

INTER-AMERICAN DEVELOPMENT BANK
SUSTAINABILITY REVIEW 2006



About the IDB

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 \$145 billion for projects that total over \$335 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, enhance social equity, and fight poverty. It also works to increase competitiveness, modernize the State, and foster free trade and regional integration.

By year-end 2006, the Bank had a portfolio with a value of more than \$53 billion in loans and guarantees, as well as \$2.2 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; 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 non-sovereign guaranteed 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 Sustainability

Sustainability is a core determinant of development that brings lasting social and economic benefits—the kind of development that the IDB was created to foster. Acting within the principles of environmental and social sustainability is essential to meeting the Bank's overarching objectives of catalyzing economic growth, reducing poverty, and promoting social equity.

The IDB recognizes three critical dimensions of sustainability: **Economic sustainability** refers to economic development that translates to long-term increases in financial well-being and economic stability, at both a national and a household level. **Environmental sustainability** consists of human actions that maintain the capacity of ecosystems to produce the range of goods and services upon which all life depends. **Social sustainability** relates to social development that results in greater social equity and access, respect for human rights, and improvements in health, education, opportunity, and other nonmonetary aspects of well-being. Underlying these three internationally recognized dimensions of sustainability, the IDB understands accountability, transparency, and integrity to be both complementary and essential institutional behaviors, which will ensure long-term sustainability of the Bank's mandate in Latin America and the Caribbean.

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, and Venezuela.

Nonborrowers

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

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) were calculated by the relevant Departments, Divisions, and Units of the Bank.

This report is also available online in Spanish and English @ www.iadb.org/sustainability
Links to all referenced documents throughout this report are available at this website.

Contents

About this Sustainability Review	2
President's Foreword: Our Commitment to Sustainability	3
Sustainability Highlights	4
Section I. Policies, Processes, and Accountability	
Chapter 1. Strengthening Strategies, Policies, and Partnerships for Sustainability	6
Chapter 2. Integrating Sustainability, Accountability, and Integrity	18
Section II. Responsible Investments, Performance, and Sustainability	
Chapter 3. Advancing Sustainability in Public Sector Operations	30
Chapter 4. Investing Responsibly in Private Sector Development	46
Section III. The IDB Footprint	
Chapter 5. Reducing Our Environmental and Social Footprint	54
Section IV. Special Focus: Indigenous Peoples and Sustainability	62
Conclusion	72
Sustainability Commitments	74
Contact Details and Acknowledgments	78

The report symbol: Nautilus Shell



A symbol of life, internal harmony, and the perfection of nature, the Nautilus Shell evokes a sense of mystery and awe. Its spiral structure displays perfect mathematical proportion (in direct relationship to the Golden Section and Fibonacci Sequence), and appears throughout nature in myriad forms such as spiral galaxies, the cochlea of the human ear, and in the arrangement of petals and leaves among plants and herbs.

About this Sustainability Review

Building on our first sustainability review published one year ago, the *Sustainability Review 2006* signifies the Bank's ongoing commitment to report its progress in integrating environmental and social sustainability and accountability into its operations. In particular it focuses on the Bank's efforts to implement its new safeguards policies and, in doing so, to manage the environmental and social impacts of IDB-financed work more effectively.

The information in the *Sustainability Review 2006* is organized in four sections. The first three sections follow the same format as the Sustainability Review 2005, updating and building on our work over the past 12 months. Section I focuses on the challenges of implementing IDB's sustainability policies, action plans, and partnerships, as well as the processes, new and old, that are in place to help the Bank ensure sustainability and accountability in its operations. Section II looks at our public and private sector investments during 2006 and how they contribute to equitable and sustainable economic growth, poverty reduction, and social development. In section III we look at our efforts to put our own house in order by "greening" our operations and ensuring the well-being of our people. The final section of the Review is a new special focus section. In 2006 it focuses on the challenge of financing development and providing technical support that is attuned to the needs and cultures of the region's indigenous peoples—an area of particular concern to the Bank. In future years this chapter will address other existing and emerging sustainability issues of particular interest to the Bank and the countries it serves. In addition to these four sections this Review contains a

summary of sustainability commitments, which sets out in particular those commitments made by the Bank in responding to the Blue Ribbon Panel and also in last year's Sustainability Review, detailing the Bank's progress to date in achieving these. This table will serve as a roadmap to both existing and new commitments throughout 2007 and beyond.

This report reviews the 2006 activities for both the Inter-American Development Bank (IDB) and the Multilateral Investment Fund (MIF)—two members of the IDB Group. It was developed with data and analysis from an internal working group drawn from throughout the Bank, ensuring that each section benefits from information generated, analyzed, and reviewed by Bank specialists.

The report's current format was developed with reference, but not strict adherence, to the guidelines of the Global Reporting Initiative (GRI), and in particular drawing on GRI's financial and public agency sector supplements. The IDB continues to analyze indicators and best practices in sustainability reporting to find a framework optimized for the Bank's unique development mission. To this end, the Bank is part of a working group made up of peers from other multilateral financial institutions working on a common approach to sustainability indicators and reporting protocols for development finance. In this way we expect this sustainability report to evolve over the next several years from a review based largely on qualitative analysis to a reporting format based on a more quantitative analysis of a standard set of sustainability indicators that can be tracked year by year.

President's Foreword: Our Commitment to Sustainability

For the IDB, sustainability means promoting development that is equitable and sustainable, both socially and environmentally. It is a concept that frames the Bank's work toward economic growth and poverty reduction in Latin America and the Caribbean. We recognize that ecosystems are critical to economic growth and poverty reduction and that the inclusion of traditionally excluded groups, such as indigenous peoples, women, or those with disabilities, is fundamental to meaningful development. To that end, the pursuit of sustainability poses both a challenge and an opportunity for the Bank. To take advantage of this opportunity, we must craft new business models and products that integrate our heightened awareness of environmental and social well-being.

Over the past two years, we have made a series of commitments to integrate sustainability as a core value and point of reference for our operational and corporate structure. In 2006 we worked steadily to meet those commitments by approving new policies and implementing these at all levels of our organization. We do this with the support of our stakeholders—both internal and external—with whom we continue to consult and together forge the Bank's strategic path.

The past twelve months have seen the launch of two major Bank initiatives: the *Sustainable Energy and Climate Change Initiative*, which is designed to scale up our investments in projects to reduce the region's dependence on hydrocarbons and promote energy efficiency, and *Opportunities for the Majority*, an initiative designed to expand access for the vast majority of the population in Latin America and the Caribbean to services that can help them accumulate assets and improve their living standards.

The past year also saw the preparations for an organizational realignment in order to respond more efficiently to the challenges of development in our region. At the end of 2006, the Board of Executive Directors approved a new organizational structure which is designed to increase the Bank's responsiveness by strengthening its strategic and technical capacity and organizing its activities under four vice presidencies.

In making these changes, our objective is to sharpen the Bank's country focus, bringing the Bank closer to its national and regional constituencies. The new structure will allow the Bank to evolve its business model to keep it relevant to the region, and build new competencies in strategic areas. In addition, it will strengthen the Bank's accountability and increase its ability to measure its development impact. Together, these changes will help the Bank to be an agent of real change in the lives of people in Latin America and the Caribbean, and strengthen its ability to promote environmentally sustainable and socially inclusive development. According to this vision, we will continue to help reduce poverty and inequality by promoting growth and social cohesion, paying special attention to the role of good governance and regional cooperation in achieving these goals.

To realize such a vision the Bank will work on many fronts, guided by the principles of sustainability. We will help develop clean, sustainable energy sources by promoting the use of biofuels and other renewable sources. We will focus on providing greater access to housing, financial services, basic infrastructure, jobs, and technology to low-income families. Such activities will support our work to achieve the Millennium Development Goals by improving living conditions and increasing the economic and social participation of the region's poorest households. We will also promote private sector development and job creation, implementing the Bank's expanded mandate to lend to private initiatives. And we will continue to help member countries expand their infrastructure in ways that are environmentally responsible and socially acceptable.

As we go forward in 2007, our challenge is to reflect our vision of sustainability in all our operations, using the Bank's new structure to focus and magnify our efforts. We embrace this challenge and the opportunities that grow from it, recognizing that sustainability is a complex issue that requires embedding at every level of our institution and in the countries we serve.

Sustainability Highlights 2006

Integrating Sustainability and Accountability

The IDB took important steps in 2006 to translate sustainability into its operations and create tools and procedures to help its personnel apply its policies day to day. In 2006 the Bank:

- Approved its new Environment and Safeguards Compliance Policy, strengthening the IDB's commitment to environmental sustainability. The new policy and its accompanying guidelines, which entered into force in July 2006, consolidate environmental safeguards consistent with best practices being carried out among public and private international financial institutions.
- Adopted its Operational Policy on Indigenous Peoples and its Strategy for Indigenous Development, culminating a two-year process of consultations with government agencies, representatives of indigenous organizations, and other interested parties. The policy entered into force in August 2006.
- Introduced a new ethics code that is intended to provide a clear, consensual, and ethical compass for all staff—a comprehensive framework for integrity. The new code is accompanied by ethics training for all staff.
- Worked closely with Mesoamerican countries to help them adopt a Voluntary Agreement for Sustainable Environmental Behavior that applies consistent environmental safeguards to regional projects, particularly infrastructure projects in the context of the Plan Puebla Panama.
- Launched Opportunities for the Majority, an initiative focused on improving conditions for the region's low-income population by looking at that vast majority through a new lens. The initiative will concentrate on six priority areas: financial democracy; enterprise compact, basic infrastructure, housing for the majority, digital connectivity and identifying the majority.
- Launched the Sustainable Energy and Climate Change Initiative (SECCI), which is designed to scale up IDB investments in projects to reduce the region's dependence on hydrocarbons and promote energy efficiency. In particular, the initiative will focus on developing clean, sustainable energy sources, by


promoting the production and use of biofuels, expanding other renewable sources, and integrating national networks.

- Collaborated with several countries to prepare country environmental assessments (CEA), to help client countries mainstream environmental considerations into their development plans.
- Established a multidonor Disaster Prevention Trust Fund to finance technical assistance and grant investments for disaster prevention and risk management in its borrowing countries.

Investing Responsibly in Latin America and the Caribbean

To be meaningful, sustainability must manifest in the IDB portfolio. The Bank invests in sustainable development through the provision of loans, guarantees and technical cooperation agreements that target environmental and social sustainability. In 2006 the Bank made the following investments:

- **Environment:** The IDB approved 19 core environmental loans totaling \$538 million, with an additional \$129 million in counterpart financing. It approved 81 environmental technical cooperation grants totaling \$19.0 million, with an additional \$9.1 million in counterpart investment. In addition, the IDB financed environmental components in economic and social sector loans totaling approximately \$180 million, with an additional \$9 million in counterpart investment. Furthermore, 26 private sector loans totaling \$3.7 billion incorporated \$25.4 million in environmental, social, and health and safety components. The Multilateral Investment Fund granted \$13 million to support corporate social responsibility, sustainable tourism, clean energy, and conservation in 11 projects.
- **Gender Equality:** The IDB approved eight loans (for a total value of \$160 million) which mainstreamed gender-specific actions into their design to enable the inclusion and equal participation of men and women in IDB projects. In addition, the Bank approved 62 technical cooperation grants that address gender issues or identify women as one of the project's main beneficiaries, doubling the number of activities in this area in the past two years.

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- **Indigenous Peoples:** The IDB approved three loans specifically designed to benefit indigenous peoples. The IDB investment was \$125 million, with an additional \$60 million in leveraged funds. In addition, the Bank approved a further 18 loan operations with various components whose objective is to benefit indigenous peoples. The Bank also approved 24 technical cooperation grants focused on indigenous peoples, totaling \$5.4 million, and a further 13 technical cooperation programs mainstreamed indigenous-specific actions.
 - **Persons with Disability:** The IDB approved four technical cooperation grants directed toward persons with disability, with a total value of \$765,000. The focus was on labor market participation, social investment and capacity building, and support to local disabled people's organizations.
 - **People Living with HIV/AIDS:** The IDB approved five technical cooperation grants for projects dealing with HIV/AIDS, for a total value of \$583,340. The emphasis in these projects is increased attention to prevention, particularly among youth and vulnerable populations, such as commercial sex workers and men who have sex with men.
 - **Preventing Crime and Violence:** The IDB approved three loans, totaling \$71.5 million (with a counterpart investment of \$7.6 million) to strengthen citizen security through a combination of violence prevention programs and institutional strengthening. The Bank also approved two technical cooperation grants that target crime and violence prevention, totaling \$225,000.
 - Continued to seek the LEED-EB Green Building Standard for Existing Buildings, which promotes the use of sustainable and energy-efficient materials and practices during building operation and remodeling.
 - Reduced its energy and water consumption by approximately 9 percent at the Bank's headquarters in Washington, DC.
 - Established a Greening the Bank Task Force to develop environmental programs and set targets for reducing the IDB's footprint, initially at its headquarters, and in the longer term at its country offices.
 - Conducted its first greenhouse gas inventory, which included emissions from the IDB headquarters building (energy for heating, lighting, and equipment), from business travel by all employees, and from holding the Bank's annual meeting (with its associated travel and energy consumption).
 - Held its first "carbon neutral" event by purchasing Verified Emissions Reductions (VERs) to offset the greenhouse gases resulting from its 2006 Annual Meeting of the Board of Governors in Belo Horizonte, Brazil.
 - Initiated an environmentally and socially responsible procurement program for its headquarters building. The program will identify sustainability standards for procuring the range of products and services the IDB uses in the course of its daily operations, from copier paper to furniture, and janitorial services to cafeteria food services.
 - Provided \$255,000 in grants and more than 400 volunteers through the IDB-DC Solidarity Program, and continued to donate equipment and technical assistance to community-based organizations in the Washington, DC area.
 - Continued to maximize the potential of its employees, balancing talent management, diversity, and gender issues, and providing a variety of staff services and support. In particular, the IDB continued to work toward aligning staff learning more closely with the Bank's business priorities.

Upholding Sustainability Standards In-House

The IDB recognizes that environmental and social sustainability begins at home. As such, its commitment to sustainability includes an effort to minimize the environmental impact of its physical facilities and daily operations—its "footprint"—and to maximize the potential of its employees and neighboring communities. In 2006 the Bank:

CHAPTER 1: Strengthening Strategies, Policies, and Partnerships for Sustainability



As in countries around the world, governments in Latin America and the Caribbean continue to wrestle with the challenge of sustainability: promoting development that is equitable and sustainable both socially and environmentally. Sustainability is not a luxury. It is a core determinant of economic and social development that brings lasting social and economic benefits—the kind of development that IDB was created to foster. Acting within the principles of environmental and social sustainability is essential to meeting the Bank’s overarching objectives of catalyzing economic growth, reducing poverty, and promoting social equity.

The IDB recognizes three critical dimensions of sustainability:

- **Economic sustainability:** economic development that translates to long-term increases in financial well-being and economic stability, at both a national and a household level.
- **Environmental sustainability:** human actions that maintain the capacity of ecosystems to produce the range of goods and services upon which all life depends.
- **Social cultural sustainability:** social development that results in greater social equity and access,

respect for human rights, including specific rights for indigenous peoples and women and improvements in health, education, opportunity, and other non-monetary aspects of well-being.

Underlying these three internationally recognized dimensions of sustainability, the IDB understands accountability, transparency and integrity to be both complementary and essential institutional behaviors, which will ensure long-term sustainability of the Bank’s mandate in Latin America and the Caribbean.

The Bank's Approach to Achieving Sustainable Development

The IDB's approach to achieving these dimensions of sustainable development is embodied in its *Strategy for Sustainable Economic Growth* and its *Strategy for Poverty Reduction and Promotion of Social Equity*. The Strategy for Sustainable Economic Growth sets out lines of action to raise levels of growth for investment, income, and per capita GDP that would lead to improved living standards, to poverty reduction, and to preservation or enhancement of the natural resource base. It concentrates on four priority areas: *modernization of the State, competitiveness, social development, and regional integration*—all areas that establish the groundwork for long-term growth. Cross-cutting issues of infrastructure, the environment, and private sector development run throughout the consideration of these priority areas.

The Strategy for Poverty Reduction and Promotion of Social Equity acknowledges that growth is a necessary but insufficient condition for reducing poverty, and that without tackling poverty in earnest economic growth is neither socially equitable nor sustainable. This strategy promotes faster progress in the reduction of poverty by tackling its root causes and fostering inclusion and greater social equity as essential elements of development. It identifies the actions that the Bank should take to optimize its support to the borrowing countries in order to reach the Millennium Development Goals (MDGs)—the set of health, education, environment, empowerment, and poverty reduction goals adopted by the international community in 2000. As with the Strategy for Sustainable Economic Growth, this strategy highlights key actions in the four priority areas of competitiveness, social development, modernization of the State, and regional integration.

Both strategies are complementary and define a general framework for activities of the Bank. Essential to the success of these strategies is the IDB's suite of performance and safeguard standards, which set the

boundaries for the Bank's investments and represent its commitment to the application of sustainability principles and recognized best practices. These include the Environment and Safeguards Compliance Policy; the Operational Policy on Indigenous Peoples; the Involuntary Resettlement Policy; and the Disclosure of Information Policy. These policies safeguard the rights of vulnerable groups that may be negatively affected by Bank financed operations and recognize the essential role of environment in the region's development. The Bank's challenge now is to implement its policies through appropriate lending and development practices, and to work with its member countries and partners to mainstream these fundamentals of sustainability into their development models and investment decisions.

Applying Sustainability Principles to the Bank's Work

In light of its stated investment strategies and safeguard policies, the IDB makes the following commitments to sustainability in its own and its clients' operations:

1. To ensure that all Bank activities are consistent with the IDB's stated performance and safeguard standards.
2. To invest in the capacity of institutions and agencies in the Latin America and Caribbean region to comply with the Bank's performance and safeguard standards in the work they undertake with the IDB's financial assistance.
3. To help nations in the region make sustainability a defining feature of their national development plans.
4. To identify and act on emerging issues (e.g. environmental degradation or climate change) that threaten the environmental and social sustainability of development in the region.
5. To help borrowing countries to identify opportunities for environmental and social lending (for example in the areas of protected areas, forest management, indigenous rights, gender equality, HIV/AIDS).

Making Sustainability a Reality

Within the last year, the IDB has taken important steps toward translating sustainability in its operations and creating tools and procedures to help Bank personnel apply its policies day to day. Some of the most visible progress involves implementing the Bank's newest safeguard policies: the Environment and Safeguard Compliance Policy, and the Operational Policy on Indigenous Peoples.

Implementing the Environment Policy

In July 2006, IDB management adopted a set of Implementation Guidelines for its new Environment Policy (formally known as the Environment and Safeguard Compliance Policy) to give Bank staff specific guidance in applying the policy. With the introduction of the Guidelines, the Environment Policy has now entered into force for all Bank projects that have entered the Bank pipeline since July 2006. To aid its roll-out of the new policy, the Bank has taken a series of steps to develop support tools and increase the staff's capacity to implement the policy:

Box 1.1

Environment and Safeguard Compliance Policy at a Glance

The new *Environment and Safeguards Compliance Policy* strengthens the Bank's commitment to environmental sustainability in the region by mainstreaming environmental considerations into social and economic development objectives. The Policy:

- Upstreams environmental considerations at the programming and country strategy level.
- Emphasizes early identification of environmental challenges and opportunities.
- Shifts emphasis from identifying environmental risk to managing risk sustainably.
- Establishes a robust procedure for the effective management of environmental, social, and cultural risk.
- Requires early and ongoing stakeholder engagement.
- Requires operations that produce significant quantities of greenhouse gases to monitor emissions.
- Supports biodiversity by focusing on transboundary areas, conservation, and protection from significant threats.

- **Development of guidelines.** The Bank has developed guidelines to support the implementation of the Environment Policy. It has disseminated the Policy and its guidelines among all Bank staff, both at its Washington DC headquarters and in the Bank's country offices, as well as among executing agencies and government counterparts.
- **Development of a Policy Handbook.** This web-based Policy Handbook has been developed to provide a one-stop shop to Bank staff and clients on every aspect of IDB's work that is related to the environment. The Handbook provides quick access to all environment-relevant policies, guidelines, best practices, guidance documents, procedures, and technical references produced by the Bank. The project screening tool is linked to and relies on many aspects of the Policy Handbook.
- **Comprehensive staff training.** A comprehensive training program for the period 2007-2008 is being developed to give all Bank staff the necessary skills to apply the Environment Policy. This program will cover a range of technical and procedural topics related to the Policy, such as preparation of Strategic Environmental Assessments, compliance with international environmental conventions, and protection of natural habitats during infrastructure projects, among others. To accompany the training, a set of case studies is being assembled to profile the management of environmentally and socially sensitive projects such as gas pipelines, hydroelectric plants, and roads. The training will be financed by a new Sustainability Budget Initiative that earmarks funds for Bank operations that directly implement the Environment Policy.
- **Update of technical guidelines.** The Private Sector arm of the Bank has updated its environmental technical guidelines to ensure consistency with the requirements of the new Environment Policy.
- **Development of a project screening tool.** A key element of the Environment Policy is its emphasis on managing potential impacts through the use of effective decision support systems. With this in mind the Bank has developed a software tool to help staff screen and classify proposed projects.

These and other capacity-building programs will establish the foundation within the Bank for consistent application of the Environment Policy, particularly at the project planning level. Future efforts will concentrate on building capacity in country offices and applying the policy during the execution of projects to ensure compliance and adequate monitoring of project impacts.

Implementing the Indigenous Peoples Policy

The Bank's Indigenous Peoples Policy (formally known as the Operational Policy on Indigenous Peoples) entered into force in August 2006. In support of the new policy, the Bank has taken the following actions:

- **Development of guidelines.** The Bank has developed and approved operational guidelines to assist staff in implementing the Operational Policy.
- **Preparation of an electronic toolkit.** This user-friendly web-based tool will guide project staff through a decision tree to help determine which projects require specific action to comply with the Indigenous Peoples Policy and at which stage of the project cycle. The tool will provide links to the concepts and definitions included in the policy and further elaborated in the guidelines, as well as to other relevant information, including best practices.
- **Preparation of a *Sourcebook on Best Practices for Indigenous Development*.** This joint initiative between the IDB, the World Bank, and the Asian Development Bank, will facilitate the sharing of good practice between the institutions and promote harmonization of concepts and methodologies among all three institutions. Work on the Sourcebook was initiated in 2006 and will continue throughout 2007.
- **Preparation of country-specific *Technical Notes*.** The new policy mandates that an analysis of the specific situation of indigenous peoples related to relevant development issues be written for each member country of the Bank where there are significant or vulnerable indigenous populations. These Technical Notes are intended to be a primary tool

Box 1.2

Indigenous Peoples Policy at a Glance

The Bank's new *Operational Policy on Indigenous Peoples* requires that the IDB safeguard indigenous peoples' rights in all its operations and mainstream indigenous priorities for development in its portfolio. The policy:

- Adopts an approach termed "development with identity" that strives to foster development that is appropriate to the economy and governance of indigenous peoples, giving priority to territorial and cultural integrity, and to preserving a harmonious relationship with the environment.
- Contains provisions that protect and support indigenous culture, language, identity, traditional knowledge, and customary land uses.
- Seeks to improve the access of indigenous peoples to social services, financial services, and labor markets.
- Requires good-faith negotiations and agreement with indigenous communities affected by Bank projects.

for incorporating indigenous concerns into the country strategies and in early strategic planning discussions between client countries and the Bank. To date, Technical Notes have been completed or are in process for Guatemala, Bolivia, Peru, Guyana, Suriname, and Nicaragua.

- **Creation of a special "financing window."** The Bank plans to earmark at least \$10 million to fund initiatives that focus on the development needs of Indigenous and Afro-descendant People. This special financing window is being developed in the context of a broader proposal to use \$60 million for poverty reduction, employment generation, and implementation of the Millennium Development Goals.

Training for IDB staff on implementing the safeguards aspects of the Indigenous Peoples Policy will be included in the Bank's comprehensive safeguard policy training. Likewise, the project screening tool developed to help implement the Environment Policy also incorporates screens to address social issues raised in the Indigenous Peoples Policy.

The Bank's emphasis on indigenous development comes at an opportune time. Dealing with the specific

development needs of indigenous peoples has emerged as one of the most urgent challenges for many countries in the region. The issues facing indigenous peoples cover a wide range: building effective political participation; overcoming exclusion and discrimination; supporting economic opportunities; ensuring political, resource, and land rights; reversing environmental degradation of indigenous lands; and building respect for traditional indigenous values and knowledge. There is also a pressing need to protect isolated indigenous peoples from unwanted contact and exploitation, and to address the needs of indigenous peoples living in areas encompassing the borders of two or more countries.

