican Republic); and flooding (Haiti and Costa Rica – Box 5.3). The Bank also provides grants for technical support. For example, a project in the Caribbean is helping municipalities adapt to likely consequences of climate change by using storm surge modeling techniques to create hazard maps and vulnerability assessments.  
@ [www.iadb.org/sds/env/site\\_2970\\_e.htm](http://www.iadb.org/sds/env/site_2970_e.htm)



*“The role of managing our facilities is increasingly becoming one of finding new mechanisms, service providers and products that ensure that the goals of sustainability are reflected in our daily lives at the IDB ... this implies a continued effort to minimize our resource use and environmental impact in conjunction with the need to improve operational efficiency and reduce costs.”*

Simon Gauthier, Manager, General Services Department



## Footprint

**REDUCING OUR OWN ENVIRONMENTAL  
AND SOCIAL FOOTPRINT**

As part of our commitment to environmentally and socially sound development we work to minimize the impacts of our activities and maximize the potential of our people and our neighboring communities. In particular, we are working to reduce our own corporate footprint: the physical impact of our Headquarters in Washington, D.C. and our 26 country offices within the region and our offices in Paris and Tokyo. This report marks the beginnings of the Bank's publishing of this information. We recognize that while we have taken these first steps, we still have some ways to go. In the coming years, we will be striving to improve our record.

**Minimizing the Environmental Impact of Our Activities**

The IDB's Headquarters incorporates green building design elements, including energy and water efficiency techniques and the use of environmentally friendly materials. The Bank recycles and re-uses a variety of office products and materials and continues to introduce initiatives that will mainstream sustainability into all areas of corporate operations.

*Reducing Consumption and Promoting Conservation*

In 2005, the Bank took a closer look at its consumption patterns and major emissions at its Headquarters in Washington, D.C. (Tables 6.1 and 6.2). This is helping the Bank to consider measures to reduce its environmental impact in coming years. For example during 2005, the IDB installed water-free urinals throughout its Headquarters. As a result, the Bank's water consumption fell by nine percent and is expected to reduce further in coming years. Energy and gas consumption increased slightly, due to the opening of the new IDB Conference Facilities at its Headquarters (energy consumption in its two principal buildings decreased in 2005).

In 2006, the IDB will begin to identify ways in which to reduce its energy and gas usage, as well as continuing to look at innovative technologies to reduce water consumption further.

Between 2004 and 2005, the Bank saw a decrease in emissions, such as carbon dioxide and nitrogen oxides in its two main Headquarters buildings, due to the decrease in energy consumption. In 2006, the Bank will begin to look for innovative mechanisms that will enable it to reduce or offset emissions from its everyday use of its facilities and business travel.

Table 6.1

**IDB's Energy, Gas, Water, and Waste Consumption, 2002 to 2005**

Year	Energy (KWH)	Gas (CCF)	Water (gallons)	Waste (tons)
2002	22,256,550	18,510	20,132,420	-
2003	22,014,490	20,704	19,347,020	-
2004	22,481,866	18,504	21,284,340	-
2005	22,669,922	18,674	19,208,820	460*

*Note: Data refer to IDB's Washington, D.C. Headquarters, only.*

*Source: IDB Facilities Management data, 2005.*

*\* Approximation*

Table 6.2

**IDB's Estimated Total Emissions, 2004 and 2005**

Associated emissions	2004	2005
Carbon Dioxide (tons)	12,258.0	11,806.7
Volatile Organic Compounds (lbs)	199.4	192.0
Nitrogen Oxides (tons)	28.8	24.7
Carbon Monoxide (lbs)	2214.7	2133.1
Sulfur Dioxide (tons)	57.6	55.3
Particles measuring less than 10 micrometers (PM10) (lbs)	2,214.7	2133.1
Mercury (lbs)	0.6	0.6
Cadmium (lbs)	<0.05	<0.05
Lead (lbs)	0.8	0.8
Mercury compounds (tons)	134.2	129.3
Cadmium compounds (tons)	1457.4	1409.6
Lead compounds (tons)	189.5	182.5

*Note: Data refer to IDB's Washington, D.C. Headquarters emissions, only. Emissions refer to those generated by energy usage within the buildings.*