The Bank's new policy will help countries address some of these issues by mainstreaming indigenous issues in country dialogues, programs, and projects. The Bank's challenge is to increase its specialized staff and the availability of information and training directed toward indigenous issues. In this way, it can facilitate more inclusive country dialogues and foster the adoption of innovative approaches that articulate both indigenous and mainstream development goals.

Harmonizing Sustainability Standards

The Inter-American Development Bank is not alone in its concern for lending policies and operational practices that promote sustainability. As the theory and practice of sustainable development have matured over the last two decades, international financial institutions such as the World Bank and the International Finance Corporation, as well as some commercial banks, have crafted their own forward-looking policies to regulate their internal operations and help their client countries plan, finance, and execute their development plans in ways that foster sustainable and equitable growth. At the same time the Bank is taking a leading role in pushing for the convergence of environmental and social investment standards among subregional banks and financial and governmental institutions in the region.

Attaining International Sustainability Standards at the IDB

The IDB is committed to developing policies that are equivalent to the best international practices in use. The Bank's new Environment Policy and Indigenous Peoples Policy raised the Bank's standards and have taken the Bank closer to this goal of international equivalence—or “harmonization” as it is sometimes called—with best practice. Together with the IDB's Involuntary Resettlement Policy and Disclosure of Information Policy, these policies comprise a coherent suite of safeguards and sustainability standards to guide the Bank's work (Table 1.1).

However, the Bank's work to harmonize its policies with international sustainability standards is not yet complete. Over the next three years, the Bank will focus on developing new safeguard policies and standards in three areas:

- **Labor and working conditions.** One of the keys to sustainable economic growth and employment creation is a healthy and productive workforce. The Bank's Social Development Strategy instructs the Bank to give more systematic attention to the commitments of member states to core labor standards (CLS)—prevention of forced labor, child labor, and discrimination and the right to free association and collective bargaining—advanced by the International Labour Organization (ILO). The strategy also suggests that the Bank should develop best practices or guidelines regarding the CLS. This was further discussed in the context of the Bank's response to the Blue Ribbon Panel in 2005, when the Bank made a commitment to examine harmonization of Bank standards with, among others, those set out by the ILO core standards. To that effect the Bank will work towards issuing a policy statement on labor with accompanying guidelines, to operationalize these commitments. This should also take into consideration issues of occupational health and safety, another key issue set out under the Social Development Strategy.

- **Stakeholder consultation and community participation.** Over the years, the Bank has created several mechanisms and resources to encourage consultation and participation of local communities and other stakeholders in its operations and in the project planning process. However, these resources have not been systematized into one coherent set of guidelines. Development of formal

guidelines for stakeholder consultation and community participation will enable a broader approach to consulting local stakeholders and communities and actively involving them in the project cycle across all relevant Bank activities, and will be particularly applicable to the Bank's Indigenous Peoples and Involuntary Resettlement's Policies.

Table 1.1

IDB Safeguard Policies, Strategies, and Action Plans

Environment and Safeguard Compliance Policy and Guidelines	Strengthens the Bank's commitment to environmental sustainability in the region. It consists of a set of directives that will guide the Bank's work towards environmental sustainability by mainstreaming environmental considerations into social and economic development objectives. Commits the Bank to safeguard the environmental quality of all operations and to introduce socially and environmentally responsible practices within its own facilities.
Operational Policy on Indigenous Peoples and Guidelines	Requires that the IDB safeguard indigenous peoples' rights in all IDB operations and mainstream indigenous priorities for development in its portfolio. The goal of the Indigenous Peoples Policy is to foster development that is appropriate to the economy and governance of indigenous peoples, giving priority to and safeguarding territorial and cultural integrity, and to preserving a harmonious relationship with the environment. Together, these comprise an approach termed "development with identity."
Operating Policy on Women in Development and Gender Mainstreaming Action Plan	Commits the Bank, through its lending and technical cooperation programs, to assist its member countries in their efforts to bring about the fuller integration of women into all stages of the development process and improvement in their socioeconomic status. The Action Plan aims to facilitate greater attention to gender as a crosscutting issue in all areas of Bank activity, with an emphasis on gender analysis and actions throughout the project cycle.
Involuntary Resettlement Policy	Covers any project financed by the Bank that involves the involuntary physical displacement of people. The objective is to minimize the physical displacement and disruption of the livelihoods of people living in the project's area of influence. When people must be displaced, the policy requires that pre-project conditions be re-established and, where feasible, that displaced people can share in the benefits of the project. The policy also defines the scope and criteria for the design of resettlement plans.
Action Plan for Promoting Sustainable Energy and Mitigating Greenhouse Gases	Provides greater support for clean energy investment and various forms of carbon trading ("carbon finance") in order to increase investment in greenhouse gas mitigation, renewable energy, and energy efficiency. This action plan will be replaced in 2007 by the Sustainable Energy and Climate Change Initiative (SECCI), whose core objectives are to expand the development and use of renewable energy and energy efficiency technologies, enhance climate change mitigation and access to carbon finance in the region, as well as to promote and finance climate change adaptation strategies that reduce the region's climate vulnerability.
Independent Investigation Mechanism (IIM)	Helps ensure the Bank's transparency and accountability by allowing affected parties to request an investigation into whether the Bank has followed its own operational policies. The Bank is currently reviewing and updating the IIM.
Disclosure of Information Policy	Stipulates that information concerning the Bank and its activities will be disclosed to the public, unless there is a compelling reason for confidentiality. It also provides for timely disclosure of 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.

- **Forests and biodiversity.** The Bank intends to update its relevant policies to take into account biodiversity values and objectives consistent with Millennium Development Goal 7 “*Ensure Environmental Sustainability*,” as well as opportunities for supporting sustainable forestry, including forest certification. The Bank is currently working on a strategic framework for preserving biodiversity that will feed into this work.

With these additions, the IDB safeguard policies will be consistent with or will go beyond the Equator Principles and other international standards. The Equator Principles are a suite of benchmarks for assessing and managing social and environmental risks in project financing that have come to serve as internationally accepted sustainability standards. Table 1.2 compares the Equator Principles with the Bank’s safeguard policies to show the state of the

Bank’s effort at harmonizing its practices with international standards.

In addition to its effort to harmonize its standards with the Equator Principles, the IDB will also begin policy analysis on the spread of HIV/AIDS, particularly in infrastructure programs—an area where the Bank invests heavily. Working to reduce the spread of HIV/AIDS is not a new area of work for the Bank. Its mandate lies in the Social Development Strategy, which sets out four priority commitments in this regard. Looking at the linkages between the disease and infrastructure construction will further expand the Bank’s work to address the realities of HIV/AIDS in Latin America and the Caribbean. The Bank is committed to analyzing and addressing this issue, looking into its portfolio of activities with a view to mainstreaming HIV/AIDS prevention and treatment programs in infrastructure and other sectors such as mining, and oil and gas extraction.

Table 1.2
Comparison of Equator Principles and IDB Safeguard Policies

Equator Principles/ International Standards	IDB Safeguards
Principle 1: Review and Categorization	Directive B3. Environment Policy
Principle 2: Social and Environmental Assessment	Directive A6, B5. Environment Policy
Principle 3: Applicable Social and Environmental Standards	
Performance Standard 1: Social & Environmental Assessment and Management System	Directive B5. Environment Policy Operating Policy Women in Development
Performance Standard 2: Labor and Working Conditions	Social Development Strategy Policy statement to be developed
Performance Standard 3: Pollution Prevention and Abatement	Directive B11. Environment Policy
Performance Standard 4: Community Health, Safety and Security	Policy statement to be developed
Performance Standard 5: Land Acquisition and Involuntary Resettlement	Involuntary Resettlement Policy and Indigenous Peoples Policy
Performance Standard 6: Biodiversity Conservation and Sustainable Natural Resource Management	Policies to be reviewed and updated.
Performance Standard 7: Indigenous Peoples	Indigenous Peoples Policy
Performance Standard 8: Cultural Heritage	Indigenous Peoples Policy, Directive B9 Environment Policy
Principle 4: Action Plan and Management System	Directive B5, Environment Policy
Principle 5: Consultation and Disclosure	Directive B6, Environment Policy, Disclosure of Information Policy, Involuntary Resettlement Policy, Indigenous Peoples Policy
Principle 6: Grievance Mechanism	The Independent Inspection Mechanism
Principle 7: Independent Review	Environment Policy
Principle 8: Covenants	Environment Policy
Principle 9: Independent Monitoring and Reporting	Environment Policy
Principle 10: Financial Institution Reporting	Sustainability Report and Institutional Integrity Annual Report

Harmonizing Environmental and Social Investment Standards at the Regional Level

One of the challenges to regional development within Latin America and the Caribbean is the lack of common investment standards among the many governments and financial institutions responsible for development decisions. That is why the Bank is using its influence to push convergence of environmental and social investment standards among subregional banks and financial and governmental institutions in the region. For example, the Bank is working closely with the Mesoamerican countries in the adoption of common environmental and social safeguards, particularly in the context of regional infrastructure projects such as pipelines and roads. Under the auspices of the Plan Puebla-Panama, the Ministers of Environment in the Mesoamerican region have agreed on a Voluntary Agreement for Sustainable Environmental Behavior that applies consistent environmental safeguards to regional integration projects. The Bank is also working with the Andean Development Corporation (CAF) and FONPLATA—a multilateral financial institution that serves Argentina, Bolivia, Brazil, Paraguay, and Uruguay—to achieve similar results in South America.

Progress on New Initiatives

The Bank has committed itself to several new initiatives that will redefine its work in the areas of energy, natural disasters, and biodiversity.

Promoting Sustainable Energy Options and Protecting the Climate

The countries of the Latin America and Caribbean region face growing demands for energy at a time of rising energy prices and tensions over reliability of supply. Ensuring affordable and reliable sources of energy is at the core of the region's development agenda. In addition, the impacts of uncontrolled climate change threaten to undermine the region's economic and social well-being, increasing its vulnerability to climate risks such as natural disasters, disruptions of agriculture, and loss of biodiversity.



To help its member countries find economically and environmentally sound energy options, the IDB is launching its *Sustainable Energy and Climate Change Initiative (SECCI)*. This advances the Bank's *Action Plan for Promoting Sustainable Energy and Mitigating Greenhouse Gases*. The initiative's core objectives are to expand the development and use of renewable energy and energy efficiency technologies, advance climate change mitigation and access to carbon finance in the region, as well as to promote and finance climate change adaptation strategies that reduce the region's climate vulnerability.

The Bank's work on these objectives will fall into four focus areas:

- **Renewable energy and energy efficiency.** Work in this area will begin by assessing the potential for renewable energy and energy efficiency in specific sectors in member countries and prioritizing projects that tap this potential. The Bank will support the development of new renewable energy technologies through innovation loans, and will also help countries identify regulatory reforms that could ensure full use of the potential of renewable energy and energy efficiency.
- **Biofuel development.** The Bank will assess the economic viability of fostering biofuels and support emerging biofuels technologies through loans to pilot projects and other financial mechanisms. It will also offer policy assistance to countries to remove



regulatory and financial barriers to biofuel development, and to ensure that sustainability concerns are identified and addressed.

- **Increasing access to carbon finance.** The Bank will mainstream carbon finance in IDB operations and will work to incorporate components of the Clean Development Mechanism (a part of the United Nations Framework Convention on Climate Change, which entered into force in 1994) into its sector lending. It will also work to build capacity in Latin America to participate in the growing market for carbon storage credits, helping interested parties to market and deliver so-called “Certified Emission Reductions.”
- **Adaptation to climate change.** The Bank will mainstream climate risk in country programming by financing country-level climate change vulnerability assessments and helping nations to identify adaptation measures. The Bank will also strive to make its investments in the region “climate-proof” by developing a screening tool to assess and mitigate climate risk in new Bank projects.

Managing Risks from Natural Disasters

The IDB is now in the process of approving a new *Disaster Risk Management (DRM) Policy* that shifts its approach from traditional emergency response after a disaster has hit to a more proactive effort at risk reduction before disasters occur. The new policy comes amid a growing awareness that natural disasters pose a significant risk to the development and economic security of Latin American and Caribbean nations, particularly in the poorest and most vulnerable countries. The number and seriousness of disasters has increased in recent years, putting people and infrastructure at greater peril, taxing national budgets, and undermining the Bank’s development assistance.

The new policy will encourage client countries to assess their disaster risks well ahead of time and mitigate these as much as possible before disasters occur. For many countries, this emphasis on risk reduction rather than disaster response is a relatively new concept. Responsibility for disaster preparedness and response has typically resided in civil defense agencies, whose emphasis was more on

post-disaster actions rather than prevention. However, the IDB believes that one of the foundations of sustainability is risk assessment and mitigation—a commitment to plan for the future in order to protect today's investments.

To help countries make the shift to a more proactive stance, the Bank is developing policy guidelines to mainstream disaster risk management in its country programming, project preparation, and loan reformulation. The Bank has also developed an Action Plan to implement the new Disaster Risk Management Policy. Under the Action Plan, the Bank is now financing disaster risk assessments for four countries (Bolivia, Guatemala, Jamaica, and Peru) to inform policy dialogues and update the Bank's country strategies for these countries. In addition, the Bank is developing performance indicators to monitor progress in risk management at the country level. A Bank working group is also reviewing the IDB's internal instruments for disaster-related financing.

The Bank also realizes that encouraging countries to shift their disaster approach will require better communication—both within and outside of the Bank—about the linkages between disasters and development. Otherwise, the requirement to integrate disaster planning into project planning may just be viewed as one more element in an already complex framework for project preparation and approval. The Bank's communication strategy for the new policy includes specialized training about risk management, as well as development of a web-based platform to deliver information, analytical tools, and instances of best practices to project teams.

Supporting Biodiversity

Biodiversity is an important component of Latin America and the Caribbean's natural capital—one of the sources of its wealth. Six of the world's megadiverse countries (Brazil, Colombia, Ecuador, Mexico, Peru, and Venezuela) are in Latin America and these nations contain 40 percent of the world's biodiversity. Unfortunately this enormous wealth is being depleted, a trend confirmed by the findings of the Millennium Ecosystem Assessment—a global assessment of ecosystem change and its consequences for human

well-being. In addition to providing direct economic benefits through nature-based tourism, biodiversity also is essential to the functioning of agriculture, fisheries, forests, and other natural resource-based sectors of the economy. In the context of Latin America and the Caribbean, where natural resources are still an important target of national development, sustaining biodiversity contributes to achieving sustainable economic growth—a fact that is recognized in the Bank's Environment Strategy. The Environment Strategy also recognizes that some development projects—particularly infrastructure projects—may impact local biodiversity adversely. The Bank's goal is to minimize such harm as much as possible.

Currently, the Bank is developing a *Strategic Framework for Ecosystem and Biodiversity Management* to achieve its goals of mitigating biodiversity impacts associated with Bank lending and helping countries to recognize biodiversity's value to national development. When the framework is approved, it will help the Bank to:

- promote projects that specifically address biodiversity threats in the planning process;
- increase funding for biodiversity-enhancing projects;
- develop a monitoring and evaluation system to track the impact on biodiversity of the Bank's project portfolio;
- develop a decision-support system to help staff identify key biodiversity areas and other areas of high biological value;
- mainstream biodiversity considerations into Country Environmental Assessments and Country Strategies;
- increase the use of Global Environment Facility (GEF) funding for biodiversity projects initiated through the Bank;
- protect key ecosystem services, such as water regulation, carbon sequestration, and nature-based tourism.

Many of these activities will directly address the provisions of the Bank's Environment Policy. The hope is that such activities will result in substantial benefits to the region's biodiversity through increased funding for protected areas; identification and protection of key biodiversity areas and ecosystem services; and reduced impact of infrastructure projects on biodiversity.

Table 1.3
Partnerships for Sustainability at IDB

2006 Investment	Key features
IDB-Netherlands Water Partnership Program (INWAP) \$1.17 million	<p>Since its inception in 2002, INWAP has become the major source of financing for water-related IDB grants. It is designed to support the implementation of the internationally recognized principles of <i>integrated water resources management</i> (IWRM) in Latin America and Caribbean. By December 2006, this \$10 million program had committed 65 percent of its resources through 75 projects. The focus of these projects is on finding better ways to improve social, environmental and productive water-related services and developing IWRM strategies and plans, in compliance with the agreements of the World Summit on Sustainable Development and the MDG target on water supply and sanitation.</p>
Spanish Support for Expanding Carbon Finance in the IDB Portfolio \$0.87 million	<p>The Spanish Fund for Consultants provides grant money for expanded carbon finance activities related to IDB's investment portfolio. This includes support for preparation of Clean Development Mechanism (CDM) documentation and financial support for project developers in structuring their transactions with potential buyers for carbon credits. The Spanish government has also provided two technical experts to support the identification and development of near-term opportunities for adding carbon finance to Bank projects</p>
Multi-donor Gender Mainstreaming Trust Fund \$0.63 million	<p>The Fund actively supports the process of advancing gender mainstreaming in all Bank operations by providing funding and technical assistance to the IDB project teams. Priority is given to non-social sectors such as infrastructure, the environment, and competitiveness. The objective of these activities is the incorporation of the gender perspective throughout the IDB's project cycle.</p>
IDB -Germany Work Program on Renewable Energy and Energy Efficiency \$0.60 million	<p>In 2004 the Bank entered into a Strategic Partnership Agreement for Cooperation on Renewable Energy Development with the German Ministry for Economic Cooperation and Development, to be implemented through the international cooperation enterprise: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ). The initial work program comprises an investment of 1 million Euros to enable the Bank to improve its institutional capacity to expand renewable energy and energy efficiency activities in the region. During 2006 a number of technical studies and strategic studies were developed addressing opportunities for renewable energy and energy efficiency in the region, including biofuels potential and new strategies for the region, energy efficiency in water management and residential lighting, analysis of barriers to increase clean energy, carbon finance opportunities, and innovative financial mechanisms for clean energy projects.</p>
IDB - Netherlands Partnership Program on Environment (NPPE) \$0.43 million	<p>This is the largest funding source for technical assistance at IDB that is earmarked specifically for environment. The partnership concentrates on environmental management and innovation tools, climate change (mitigation and adaptation), and biodiversity and forests. The focus of the 2006 work program was the development of environmental assessment tools, such as Country Environmental Analyses (CEAs), as well as Strategic Environmental Assessments (SEAs) carried out in the context of regional integration programs.</p>
The Youth Network \$0.35 million (program administration)	<p>The IDB Youth Network is comprised of over 12,000 members who represent all sectors of society, and thousands of youth who are social and business entrepreneurs, politicians, environmental activists, women's rights advocates, and volunteers. Through information exchange, networking, communications, and capacity building, strong partnerships have been created between the IDB, civil society organizations, and youth leaders. The Network mobilizes resources from three main sources: the private sector (Microsoft \$1.3 million cash and in kind for youth entrepreneurship/ICT fund); trust funds (Finish fund \$100,000 for <i>Agents of Change</i>); and MTV-LA campaign and MTV on air, pro-bono contribution worth \$490,000.</p>
IDB - Canada Program on Renewable Energy, Energy Efficiency, and Carbon Finance \$0.15 million	<p>The Canadian government has allocated CAN\$1,025,000 for the development of carbon finance projects, as well as for opportunities for added energy efficiency (including energy audits, business strategies, and preparation of baselines) and financial advisory support for structuring carbon credit sales.</p>
Austrian Support in Energy Efficiency Activities \$0.11 million	<p>The Austrian Technical Cooperation Fund has committed to finance a full-time Trust Fund Appointee to support the Bank in reviewing and screening its current project pipeline for added energy efficiency. The Trust Fund Appointee will also contribute to evaluation and preparation of energy efficiency investment plans, and business strategies to facilitate such investments.</p>

Partnerships and Dialogues for Sustainability

The Bank has a number of critical partnerships that bolster the Bank's capacity to enhance environmental and social sustainability in the region and to transfer technical expertise to member countries through diagnostic and planning studies. Table 1.3 summarizes key partnerships supporting the Bank's sustainability efforts. At the same time, the Bank plays a key role in hosting policy dialogues to enable targeted and multi-stakeholder discussion and exchange of ideas on key issues related to sustainability.

Strengthening our Partnership with the Global Environment Facility

The Global Environment Facility (GEF) provides grants to developing countries for projects that implement international environmental treaties such as the Convention on Biological Diversity. The IDB-GEF work program focuses on the three GEF focal areas of biodiversity, international waters, and integrated ecosystem management. Since May 2004, when the IDB assumed the status of a "GEF Full-Access Executing Agency," the Bank has approved six GEF operations for a total of \$21.2 million, leveraging a further \$141 million of co-financing. A further six projects are under preparation and, once approved, IDB-GEF projects in these three focal areas will total \$53.6 million. In 2006 the IDB invested nearly \$8 million and leveraged a further \$81 million from co-financiers for GEF-related projects.

Working with the GEF, the Bank increases the value of its loans by mainstreaming important environmental components in loan operations and leveraging other resources from local and international organizations. The GEF makes it possible to finance global environmental goods with regional and local benefits that could not be funded using current Bank financial instruments. In addition, GEF activities co-sponsored by the Bank enhance the IDB's environmental leadership position in Latin America and the Caribbean.

Encouraging Regional Dialogue on Sustainability

Each year, the IDB hosts a Regional Policy Dialogue among vice ministers of the environment that provides the opportunity for close interaction on technical and policy issues germane to sustainable development in the region. This annual meeting is preceded by subregional meetings where in-depth review of technical issues takes place. A key aspect of this dialogue is the link between environmental policy, economic development, and financial management. During the 2005-06 period, the Regional Policy Dialogue centered on countries' market potential for environmental goods and services, including protection of water resources, the development of sustainable forest and agricultural programs, and the use of so-called "payments for environmental services" to encourage sustainable practices.

At the subregional meetings held in Lima, Buenos Aires, and San Salvador, the vice ministers stressed the importance of providing the right set of incentives and support mechanisms to guarantee private sector response and the involvement of local communities in sustainable practices. The meetings also helped elucidate the relative success or failure of national and sub-regional programs, highlighting the key obstacles that need to be addressed at various stages of program planning, design, and implementation.

The IDB also hosts the Natural Disaster Network of the Regional Policy Dialogue. During 2006, this Network held their sixth hemispheric event in Washington DC, focusing on disaster risk and risk management indicators. The dialogue indicated that disaster response is still emphasized more than prevention, but that there is growing awareness of the need to incorporate disaster risk management at all levels of development planning. As a result, countries are gradually moving from political discourse to real actions in disaster risk reduction.

CHAPTER 2: Integrating Sustainability, Accountability, and Integrity



Progressive policies and environmental safeguards alone are not enough to incorporate sustainability into the IDB's work. It also requires well-designed procedures and decision tools that integrate the practice of sustainability into the Bank's daily operations and loan portfolio. These begin at the initial phases of country planning and carry through the project cycle, from project design to the final phases of project completion and impact evaluation. Essential to the process is a suite of accountability and transparency measures that the Bank uses to evaluate compliance with its own policies, inform its stakeholders, and ensure that it is living up to its promises. This public self-examination process allows the Bank to glean lessons from its experiences and make continuous improvement toward sustainable practices. Underlying these processes the Bank instills a strong sense of integrity in its member countries and at home among its staff, solidifying its responsibility to sustainability in all its activities.

Enhancing Our Sustainability Mechanisms

The Bank's new Environment Policy sets forth a systematic process allowing the Bank to plan, execute, monitor, and evaluate its projects so that they meet

sustainability standards and have the best chance to meet their development objectives. To facilitate this process, the Environment Policy establishes procedures in several different areas: project screening and classification; conducting environmental and social assessments; consulting with

stakeholders; assessing likely impacts on natural and human habitats and cultural sites, anticipating likely transboundary impacts; pollution abatement and the minimization of hazardous materials; and supervision and compliance during implementation. Project screening and conducting country environmental and social assessments are key procedures that the Bank is enhancing, in this regard, to meet the goals of the Environment Policy and other safeguard policies.

Updating Our Project Screening Process

The Environment Policy requires that *“All Bank-financed operations will be screened and classified according to their environmental impacts.”* In addition, it requires that relevant social and cultural safeguards of other policies such as the Indigenous Peoples Policy and the Involuntary Resettlement Policy must also be considered during the screening process. This screening, which must be carried out early in the project planning process, determines the kind of management, monitoring, and oversight the project will require. Projects are sorted into one of three categories, based on their potential environmental and social impacts:

Category A: These projects are likely to cause significant negative environmental impacts and associated social impacts, or to have profound implications for natural resources. The Bank considers these projects “high risk” from the standpoint of its safeguard policies. As such, they require full Environmental Impact Assessments or Strategic Environmental Assessments, and may require an advisory panel of experts for guidance on mitigating the project’s negative impacts.

Category B: These projects are likely to cause mostly local and short-term negative environmental or social impacts, for which mitigation measures are readily available. They require an environmental analysis focused on the specific environmental or

social risks they pose. The project must also follow an environmental and social management plan specially devised by the Bank.

Category C: These projects are likely to cause minimal or no negative environmental or social impacts, and do not require additional environmental or social analysis beyond the initial screening and scoping analysis. However, in some cases, these operations will establish safeguard or monitoring requirements.

In addition to these three categories, there are certain operations that the Bank finances with lending instruments that differ from traditional investment loans for which classification based on anticipated impacts may not be feasible. For example, these include operations that may have future sub-projects not yet designed. The lending instruments involved in these operations include financial intermediaries, operations under the Trade Facilitation Program, policy-based loans, and fund operations. Such operations may require alternative environmental assessments and management tools to determine their level of safeguard risks. They are not classified and are instead addressed on a case-by-case basis.

In keeping with the IDB’s efforts to streamline the project design and review process, and to standardize the process of classification, the IDB has introduced a new computer-based screening and classification tool. The screening tool helps staff identify specific environmental and social risks and impacts, flagging “alert issues” that bear further examination in the screening process. Based on this data, the tool helps project teams assign an impact category to the operation. By standardizing the screening procedure, the new computer software will help make project classification more accurate and consistent across the institution. The Bank is now in the process of rolling out this new project screening tool and training staff to use it, with full implementation planned by the first quarter of 2007.

In the meantime the IDB retroactively performed a classification analysis on all operations approved by the Board of Directors in 2006, without the use of the screening tool (Figure 2.1). As part of the Bank's commitment to information disclosure, the environmental impact classifications of Bank operations are routinely made public.

Improving Country-level Planning

The Bank is committed to mainstreaming sustainability in country-level planning. This means addressing environmental and social concerns and opportunities in the context of each country's development priorities. This strategic approach begins at the level of the

tors for development and growth. For instance, in the case of Chile the CEA has helped the Government and the Bank to address issues of environmental compliance and performance in the context of trade integration. Tourism and vulnerability to natural disasters were the focus of analysis in the case of Honduras and Jamaica. In general, CEAs assess the state of a country's environmental governance, including the nation's legal and regulatory framework, public access to environmental information, capacity for enforcement of environmental standards, and level of participation by civil society groups. All of these factors are relevant in identifying key sustainability issues and revealing the links between environment, governance, and development. In short, the CEA is meant to help countries view their development strategy through an environmental lens.

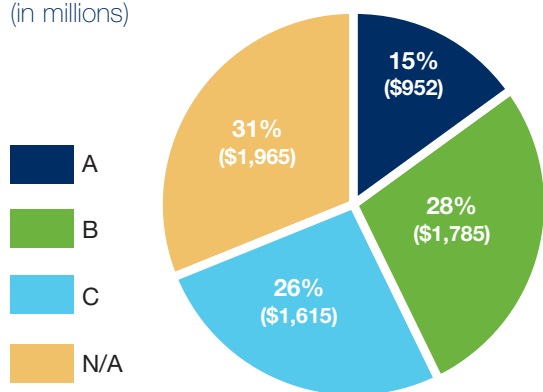
The information generated by the CEA, as well as the Technical Note on Indigenous Peoples, provides one of the foundations of the Bank's policy dialogue with borrowing countries and feeds directly into the formulation of the Country Strategy—the blueprint for the Bank's investments in a given country. It not only helps countries prioritize their overall lending needs, but also identifies specific environment-related projects that the Bank can finance, ranging from investments to restore degraded environments, sustainably manage water and other natural resources, protect biodiversity, indigenous peoples, or cultural sites, combat climate change, promote renewable energy, address involuntary resettlement, or improve environmental governance. The result is a more focused and strategic role for Bank financing that incorporates environmental and social concerns from the start.

To date, the Bank has collaborated with nine countries (Belize, Chile, Ecuador, El Salvador, Honduras, Jamaica, Nicaragua, Paraguay, and Suriname) to prepare CEAs, and four more CEAs are being prepared in 2007 (Argentina, Brazil, Guyana, and Peru). In addition, there are Technical Notes on Indigenous Peoples underway for five countries: Bolivia, Guyana, Nicaragua, Peru, and Suriname. While the use of CEAs is too new to evaluate their effectiveness, early signs are hopeful. In all cases where CEAs were carried out, there was evidence of an improved policy dialogue between principal players in national development—one of the aims

Figure 2.1

Risk Classification of Approved Projects, 2006

Percent of Total Lending
(in millions)



Note: Noninvestment lending and flexible lending instruments including financial intermediaries, operations under the Trade Facilitation Program, policy-based loans, and fund operations are not classified.

Bank's programming processes and addresses issues of governance, economic incentives, natural resource and energy policy, and ecosystem management. The Bank has recently introduced a new tool, the *Country Environmental Assessment* (CEA), to help with the environmental mainstreaming process. In addition, the Indigenous Peoples Policy requires the preparation of *Technical Notes on Indigenous Issues*, as an input into the country studies and policy dialogue with governments. These are closely coordinated with the CEA.

A CEA looks across economic sectors to pinpoint environmental opportunities and risks in areas that national governments have identified as priority sec-



of the CEA process. CEAs are discussed and debated with representatives of the Ministries of Finance, Commerce, and Environment, as well as with the private sector and NGOs. In the case of Honduras, for instance, a consensus was reached about the importance of strengthening environmental management to improve the competitiveness of the country in the context of trade agreements under CAFTA.

Strengthening Our Transparency and Accountability

Transparency and accountability are two of the bedrocks of sustainability. Transparency involves sharing information about the Bank's operations, policies, processes, and oversight mechanisms with stakeholders and the public so they can track and understand the Bank's business. Accountability means taking responsibility for the Bank's investment decisions and other actions taken as part of its operations, and comparing these to promises made in the Bank's policies and mission statement. The Bank has a number of mechanisms to ensure that the institution is transparent and accountable.

Disclosure of Information Policy Update

IDB's commitment to transparency is supported by its *Disclosure of Information Policy*, which specifies that information on the IDB and its activities will be made public in the absence of a compelling reason to keep it confidential, such as the protection of sensitive or proprietary information concerning IDB's members or business counterparts. In addition to its audited financial statements, the Bank routinely makes available a variety of policy and strategic planning documents such as minutes and committee reports of the IDB's Board of Executive Directors, Country Strategies, project documents, environmental impact assessments, and project evaluations by the IDB's Office of Evaluation and Oversight.

In July, 2006, the IDB Board of Executive Directors amended the Disclosure of Information Policy to reinforce the Bank's efforts to combat fraud and corruption in IDB-funded activities. The Bank will now make available information on firms or individuals sanctioned by the Bank, as well as the sanctions imposed in connection with findings of fraud or corruption, on the part of procurement-related counterparties that have been the subject of proceedings in the IDB's Sanctions Committee.

Performance Reporting

Self-evaluation is a critical part of IDB's commitment to accountability and sustainability. Properly measuring and documenting project impacts and benefits is essential to determining the "development effectiveness" of these projects—how well they achieve their development goals. The Bank uses several different types of evaluations to extract lessons from its experiences and judge its effectiveness:

Project Performance Monitoring Report (PPMR).

The primary reporting tool used by the Bank's staff to inform Management about how projects are progressing is the Project PPMR, an electronic monitoring tool designed to provide stakeholders with a semi-annual snapshot of project status, expected achievement of development objectives, and implementation progress. The PPMR is based on the Logical Framework, a document created during project

Box 2.1

Implementing the Recommendations of the Blue Ribbon Panel

In August 2004, the IDB established the Blue Ribbon Panel—a group of nine high-level international experts—to advise it on the Bank's draft Environment Policy and to look more broadly at how the Bank could best contribute to sustainable development in the region. The formation of the panel sprang from the IDB's commitment to seek independent oversight and consultation from outside the Bank. Six months later, the Blue Ribbon Panel (BRP) issued its recommendations. In July 2006, the Bank released a one-year progress report, summarizing its actions in response to the panel's recommendations. Some of the report's highlights include:

- **Consistency with international standards:** In response to BRP's request to harmonize its environmental, social, and cultural standards to the highest international standard, the Bank reviewed the policies of its sister institutions and has incorporated key features into a coherent set of safeguard policies.
- **Encouraging regional convergence:** The BRP urged the Bank to use its influence among governments in the region to encourage convergence of their environmental and social investment standards. As a result, the Bank is working closely with Central American governments to forge a common Environmental Code of Conduct for regional projects.
- **Greening IDB's facilities and practices:** In response to the BRP's advice to green its internal operations, the Bank has carried out an analysis of its "environmental footprint"—the energy, material, and other environmental impacts of its facilities, travel, and other daily operations—and has established a Greening the Bank Task Force to evaluate resource efficiency measures, recycling targets, and other green practices.
- **Mainstreaming environmental and social considerations:** The Panel advised more attention to mainstreaming sustainability into country programming. The new Environment and Indigenous Peoples policies adopt just such an approach, with attention to helping countries see environmental and social considerations as essential elements of economic growth. The Bank introduced Country Environmental Assessments and Technical Notes on Indigenous Peoples specifically for this purpose, and successfully implemented their use in 2006.
- **Tracking sustainability lending:** In response to the Panel's recommendation to quantify and track Bank financing that directly contributes to sustainability, the Bank is developing a tracking system that will identify the nature and size of sustainability components in project and programmatic lending.
- **Enhancing environmental lending:** The Bank is making significant progress on the Panel's suggestion to develop stronger environmental lending programs, particularly for biodiversity, renewable energy, and water. In the energy area, the Bank has commenced its Sustainable Energy and Climate Change Initiative, which will greatly increase the Bank's involvement in renewable energy and energy efficiency investments, carbon financing, and climate change adaptation. In the biodiversity area, the Bank is developing a framework for systematically increasing its biodiversity-related investments. The Bank is also more proactively leveraging financial resources from the Global Environment Facility. In the water area, the Bank is financing the preparation of Integrated Water Resources Management Plans in Bolivia, Brazil, Costa Rica, Guatemala, Haiti, and Panama, and providing support for countries as they struggle to meet the Millennium Development Goal to provide potable water and sanitation to the poor.
- **Better consultation and participation:** In response to the BRP's suggestion to develop innovative participatory approaches, the Bank is developing comprehensive guidelines for consultation and participation in all relevant phases of the project cycle.

preparation that defines the relationship between project inputs and expected outputs, and the conditions necessary to produce those outputs. The PPMR allows for a focused dialogue on results between the Bank and country executing agencies. It supports timely decision making on project management and ultimately contributes to gauge progress towards expected project benefits. In terms of sustainability, the PPMR requires the periodic assessment of institutional, financial and environmental issues related to the project.

Project Completion Report (PCR). Staff from the IDB and the country executing agency jointly produce a PCR on all public sector projects upon completion. This self-reporting tool, provides an important source of information on project performance and results. The PCRs objectives are evaluate project outcomes and outputs; assess the likelihood of project benefits being sustained over time; evaluate the Bank and Executing Agency's performance, and retrieve lessons learned during project planning and execution and apply these to future operations. In doing so, the PCR contributes to the Bank's institutional knowledge sharing and accountability. PCRs are also used to follow up on environmental and social indicators if and when these are specified during project planning. New IDB guidelines entered into effect in May 2006, which bringing PCRs up to the uniform standard set by the Bank and other multilateral development banks. The Bank also carries out independent reviews of PCRs and feeds back lessons learned into the project cycle. For private sector projects, the Bank conducts self-evaluation when they reach operating maturity.

Ex-Post Project Evaluation. The Bank carries out ex-post analysis on a selection of its operations (at least 20 assessments annually, on projects that have been closed 2 years or more). Under the Bank's 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. There are two types of ex-post evaluations: Performance and Sustainability Assessments (EPSAs) and Impact Evaluation Reports (IERs).

The Development Effectiveness Overview (DEO).

In line with operational efficiency goals, the Bank recently produced the 2006 DEO, which represents Management's first attempt to consolidate two key reports on development effectiveness, as well as incorporate information related to Bank activities supporting poverty reduction and social equity. Thus, the DEO replaces the Annual Report on Portfolio Management, Performance and Results (ARPRE) and the Medium Term Action Plan on Development Effectiveness (MTAP), and provides a review of the status of the Bank's development effectiveness agenda. The report also examines the Bank's strengths and opportunities for improvement and the critical factors within the sphere of Bank action and that of borrowers that contribute towards development outcomes. As the Bank transits to a new structure, the DEO provides Management's views on how it intends to build upon its experiences and firmly anchor the results agenda within its corporate and operational activities at the country and project level.

As part of its continuous process of improvement, the Bank is in the process of streamlining its reporting and review mechanisms, including PCRs and PPMRs, to better reflect environmental and social sustainability concerns. This will include the need for better oversight of compliance with the new Environment and Indigenous Peoples policies.

Developing Sustainability Indicators

For several years, IDB has embraced a "managing for results" business model that relies heavily on the Bank's ability to measure itself objectively, fairly assessing both project performance and project impacts—positive and negative—on the natural and social environments. Indicators—standard measures used to quantify change in key parameters of interest—are an important tool for this kind of objective measurement. To get a clear picture of the effects of its projects the Bank needs both performance indicators that measure progress toward set targets (such as revenues generated or jobs created), and impact indicators that reveal effects on the environment or society (such as pollution levels or health status). The Bank is now involved in developing such indicators for application at a project level and at an aggregate, Bank-wide level.

Biodiversity Indicators

Though they seem simple in concept, appropriate indicators are neither easy to develop, nor easy to apply. For one, biological systems are complex, affected by many factors at once whose relationship to the overall health of the ecosystem may not be known. It is difficult to reduce the measurement of these complicated interactions into a few practical and easily understood indicators. Gathering appropriate data for the indicator to be useful is no less difficult. Project managers must diligently collect such data using standardized methods, and often for long periods of time. Management of biodiversity typically deals with ecological processes that may occur slowly, such as changes in a species' population or changes in the biological structure of an ecosystem. Therefore, the monitoring framework of projects must survive well beyond the project term, and often must be applied over an area much larger than the project area to show the project's full effects.

The Environment Policy specifies that the Bank must develop indicators to measure a project's *"contribution toward agreed environmental sustainability outcomes"* and to *"track the Bank's effectiveness in pursuing environmental goals as well as general country-level environmental performance."* In this context, and as part of its work plan for 2007, the IDB, in coordination with the

World Bank and other development agencies, will develop a standard protocol for reporting and tracking biodiversity information and indicators associated with Bank investments. Whilst projects often collect and generate a substantial amount of information on biodiversity, this information is often lost due to a lack of standard protocol and methodologies. This can impede the development of relevant indicators at both the project and the aggregate level. Furthermore, acting under its Strategic Framework for Biodiversity and Ecosystem Management, the Bank will consult with other multilateral development banks and NGOs to assemble and test a package of biodiversity indicators tailored to the Latin America and Caribbean region. Pilot testing of the indicators is anticipated within the next two to three years.

A Common Set of Sustainability Indicators

Assessing the Bank's overall sustainability is a somewhat different challenge than assessing its project-level impacts—whether biological or social. It requires indicators that capture the Bank's aggregate economic, social, and environmental performance—the three critical components of sustainability. In the private sector, efforts have been underway for some time to construct a working slate of indicators to capture a company's performance in these three areas. The Global Reporting Initiative (GRI) is one such effort that many companies have embraced. It offers a standard methodology and list of sustainability indicators that companies can routinely measure and report on to their stakeholders. However, the Bank's work is unlike the work of private sector companies—even other conventional banks. Its mission is more broad as it deals with contributing to public goods such as economic development, social development, and environmental security—aspects of public well-being that are difficult to assess in the context of the Bank's investments. For this reason, the Bank is engaged in an effort to choose and field-test a more specialized slate of sustainability indicators appropriate to its work. To this end, the IDB has joined a working group made up of peers from other multilateral financial institutions (MFIs), to define a workable framework for sustainability reporting among MFIs and agree on a common set of reporting indicators. This work will proceed over the next two to three years.



Updating the Independent Investigation Mechanism

In 1994 the Bank established the *Independent Investigation Mechanism* (IIM) to investigate formal complaints that the Bank has failed to follow its own policies and procedures in the design, analysis, or implementation of Bank-financed operations. After reviewing the complaint, the Bank's Board of Executive Directors decides if an investigation is warranted. If so,

it appoints a panel of three independent investigators, each from a different country. The inspection panel submits a report with its findings and recommendations, which the Bank can act on or further dispute. The Bank uses the IIM as an important transparency tool and mechanism for redress. To date, five complaints have been fully investigated under the mechanism, and some stakeholders regard the IIM as a slow and somewhat inflexible tool for dispute resolution (Table 2.1 summarizes IIM cases since 2003).

Operation (country)	Request to the IIM	Panel	Year	Action taken
Emergency Flood Rehabilitation Program (Argentina)	In 2004, Mr. <i>Luis María Zapiola</i> , on behalf of the <i>Pilagá community</i> and other groups, alleged failures by the Bank in operational policies: Environment (OP-703); Involuntary Resettlement (OP-710); Supervision (OP-304), during analysis, approval, and initial execution.	No	2006	The consultant report recommended not convening a full panel of the mechanism, since the borrower had addressed most of the issues raised in the initial consultant's report. The Bank's Board of Executive Directors endorsed the consultant's recommendation.
Cana Brava Hydroelectric Project (Brazil)	In 2003, persons affected by construction of the project represented by the <i>Movimento dos Atingidos por Barragens (MAB)</i> alleged deficiencies in resettlement as well as other issues concerning social and environmental sustainability.	Yes	2005	The Independent Panel convened found that the Bank failed to fully comply with the Bank's 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. The Bank's Board of Executive Directors was not able to reach a consensus on whether the Bank's resettlement policies were violated, but 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.
Yacyretá Hydroelectric Project (Argentina/Paraguay)	In 2002, the <i>Federación de Afectados por Yacyretá de Itapúa y Misiones</i> (FEDAYIM) alleged possible violations of Bank environmental and resettlement policies	Yes	2003	Based on the Independent Panel's findings, the Bank's Board of Executive Directors concluded that the IDB did comply with the normative framework applicable to the design, analyses, and implementation of the project, and did follow applicable procedures. In view of the complexity of the Yacyretá project and the challenges that remain to bring it to a successful completion, in particular the social and environmental aspects, the Board directed the Bank's management to work with the Entidad Binacional Yacyretá (EBY) to develop a <i>project termination plan</i> to address social and environmental issues that will reflect best practices and measures acceptable to both participant governments and the financial institutions involved.
Termoeléctrica del Golfo Project (Mexico)	In 2002 <i>Grupo Rescate Ecológico de Tamuín</i> filed a request for investigation regarding possible violations of the Bank's operational policies.	Yes	2003	The Independent Panel found that the IDB had followed its operational policies appropriately in a project to build a thermoelectric plant, except for its information disclosure policy. The panel also concluded that the environmental controls in place in the project reflect the best available technologies. The Bank's Board of Executive Directors asked the IDB's management to carry out studies to determine the viability of including social components in "enclave" projects financed by the Bank.

With this in mind, in 2003, the IDB began to consider revisions of the IIM to enhance it. The revised Mechanism would respond more quickly and would contain a consultation component that would attempt to address problems before they rose to the level of a formal “complaint.” The Bank made a draft of the revised Mechanism document available to the public for consultation, in accordance with Bank policy. The public consultation process, held in the late winter and spring of 2004, included meetings with civil society organizations, private sector representatives, as well as solicitation of comments via the Bank’s website. The response demonstrated considerable interest in the revised Mechanism. During 2006 the Bank continued to consider the comments received during the consultation process and in 2007 will prepare a further revision of the IIM for review by the Board of Executive Directors. While the volume of comments and complexity of issues involved has made the process more time-consuming than expected, the Bank expects to move the revisions toward completion during 2007.

Promoting Integrity in Our Work

As the IDB works towards embedding sustainability into its operating structure it also seeks to instill a sense of integrity at every level of the Bank and the countries and clients it serves. To that end, the Bank’s *Integrity Initiative*—a framework of mechanisms, policies, and regulations to ensure high ethical standards and accountability among Bank staff in the conduct of all Bank-financed activities—strives towards three goals:

1. Ensure that Bank staff act in accordance with the highest standards of integrity and that the institution’s internal policies and procedures support this goal.

2. Ensure that activities financed by the Bank are free of fraud and corruption and are executed in an environment with appropriate controls and oversight.
3. Support programs that help member countries strengthen good governance, enforce the rule of law, and combat corruption.

Revising the Code of Ethics

A keystone of the Integrity Initiative is the Bank’s *Code of Ethics*. In March 2006, the Bank introduced a revised Code of Ethics that reflects new sensibilities and practices in the ethics field. The new Code:

- gives more comprehensive guidance on conflicts of interest and revises the system for disclosing potential conflicts of interests;
- includes new procedures under which the Ethics Committee will consider claims of violations of the Code, including enhanced due process for employees under review;
- creates a specialized Secretariat to manage the Ethics Committee’s business and provide guidance to employees;
- promotes consultation by employees; and
- reinforces the idea that Bank employees are international civil servants.

The new Code is accompanied by a mandatory Ethics and Conduct Training Program for all Bank staff and consultants, which was launched in September 2006. By the end of 2006, approximately 1,000 staff had participated in this training, including staff in headquarters and country offices (Figure 2.2). An online learning tool is also being developed. As part of the revised Code of Ethics, a conflict of interest reporting system will be rolled out in 2007.

In addition to the Ethics Code, the Bank has a separate *Staff Rule on Respect in the Workplace* that strictly prohibits any form of harassment. An Ethics Committee and a Conduct Review Committee, respectively, are responsible for the application of these rules. The Bank also has an Ombudsperson (the terms of reference for which were updated in 2006), a Conciliation Committee, and an Administrative Tribunal to deal with grievances related to ethics and conduct matters. Throughout 2006,

Figure 2.2
Ethics and Conduct Training



the Ethics Committee considered 11 allegations of Code violations and 32 inquiries or concerns submitted by staff. The Bank recently completed the hiring of a new Ombudsperson and is also in the process of hiring an Ethics Officer, who will be responsible for providing impartial services to IDB management and staff regarding the IDB's policies and procedures related to integrity in the workplace. The Bank is also reviewing and strengthening its grievance policies and procedures.

Fighting Fraud and Corruption

In addition to its modification of the Code of Ethics, IDB has also continued to strengthen its efforts against fraud and corruption.

The Bank's has an internal administrative process to investigate violations of its regulations related to fraud and corruption. This process has continued to mature and develop as it has moved from the Procurement Committee to the Office of the Auditor General and now to the Oversight Committee on Fraud and Corruption and the Office of Institutional Integrity. More recently, the Board of Executive Directors approved measures to implement new sanctions procedures for fraud and corruption cases; the Bank has created a Sanctions Committee to serve as a specialized body to consider claims and determine sanctions where appropriate.

In addition, the Bank signed a joint Memorandum of Understanding with the Department for International Development of the United Kingdom, the World Bank, and Transparency International during the International

Box 2.2

Key IDB Documents Addressing Fraud and Corruption

The Bank's authority to investigate fraud and corruption is defined by four key documents, which lay out the foundations for the authority of the Bank to investigate fraud and corruption in the activities it finances in order to ensure that funds disbursed are used for the purposes intended.

1. The Agreement Establishing the Inter-American Development Bank.
2. General Conditions for Ordinary Capital Loans.
3. The Procurement Policies.
4. The document Strengthening a Systemic Framework against Corruption for the Inter-American Development Bank.

Anti-corruption Conference in Guatemala in November, 2006. The MOU will facilitate joint activities supporting good governance and anti-corruption in Latin America and the Caribbean.

Strengthening Good Governance

Through the implementation of its strategy on Modernization of the State, the Bank supports borrowers in their efforts to enhance democratic governance both at the national and local levels. This strategy includes Bank interventions to help strengthen institutions responsible for promoting transparency, accountability, and the fight against corruption.