*Source: EMO Energy Solutions, LLC.*

## *Promoting Recycling*

The Bank recycles approximately 10 tons of materials per month (paper, aluminum and glass). In 2004, the Bank began an effort to recycle all its fluorescent lights. Bulbs are crushed into 100 percent recyclable material using the Air Cycle Bulb Eater, which also captures more than 99.99 percent of mercury vapor released during the crushing process. The Bank is recycling approximately one 55-gallon drum of glass from light bulbs every two months (equivalent to 330 gallons of waste every year). All lamps at Headquarters are currently being recycled. Recycling lamps – even those that are considered low-mercury and are thus exempt from recycling requirements – reduces the amount of waste and mercury in landfills. The Bank also recycles 100 percent of the toners used in photo-copiers, and is gradually replacing machines with new models using liquid toner. In addition, the IDB's in-house print shop recycles 75 percent of all toner cartridges and 100 percent of waste paper. In 2006 the Bank will carry out a baseline analysis of recycling of paper, glass, aluminum and plastic in order to measure the effect of its recycling efforts.

## *Greening Our Offices*

The IDB is gradually replacing older fittings and systems at Headquarters and in Country Offices with sustainable alternatives that are not only socially and environmentally sound but also cost-effective. Steps include standardizing lamps and ballasts (leading to significant energy savings); using more environmentally friendly bulbs (less mercury waste); implementing a hazardous waste disposal program for used oil and batteries; and retrofitting chillers (part of the cooling system) to use non-ozone-depleting refrigerants.



## Box 6.1

### Increasing Environmental Savings at the IDB-IIC Federal Credit Union



The IDB-IIC Federal Credit Union is a nonprofit financial service cooperative owned by 9,733 members of the Inter-American Development Bank and Inter-American Investment Corporation community. In June 2005, the credit union introduced an e-statements initiative, which encourages members to “reduce the clutter in their mailbox while saving some trees.” A quarter of the members (2,500 people) have signed up to the initiative, which has translated into paper savings of 60 reams of paper and a monetary saving in paper, printing, and postage of \$17,000 per year.

*“Our members have responded very well to this initiative, demonstrating the trend for social and environmental responsible practices in today’s business world. We are not only offering a convenient service for our members but also helping the environment by saving trees. This really is a win-win situation for our members and for all of us.” —*

**Bruce Cameron, President,  
IDB-IIC Federal Credit Union**

The Bank is constantly looking for new ways to improve the products and services it uses within offices. In 2004 it adopted an improved pest management control program; and a carpet cleaning method that uses an environmentally friendly “pellets system.” The Bank only uses environmentally sound cleaning products (44 percent of which are Green Seal approved products). It also increased the use of Green Seal approved paper related products to 56 percent. The Bank has implemented a policy to use environmentally preferable interior paints and, whenever possible, products that meet the Green Seal Paint Standard (GS-11). In March 2006 all paper in the bathrooms and pantries at the IDB Headquarters will be made from 80 percent recycled materials (this will include toilet paper and paper towels).

In 2006, IDB will begin to work toward meeting the LEED-EB Green Building Standard for Existing Buildings. Some new measures for 2006 include looking at improved energy performance, ozone protection, and renewable energy. The Bank is exploring the possibilities of purchasing a percentage of its energy from renewable sources. Progress will be reported in the 2006 sustainability review.

For the design and upgrading of its new Country Office buildings, the IDB takes into account or uses the “High Performance Building Guidelines,” which aim to create a more energy-efficient work environment with better air quality, and many value-added features commonly considered “green,” “sustainable,” or “high performance.” These include orienting the building to use passive solar energy and adopting energy conservation measures such as insulation techniques, motion and heat sensors, low energy lighting fixtures, high efficiency air filters, and low consumption water fixtures.

#### *Encouraging Responsible Procurement*

The Bank’s **Corporate Procurement Policy** calls for the integration of socially responsible suppliers, goods, and services into its supply chain. The Corporate Procurement Division seeks opportunities to specify environmentally

friendly products in its solicitations for goods; incorporates requirements for use of socially responsible products and practices into its solicitations for outside services; and challenges Bank suppliers to recommend innovative products and programs that they may implement to support the Bank's approach to social and environmental responsibility.