Among multilateral financial institutions, the Bank has been a pioneer in actively incorporating governance and institutional issues into its approach to develop-

Box 2.3

Investing in Good Governance

In 2006, the Bank approved several loans to strengthen democratic governance and modernize the functioning of states. Examples include:

- **Building Democratic Institutions.** The Bank is in the process of approving a loan for the second phase of Brazil's Interlegis project, an initiative aimed at enhancing the quality of policymaking processes by improving access to and exchange of information among the country's legislative bodies, including the Federal Senate, state congresses, and municipal legislative bodies. This program will also encourage government transparency by helping civil society organizations and citizens in general to gain access to information on business being conducted by legislative bodies.
- **Encouraging the Rule of Law.** The Bank approved two technical cooperations in 2006 on this subject. The first is aimed at defining judicial standards and creating indicators of judicial performance in order to better evaluate the functioning of judicial systems in the region. The second focuses on training judges and prosecutors to handle the growing problem of money laundering in Latin America by providing mock trials to familiarize them with the issue.
- **Better Public Sector Management.** Two loans were approved to support comprehensive public service reform programs in Paraguay and Uruguay. Modernization of public service rules and systems in these countries is intended to make public servants more accountable to the public, and to reduce opportunities for corrupt behavior.

The Bank is also reviewing its five-year experience implementing its systemic framework to combat corruption, and is exploring how to directly support member countries efforts to implement the international anti-corruption conventions, including the *Inter-American Convention Against Corruption* and the *United Nations Convention Against Corruption*.

ment. Bank mandates reflect a strong commitment to the principle that the quality of development is closely intertwined with the quality of governance and institutions. This has led to the adoption of a key strategy document on modernization of the state, which covers the broad field of democratic governance, including four areas: democratic institutions, rule of law, market institutions, and public management.

The lack of democratic governance is widely recognized as a source of inequality and political instability—major threats to economic and social development. Good democratic institutions are essential to ensure that citizens' rights are protected, public resources are managed honestly and their benefits fairly distributed, and all societal groups are included in public policymaking. The IDB thus gives a high priority to supporting member countries' efforts in this field; in 2006, the Bank approved 26 loans totaling \$1.46 billion in lending in the field of modernization of the State and democratic governance (Box 2.3).

Tapping the Experience and Expertise of Civil Society

Consultation and participation are key mechanisms used by the IDB to strengthen accountability to its stakeholders. Recognizing the need to ensure transparency in its operations and activities, the Bank regularly seeks input from interested and affected parties on projects, drafts of selected strategies and policies, and other activities via public consultation exercises. Many Bank operations, especially those that have significant environmental and social impacts, incorporate components for civil society participation in the preparation, implementation, and monitoring stages of the projects. Examples of consultation and participation during 2006 included:

- The Sixth Regional IDB-Civil Society Meeting was held in Campinas (São Paulo), Brazil in February 2006 as part of the process of consultations that the Bank hosts periodically with civil society organizations at a national, subregional, and regional level. The Campinas meeting provided an opportunity for open dialogue between the Bank and representatives of civil society prior to the Annual



Meeting of the Board of Governors. This reflects the Bank's interest in civil society's views regarding specific development challenges and provided occasion for the Bank's response to concerns raised.

- At the time of the Annual Meeting of the Board of Governors in Belo Horizonte, Brazil in April 2006, the Bank's Executive Vice President held an open-agenda meeting with civil society organizations. Topics ranged from the new Environment and Indigenous Peoples policies to a discussion of large infrastructure projects such as the Camisea gas pipeline. The Executive Vice President also discussed the Bank's forthcoming realignment and its implications for Bank activities.
- Prior to the meetings in July and November 2006 of the Bank's Board of Governors to consider proposals for debt forgiveness for Bolivia, Guyana, Haiti, Honduras, and Nicaragua, the Bank sought to facilitate communications among civil society organizations interested in debt issues with the Bank's administration.
- The Bank continued its quarterly outreach meetings with civil society organizations in Washington DC on its non-sovereign guaranteed operations; two of these meetings were dedicated exclusively to consultation on a proposed liquid natural gas project in Peru.
- In many of the Bank's country offices, Civil Society Advisory Councils (CASCs) continue to serve as a means by which both the Bank and member governments obtained input on country strategy documents, draft sectoral strategies and policies, and individual projects. The Bank is working to ensure that CASCs are set up in all member countries.
- The IDB conducted several meetings with civil society organizations in the context of major Bank initiatives, such as the Plan Puebla-Panama, and the Regional Infrastructure Initiative for South America (IIRSA), and other activities such as free trade negotiations.
- Since 1995 the IDB conducts annual or bi-annual consultations with the External Advisory Council on Gender Equality in Development. The Council is made up of individuals from various NGOs, academic institutions, governments, and the private sector and advises the Bank on issues affecting women's participation in IDB-financed programs. The goal of the Advisory Council is to encourage greater attention to gender issues in the region and in the Bank.

These meetings and consultations, which will continue in 2007, serve to solicit stakeholder opinions, criticisms, and suggestions so that the Bank can take these into account when designing or adjusting Bank-financed activities.

CHAPTER 3:

Advancing Sustainability in Public Sector Operations



To be meaningful, IDB's commitment to sustainability must manifest itself in its portfolio. The Bank's public sector operations comprise a large share of its portfolio and therefore an important arena for its sustainability work. The Bank invests in sustainable development through the provision of loans and technical cooperation agreements that target environmental issues such as water and sanitation, biodiversity, and urban environmental management. It also invests in social sustainability with projects that target improvements for indigenous peoples, women, Afro-descendants, and youth, among others. Beyond its portfolio, the Bank uses its position to encourage governments to make environmental and social sustainability key components in all their development efforts, including infrastructure, rural and urban development, and health care. Poverty reduction and income generation are also crucial components of the Bank's public sector work.

2006 Portfolio Snapshot

In 2006, the IDB approved \$6.4 billion in loan assistance to its member countries. The Bank approved \$3.2 billion for projects to improve competitiveness in such areas as energy, transportation and communication, trade financing, productive infrastructure, capital markets, agriculture, industry, tourism, and science and technology. This represented 50 percent of Bank lending. A further 27 percent of Bank lending, or \$1.7 billion, was dedicated to social sector reform. Most of the operations were for social investment programs, followed by water and sanitation, education, health, environmental protection, and urban development. Another 23 percent of Bank lending (\$1.5 billion) focused on operations to support modernization of the state, introducing new issues and innovative approaches. The Bank also administered 442 operations worth \$104 million in technical cooperation in 2006 on behalf of donors. More information on the Bank portfolio is available in the Bank's *Annual Report* and on the Bank's website.

Environmental Lending: Trends and Challenges

The IDB recognizes that environmental sustainability—human actions that maintain the capacity of ecosystems to produce the range of goods and services upon which all life depends—is a prerequisite for the long-term success of its development efforts. Investments in a healthy environment and sound natural resource management support livelihoods, increase sustainable income, and improve health and quality of life, particularly for the poor. That is why the Bank regards the environment as a cross-cutting issue in all of its work, and strives to protect and enhance the region's ecosystems, both as an economic engine and the basis of all life.

For more than a decade, loans designed to improve environmental conditions and promote sustainable resource use have been a significant part of the Bank's portfolio.

Figure 3.1

Environmental Loans, 1997-2006

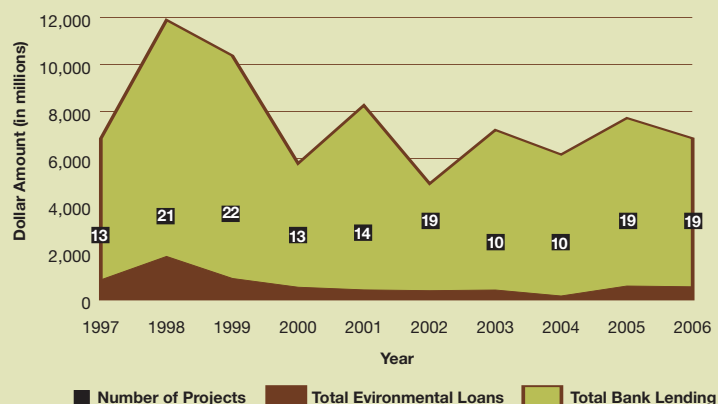


Figure 3.2

Core Environmental Loans by Environmental Category, 2006



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.

The IDB designs loans in such areas as natural resource management, water and sanitation, urban environmental management, and sustainable tourism. Over the last decade, the Bank's environmental lending in the areas of natural resource management and environmental conservation alone has amounted to 9.4 percent of total lending, some \$6.5 billion. In 2006, the Bank approved 19 core environmental loans totaling \$538 million (Figure 3.1). The Bank supplemented its own funding for environmental operations with \$129 million in financing from other sources (known as *counterpart financing*) (Figure 3.2).

In 2006, the demand for investments in drinking water supplies and especially for sanitation services remained high, accounting for 73 percent of environmental lending. To a great extent, this trend is driven by the effort of countries in the region to meet Millennium Development Goal 7, Target 10, under which nations have committed to reduce by half the number of families who lack access to clean water and adequate sanitation by 2015. Nations in the Latin America and Caribbean region still suffer significant deficits in their ability to deliver clean water and to properly treat and dispose of wastewater, particularly in urban areas (Box 3.1), so demand for water and sanitation loans will likely remain high in years to come.

Box 3.1 Strengthening Environmental Sanitation in Quito

In 2006 the IDB approved a \$70 million loan (complemented by \$40 million in counterpart financing) for phase two of an environmental sanitation program that will provide residents of Quito, Ecuador, with efficient and sustainable water, sewer, and flood control services. The borrower and executing agency of the loan is Empresa Metropolitana de Alcantarillado y Agua Potable de Quito (EMAAP-Q).

The main objectives of this program are to make water and sewer services in Quito financially sustainable over the long term; to make investment in and operation of EMAAP-Q systems economically efficient; to assure universal access to water, sanitation, and flood control services, particularly by low-income families, many of whom now supply themselves with water of poor quality; and to provide proper disposal of sewage and thereby reduce the risk of waterborne diseases. The program includes several components: potable water works, sewer works, flood control works, slope management, institutional strengthening of the EMAAP-Q (with particular focus on enhancing the capacity of the Operations and Maintenance Department), and strengthening of the municipal government through the creation of an advisory council to enable improved management of the city slopes and studies for the development of a regulatory framework.

There is also increasing demand for solid waste management projects to deal with the growing quantity of urban waste, including toxic wastes. These projects include sanitary land fills and integrated solid waste management systems to process residential and industrial solid wastes.

Furthermore, in 2006 the environment portfolio included an increase in projects that adopt a more integrated approach aimed at improving the overall environmental quality of urban settings. These integrated programs often take local watersheds as their point of intervention, moving away from a purely sectoral approach to infrastructure improvement. As a result, many programs include simultaneous investments in flood control, sanitation and water quality improvement, rehabilitation of river margins, and protection of river catchments upstream, as well as important governance work to build local institutions that can better manage both water infrastructure and the ecosystems that supply water. To support this trend, the Bank is providing technical assistance to prepare watershed management master plans. For example, the Bank recently funded the preparation of the Upper Rio Uruguay Watershed Sustainable Development Master Plan (\$1.2 million in IDB investment, with an additional \$1.7 million in counterpart investment). The plan will help guide the area's economic development so that it produces sustained economic opportunities, but also protects important water and other natural resources. All totaled, 11 percent of 2006 environmental lending was dedicated to integrated natural resource management operations.

Sustainable tourism is also an important investment category for the Bank, representing another 11 percent of the Bank's environmental loans—a sharp rise over previous years. This reflects the recognition of tourism's importance as a source of income and its potential for growth. Investments in sustainable tourism projects are frequently planned jointly by the private sector, local and national governments, and civil society organizations, and are often aimed at making national parks and protected areas featured destinations on the tourism circuit. The demand for integrated natural resource management projects, particularly those including nature-related tourism investments, is expected to continue to grow in 2007.

The inclusion of tourism components in sustainable development projects located in frontier or remote regions indicates a trend towards a more decentralized and participatory model of natural resources management (Box 3.2).

Increasingly, a consideration of disaster risk management has been highlighted in the Bank's discussions with countries over programming assistance and country strategies. As a result, the Bank is beginning to see a rise in the number of programs to evaluate

Box 3.2

Promoting Sustainable Tourism in the Mayan Biosphere Reserve

El Petén, Guatemala's northernmost department, is home to Central America's largest protected area, the Mayan Biosphere Reserve. The 21,130-km² reserve, which covers 20 percent of the country's territory, has a complex system of natural forests, striking archeological sites, and a unique cultural heritage. Along with neighboring parks in southern Petén, Belize, and the Mexican states of Chiapas, Campeche, and Quintana Roo, it constitutes the most extensive tropical broadleaf forest in Central America, known as the Selva Maya Forest. However, the reserve is under assault from a variety of threats: illegal settlements, deforestation, forest fires, oilfields, and the smuggling of rare woods, wildlife species, and archeological artifacts. Unsustainable farming, ranching, and logging are also factors, as are the extreme poverty of much of El Petén's population.

In 2006, the IDB approved a \$30 million loan to Guatemala's Ministry of the Environment and Natural Resources, which will carry out the so-called Petén Development Program for the Conservation of the Mayan Biosphere Reserve. The program is based on a strategy for participatory and inclusive conservation for El Petén—a strategy shaped in a process of broad consultations with local communities, NGOs, and municipal leaders, and endorsed by a high-level interagency commission. This approach was designed as an alternative to the outdated model of conservation that largely excluded local stakeholders.

The loan will finance a number of complementary activities, from local conservation efforts in the protected area itself, to investments in surrounding buffer zones intended to create new sources of income for the local population. One of the features of the program is a plan to promote El Petén as Guatemala's top tourism destination. If successful, the effort would generate local employment and provide an alternative to continued agricultural expansion—one of the area's prime threats. To this end, the program will finance the creation of five tourism circuits backed by the Guatemalan Tourism Institute and utilizing input from local communities. In addition, the program will construct and equip local museums and a school of community tourism. The restoration of archeological sites and the posting of special road signs along the tourist circuits are also part of the plan.

The program will also provide resources to strengthen participating ministries, municipal governments, and civil society organizations to increase their management capabilities and ensure their continued presence in the region.

In addition to the loan operation, the Bank is working with the GEF to develop an additional project component, which will complement the investments in the buffer zones by strengthening the sustainable use and conservation of biodiversity, water, and soil resources within the Mayan Biosphere Reserve's core zones. The GEF project preparation grant totaled \$350,000, while the total amount for the execution stage will be \$4.1 million. This grant proposal is currently at the approval stage.

the risk of disasters by estimating potential losses at both the national, subnational, and regional levels from probable events. Countries have also increased their investments in early warning systems and disaster preparedness. However, corresponding investment in *risk mitigation*—limiting probable impacts before they happen—is lagging. As a consequence, the IDB is making more grant resources available for strategic planning, institutional development, and piloting risk management solutions through the new Disaster Prevention Fund (\$10 million) and Multi-Donor Fund for Disaster Prevention (approximately \$4 million initially).

Technical Cooperation Programs

In addition to loan operations, the IDB finances technical cooperation programs to address environmental issues. These programs represent the Bank's effort to use grants to improve the design of loans and institute novel programs. The IDB finances technical cooperation programs for institutional strengthening, to transfer knowledge, and to conduct studies, including

diagnostic, pre-investment, and sector studies that support project design and preparation. The programs can be aimed at projects specific to a single country or for trade, integration, or regional initiatives.

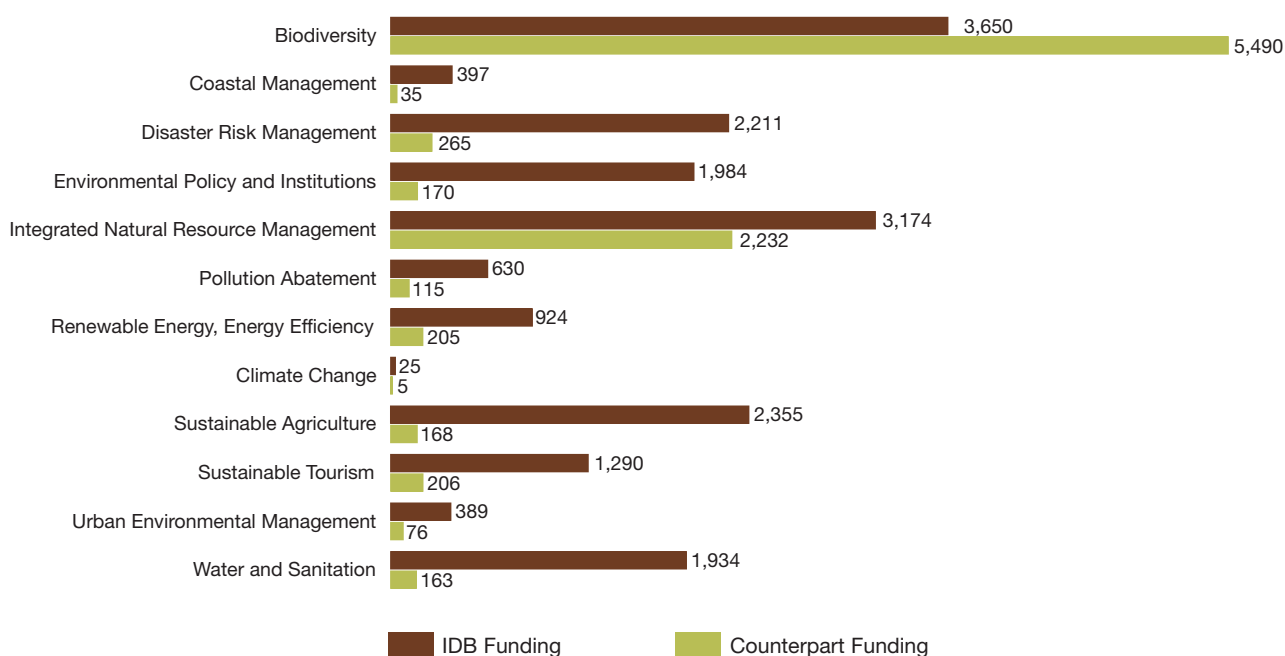
Most *technical cooperation programs* are grants that do not have to be reimbursed, but some are loans that have to be repaid. Much of the funding to finance technical cooperation programs comes from the 50 or so trust funds that the Bank administers. In 2006, the Bank administered 44 active trust funds for technical cooperation activities. Of the \$104 million in technical cooperation grants approved during the year, \$41.3 million came from trust fund resources.

The volume and value of *environmental* technical cooperation programs in 2006 was 81 grants totaling \$19.0 million (IDB investment), with an additional \$9.1 million in counterpart investment (Figure 3.3). Particularly notable is the continued trend toward grants in the areas of integrated natural resource management, sustainable agriculture, water and sanitation, and biodiversity (Box 3.3).

Figure 3.3

Environmental Technical Cooperation Programs, 2006

(in thousands)



Box 3.3

Creating the Americas' First Trinational Park

In late 2006, the IDB approved a project to implement the Integrated Management Plan of the Montecristo Trinational Protected Area (MTPA) in the Trifinio region on the borders of El Salvador, Guatemala, and Honduras. The project will help conserve the biodiversity and ecosystem services provided by the MTPA. It will be financed with a \$3.5 million technical cooperation grant (with an additional \$150,000 for project preparation) from the Global Environmental Facility that will be administered by IDB.

The MTPA hosts regionally and globally important biodiversity that is threatened by increasing human activity. The 139-km² protected area is characterized by a mixture of cloud forest and transitional mixed pine and broadleaf forests that are home to at least 3,000 species of plants and animals. The cloud forest, located in the upper reaches of the Lempa River basin, serves a critical role in producing water resources for the local population. Until now, the area has lacked a comprehensive and integrated management framework to ensure its long-term ecological health. The establishment of the MTPA will form the first and only trinational protected area in the Americas administered in an integrated manner by a single management unit, under a single management plan and budget.

The project will fund initial steps necessary to consolidate the MTPA and develop an effective trinational framework for the management and participatory administration of the area. This includes support for land tenure regularization and boundary demarcation, development of sustainable financing mechanisms, and engaging local communities and private land owners (who control approximately 40 percent of the MTPA) in the implementation of the integrated management plan. The project will also promote the sustainable use of natural resources—through sustainable agriculture, agroforestry, and tourism—in the buffer zones and in the three biological corridors around the park. In addition, the project will fund basic visitor infrastructure such as trails, signs, and visitor centers, and will establish a monitoring and research program.

The project forms part of a wider Bank effort to promote the integration of parks management, biodiversity protection, and sustainable livelihoods in the Trifinio region, under the leadership of the Trinational Commission of the Trifinio Plan, the agency that will manage the MTPA. Earlier this year, the Trinational Commission signed co-management agreements with each of the protected area management authorities in the three countries.

A total of \$5.5 million in co-financing for the project will be provided by the protected areas management agencies of each of the participating countries, the Trinational Commission, local municipal governments, and private land-owners. Several existing IDB loans and cooperative agreements with executing agencies of other projects and programs in the region will also contribute funds.



Delivering Results and Development Impacts

In addition to reporting on its annual investments in sustainability, the IDB recognizes the importance of capturing and reporting on the impact of its work on sustainability. While aggregate data on sustainability impacts and outcomes is difficult to collect, results can be evaluated on a project-by-project basis. In 2006 the Bank approved 71 Project Completion Reports and carried out 33 ex-post evaluations (2005-2006 cycle) on projects that it financed. These predominantly focused on three areas of Bank investment: labor training, science and technology and rural roads, however also included the evaluation of impacts of the El Salvadorian environmental program – PAES (Box 3.4).

Integrating Environment in Economic and Social Sectors

In addition to its investment in traditional environmental sectors, the IDB also finances environmental components in economic and social sector loans. These loans are for mainstream activities such as constructing conventional energy or road infrastructure, funding industrial development, or any of the many conventional development activities the Bank finances. In 2006, sectors where environmental components were incorporated in such loans included energy and industrial development, information technology and telecommunication, transportation, and infrastructure. There are also significant environmental components embedded in social development loans.

Box 3.4

Evaluating the Impact of the Environmental Program of El Salvador (PAES)

During the second half of the 1990s, the Government of El Salvador and the Bank joined in a comprehensive program to support environmental management. As part of this program, the IDB invested \$30 million to address the problems associated with severe soil erosion in the Rio Lempa watershed—the main source of water and hydroelectricity in the country. The Program adopted a “bottom up” approach, working with farmers, communities, local governments, and schools to promote sustainable natural resource management in critical areas of the watershed. During 2006 the Bank's Evaluation Office and the teams responsible for designing the project partnered with the University of Connecticut to conduct an ex-post evaluation of the project's impact.

The evaluation found:

- Over 30,000 farmers shifted from unsustainable agricultural practices—mostly mono-crop systems—to diversified, environmentally sustainable farming practices in their plots and in their communities.
- As a result of increased productivity, product diversification, and market access, average farm income among project beneficiaries increased more than 50 percent compared to non-beneficiaries (control groups).
- Use of sustainable farm practices remained high among a large percentage of beneficiaries, even two or three years after their participation in the project ended.
- Water and soil indicators have improved.
- Slash and burn practices have been eliminated in the project area.
- The watershed landscape has been modified, with increased tree and plant cover and live barriers on over 40,000 hectares.
- Local municipalities and schools have adopted several environmental initiatives enhancing the level of environmental awareness.

The success of the program has generated interest in adopting similar models in other counties of the Region.

Most environmental components in economic and social sector operations are impact mitigation measures. Other components may include efforts to mainstream a consideration for the environment into these traditional sectors. Mainstreaming is carried out primarily through such activities as 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. Other investments include environmental impact evaluations, environmental auditing, environmental monitoring and supervision, and impact mitigation and compensation measures required in the environmental and social management plans for major projects.

Such environmental components totaled approximately \$180 million in 2006 (Figure 3.4). Country governments or counterpart institutions supplemented this with another \$9 million for environmental components in 2006.

Targeting Social Sustainability

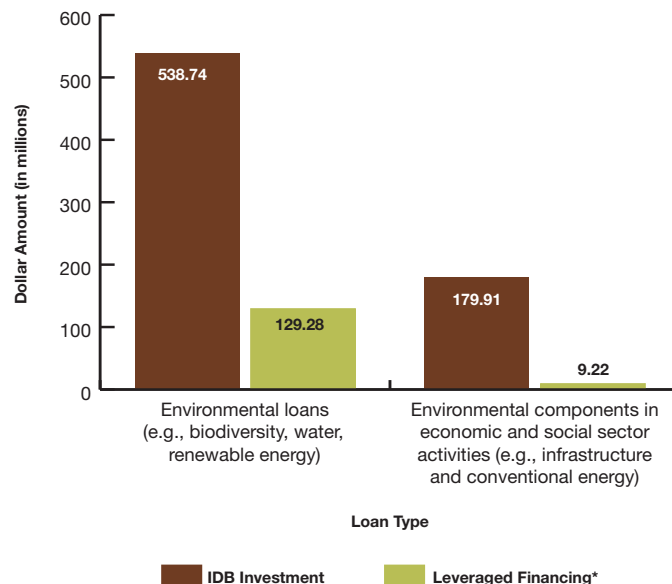
The concept of social sustainability drives much of the IDB's work. A central tenet of the IDB's mission is that its work must contribute to social as well as economic well-being. The elements of this well-being include material sufficiency, security, health, social acceptance, opportunity, and freedom of choice, among others. The process of achieving this well-being is what the Bank means by *socially sustainable development*.

While there is no standardized process for pursuing social sustainability, some generally accepted principles have emerged. In the Bank's concept, socially sustainable development is development that:

- increases access to opportunities and social mobility;
- increases equity and reduces social and economic disparities;
- builds social capital—the aggregate value of community and human institutions;
- respects human rights, contributes to social justice, and reduces social exclusion;
- works through consultation and participation; and
- respects cultural and spiritual values.

Figure 3.4

Total Environmental Investments, 2006



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



The benefits of such development build over time, and are reflected in decreased poverty levels and an upward trend in indicators of welfare such as education, employment, childhood health, and gender equity. This fosters greater social stability and increases society's resilience to unexpected shocks—in other words, society's ability to sustain itself and prosper.

The Bank's efforts to promote socially sustainable development span a wide range, and represent nearly half of its investment portfolio. Since 1994, the Bank has worked toward the goal of dedicating 50 percent of the dollar volume of its loans and 40 percent of the actual number of its loans toward such *social equity loans* that explicitly target social development, poverty reduction, and the promotion of social equity. Such loans direct investments into education, health, water and sanitation, and other areas crucial to building

human and social capital. The Bank also examines all loans outside the traditional social sector to identify opportunities for enhancing the social value of these projects, and to identify and manage social impacts associated with them.

In addition, the Bank makes special efforts—through such vehicles as the Social Inclusion Trust Fund and the Gender Mainstreaming Trust Fund—to support innovative programs that reduce social inequalities and target traditionally excluded groups such as women, indigenous peoples, or people with disabilities or HIV/AIDS. These operations, in particular, encapsulate the notion of social sustainability.

Promoting Gender Equality

The Bank uses both loans and technical cooperation programs to promote gender equality and the empowerment of women. In 2006, eight loans (for a total value of \$160 million) mainstreamed gender-specific actions into their design to enable the inclusion and equal participation of men and women in IDB projects. To help Bank staff identify successes and missed opportunities in its efforts to promote gender equality, all public sector loans are classified according to their level of *gender mainstreaming* by assessing four aspects of each project design: problem identification and social assessment; project objectives and components; measures for project execution; and monitoring and evaluation. Of the year's loans, three were identified as “best practice” examples in project design, including a loan to fund Honduras' social sector program to support its national poverty reduction strategy; a loan supporting Paraguay's program to strengthen its justice system; and a loan to fund Guatemala's violence prevention program.

In addition, the Bank approved 62 technical cooperation programs that address gender issues or identify women as one of the project's main beneficiaries (Figure 3.5 and Box 3.5), doubling the number of activities in this area in the past two years. Twenty-one of these projects have gender equality or women's empowerment as their main objective or address a priority theme for women in the Latin America and Caribbean region, such as reproductive health and human trafficking.

Box 3.5

A Road to Gender Inclusion in Colombia

In 2006, the IDB approved a \$60 million loan to improve the road network in the rural region of Antioquia, Colombia. The aim is to improve the transportation infrastructure in a sustainable, integrated manner, reducing transportation costs and travel times. This will make the region's economy more competitive and enhance social equity by increasing the rural population's access to social services. To increase the loan's social benefits and make sure it adequately addresses gender issues, the Bank also financed a \$65,000 technical cooperation grant with resources from the Gender Mainstreaming Trust Fund.

The grant will support the inclusion of women as beneficiaries and participants in the road-building project in several ways. It will assure that employment opportunities generated by the program are extended equally to women and men, will increase training for women in nontraditional occupations, and will strengthen women's role in the community. Support for gender mainstreaming will take place throughout the project cycle with activities such as: a pre-project study of the beneficiary population, training of the executing agencies on gender issues, participatory consultations to include the views of men and women, and the inclusion of gender indicators in the project's evaluation mechanisms.



Investing in Indigenous Peoples

Many of the countries in Latin America and the Caribbean have significant numbers of indigenous people. In Bolivia, Ecuador, Guatemala, and Peru, indigenous peoples make up more than half the population and suffer high poverty rates and exclusion, making them a priority target for culturally sensitive social and economic development efforts. The IDB is increasingly taking steps to assure that its activities serve the particular needs of indigenous peoples, who for so many years were marginalized in national development plans (see Special Focus for an in-depth discussion of indigenous peoples and development). These efforts are designed to respect indigenous values and place emphasis on indigenous capacity building and leadership. In addition, the Bank recognizes and supports the important role in biodiversity conservation and natural resource management that indigenous peoples play. Many of the Bank's efforts that are dedicated to the "development with identity" of indigenous peoples take the form of technical cooperation grants.

Figure 3.5
**Technical Cooperation Programs
that Promote Gender Equality, 2004-2006**

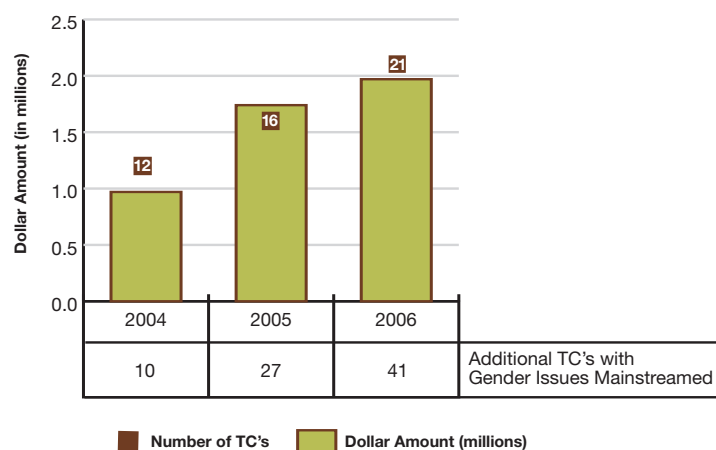
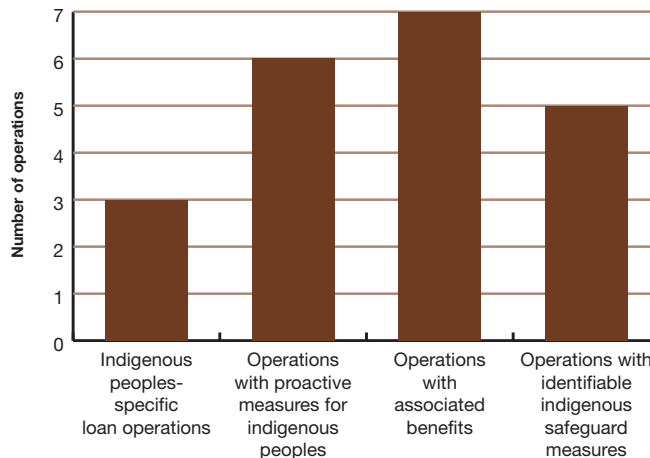
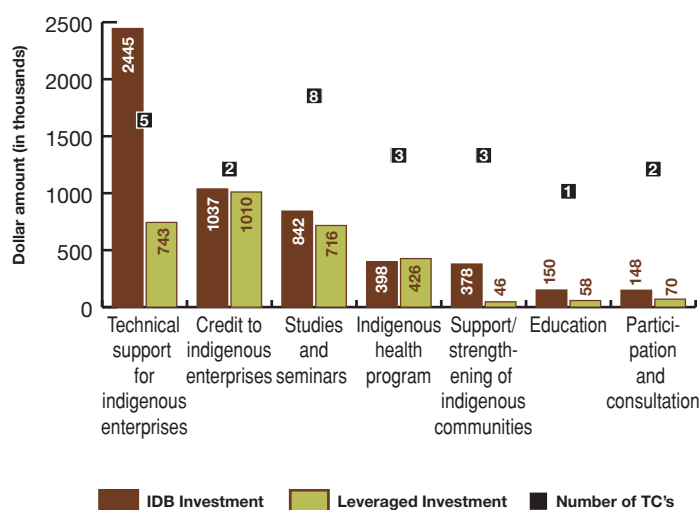


Figure 3.6
Loans Relevant to Indigenous Peoples, 2006



In 2006, the IDB developed three loans specifically designed to benefit indigenous peoples. The IDB investment was \$125 million, with an additional \$60 million in leveraged funds. In addition, the Bank approved a further 18 loan operations with various components whose objective is to benefit indigenous peoples (Figure 3.6). The Bank's indigenous-related

Figure 3.7
**Technical Cooperation Programs
 Relevant to Indigenous Peoples, 2006**



investments in 2006 represent a significant increase from its investments in 2005, when the Bank approved one indigenous peoples-specific loan operation with a value of \$11 million and a further 16 operations with varying indigenous peoples components.

The Bank also approved 24 technical cooperation programs focused on indigenous peoples, totaling \$5.4 million (Figure 3.7). In addition to technical cooperation programs specifically designed for indigenous peoples, 13 other technical cooperation programs had indigenous mainstreaming components. With the adoption in 2006 of its Indigenous Peoples Policy and Strategy for Indigenous Development, the IDB has a mandate to increase its indigenous peoples-related investments over the next few years.

Including Persons with Disability

Approximately 15 percent of the region's population lives with a disability. Physical barriers and social stigmas are a common obstacle to the inclusion of persons with disability in the workplace, in the education system, in health care facilities, and other social settings. The Bank has therefore committed to the inclusion of persons with disability in the work it funds. In 2006, the IDB approved four technical cooperation grants focusing on persons with disability, with a total value of \$765,000 (Figure 3.8). Two of the grants are helping to create job opportunities in Peru and Nicaragua for persons with disability, particularly women who face additional gender discrimination. A third grant was approved to build community capacities for managing disability in Argentina, and the final grant was aimed at strengthening the advocacy skills of organizations working with disabled people.

Efforts to assist persons with disability have been hampered by a lack of data on the prevalence and socioeconomic impact of disability at the household and individual level. For the past five years, the Bank has supported increased access to disability data, and is beginning to observe the impact of this investment: 20 countries in the region are now including disability questions in censuses and surveys. In 2007, the IDB will focus on linking data to policy. Policy reviews on inclusive education and labor market participation are underway in Andean and Central American countries.

In addition, the Bank is committed to analyzing its loan portfolio of education and labor market projects approved from 1990 to 2006 to document IDB's experience in disability work. This will greatly improve the Bank's capacity to benchmark best practices.

Helping People Living with HIV/AIDS

Some 2.4 million people in the region are living with HIV/AIDS, with another 500,000 infected each year. In 2004, the Bank introduced its *Guidelines for HIV/AIDS and Reproductive Health Projects* to help Bank staff address this threat more effectively in Bank projects. In 2006, the Bank approved five technical cooperation grants for projects dealing with HIV/AIDS, for a total value of \$583,340 (Figure 3.9). The emphasis in many of these projects is increased attention to prevention, particularly among youth and vulnerable populations, such as commercial sex workers and men who have sex with men. However, continued analysis of the AIDS epidemic and AIDS treatment options in the region is also important. Thus, the Bank will fund a study of how the Central American Free Trade Agreement has affected the affordability of AIDS drugs in the area.

Preventing Crime and Violence

The Bank has been working in the area of citizen security for almost a decade and has invested more than \$200 million in loan operations and technical cooperation projects in this field. Crime and violence significantly shape the social and economic development of the region, reducing the accumulation of human capital and undermining prospects of foreign investment.

Preventing violence and increasing citizen security are essential aspects of promoting social sustainability in the region. However, violence prevention is a long-term process that requires ongoing government commitment. It takes time to build community infrastructure, to change public perceptions of crime and violence and of the institutions in charge, and to strengthen social cohesion and alter individual behavior. Traditionally, the region's approach to fighting crime and violence has been reactive, using the police and the judicial system. However, evidence shows that it is more cost-effective to use violence prevention mechanisms that rebuild and promote social cohesion.

Figure 3.8

Technical Cooperation Programs Focused on Persons with Disability, 2004-2006

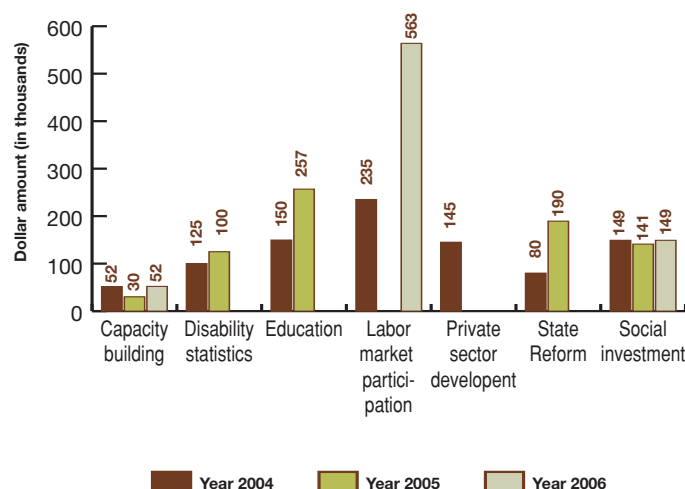
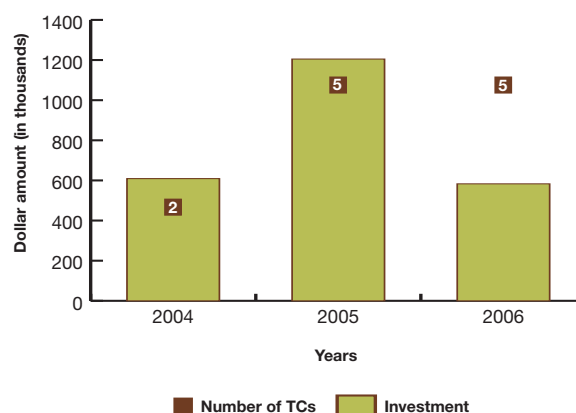


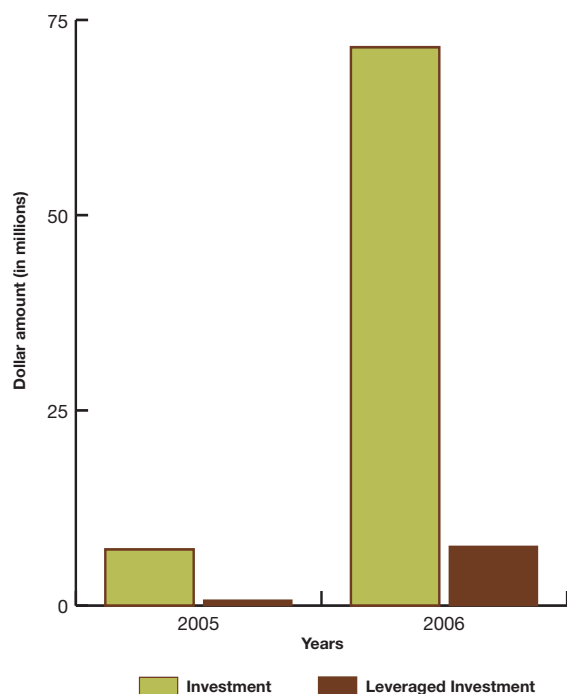
Figure 3.9

Technical Cooperation Programs Focused on HIV/AIDS, 2006



In 2006, the Bank approved three loans, totaling \$71.5 million (with a leveraged investment of \$7.6 million), to strengthen citizen security through a combination of violence prevention programs and institutional strengthening (Figure 3.10). In addition, the Bank approved two technical cooperation grants that target crime and violence prevention, totaling \$225,000. The Bank also used technical cooperation grants to address issues of citizen security, including a \$100,000 regional project for the design of comprehensive citizen security plans at the municipal level.

Figure 3.10
**Loans Focused on
 Preventing Crime and Violence, 2005-2006**



Encouraging Youth Development and Participation

The state of young people in the Latin America and Caribbean region has significant implications for the area's economies, communities, and governments. Young people under the age of 30 make up more than 40 percent of the region's population, and their participation is essential to achieving social sustainability. *The IDB Youth Program* promotes a holistic approach to youth development, and aims to create enabling environments where young people can become productive, healthy, and contributing members of society. The Bank also seeks to provide skills-building opportunities for youth, and increase the access they have to quality education and health care. In 2006 alone, the Bank invested over \$25 million in projects designed to directly impact youth, and trained approximately 40 ministers and youth leaders who work on youth issues through the Inter-American Institute for Social Development (INDES).

The *IDB Youth Network* is comprised of over 12,000 members who represent all sectors of society, and thousands of youth who are social and business entrepreneurs, politicians, environmental activists, women's rights advocates, and volunteers. Through information exchange, networking, communications, and capacity building, strong partnerships have been created between the IDB, civil society organizations, and youth leaders. In 2006, the Bank supported Youth Network members by providing technical support in project preparation, establishing new alliances with the private sector, and providing small grants for youth-led development and cultural events, as well as for research. Under the supervision of Bank staff, some Youth Network members are participating in Bank projects on information technology, volunteerism, and social entrepreneurship.

In addition, the IDB Youth Program has been working with Microsoft Corporation to develop a Youth Development Program for Innovation and Social Action that will provide grants, seed capital, and capacity building for youth-led projects. The Youth Program has also partnered with MTV Latin America to launch a campaign on youth as "agents of change" throughout the Americas.



Linking Environmental and Social Sustainability with Poverty Reduction

Poverty reduction and the promotion of social equity is one of the IDB's two overarching goals, together with fostering sustainable economic growth. The Latin America and Caribbean region suffers from the highest level of inequality in the world, and this inequality is associated with a higher level of poverty than would be expected given the region's per capita income. Current statistics show that over 40 percent of the region's population falls below the poverty line. The Bank understands that sustainable development cannot be achieved without reducing this poverty and inequality.

There is a close link between environmental and social sustainability and poverty reduction. The poor—particularly those in rural areas—depend heavily on natural resources for their livelihoods, often deriving more than half of total household income from a combination of small-scale farming and the collection and sale of wild products and firewood. Even in urban settings, environmental factors such as air and water quality greatly affect the poor. The poor also suffer most from the lack of health care, education, opportunity, social participation, and other elements of social sustainability. Thus, projects that promote the sustainable use of natural resources and projects that promote social sustainability are both necessary for poverty reduction.

In most cases these interventions are mutually supportive. Activities that lead to better management of forests, fisheries, or farm plots by the poor and more efficient harvesting will protect the productive resource base, while social interventions to improve tenure security, increase training and marketing acumen for agricultural and wild products, and build social networks will give poor families the tools to turn this resource base into income, and ultimately to go beyond dependence on natural resources alone.

The Bank is committed to a linked approach to environmental and social sustainability through its *Strategy for Poverty Reduction and Promotion of Social Equity* and its *Environment Policy*. In recent years, the Bank has pursued many poverty reduction projects in both areas. For example, the Bank has supported ecosystem management by indigenous peoples in Central America—many of whom are poor—using a combination of traditional means and novel land use analysis methods to help build food security. In Haiti, a \$5 million Bank loan is supporting an early warning system to alert poor families of natural disaster risks. In Panama's Chiriqui province, a \$27 million loan approved in 2006 will invest in poverty reduction and responsible management of natural resources. The programs objectives will be achieved through activities in three key areas: strengthening local capacity; support to farm production systems (in particular nontraditional products with export potential

and sustainable artisanal fishing and aquaculture and forest products) and infrastructure (water, sewerage, road improvement schemes); and the protection and sustainable use of natural resources, including the development and implementation of instruments to prevent or mitigate any negative impacts resulting from the infrastructure and productive development aspects of the project. This integrated approach to poverty reduction reflects the Bank's understanding that poverty is a multidimensional phenomenon that requires simultaneous actions at many levels to be effective.

This view of poverty reduction is consistent with the approach taken in the Millennium Development Goals (MDGs). The Bank sees itself as a key participant in achieving the MDGs in the region, and its efforts to promote environmental and social sustainability map well into national plans to meet the MDGs. For example, the Bank's cumulative lending in support of the education MDG has risen steadily, from 23 percent of the Bank's lending in 1999-2004 to 26 percent in 1999-2005. Similarly, the Bank's lending in support of the health MDGs rose from 25 percent to 26 percent of total Bank lending for the same period.

However, meeting the MDGs by 2015 will require continued and even intensified effort on the part of the countries the Bank serves. Recent analysis suggests that additional investments by the Bank could pay off in areas such as improving access to quality labor markets by at-risk youth, and obtaining secure land tenure for poor families. In addition, the Bank must continue its effort to scale up programs that have been shown to be effective in the MDG effort, such as early childhood development programs, and cash transfer programs that provide incentives for parents to send their children to school. The Bank also has an important role to play in collecting and systematizing data on key development indicators at the local level so that communities can track their progress toward the MDGs.

In addition to the IDB's ongoing work in poverty reduction and the promotion of social equity, the Bank introduced a new initiative in 2006: Building Opportunity for the Majority, aimed specifically at address the conditions of the poorest populations in Latin America and the Caribbean (Box 3.6).

Box 3.6 Building Opportunities for the Majority

Years of economic reforms have failed to extend the benefits of a formal market economy to the majority of people in Latin America and the Caribbean, leading to significant poverty and unmet development potential. Guided by the mandate of its Strategy for Poverty Reduction and Promotion of Social Equity, the Bank launched its *Opportunities for the Majority initiative*, in 2006, to address this failure. The initiative focuses on improving conditions for the region's low-income population by looking at that vast majority through a new lens. The Bank believes that people living and working at the base of the economic pyramid need to be seen for what they really are: consumers, producers, partners, and creators of wealth.

In recent years, countries throughout the region have made significant advances in nurturing democracy, macroeconomic stability, and legal and regulatory reform. But the benefits of growth need to reach the majority if the region is to progress on a stable and sustainable path. The IDB's work under the initiative will focus initially on six priority areas.

continued on next page...

Box 3.6

Building Opportunities for the Majority *(continued)*

Financial Democracy	
Challenges	Actions
<p>The Majority does not benefit from the formal financial system:</p> <ul style="list-style-type: none"> Only 10 percent of microentrepreneurs have access to credit. Less than 10 percent of remittances are leveraged through the financial system. 	<ul style="list-style-type: none"> The IDB will help develop new financial products, improve regulatory environments, and strengthen the institutional framework for microfinance lenders. IDB action aims to spur the private market for microfinance to increase from \$5 billion to \$15 billion per year by 2011. The Bank will continue to help lower transaction costs of remittances to 3 percent. The Bank will help increase the developmental impact of remittances, stimulating their use as collateral for loans, housing, insurance, and education.
Enterprise Compact	
Challenges	Actions
<ul style="list-style-type: none"> The majority of companies and workers are in the informal economy, leading to low productivity, low wages, and no benefits. 	<ul style="list-style-type: none"> The IDB will create a new \$1 billion lending program for small and medium enterprises (SMEs) from 2007 to 2011. The Bank will increase by 50 percent its lending for training and labor markets, to reach \$2 billion in 2007-2011.
Basic Infrastructure	
Challenges	Actions
<ul style="list-style-type: none"> 105 million people in the region live in households without access to piped water. 153 million people lack sanitation services in their dwellings. 	<ul style="list-style-type: none"> The IDB will double its lending for poverty-targeted basic infrastructure—water, sanitation, electrification, urban transport and rural roads—to \$1 billion per year by 2011.
Housing for the Majority	
Challenges	Actions
<ul style="list-style-type: none"> Over 70 percent of the Majority households don't have a title. 65 percent of households obtain shelter outside of formal housing markets. 30 million households live in substandard housing. 	<p>The IDB will intensify its lending and technical support in three critical areas:</p> <ul style="list-style-type: none"> Access to residential land under secure tenure. Progressive construction and home improvement. Strengthening of the private sector capacity to serve the Majority housing market.
Digital Connectivity	
Challenges	Actions
<ul style="list-style-type: none"> Over 60 percent of the Majority households lack access to telephone service. Only 15 percent of the population in Latin America and the Caribbean has access to the Internet. There is limited use of Information and Communication Technologies (ICT) in service delivery and public administration throughout the region. 	<p>The IDB will finance ICT partnership projects capitalizing on innovation and best practices in:</p> <ul style="list-style-type: none"> ICT access for the majority. Health. Financial services. Public administration.
Identifying the Majority	
Challenges	Actions
<ul style="list-style-type: none"> 8.5 million children under 5 do not have birth certificates. 	<ul style="list-style-type: none"> The Bank will lead a regional coalition to substantially decrease the undocumented population by 2011.