The Bank solicited competitive proposals for its food services management contract in the fall of 2005. Potential service providers were asked to incorporate detailed information on their social and environmental responsibility programs into their proposal responses. The selected contractor will be working to establish a comprehensive food service recycling program, featuring the use of recyclable paper and plastic products, recycling bins for cans and bottles, recycled menu paper, recycled napkins, and recycled cooking oils. The contractor will provide products that are environmentally friendly and will work to establish organic alternatives. Educational signs will also be developed.

## Maximizing the Potential of Our People

IDB's employees are its greatest resource, representing the organization and region to which we belong. In 2001, with the initiation of its **Human Resources Strategy**, the IDB began to modernize and streamline human resources policies and services for the Bank's 1,989 employees. Seven out of 10 of staff come from borrowing member countries. The majority, (1,451) work in Headquarters, while 538 are in the Bank's 28 Country Offices.

### *Promoting Diversity*

As an international organization, the Bank is committed to the principle of equal opportunity for all, regardless of race, color, religion, age, sex, or disability. The concept of diversity has been strengthened and broadened by the Bank's Institutional Strategy, Human Resources Strategy, and **Action Plan to Promote Diversity in the Bank**. The plan focuses on three areas of development: staffing, changing the Bank's culture and climate through training and organizational development, and accountability. The Bank focuses on four key dimensions of diversity: nationality, gender, race, and ethnicity (African, Asian, and indigenous heritage). Other dimensions include education, language, physical and health conditions, and sexual preference. The IDB recognizes that race is an important internal factor in the development of a diverse base of human capital, and it is building its capacity to measure staff composition in this area. In 2005, five percent of all new staff self-identified as Indigenous and eight percent as Afro-Descendant. The **Diversity Internship Program for Afro-descendants and Indigenous Peoples**, established in 2004, has hired 22 people in two to three-month internships. Of these, 45 percent are female. In 2005 the Bank also established the **Junior Professionals Program for Afro-descendants and Indigenous Peoples**. In 2006 there will be two Junior Professionals from the Diversity Program: one indigenous and one Afro-descendant.

While there are slightly more women than men at the Bank (in 2005, there were 1013 women and 976 men), there are more men at senior levels. However, between 1995 and 2004, the share of senior professional women and mid-level managers increased from 14 to 25 percent and the total number of professional women increased nearly 69 percent. The percentage of international professional women increased from 30.6 in 1995 to 39.2 percent in 2004, while the percentage of national professional women (Country Offices) increased by 16 percent (from 24 to 40 percent) in the same period.





### *Promoting Institutional Integrity*

Corruption, fraud, and lack of integrity undermine economic and social development, and represent one of the greatest dangers to the effectiveness of development efforts. The Bank has a number of mechanisms to ensure institutional integrity. A **Systemic Framework against Corruption**, approved in 2001, lays out guidance to ensure that Bank staff adhere to the highest principles of ethical behavior, that Bank projects are developed and executed in a properly controlled environment, and that the Bank is fully supporting its borrowing member countries in their programs and activities to fight corruption and strengthen transparent and efficient government.

**Staff Rule 328**, issued in November 2003, provides protection for whistleblowers and witnesses. It strictly prohibits retaliation against a staff member for reporting an allegation of fraud or corruption or a violation of a law, rule, or regulation of the Bank.

@ [www.iadb.org/ocfc/328\\_eng.htm](http://www.iadb.org/ocfc/328_eng.htm)

The **Office of Institutional Integrity** (OII), created in January 2004, builds widespread awareness of the rules and procedures of integrity programs; investigates credible allegations of fraud, corruption, and misconduct in Bank-financed activities; and ensures that action is taken wherever fraud, corruption, or misconduct are discovered or can be prevented. The OII's activities are summarized in its annual report.

@ [www.iadb.org/oii](http://www.iadb.org/oii)

All staff members are expected to abide by the IDB's **Code of Ethics**. Implementation and enforcement of the Code are the responsibility of the **Ethics Committee**, which has five members appointed by the President. The Committee is responsible for interpreting and deciding cases arising under the Code of Ethics, advising the President in such matters, ensuring that staff members are aware of its requirements, and reviewing the Code periodically. In 2005, five allegations of violations of the Code were brought before the Ethics Committee, and the Committee undertook 26 consultations with staff members regarding the application of the Code. A new Code of Ethics for staff has been drafted, as a result of a consultation process undertaken with staff and with the advice of outside consultants. The new Code and its Procedures are currently under consideration by Bank Management and are expected to be adopted shortly. The Board of Executive Directors established its own Ethics Committee and Code of Ethics in October 2003.