CHAPTER 4:

Investing Responsibly in Private Sector Development



Private sector businesses of all sizes are engines of economic growth. Harnessing their entrepreneurial spirit and business acumen is one key to expanding economic opportunities. Indeed, without engaging the private sector the region will never achieve its sustainability goals. The Bank's investments in the private sector aim to maximize opportunities for economic growth and employment as well as environmental and social benefits of private sector projects and minimize their negative impacts. Such investments produce direct benefits such as increased employment, economic development, and improved environmental conditions, as well as indirect benefits from community investment programs undertaken by private sector clients. The IDB delivers these positive benefits through a number of mechanisms including the Private Sector Department of the IDB; the Multilateral Investment Fund; The Micro, Small, and Medium Enterprise Division of the Bank's Sustainable Development Department, and the Inter-American Investment Corporation. The Bank also engages the private sector through programs that encourage corporate social responsibility.

Engaging the Private Sector

The IDB's involvement with the private sector enhances and builds on its work in the public sector, increasing the Bank's overall development effectiveness in the region. The IDB engages the private sector in four ways:

- development of an enabling environment for business;
- financial support for specific private sector projects;
- leveraging developmental impact in underserved markets; and
- engaging the private sector in dialogue and action.

Developing an enabling environment for business is a prerequisite for sustained economic growth to which a diverse set of businesses can contribute. To help create such an environment the Bank supports governments in their efforts to strengthen business institutions and simplify procedures to obtain business licenses, pay taxes, enforce contracts, and carry out other business transactions. The Bank has also been a key partner with governments of the region in developing technological development programs, labor training systems, and financing mechanisms for small businesses. More broadly, the Bank supports programs to overcome market failures, ensure competition, and build consensus on development policies that lead to both growth and social equity. To complement these efforts and to catalyze change, the IDB directly supports the private sector through loans and grants, in recognition of the widespread financing constraints faced by firms in Latin America and the Caribbean.

The IDB Group delivers its direct financial support to the private sector through a number of financing mechanism or windows. These include the **Private Sector Department** of the IDB, which focuses its activities on larger businesses and projects such as constructing large-scale infrastructure (for water supply, energy generation and transport, sanitation, etc);

the **Inter-American Investment Corporation**, which specializes in financing small and medium-scale enterprises; the **Multilateral Investment Fund**, which promotes innovation and microenterprise development; and the **Micro, Small, and Medium Enterprise Division** of the Bank's Sustainable Development Department, which supports community-based business and microfinance activities. Table 4.1 summarizes the main activities of each of these mechanisms.

The Bank's interest in and involvement with the private sector is growing, as evidenced by the Bank's decision to increase its lending limits for private sector financing. In January 2006, the IDB Board of Governors raised the ceiling on loans for private sector projects from \$75 million per project to \$200 million. Under exceptional circumstances, the Bank's Board of Executive Directors may also authorize loans and guarantees for private sector projects of up to \$400 million. This follows the Board's earlier move to raise the percentage of IDB's total portfolio that it will lend to the private sector from the former limit of 5 percent of total nonemergency lending to 10 percent. Furthermore, in March 2006 the Board of Governors approved a new business model that provides for lending without sovereign guarantees to private, state-owned, and mixed-capital companies. Under the new model, the IDB can lend directly to financial institutions, as well as companies active in all sectors, including oil and gas, agribusiness, mining, manufacturing, tourism, technology, and services.

The intent of these changes is to allow the Bank to become a more significant factor in private sector investment, with the ability play a more catalytic and transformative role in the planning and execution of private sector projects. Private sector lending in 2006 reached the highest level in IDB's history, totaling \$940 million out of total Bank lending of \$6.4 billion. This represents a 40 percent increase over private sector lending in 2005.

Bringing Environmental and Social Benefits to Private Sector Projects

The IDB works hand in hand with borrowers, project sponsors, and stakeholders to ensure that private sector projects financed by the Bank are environmentally and socially sustainable. By working proactively with the companies undertaking the projects, IDB not only helps to protect environmental and social resources but, where possible, aims to add value that significantly benefits borrowers, sponsors, investors,

and local communities. The Bank helps proactively to resolve the kinds of problems and issues that often arise with large private-sector projects.

As with the public sector projects it finances, the Bank insists that all private sector projects must assess their environmental, social, health and safety, and labor risks beforehand, and craft plans to control or mitigate these risks. One of the Bank's most valuable contributions to its private sector clients is its expertise in this realm. For example, before the Bank financed a power

Table 4.1
IDB's Private Sector Financing Mechanisms

Mechanism	Status	Focus	Description
Private Sector Department (PRI)	Department of the IDB	Direct financing to large-scale private enterprises and projects	The IDB created the PRI in 1994 to mobilize financing for private infrastructure development. Today the Department has primary operational responsibility for the Bank's financing of private investment in all sectors, including infrastructure, financial institutions, oil and gas, agribusiness, mining, manufacturing, tourism, technology and services. The Department promotes the development of international trade and regional integration through the implementation of a trade finance facilitation program. The Bank can provide up to 25 percent of financing on new projects (up to 40 percent in smaller countries), and no more than \$200 million per project.
Multilateral Investment Fund (MIF)	Autonomous fund administered by the IDB.	A member of the IDB Group	Development assistance to small and medium enterprises MIF projects focus on testing new development approaches and work to promote inclusive economic growth. The central goal is to use both grants and investments to demonstrate new ways to develop micro and small enterprise, build worker skills, strengthen environmental management, and improve the functioning of financial and other markets. MIF projects involve a broad spectrum of players in the development process, helping to empower NGOs and business groups that are determined to improve their economic future. Over 75 percent of initiatives are with private sector partners. Typically, technical assistance grant projects are in the \$1 million to \$1.5 million range and pilot new approaches or play a catalytic role. Through its investment program MIF is pioneering the use of equity funds as a development tool for micro and small business.
Micro, Small and Medium Enterprise Division (MSM)	Division of the Sustainable Development Department of the IDB	Implementing strategy and promoting development activities for micro, small, and medium enterprises	MSM is responsible for coordinating and implementing the Bank's strategy to promote growth and development of micro, small, and medium enterprises. The objective of the Bank's strategy is to promote: (1) a favorable and competitive policy and regulatory environment; (2) strong and sustainable institutions providing financial and nonfinancial services; (3) expanded and continuous flows of resources from local and international markets; and (4) improved access for low-income entrepreneurs to formal sector services and resources. MSM facilitates the sharing of information, experiences, and technical know-how by providing technical assistance to local institutions and by publishing research on innovative policies, projects, and programs, such as the Social Entrepreneurship Program.
Inter-American Investment Corporation (IIC)	Member of the IDB Group	Development of small and medium-size enterprises	The purpose of the IIC is to promote and support the development of the private sector and the capital markets in its Latin American and Caribbean member countries by investing, lending, innovating, and leveraging resources. It is the institution charged with fostering the development of small and medium-size enterprises in such a way as to supplement the activities of the IDB

plant near Monterrey, Mexico, it helped the project company carry out a comprehensive assessment of the power plant's potential effect on local air quality. The assessment helped the company to set its own project emissions standards that were stricter than prevailing Mexican regulations in order to avoid degrading Monterrey's air quality. Similarly, IDB involvement in other power plant projects in Mexico and Brazil has helped power companies improve their performance by requiring them, as one of the terms of the loan, to adopt best practices and meet international standards for emissions.

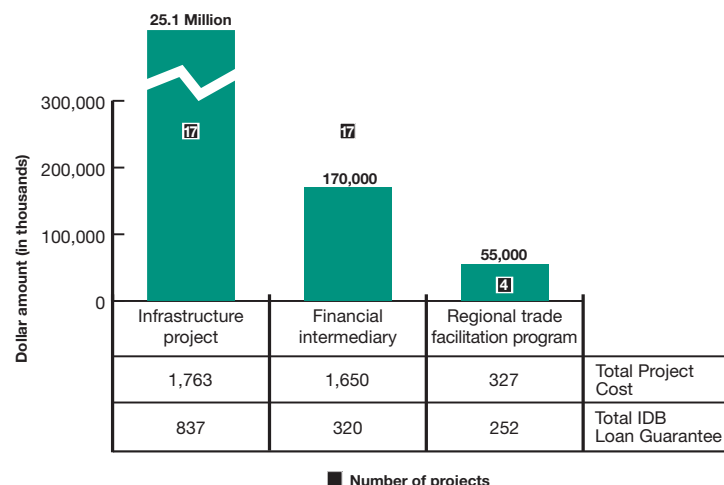
The IDB is interested not only in preventing and mitigating negative impacts, but also in enhancing project-related benefits. Direct project benefits typically include provision of basic services such as water and electricity, increased employment, and economic growth. However, positive environmental and social benefits to local communities can occur too—for example, through the private companies' community investment programs and other corporate social responsibility activities. The Bank searches for opportunities to “leverage” IDB-financed projects to enhance the environmental and social sustainability of local communities. For example, when the Bank helped finance the Campos Novos hydroelectric power plant in Brazil, it worked with the project company to create a regional development fund, whose purpose is to support small agricultural development projects in the municipalities surrounding the power plant.

These and similar efforts represent an ongoing shift to a more progressive approach to private sector lending based on better management of environmental and social risks and the achievement of benefits that would not have materialized without the Bank's involvement. Overall, this approach led to more than \$25 million in direct investments in 2006 that either enhance environmental and social benefits or mitigate negative impacts (Figure 4.1 and Box 4.1).

In addition to its direct investment work, the Bank also conducts research on best practices in environmental and social management of large private sector projects. For example, the Bank published three papers in 2006 related to private sector infrastructure and capi-

Figure 4.1

Private Sector Investment in Environmental, Social, and Health and Safety Aspects, 2006



tal market investments in Latin America and the Caribbean: “Managing Labor Issues in Infrastructure Projects”, “Community Investment Programs Associated with Private Sector Infrastructure” and “Reputation Risk associated with Environmental and Social Aspects in the Development of Large Private Sector Projects.” These publications are available online. Related to climate change, the Private Sector Department continued to evaluate potential mechanisms for private investors and project developers to finance alternative energy and energy efficiency projects in the region, taking advantage of the Clean Development Mechanism and the emerging market for carbon emission reductions.

Working Through the Multilateral Investment Fund

The *Multilateral Investment Fund* (MIF) was launched in 1993 as an autonomous fund within the IDB Group, designed as a new type of technical assistance mechanism to stimulate innovation and extend beyond existing bilateral and international assistance instruments. Using both grants and investments, MIF undertakes projects in partnership with business groups, NGOs, and public sector entities to improve the skills of the workforce, broaden participation of smaller businesses in the economy, and strengthen the conditions for doing business in the region.

Box 4.1

2006 Update: Addressing Environmental Challenges on Peru's Camisea Natural Gas Project

The Camisea project in Peru is a \$1.6 billion effort to tap Peru's inland natural gas supplies and transport them by pipeline to Peru's population centers for domestic use and export. The IDB provided a \$75 million loan to Transportadora de Gas del Perú (TGP) in September 2003 to finance a fraction of the gas pipeline work, in conjunction with a \$5 million loan to the Government of Peru to help strengthen its institutional capacity to monitor the environmental and social effects of the Project.

IDB participation has been based upon the principles of sustainable development and includes strong environmental and social safeguards and specific actions to create long-term benefits for local populations and the environment. The Bank worked with the project proponents in developing a series of detailed environmental and social management plans, and the Bank continues to closely supervise the various conditions, programs, and commitments associated with the Camisea project.

Since it began operating in 2004, the project has generated extensive benefits and will continue to do so for many years. Examples of direct and indirect benefits of the project and of the IDB's involvement in Camisea include: access to a cleaner energy source for residential transportation and industrial customers; energy independence for Peru; significant royalty payments that are specifically designated for local and regional projects and governments; enhanced protection for indigenous populations; creation of various protected areas; establishment of a multistakeholder institution to better manage Paracas Bay (the site of a marine reserve); and enhanced environmental legislation and procedures.

Nonetheless, difficulties are inevitable in a complex project such as this, that traverses biologically diverse and geologically challenging terrain where indigenous communities live. The main difficulty involved a series of five spills from the smaller natural gas liquids pipeline from December 2004 to March 2006. Investigations have concluded that the spills were not caused by a systemic problem with the pipeline, but were the result of unique incidents. In at least three cases, excessive forces exerted on the pipeline due to soil movements have contributed to the pipeline failures. The environmental impacts associated with the spills have been relatively minor, and remediation (including removal of contaminated soil) and notification of any nearby communities was carried out according to preset plans. However, the relative frequency of these spills has generated significant concern among local communities and Peruvian civil society in general.

In response to these concerns, TGP is spending nearly \$47 million to reduce any remaining geotechnical risks to the pipeline. The IDB has been closely reviewing this work and has undertaken a pipeline integrity analysis by independent pipeline experts. The Government of Peru has also initiated an extensive review of the technical aspects of the pipeline. In addition, the government has established an inter-ministerial working group to address Camisea environmental and social issues and has initiated a Strategic Environmental Assessment of the hydrocarbon extraction in the Lower Urubamba area.

In an attempt to honor its commitment to transparency and stakeholder engagement, the Bank has continued its regular meetings with stakeholders on the project and has made various incident reports and other documents available to the public. The IDB has also commissioned an Independent Environmental and Social Audit to evaluate the project status and performance, with a goal of providing independent and transparent information to civil society groups. The IDB is committed to working with project stakeholders to resolve any remaining issues or new issues that may arise in the future so that local communities see the Camisea project as a source of substantial benefit with minimal risk.

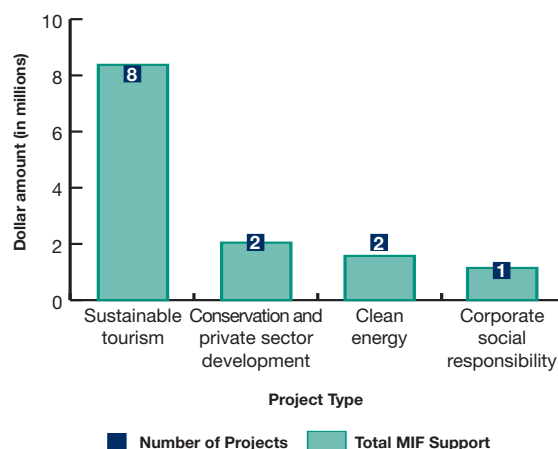
During 2006, the MIF approved 111 projects totaling \$128.5 million. Of these, 99 were grants totaling \$75 million and 12 provided equity or loans totaling \$53.5 million. Since its establishment, the MIF has approved \$1.1 billion to finance 902 technical assistance and investment projects.

The MIF has put special emphasis on supporting cleaner production and environmental management, with many projects that help small enterprises become more “eco-efficient” by producing more product with fewer inputs and less waste. Sustainable tourism has also been a focus of MIF activity (Figure 4.2).

In 2006, the MIF began working in two new fields to further private sector development in socially and environmentally sound ways. Chief among these is support for clean energy markets, which includes renewable energy, energy efficiency, and use of economic incentives. MIF activities in this field are intended to help smaller enterprises to tap the increasing opportunities presented by clean energy projects. The MIF intends to support energy efficiency opportunities both as a means to improve competitiveness of private companies as well as to expand market opportunities for energy efficiency service providers. Market-based instruments—such as fiscal incentives for new technology development—and trading of credits for reduc-

Figure 4.2

MIF Grant Support to Sustainability-Related Projects, 2006



tions of greenhouse gas emissions and pollutants represent an additional source of revenue for financing the transition to cleaner energy.

Another new area of MIF interest is linking conservation and local economic development, and then connecting these to environmentally conscious markets, both domestic and export. The MIF approved two projects in 2006 that seek to make this important link among small enterprises (Box 4.2).



Box 4.2

Linking Conservation and Sustainable Small Enterprises in Brazil

Small enterprises are often the heart of local economies, and many of these enterprises are highly dependent on the environment. In 2006, the MIF developed a project in partnership with the Institute for Sustainable Development of Southern Bahia (IDES) aimed at putting local enterprises in the Bahia region of Brazil on a sustainable footing and at the same time expanding marketing opportunities for small-scale producers.

Bahia is situated in the Brazilian Atlantic forest, a region which has among the highest levels of biodiversity in terrestrial ecosystems. Unfortunately, destructive production and extractive techniques have led to widespread deforestation in the region. The government has declared many areas in this ecological zone as environmental protection areas to ensure that human activities are compatible with plant, animal, and water conservation.

IDES has already established an important enterprise base among smaller producers in the area, including aquaculture (tipilia and oysters), and production of hearts of palm and manioc. With \$1.1 million in support from the MIF, IDES will help these producers increase their production levels sustainably. IDES will also assist producer cooperatives to gain access to new outlets for their products, such as the markets for organic and fair trade foods, as well as export markets. The project could serve as a model for reconciling economic needs with environmental conservation in an ecologically sensitive zone. Given the number of such environmental protection areas in Brazil, the project will have a significant demonstration effect, with numerous opportunities for replication.

Promoting Corporate Social Responsibility

By encouraging its clients to embrace corporate social responsibility, the IDB is actively working for the development of a responsible private sector in Latin America and the Caribbean. 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. 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.

At the same time, nonprofit groups are becoming more businesslike to generate revenues, expand their services, operate more efficiently, and better achieve their missions. Businesses are launching socially conscious ventures, either on their own or through foundations and partnerships. The IDB is committed to helping this new type of social entrepreneurship suc-

ceed. With its development focus and anti-poverty mission, the Bank is especially interested in backing activities that improve the livelihoods of the poor, indigenous groups, women, and others left out of the development process.

In December 2006, the IDB organized the Fourth Inter-American Conference on CSR, entitled "Good Business for All" in Salvador, Brazil. The Conference has a regional emphasis, concentrating on the impact of CSR in equitable economic and social development. The conference covered such topics as the role of the state in creating a conducive environment for CSR; the role of civil society in CSR; and strategic alliances for CSR development. The Bank also organized a conference with the Government of Denmark and the support of the European Commission and the United Nations Global Compact to compare CSR experiences in Europe and Latin America. In addition, a special consultation with representatives from large and medium-sized businesses in the region addressed the challenge of supporting microenterprises and small producers as business partners.

On the operational side, The Bank and the MIF fund an array of social responsibility-oriented projects, from improved job training to the strengthening of the entrepreneurial capacity of small rural producers. Specifically in 2006, the MIF approved a project in Trinidad and Tobago, Barbados, Guyana, and Belize which will organize business mentors to coach economically disadvantaged youths to become young entrepreneurs.

The Bank also carried out two CSR projects, totaling \$2.35 million including counterpart financing, under the auspices of the Social Enterprise Program (SEP), an instrument which provides innovative solutions to the problems faced by the poorest and most vulnerable populations, through the promotion of strategic alliances with the private sector.

The SEP makes credit available to individuals and groups that generally do not have access to commercial or development loans on regular market terms.

Under the Program, the Bank provides loans and grants to private, nonprofit, and local or regional government organizations that provide financial, business, social or community development services to disadvantaged populations. The Bank normally finances these operations through intermediary institutions, which then channel the funds to the final beneficiaries. Specifically, the SEP develops projects which maximize the operational impact of small companies and cooperatives, in particular focusing on initiatives to promote socially and environmentally responsible practices in the private sector. The Program provides some \$7 to \$10 million in project financing each year; institutions can receive up to \$1 million in reimbursable financing (loans) and up to \$250,000 in nonreimbursable technical assistance (grants). In 2006, the two approved projects focused on creating economic opportunities for small groups in Colombia (Box 4.3) and for small producers of herbs and spices in Paraguay.

Box 4.3

Promoting Corporate Social Responsibility Projects in Colombia

In 2006 the Bank approved a \$1.05 million project in Colombia to help improve the quality of life of poor and vulnerable populations by creating economic opportunities for groups with the potential for producing goods and services, as well as to help them access the market. The project's objective is to create an instrument that competitively selects proposals to provide technical and financial assistance to establish commercial linkages between microenterprises (created by vulnerable population groups and larger corporations, within a corporate social responsibility framework. The program will be carried out by the Pontificia Universidad Javeriana in collaboration with the Centro Colombiano de Responsabilidad Empresarial (CCRE).

The participating larger corporations of this program, provide additional resources to help the microenterprises involved in the program be part of their value chain. Once these linkages have been established, the corporations involved make a commitment to purchase the goods or services from the microenterprises. A third tier of so-called "articulating organizations" (such as foundations, associations of small producers and NGOs) help define the needs of the corporations and microenterprises alike and may also be involved in the process

The project demonstrates a commitment to corporate social responsibility by ensuring that the participating Colombian corporations are willing to share the risk of supporting new or existing productive initiatives of poor and vulnerable populations (such as those women heads of household, victims of the armed conflict, or persons with disabilities) with the IDB. In doing so, the overall objective is to enable microenterprises to establish ongoing commercial relationships. This will ensure that wide reaching economic opportunities with the potential to improve the life of vulnerable populations, are generated.

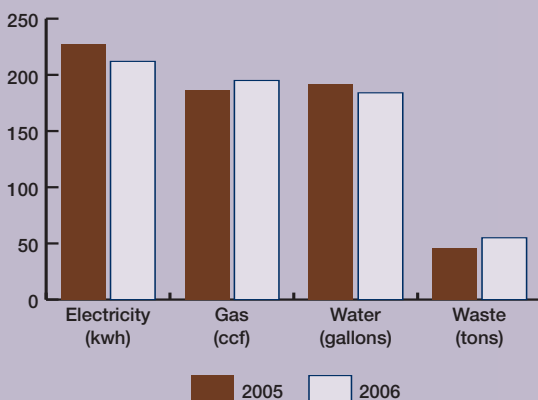
CHAPTER 5:

Reducing Our Environmental and Social Footprint



The Bank's commitment to environmental and social sustainability includes an effort to minimize the environmental impact of its physical facilities and daily operations, and maximize the potential of its employees and neighboring communities. In 2006, the Bank made progress in measuring its consumption and waste patterns—a prerequisite for establishing and meeting targets to improve these patterns. With the establishment of a Greening the Bank Task Force, IDB is now poised to make more rapid and systematic changes to reduce its corporate footprint at its Washington DC headquarters and its 28 country offices.

Figure 5.1
Energy, Water, and Waste Consumption
at IDB Headquarters, 2002-2006



Calculating the Environmental Impact of our Activities

The Bank continues its effort to be more resource efficient and produce less waste in its facilities. Notably, the Bank is pursuing additional energy and water savings through use of more efficient lighting, installation of faucets with automatic shutoff sensors, and other efficiency measures. The Bank has also begun the process of seeking certification that its headquarters building meets the LEED-EB Green Building Standard for Existing Buildings, which promotes the use of sustainable and energy-efficient materials and practices during building operation and remodeling.

Establishing a “Greening the Bank” Task Force

In April 2006 IDB President Luis Alberto Moreno announced the formation of an interdepartmental *Greening the Bank Task Force*. The task force will establish environmental programs and set targets for reducing the Bank’s footprint, initially at its Washington DC headquarters, and in the longer term at its country offices. The group will develop an action plan during 2007 that will include resource efficiency measures, recycling targets, suggested improvements to food catering facilities, green procurement guidelines, a greenhouse gas inventory, and environmental awareness-raising programs for the staff.

The IDB is also part of a *DC Greening Network*, whose members include the World Bank, the International Finance Corporation, Conservation International, World Wildlife Fund, and the Canadian Embassy. The group discusses environmental management and performance issues as well as convergence on the use of standards.

Conducting a Greenhouse Gas (GHG) Inventory

The Bank has made significant progress in the area of calculating greenhouse gas emissions resulting from its activities. In order to calculate the size of the Bank’s “carbon footprint” in 2006, IDB carried out a pilot *greenhouse gas inventory* of the Bank’s corporate activities. A greenhouse gas (GHG) inventory is a detailed calculation of the direct and indirect greenhouse gas emissions produced from an organization’s activities and physical operations. In this case, the inventory included emissions from the IDB headquarters building, from business travel by all employees, and from holding the Bank’s annual meeting (with its associated travel and energy consumption). The result of a GHG inventory is given as the total amount of

Figure 5.2

Paper Recycling at IDB Headquarters, 2005-2006

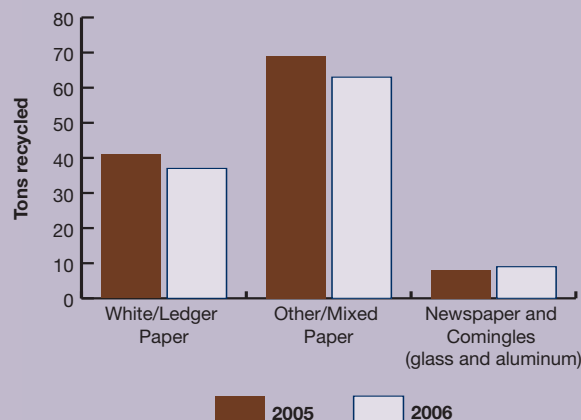
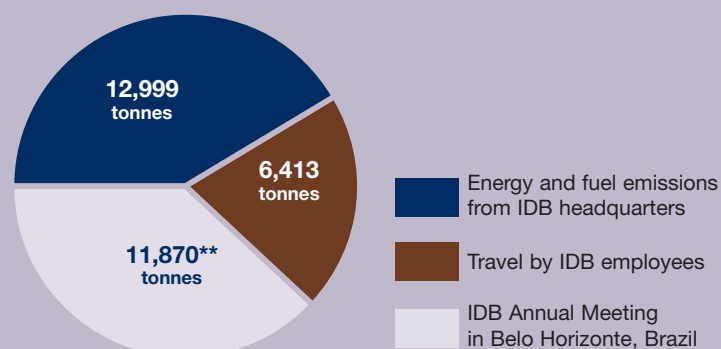


Figure 5.3

Pilot Greenhouse Gas Inventory*, 2006



* This GHG Inventory was prepared using the GHG Protocol: A Corporate Accounting and Reporting Standard and Methodology, developed in conjunction with World Resources Institute.

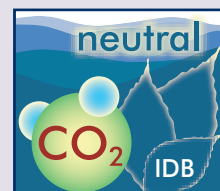
**Original estimations of carbon emissions for this event were 11,020 Co2eq. Recalculation was carried out after the event to arrive at this final figure. A 10% error margin is applied to all calculations

carbon dioxide equivalent produced by the organization over a given length of time. The preliminary results of the Bank’s inventory indicate that the IDB carbon footprint in 2006 was approximately 31,000 tons of carbon dioxide equivalents (Figure 5.3).

Box 5.1

The IDB's First "Carbon-neutral" Annual Meeting

The idea of offsetting carbon emissions associated with business activities has been growing in popularity in recent years. Typically, a business or organization that wishes to be "carbon neutral" supports an activity—such as tree-planting or the use of an alternative fuel—that offsets the carbon emissions of its own activities. The IDB piloted this "carbon neutral" concept at its 2006 Annual Meeting of the Board of Governors in Belo Horizonte, Brazil, making it the first carbon neutral annual meeting ever held by a multilateral development bank. The carbon neutral initiative demonstrates the Bank's commitment to reducing greenhouse gases and combating climate change in the region. It directly supports the objectives of the Bank's *Environment Policy*, the *Action Plan for Renewable Energy, Energy Efficiency, Greenhouse Gas Mitigation*, and *Carbon Finance*, and the *Sustainable Energy and Climate Change Initiative (SECCI)*.



The carbon neutral initiative in Belo Horizonte was a significant effort, offsetting the carbon emissions of the estimated 9,000 attendees at the annual meeting. Emissions were calculated on the basis of each participant's long-distance and local travel, as well as emissions associated with staying at local accommodations and from the conference buildings themselves. The 2006 annual meeting generated an estimated 11,000 tons of CO₂ equivalents. To offset this, the Bank purchased 11,000 Verified Emission Reductions (VERs) that are internationally recognized as supporting activities that reduce carbon emissions. The money the IDB paid for the VERs will finance a project managed by a local NGO called Instituto Ecologica to substitute biodiesel for fossil fuels in the Bananal Island region in Brazil. The biodiesel will fuel water pumps for small-scale irrigation, tractors for agroforestry, and energy production for small-scale farmers. The benefits of the four-year project will be felt by low-income farmers in rural communities of the region.

The Bank also conducted two other carbon neutral conferences in 2006: the "Sustainable Energy and Climate Change in Latin America" conference in its Washington DC headquarters, and the "Fourth CSR Americas Conference: Good Business for All" in Salvador de Bahia, Brazil.



The Bank is also interested in calculating the carbon footprint of the projects it finances. In 2005, the Bank made an effort to roughly calculate the carbon footprint of its portfolio of private sector projects. The Bank will now use this experience to make a similar estimation of the carbon footprint of its public sector

projects. This will help the Bank to establish a baseline with which to measure and monitor the emissions produced by all its projects.

The Bank's interest in mitigating its carbon emissions—which contribute to climate change—goes



beyond just measurement. The Bank calculated and offset the carbon emissions resulting from its Annual Meeting of the Board of Governors in Belo Horizonte, Brazil. This was the first time a multilateral development bank had held a so-called “carbon neutral” meeting, in which carbon dioxide emissions associated with the meeting are offset with compensating activities that absorb carbon dioxide (Box 5.1). In 2007, the Bank will look at ways to expand this initiative by offsetting emissions associated with all Bank travel, in addition to emissions from its building facilities.

Encouraging Sustainable Corporate Procurement

The Bank hired Cameron Cole/Green Seal in 2006 to assist it in developing an environmentally and socially responsible procurement program for its headquarters building in Washington DC. The Bank’s Corporate Procurement Policy requires it to integrate socially responsible suppliers and environmentally friendly products into its supply chain. The program will identify sustainability standards for procuring the range of products and services the Bank uses in the course of

its daily operations, from copier paper to furniture, and janitorial services to cafeteria food services. The consultants are collaborating with the Greening the Bank Task Force, internal customers, and other international financial institutions to develop a list of appropriate and consistent standards to incorporate into Bank procurement contracts.

Box 5.2 **Saving Trees, Saving Money**

In order to promote greater cost efficiency and environmental responsibility the IDB discontinued the use of printed deposit notifications in late 2006. This initiative translates into a paper saving of almost 160 reams per year and an annual cost savings of \$30,000 (\$11,000 in paper costs alone). The savings come from reduced purchases of paper forms and printer cartridges, lower maintenance expenses on folding and sealing machines, and reduced costs for distribution, handling, and filing.

Figure 5.4
IDB Staffing Location
 Number of Staff

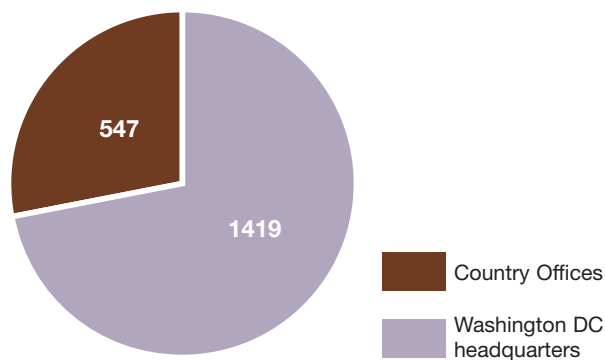
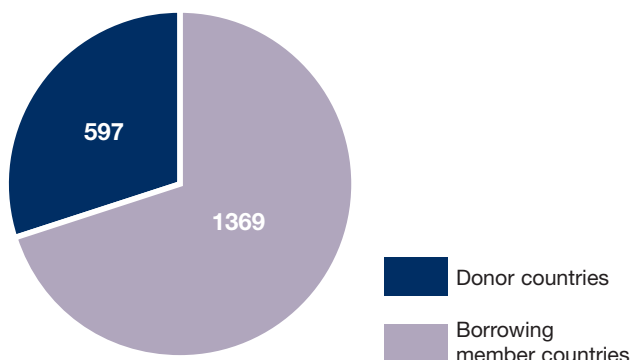


Figure 5.5
IDB Staffing country of origin
 Number of Staff



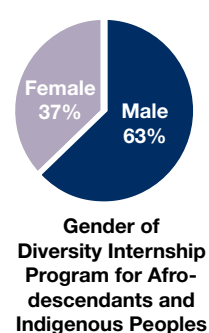
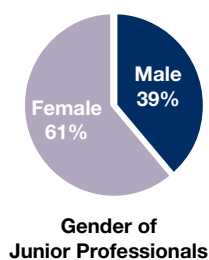
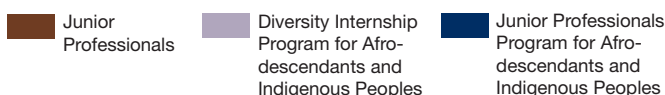
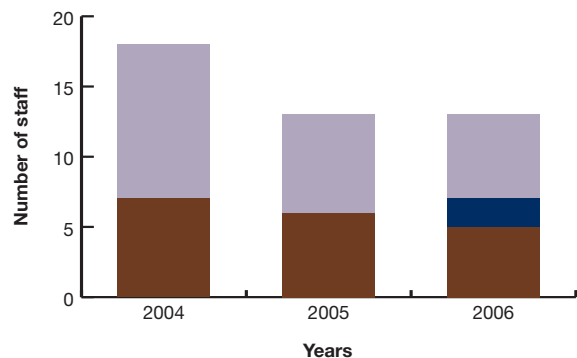
Maximizing the Potential of Our People

There is an important connection between an organization's sustainability and how it manages its human resources. IDB's employees are its greatest resource, representing the organization and the region to which we belong. In 2001, with the initiation of its Human Resources Strategy, the IDB began to streamline its human resources policies and services for a Bank staff of almost 2000 employees. Within this staffing landscape, talent management is balanced by nationality representation and inclusion of Bank stakeholders. Effective use of these human resources requires a vibrant Bank culture that offers continual learning opportunities that build the organization's social capital and strengthen its core competencies.

Enhancing Diversity Among our Staff

Diversity at the IDB is a concept mandated by the Bank's Institutional Strategy, the Human Resources Strategy, and the Action Plan to Promote Diversity at the Bank, the latter of which set forth race and ethnicity (particularly African, Asian, and indigenous heritage) as "dimensions of diversity." In addition to nationality and gender, these dimensions are the focal points for human resources action in staffing, climate enrichment, and accountability. The Diversity Internship Program for Afro-descendants and Indigenous Peoples was established in 2004 and institutionalized in 2005. In 2006, the design of the Junior Professionals Program was expanded to include two diversity participants.

Figure 5.6
Diversity



To build on the progress so far on gender diversity, the Bank has created a Task Force on Women to review the implementation of recommendations from a similar Task Force 10 years ago. The task force will issue its report and recommendations in 2007, including a chapter on managing work and family life.

Strengthening Staff Competencies

The Bank's Office of Learning is designed to maintain and develop the technical knowledge skills of all Bank staff. Its strategic objective is to align staff learning more closely with the Bank's business priorities in three areas: the Bank's development effectiveness agenda; support to the private sector; and the Bank's institutional governance goals.

Based on the concept of a thematic community or network, the Office of Learning has adopted a bottom-up approach for assessing the learning needs of staff at headquarters and country offices, for managing knowledge, and for identifying the learning events that address the staff's knowledge gaps. Courses and initiatives are developed in coordination with Bank departments, with universities and other academic centers, and with other multilateral development banks.

Figure 5.7

IDB Staff Gender Ratio

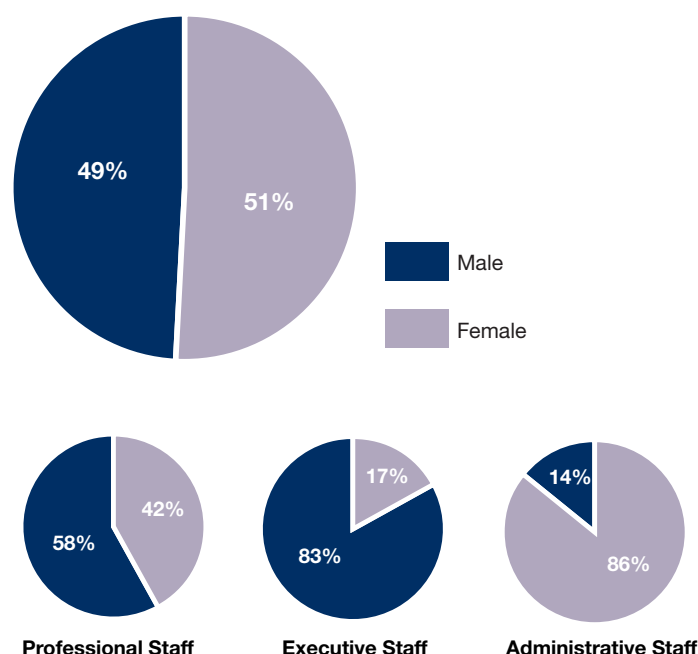


Table 5.1

IDB Institutional Support Services

Type	Service Provided
Education counseling	Advise staff on available school options, from preschool through university.
Career counseling	Career transition seminars and individual job search counseling for staff spouses and registered partners.
Eldercare/single-parent/housing counseling	Eldercare counseling; single parent support groups; counseling on purchasing a home.
Confidential counseling	Confidential counseling for staff and eligible dependents whose problems are affecting their professional or personal lives.
Back-up daycare	Provides a place to drop children of staff if school is closed or normal daycare provider is not available.
Domestic abuse awareness	Seminars to build awareness of domestic abuse, including protection and prevention options.
Employee and Workplace Assistance Program (EWAP)	Services include both individual counseling and management consultation. The counselor's goal is to help employees with practical, short-term problem solving, and to offer referral services when a longer-term solution is needed.
Daycare Center	On-site comprehensive childcare during the work day.



In recent years the Bank has been working to develop a set of staff competencies that reflects the institution's primary business. The main purpose of the *IDB Competency Initiative* has been to identify the knowledge and capabilities required of staff to support the institution's objectives, and to promote their development and consistent application. The IDB competency model was developed with the active participation of staff from different departments. It consists of three elements: technical competencies, core competencies, and supervisory competencies.

Offering a Variety of Staff Services

The IDB offers a full menu of support services to its staff (Table 5.1). It also supports a variety of internal associations, cooperatives, and groups that serve staff needs and interests, including social affiliations and activities. Examples include the Staff Association, Credit Union, and IDB-DC Solidarity Program. In addition, the Bank provides for periodic open forums with opportunities for dialogue between staff and upper management. The Bank also has numerous programs to support staff including: the Bank's Family Association; the Professional Women's Network; the Diversity Group; and Young Connection. There is also a Staff Retirees group, which interacts with other Bank groups and initiatives, such as the Solidarity Program (Box 5.3) through which the Bank provides staff with volunteering opportunities.

Health and Safety

The Bank has a series of staff rules which set out staff benefits, including all aspects of health and safety. In addition, internal informational websites keep staff informed by providing health-related information in each of the countries where the Bank has offices. The Bank's Employee Assistance Program provides supplemental independent support to staff, and resources are provided with respect to dependent care, spouse counseling, and the search for housing. With respect to health and safety conditions, internal records and statistics are maintained through an internal health unit.

Providing health, travel, and safety information to the staff is a high priority for the Bank. Management keeps staff informed of safety issues through a system of on-line bulletins and notifications, and holds educational seminars to alert the staff on how to protect themselves, especially when traveling on mission. The Bank also provides on-line links to health-related information in each of the countries where the Bank has offices. This information is customized by the country offices themselves to ensure that it is appropriate and up to date. Similarly the Bank keeps staff informed of security issues both at headquarters and in country offices by means of notifications, bulletins and seminars.

Box 5.3

IDB-DC Solidarity Program: Engaging the Local Community

The IDB-DC Solidarity Program was launched in 1998 to support the fast-growing Hispanic and Caribbean communities in and around Washington, DC. The program provides grants, volunteers, donated equipment, and technical assistance to more than 40 partner organizations. Since its founding, it has awarded more than \$2.3 million in grants to community-based organizations in such areas as childcare, youth services, business development, health, education, employment, and violence prevention; grants in 2006 totaled \$255,000.

In 2006, the IDB-DC Solidarity Program focused on strengthening its partnerships with local partner organizations and forging new alliances to mobilize additional resources for the local Latino and Caribbean communities. To this end, IDB President Moreno launched the new *Latino Federation of Greater Washington* initiative, which aims to build Latino engagement in all aspects of philanthropy: as donors, volunteers, grantmakers, and grantees.

In partnership with the Hispanics in Philanthropy (HIP) Foundation, the IDB-DC Solidarity Program also co-founded and played a catalytic role in launching the *Funders' Collaborative for Strong Latinos in Washington DC*. This collaborative pools together resources from major donors involved in the Latino community in Washington DC to build capacity among local nonprofit organizations. The collaborative has already mobilized more than \$500,000 in its first year of operations.

In addition, the Solidarity Program also partnered with the Washington DC Mayor's Office on Latino Affairs to launch the first-ever high-definition television (HDTV) documentary about the history of the Latino community in Washington DC.

The IDB-DC Solidarity Program was also active in the promotion of community service activities through its internal volunteer network of more than 400 volunteers. In the last six years, the program has provided more than 870 recognition awards to Bank staff, families, and retirees that participated in events organized or sponsored by the Solidarity Program. Since the inception of the IDB Solidarity Award three years ago, seven staff members and teams have been recognized for their outstanding contributions to the community.

The Bank maintained the "My Business Cares" Seal in 2006, granted by the Greater DC Cares, the Greater Washington Board of Trade, and the Washington Business Journal for its work with the DC Latino community. The seal recognizes organizations that promote employee volunteerism and donate funds and in-kind goods or services to organizations located in the Greater Washington DC area.



SPECIAL FOCUS:

Special Focus: Indigenous Peoples and Sustainability



It is impossible to discuss sustainability in Latin America without considering the role and importance of *indigenous peoples*. Their role in preserving the region's natural resource base and the uniqueness of their rich socio-cultural traditions must be recognized and strengthened if development in the region is to be sustainable and inclusive. This special focus chapter considers how indigenous peoples view the concepts of development and sustainability. It discusses how this vision influences the development priorities of indigenous peoples and explores the challenges of integrating this vision into predominant development models and the policies of the Bank.

Overview of Indigenous Peoples in Latin America

Indigenous peoples in Latin America comprise a heterogeneous group of more than 400 different ethnic groups. Most sources agree that the total number of indigenous people ranges from 40 to 50 million—8 to 10 percent of the region's population. In countries such as Bolivia, Guatemala, or Peru, indigenous people account for at least half of the total population.

Despite large-scale migration to urban areas and abroad, an estimated 60 to 70 percent of indigenous people live in rural areas and account for between 45 and 50 percent of the rural poor. Conventional poverty indicators attest to the large discrepancy in education, health and income levels between indigenous and non-indigenous people. Indicators for indigenous women demonstrate larger differences.¹ While there is some variation in the definition of who is indigenous, in general, indigenous peoples are identified

as peoples who descend from pre-Colombian cultures, retain all or part of their cultural institutions and practices, and identify themselves as indigenous in reference to an ancestral territory.

Major indigenous cultural families are the Mesoamerican (Central-Southern Mexico, Belize, and Guatemala), Chibcha (Central American/Northern Colombian), Andean, and Amazonian, with a series of minor cultural families such as the Northern Mexican, Circum Caribbean, Chocoan, and Southern Plains, and a series of independent groups. Most of these peoples inhabit the Mesoamerican and Andean *altiplanos*, where they make up the majority of the population in Guatemala and Bolivia and close to half of the population of Ecuador and Peru. They also represent the majority of the population in some subnational regions, such as Southeastern Mexico, the Amazon basin, the Chaco region, and the Araucania in Chile.

In terms of sustainability, there is a strong association between the location of indigenous lands and the areas with the highest rates of biodiversity and natural resource conservation.² This overlap demonstrates the intimate relationship between the natural environment and the cultures of indigenous peoples. It also highlights the role of indigenous peoples in conserving the region's natural resource base. Indigenous lands are among the most pristine and well preserved—a testament to the fact that their living patterns tend to be more sustainable than that of nonindigenous peoples.

An example of the correlation between indigenous peoples' habitats and biodiversity can be seen in satellite images that show the revegetation of a river basin in the Sierra Nevada de Santa Marta, Colombia, after territorial rights to this land were returned to the indigenous peoples of the area. Since the time of Spanish colonization, indigenous peoples have been progressively stripped of their lands and forced into higher elevations of the Sierra. Recent efforts to return these traditional lands through land titling have led to the successful reforestation and recovery of these lands.

Variations in Vegetation Cover in Don Diego River Basin before and after Indigenous Peoples were granted title



Vegetation Coverage, 1995



Vegetation Coverage, 2002

Socio-cultural Sustainability

Indigenous peoples strive to sustain their identity, culture, traditional economies, and social organizations. Success at maintaining these elements can be referred to as “*socio-cultural sustainability*.” Unfortunately, government policies that rejected native cultures and forced assimilation into Western society systematically undermined such sustainability until the last few decades. This brought poverty and eroded the heritage, dignity, and self-esteem of indigenous peoples. It also led to the exclusion of indigenous peoples from political participation, fostered conflicts with nonindigenous groups, contributed to the loss of ancestral knowledge and practices, increased gender inequality in indigenous communities and organizations, and encouraged the migration of many indigenous people from their rural homelands to cities to seek employment. Other factors, such as the expansion of agriculture and extractive industries into indigenous lands, have exacerbated these threats to socio-cultural sustainability.

Advances of the Indigenous Movement in Latin America and the Caribbean

Since the 1970s, a growing indigenous movement has sought to revitalize the cultures and economic prospects of indigenous peoples in the Latin America and Caribbean region. Strong indigenous organizations have emerged over the past three decades and

have made significant advances in indigenous peoples’ rights to their own identity and their ancestral territories, and in demanding recognition of the value of their heritage as the foundation of their economic and social development.

The indigenous movement has contributed to significant advances in the discourse on indigenous development and the legal recognition of indigenous rights. For example, 12 of the 20 Latin American countries have ratified the International Labour Organization’s *Convention 169* (ILO 169), which calls on nations to respect indigenous development priorities, recognize their territorial and natural resource rights, and condemn ethnic discrimination in the workplace. The ILO convention has been joined by at least ten other international conventions containing language that advances the rights and status of indigenous peoples. These international agreements have prompted many countries in the region to adopt constitutional provisions and laws that recognize the multiethnic nature of their societies, as well as the specific rights of indigenous peoples with regard to lands and territories, natural resources, identity, language, culture, customary law, and control over their own affairs.³

At the same time, a number of international financial institutions, bilateral donors, and private sector firms have adopted policies designed to safeguard the rights of indigenous peoples and mainstream indigenous priorities within the development agenda. The

Special Focus: Box 1

Mainstreaming Indigenous Concerns in Panama’s Portfolio

An example of mainstreaming can be seen in a loan program currently being designed to improve the competitiveness of businesses in Panama. A special \$1.6 million grant built into the program will fund the enhancement and consolidation of indigenous productive activities such as handicrafts, forestry, tourism, agro-fishery products, and medicinal plants, with an emphasis on protecting intellectual property related to cultural expressions and traditional knowledge. In addition, specific mechanisms are being built into the design of the loan program to ensure that indigenous enterprises have access to the support available under the overarching competitiveness program. For example, special mechanisms will be introduced for counterpart financing requirements and loan guarantees for indigenous businesses in order to overcome traditional barriers for these actors to access financing and mainstream business support facilities.

IDB's recent adoption of its *Operational Policy on Indigenous Peoples* is a case in point. The new policy requires the IDB to protect the rights of indigenous peoples in all Bank operations and puts particular emphasis on mainstreaming indigenous priorities for development throughout the IDB portfolio. This new mandate calls for a systematic review of indigenous issues in each country early in the design of the Country Strategy that guides Bank investments in a nation. The policy also requires consultation and participation of indigenous peoples in the design of projects that could potentially affect them. In addition, the Bank must proactively identify opportunities and design specific measures to ensure that indigenous peoples will benefit from projects that traditionally would not have focused on this population as a specific beneficiary.

In spite of the progress in embodying indigenous concerns into national and international policies and financial practices, serious challenges remain in implementing these policies and harmonizing indigenous-friendly laws with existing practices in the region.