## Engaging the Local Community

To support the fast-growing Hispanic and Caribbean communities in and around Washington, D.C., and to promote development initiatives aimed largely at those communities, the **IDB-DC Solidarity Program** was launched in 1998. It provides grants, volunteers, donated equipment, and technical assistance to more than 40 partner organizations. The Program had awarded more than \$2.3 million in grants in such areas as childcare, youth and business development, health, education, immigration, employment, rehabilitation, and violence prevention.

The Program collaborates with other multilateral organizations, the municipal government, private sector corporations, and other key players to support community development, civic engagement, and local philanthropy. In recognition of its employee volunteerism and donations, the IDB received the "My Business Cares" Seal in 2005, awarded by the Greater DC Cares, the Greater Washington Board of Trade, and the Washington Business Journal. Among other accolades, the Program received the 2001 and 2003 Latin American Youth Center Award for its contributions to Latino youth services, and the 2005 EOFULA community award for support of the elderly in the DC Latino community.

### Box 6.2

#### Using Communications to Advance Sustainable Development

As issues of sustainability, participation, capacity building and empowerment take on increasing importance in the development agenda, effective communication becomes key to sustainable development. Communication strategies that inform, sensitize, and directly involve governments and the public can promote social change and help advance investments and reform efforts in the region. Development communication is the integration of communication strategies in development projects to enhance operational results.

Through its *Development Communication Program*, the Bank includes communication facets in project development and education. Since 1995, the Program has provided strategic communication advice in areas as diverse as violence prevention, HIV/AIDS, water, civil society participation, and infrastructure projects with high social or environmental risk.

# Conclusion



## Moving Toward a Sustainable Future

Our mission remains the same as stated in our Charter: *“contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively.”* The purpose of sustainable development is to meet the needs of the present in ways that allow future generations to meet their own needs and aspirations. For this to happen, both economic and social development must indeed be accelerated. Yet this acceleration must be managed within the carrying capacities of the ecosystems that make all development – and life on earth – possible. There is growing evidence that the pursuit of sustainability can spur economic growth, which helps explain why growing numbers of companies are engaging in and producing reports on their own efforts towards sustainable progress.

This first IDB Sustainability Review describes the important foundations the Bank has put into place to manage its own commitments to sustainability. Over the next few years, the Bank will seek the advice and assistance of stakeholders to improve its sustainability operations and reporting, set goals, and report against key performance indicators on progress toward those goals. These **reviews** will become annual **reports** of progress.

Much is happening in 2006. The IDB will be establishing new systems and tools to enhance its capacity to implement the new **Environment and Safeguards Compliance Policy** and **Operational Policy on Indigenous Peoples**, focusing on developing a robust framework for environmental safeguard risk management and activities that will safeguard the rights of indigenous peoples in the region. It will also be working on realizing the commitments laid out in the Bank's response to the **Blue Ribbon Panel** report. For 2006, these include, but are not limited to, developing labor principles, a biodiversity strategy and updating its **Forestry Policy** to ensure that the Bank remains up to date and equivalent with international standards. The Bank will also move forward on the **Action Plan for Promoting Sustainable Energy and Mitigating Greenhouse Gases**. In particular, it will be reviewing its tools and instruments to find ways to better serve

clients in the areas of clean energy and carbon finance as well as expanding its operational pipeline for renewable energy and energy efficiency and measuring the greenhouse gas emissions of public portfolio projects.

2006 will also see progress on the **Disasters Initiative**, including a new policy to help shift the Bank's emphasis from response to prevention and tools to support this shift. The Bank will also intensify its efforts to improve gender equality. It will prepare its **Strategic Outlook for Gender Equality in Development**, continuing its collaborative work with other multilateral institutions to improve efficiency in achieving the common goal of gender equality in development. In 2006, **The Gender Mainstreaming Trust Fund**, established on 2005, will award the first two rounds of selected proposals. The Bank will also continue to work on improvements to the **Independent Investigation Mechanism**.

The Bank has a long tradition of engaging with civil society and its organizations. Consistent with the **Strategy for Promoting Citizen Participation in Bank Activities** and the Bank's response to the **Blue Ribbon Panel** the IDB plans to focus on identifying better ways to engage civil society in project design and execution and expanding its efforts to involve civil society in the independent monitoring of project implementation. The Bank will also support the disclosure and dissemination of project preparation and monitoring and increase exchanges between the Bank and NGOs on technical matters.

In 2007 the Bank will report the progress of the policies developed during 2006. The IDB will continue to refine common and frontier performance indicators for sustainability reporting relevant to the multilateral financial community. This will be done in partnership with other multilateral financial institutions, including the World Bank, European Bank for Reconstruction and Development, and the International Finance Corporation. Such indicators will be doubly useful: helping the Bank's borrowers understand and quantify the sustainability implications of policy choices and public finance, while guiding the IDB in reducing its own footprint in all aspects of its work.

In 2006 an emphasis will be placed on strengthening the capacity of the Bank. This will include sustainability safeguard training on indigenous peoples and environmental issues, to enable staff to support the implementation of the new policies in these areas. This will also imply increased support for monitoring and supervision of projects during execution, and greater collaboration between all Bank units. This will be done in coordination with efforts to realign Bank activities. In 2006 the Bank will also be taking further steps to establish a staff network to facilitate greater exchange of skills experience among environment and social sustainability specialists in the Bank.

The goals the Bank has set for its Sustainability Review process demonstrate to all its stakeholders its commitment to sustainable development – and to transparency – and serve to remind all IDB staff and management of the vast amount of work necessary over the years ahead. The Bank looks forward to this challenge and to reporting its progress.

This Review is a start, an outline of what is to come. Yet at the same time, it is more than a document; it is a tool that the Bank will use to make it more accountable for the sustainability of all of its activities.





# IDB Member Countries

## Borrowers

Argentina  
Bahamas  
Barbados  
Belize  
Bolivia  
Brazil  
Chile  
Colombia  
Costa Rica  
Dominican Republic  
Ecuador  
El Salvador  
Guatemala  
Guyana  
Haiti  
Honduras  
Jamaica  
Mexico  
Nicaragua  
Panama  
Paraguay  
Peru  
Suriname  
Trinidad and Tobago  
Uruguay  
Venezuela

## Nonborrowers

Austria  
Belgium  
Canada  
Croatia  
Denmark  
Finland  
France  
Germany  
Israel  
Italy  
Korea, Rep. of  
Japan  
Netherlands  
Norway  
Portugal  
Slovenia  
Spain  
Sweden  
Switzerland  
United Kingdom  
United States

## Contact Details

If you have specific questions and comments relating to this Sustainability Review, please contact us at [sustain@iadb.org](mailto:sustain@iadb.org)

This report is the responsibility of IDB and is intended for its employees, clients, suppliers, partners and the communities in which the Bank operates

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Savings derived from using postconsumer recycled fiber in lieu of virgin fiber:	
<b>29.14</b>	<b>1,313.38 lbs.</b>
trees not cut down	solid waste not generated
<b>84.15 lbs.</b>	<b>2,566.82 lbs.</b>
waterborne waste not created	atmospheric emissions eliminated
<b>12,373.06 gallons</b>	<b>16,775,297.27 BTUs</b>
water/wastewater flow saved	energy not consumed

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Savings derived from choosing a paper from Mohawk's windpower portfolio:  
**362.79 lbs.** air emissions (CO<sub>2</sub>, SO<sub>2</sub> and NO<sub>X</sub>) not generated (because wind energy is emission-free!)

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What is the fossil fuel equivalent for this amount of wind energy?  
**1,349.06 cubic feet** natural gas

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In other words, this amount of wind energy is equivalent to:

planting <b>13.63 trees</b>	or	Not traveling <b>224.56 miles</b>
(Trees fulfill the vital function of removing carbon dioxide from the atmosphere!)		in an average automobile (Carbon dioxide, a greenhouse gas is the primary by-product of fuel combustion.)

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