Development With Identity

The Western concept of “development” as defined by “progress” has no counterpart in indigenous languages. Instead of a development concept, indigenous peoples often use the concept of well-being. It is represented in notions such as the Quechua *sumaj kausay* (*sumaj*, beautiful, good; *kausay*, to live); the Maya *utzil* (*utz*, well being; *il*, well living); or the Tule *naskue* (*napguana*, mother earth, well-being; *kue*, to look forward). This language difference is just one reflection of the conceptual gap that exists between indigenous peoples and governments or donors when they speak about development. Indigenous peoples often have difficulty translating their priorities into conventional development language and concepts, and it is no secret that governments and development agencies have typically failed to understand these priorities.

Despite the conceptual gap that exists, the notion of development is too widespread among modern indigenous peoples to be ignored by them. Thus, indigenous peoples have begun to try to forge a working concept of development that honors their own worldviews and

systems of governance. The concept of *development with identity* has emerged and has been adopted by the IDB in its Indigenous Peoples Policy. It denotes a process that promotes the strengthening of indigenous peoples, including sound management of their natural resources and territories, the creation and exercise of indigenous authority, and respect for the rights and values of indigenous peoples.



This is a concept based on the principles of equity, interconnectedness, reciprocity, and solidarity. It seeks to consolidate the conditions in which indigenous peoples can thrive in harmony with their surroundings by capitalizing on the potential of their cultural, natural, and social assets. In essence, development with identity means development as defined by indigenous peoples in accordance with their priorities and worldview, as opposed to the imposition of external value systems and development models. It is a flexible concept whose application will vary among different indigenous groups. In the case of traditional indigenous peoples, it may translate into simply safeguarding their territorial rights and their control over their natural resource base. In the case of peasant indigenous peoples, it may involve efforts to articulate their social, cultural,

Special Focus: Box 2

Typology of Indigenous Peoples in Latin America

Appreciating the heterogeneity of indigenous peoples in Latin America is essential to understanding the range of visions for development that they hold, and to recognizing what this implies for safeguarding and mainstreaming their rights and priorities. Yet within this diversity three basic groups emerge among the 40-50 million indigenous people in Latin America and the Caribbean. It is important to note, however, that these are not self-contained groups: some peoples may contain both traditional and peasant communities; and either traditional or peasant communities may include urban members that re-integrate into their original communities after returning from the city.

Traditional, isolated, or uncontacted peoples include those communities that maintain their traditional way of life and governance structures, those that live in isolation despite some level of regular contact with nonindigenous groups, and those communities that remain largely uncontacted. Traditional indigenous communities are those which, even though they have settled close to cities or have frequent exchange with mainstream societies, maintain the core of their ancestral territories and traditional economies, their traditional way of life and socio-political institutions, and their traditional knowledge, rituals, and cultural traditions. Isolated indigenous peoples are groups living in physically isolated lowland, coastal, or highland sites—often places they resettled after their conquest or colonization. Uncontacted indigenous peoples are small groups living in remote areas of the Amazon rainforest and the Chaco region who do not wish to make contact with Western civilization.

Peasant indigenous communities are characterized by the prevalence of conventional cash economies over traditional indigenous economies, in which nonmonetary exchanges are common and where goods and services are distributed among social networks. Most of these communities obtained their land by way of agrarian reform. Due to assimilation, some communities have lost their native languages, as in the case of the Lenca of Honduras. Others have maintained their language, such as the Nahuatl-speaking peasants of Mexico, or several Quechua-speaking communities in Ecuador and Peru.

Urban-based and migrant indigenous peoples. Most countries have witnessed a rapid migration of indigenous peoples to urban centers as a result of the dispossession, colonization, or fragmentation of their ancestral lands; or in search of better employment or educational opportunities; or to escape conflict. Studies confirm the demographic significance of rural-urban migration: an estimated 18 percent of Ecuador's⁴ indigenous population is urban and in Chile it is at least 50 percent.⁵ Much of this migration is seasonal (for agricultural work) or for a few years, allowing many indigenous families to maintain strong economic, social, and cultural ties with their communities of origin. In some cases, this can allow urban indigenous groups to resist complete assimilation. Nonetheless, the concentration of indigenous people living in poverty in big cities often does lead to the destruction of the social foundation of indigenous cultures, resulting in fragmentation, and even in extinction of their cultures.

and natural capital into productive activities like agro-forestry or handicraft production and to support their access to financial services. In the case of urban indigenous peoples, it could imply support for the development of rural-urban supply chains or improved access to post-secondary education.

An Indigenous View of Sustainability

Just as indigenous peoples' concept of development differs from conventional concepts, so does their concept of sustainability. The idea of sustainability weaves integrally through their spiritual and social structures. However, their view of sustainability does not adopt the Western imagery of an incessant human struggle to banish chaos and establish order—an imagery which implies progress. For indigenous peoples, chaos and order are both part of the same reality; sustainability is only possible when there is a balance between them. The human task, in the indigenous view, is to harmonize these contradicting forces. Indigenous rituals normally concern themselves with the restoration of the harmony among living humans, nature, and the ancestors. This view of sustainability has important implications for development projects. For example, rather than focusing on reducing material poverty, traditional indigenous peoples generally are more focused on maintaining their identity, rituals, way of life, and territories—the conditions necessary to fulfill their task of harmonization.

Meeting the Challenges of Indigenous Development

Even though indigenous concepts of sustainability based on the harmonization between chaos and order seem to be almost universal for traditional, peasant, and urban indigenous peoples, there are differences in how these different groups define development and poverty. Whereas traditional indigenous peoples are mostly interested in protecting their ways of life, peasant and urban indigenous people demand access to infrastructure, social services, and economic opportunities. However, most of them seem to share the vision that this access should be provided in a culturally appropriate way that will enable them to maintain—and in some cases restore—their cultures, identities, and social organizations.

Based on these indigenous worldviews and aspirations, the IDB has adopted a multi-tiered approach to indigenous development that seeks to:

- safeguard the collective and individual physical, territorial, and cultural integrity of indigenous peoples living in voluntary isolation;
- identify and target indigenous peoples that could potentially benefit from Bank projects;
- implement socio-culturally appropriate and effective consultation processes with these peoples;
- respect the traditional knowledge, cultural heritage, natural assets, social capital, legal systems, and economy of indigenous peoples;
- adapt services to make them accessible to indigenous beneficiaries, especially indigenous women, and build the capacity of indigenous peoples to use these services for maximum benefit; and
- design complementary measures and activities through a process of good faith negotiation with affected indigenous communities.

The hope is that this approach will produce development initiatives that let indigenous communities improve their living conditions through their own leadership and in a manner consistent with each community's specific social situation and vision. However, indigenous peoples face a number of challenges—discussed below—in realizing their visions of appropriate and sustainable development.

Environmental Challenges

The progressive loss of indigenous lands since colonization has been one of the gravest threats to the survival of indigenous peoples. Securing indigenous rights and control over their traditional lands is fundamental to sustaining not only the natural resource base of the region, but the rich social and cultural heritage of indigenous peoples as well. Current land titling models are not up to this challenge, as they poorly reflect indigenous visions of their territories and their sustainable management. Meeting this challenge requires participatory planning processes for land use management that take into account traditional knowledge and customary law and enable direct participation in sustainable resource management. In 2004, the IDB published a *Methodology on Cultural Land*

Use Analysis to provide Bank staff, government institutions, NGOs, and consultants with a method to assess the cultural implications of land use analysis. The Bank is now promoting use of this tool both within Bank projects and in government resource management and land titling operations.

Natural resource extraction on indigenous lands—whether the State has formally recognized indigenous resource rights on these lands or not—requires reconciling the social and economic interests of the indigenous stakeholders with the larger economic interests of the state. The only way to overcome these clashes in interests and rights is through early consultation processes, where indigenous peoples' vision and rights are taken into account in the design of projects such as gas pipelines, dams, or logging concessions. More effective mechanisms for sharing the economic benefits of these projects are also a part of the solution. Benefit sharing should go beyond simply the compensation of immediate losses and should also target indirect impacts and the loss of opportunities in the future due to the project. Also, greater emphasis should be given to identify and mitigate socio-cultural impacts of natural resource extraction projects, as these types of impacts are often lost within conventional environmental impact assessments.

Carrying out planning and consultation processes with indigenous peoples early in the project design phase is now required for Bank projects under the new Indigenous Peoples Policy. However, strategic planning and social-cultural impact assessments are currently not carried out systematically in the region and rely primarily on political will to integrate indigenous peoples concerns into the design of national programs.

Economic Challenges

The priority for traditional indigenous peoples is to assure their food security. They do this by strengthening their traditional economies, which differ from market economies in several important respects. Exchanges are nonmonetary, based on mechanisms of reciprocity and redistribution, so that members of the community share resources as need requires. Traditional economies rely on a social network of producers of different food products that complement

each other and together assure an adequate food supply. In general, decisions associated with production and exchange are based on a social rather than an economic rationale.

However, for peasant and urban-oriented indigenous communities, the situation is different. There is an increasing demand for cash crops and labor or business opportunities that allow them to obtain goods and services available in the market economy. Whereas traditional indigenous peoples would tend to subsist primarily within the ancestral territory and its traditional economy, indigenous peasants tend to depend more heavily on the market economy, while also maintaining their traditional economies. Meanwhile, urban indigenous communities are mostly integrated within the market economy.

The challenge is to understand these communities' different economic objectives and enhance their capacities to achieve them. Traditional indigenous peoples are often not focused on maximizing the profitability of resources in the short or medium term. Rather, priority is given to a vision of sufficient well-being, harmony with the environment, and the conservation of resources for future needs. Traditionally, these economies are based on the belief that the accumulation of wealth—individually or among elite groups—does not contribute to society's well-being. Their goal is the maintenance of their traditional reciprocity systems and social supports. Nonetheless, most traditional indigenous economies today require some sort of bridging with the market economy in order to obtain necessary goods and services that are not produced in the traditional domain. This often occurs through the production of cash crops or seasonal labor to earn money for services such as education and health. Meanwhile, peasant and urban-oriented communities tend to make use of their indigenous social networks, traditional knowledge, and other indigenous assets as much as possible while utilizing mainstream technology, business practices, and financial services.

The delicate balance between traditional and market economies is at the heart of the indigenous development challenge. If introduced without sufficient care, activities related to the market economy can lead to



the disintegration of the traditional economy and its support networks, which in turn lead to greater impoverishment for indigenous peoples. Recognizing this, the IDB has supported a range of efforts to maintain the equilibrium between traditional and market economies, and at the same time to increase access of indigenous peoples to benefits from the market economy. In Colombia's Sierra Nevada de Santa Marta, the IDB is working with the United Nations Development Programme and the area's four indigenous peoples to support traditional food security, while at the same time promoting productive activities like coffee production to generate monetary resources that supplement the traditional economy. The Bank is also funding several projects to support indigenous entrepreneurial development as parts of loan programs and through technical grants. Recently approved regional grants are financing efforts to identify successful indigenous entrepreneurial activities and potential projects for IDB private sector financing.

Social Challenges

Indigenous communities suffer from a lack of culturally appropriate social sector programs. For example, many health or education programs are not designed with indigenous culture, attitudes, family patterns and gender relations in mind, and are thus not as effective in indigenous communities. This is particularly trou-

bling, given that many poverty reduction programs—which focus heavily on such social programs—are carried out with populations where indigenous peoples make up a significant majority. If properly designed, these social interventions could greatly benefit indigenous well-being, empowerment, and capacity to achieve development with identity.

The appropriateness of a social intervention depends greatly on whether it is targeted to traditional indigenous communities or the peasant or urban indigenous communities that are more integrated into mainstream societies. In the case of indigenous peoples living in voluntary isolation, an appropriate health policy might include provisions to protect indigenous territories and prevent contact with outside populations, given that such contact may be a prime health risk. As part of its financing of the Camisea gas pipeline in Peru, the IDB funded a program of this nature. The program developed a plan for the protection the Nahua-Kugapakori reserve for isolated indigenous peoples (where part of the natural gas originates) that included a nonintrusive health model and a protection plan for the boundaries of the reserve.

In the case of less isolated rural indigenous communities, nutrition, health, and education interventions should incorporate not only bilingual, but also cultural components in order to preserve traditional knowl-

edge and enhance the effectiveness of these interventions. For example, nutrition interventions should be designed to take into account traditional food systems and practices with specific emphasis on the roles and perspectives of indigenous women. The IDB recently financed a study of indigenous perspectives on maternal and child malnutrition that will serve as an important input in the design of a larger nutrition program to combat maternal and child malnutrition in Central America.

In a wider sense, crafting intercultural health systems, where modern medicine is complimented by traditional practices, is a key development challenge. Blending the two approaches will yield health care that is more accessible to indigenous peoples. An example of this challenge can be seen in the failure to incorporate traditional medicinal services and bilingual intercultural education within the very popular cash-transfer pro-

grams that are being financed throughout the region. Ensuring the culturally appropriate design of these programs would most likely increase their effectiveness and success among indigenous beneficiaries.

Support for the preservation of traditional medicinal knowledge and protection of diverse plant species as well as protection of intellectual property rights over the use of these species are all important elements of this approach. An IDB program currently under way in Bolivia with the Kallawayas aims to preserve, document, and disseminate to younger generations the traditional medicinal knowledge of the elders, and at the same time secure intellectual property rights over this knowledge. The program will also finance the development of seed banks and family plots to grow the plants utilized for medicinal purposes.

In the case of urban or migrant communities, policies that increase access to post-secondary and technical education for indigenous men and women are vital for enhancing indigenous leadership and capacity to articulate indigenous development priorities. To this end, the Bank is supporting the Indigenous Peoples Fund in the establishment of a network of universities with graduate programs for indigenous students in areas such as indigenous law, bilingual intercultural education, intercultural health, and development with identity. The network, called the Indigenous Intercultural University, consists of 13 universities in nine countries of the region.

Governance Challenges

There is broad acceptance in Latin America that sustaining indigenous peoples and their cultures in the modern world requires that they have the ability to autonomously govern their own territories and at the same time participate in the public affairs of the countries where they live. The challenge, then, is to strengthen indigenous institutions, management processes, gender equity and participatory skills. This involves building the capacity for land administration at the local, national, and regional levels, as well as improving budgeting skills in order to ensure effective and transparent use of public investment in indige-



nous territories. It also involves forging mechanisms for consultation and good faith negotiation between governments and indigenous peoples, especially concerning projects and policies that affect them.

Such work on improving indigenous governance is consistent with the IDB's commitment to strengthen the foundations of development in the region. The Bank has begun several efforts to strengthen indigenous institutions. In Guatemala, the DECOPAZ project has helped rebuild the social capital of Mayan areas affected by the nation's recent conflict by organizing community participation networks and fostering collective trust in government institutions and municipalities. A project in Argentina focused on scattered indigenous peoples of the Chaco region to help them rebuild their intratribal organizations.

Following up on the IDB's commitment at the First summit of Indigenous Women in the Americas (2002) to strengthen its efforts to promote indigenous women's leadership, the Bank established the Program for Support of Indigenous Women's Leadership and Participation (PROLEAD) which places particular emphasis on the participation and consultation of indigenous women in policy development and investment.

Meanwhile, a Colombian project supported efforts to clearly define the legal sphere of influence of the nation's constitutionally recognized indigenous judicial systems (*jurisdicción indígena*) and their relation to the national judicial system. The project financed a legislative project to define the articulation rules between both jurisdictions, publication of an Indigenous Jurisdiction Atlas, assessment of indigenous jurisdictions' financing needs, design of an indigenous jurisdiction Gazette to publish selected indigenous judicial decisions, training programs for Colombian judges on indigenous legal systems, and support for two pilot indigenous Justice Schools.

An Opportunity to Lead

The IDB believes that indigenous peoples should occupy a central place in the discourse on sustainability in the Latin America and Caribbean region. Collectively, indigenous habitats comprise approximately 22 percent of the region's territory, within which a significant proportion of its biodiversity and natural resources are located. Moreover, their record in managing these assets and preserving their culture in the face of adversity indicates they may have valuable knowledge to impart on environmental and social sustainability. At the same time, they are under increasing pressure, even as they struggle to construct an appropriate framework for indigenous development.

As the region's largest multilateral investor, the IDB has an opportunity to lead in the effort to engage indigenous peoples as prominent actors in the efforts toward sustainable development in the region, and to help mitigate the development threats they currently face. The new IDB Policy on Indigenous Peoples and the Strategy for Indigenous Peoples Development commit the Bank to systematically safeguard indigenous peoples' rights, and to mainstream their development priorities within Bank operations and negotiations with governments. The challenge now is for the Bank to step up to this task in the implementation of its projects, and to leverage its influence and financial tools to ensure that the vision, needs, and priorities of indigenous peoples are taken into account, even when they may clash with the priorities of those who have traditionally had a more predominant voice in national development.

1. Inter-American Development Bank, "Strategy for Indigenous Development," July, 2006

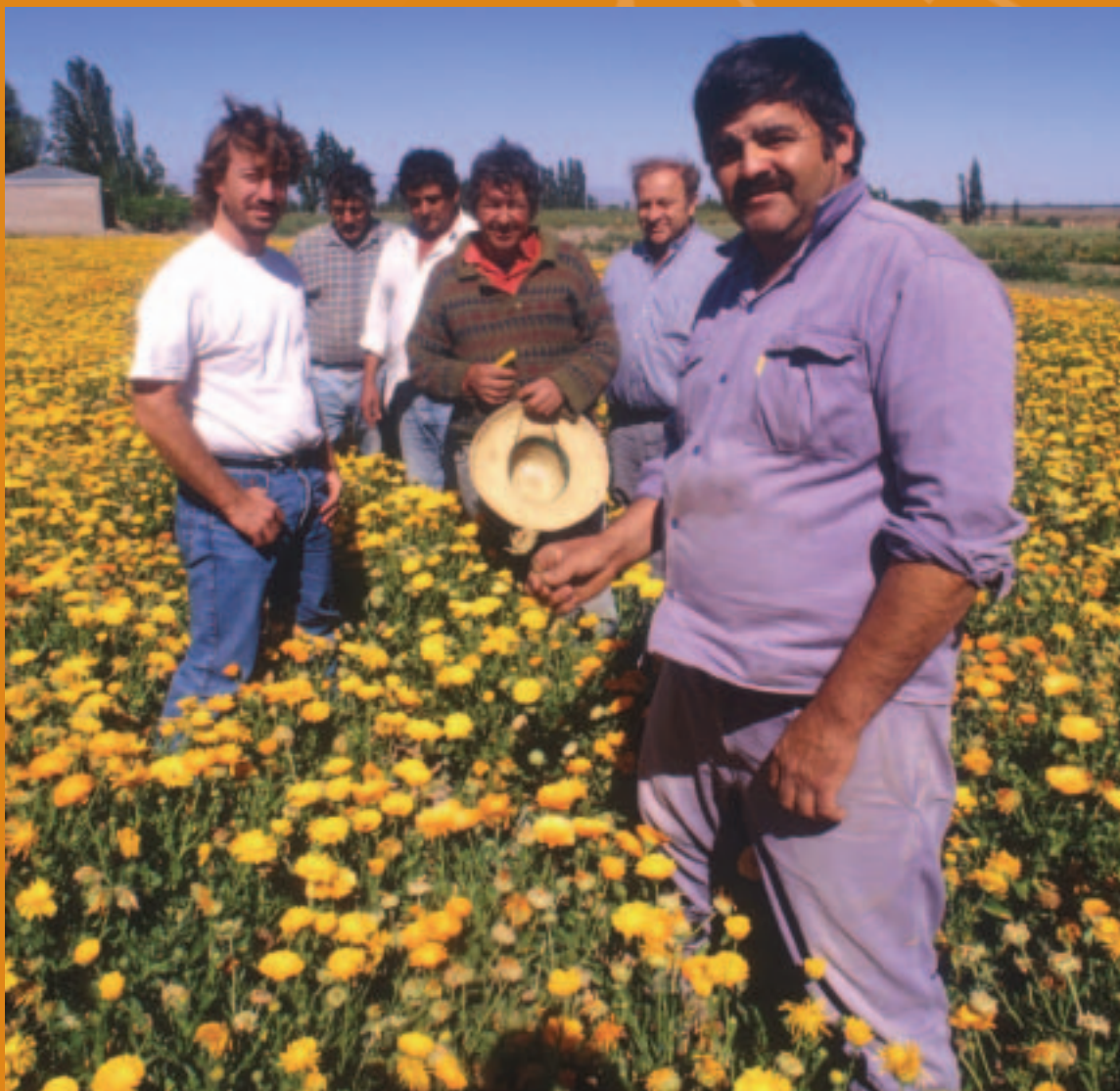
2. National Geographic Society, "Indigenous Peoples and Natural Ecosystems in Central American and Southern Mexico," February, 2002.

3. Inter-American Development Bank, "Databank on Indigenous Legislation," Inter-American Development Bank, http://iadb.org/sds/ind/site_3152_e.htm

4. Economic Commission for Latin America and the Caribbean and Inter-American Development Bank, "Población Indígena y Afroecuatoriana en Ecuador: diagnóstico sociodemográfico a partir del censo de 2001", Santiago, Chile, April, 2005.

5. Instituto Nacional de Estadística de Chile, "Censo 2002," Instituto Nacional de Estadística de Chile, http://www.censo2002.cl/menu_superior/los_censos/index.htm

Conclusion



The IDB has taken important steps toward developing a sustainability agenda that is both conscious and effective at all levels of the organization. Recognizing the importance of such an agenda, the IDB has over the past two years made a series of commitments to ensure that it maintains progress toward a more sustainable future, and taken steps to implement these commitments.

Key to this are the activities that have taken place as part of the implementation process of the Environment and Safeguards Compliance Policy and the Operational Policy on Indigenous Peoples, as well as the implementation of new and enhanced measures to ensure that accountability, transparency, and integrity—key institutional elements of sustainability—are part and parcel of the Bank's approach to development. In addition, new frameworks and initiatives for enhanced investments in issues of particular importance for Latin America and the Caribbean – such as the *Sustainable Energy and Climate Change Initiative* and *Building Opportunity for the Majority*, both launched in 2006 - are enabling the IDB to promote new opportunities for environmental and social sustainability in the region.

While the Bank is pleased with its progress in many areas, there is much more still to be done. One of the values of this, the IDB's second Sustainability Review, is that it enables the Bank not only to chart its progress to date, but also to be more accountable to its stakeholders, both internally and externally. To that end, this Review concludes with a table of commitments based on the Bank's response to the Blue Ribbon Panel in 2005 and last year's *Sustainability Review*. The table summarizes the Bank's progress in meeting its commitments and details action areas for 2007 and beyond. This process of self-examination will help to guide the IDB's actions over the next year.



Progress on the IDB's commitments and activities will be reported again in the Bank's 2007 Sustainability Review. In seeking to continuously improve its accountability and transparency measures, the IDB welcomes its stakeholders to engage with the Bank as part of this process, and openly encourages comments, suggestions, and criticisms to ensure continued momentum towards a more sustainable future for Latin America and the Caribbean.

SUSTAINABILITY COMMITMENTS

★ Achieved

○ Planned for 2007-2009

⇒ Progress made/partially achieved

Standards and Harmonization

Commitments for 2005/2006	Status in 2006	Commitments for 2007
Approve a new Environment Policy and guidelines to ensure IDB equivalence with international standards.	★ Achieved.	➤ Implement the Environment Policy and accompanying guidelines.
Approve Operational Policy on Indigenous Peoples and operational guidelines.	★ Achieved.	➤ Implement the Indigenous Policy and accompanying guidelines.
Develop policy statement on labor, including occupational health and safety.	○ Not yet achieved. Planned for 2007-2009.	
Develop guidelines for stakeholder consultation and participation.	○ Not yet achieved. Planned for 2007	➤ Approve guidelines and implement.
Update relevant Bank policies to take into account biodiversity values, sustainable forestry, and certification.	○ Not yet achieved. Progress made on developing strategic framework on biodiversity.	➤ Develop new policy language and conduct public consultation.
Develop a coherent suite of environmental and social safeguards.	★ Achieved. The Environment Policy recognizes the need to ensure compliance with other relevant policies (Indigenous, Resettlement, and Disclosure of Information).	
Convergence of regional standards in Latin America and Caribbean.	⇒ Partially achieved. In Mesoamerica a voluntary agreement for sustainable environmental behavior was agreed for regional infrastructure initiatives.	➤ Continue discussions with other institutions such as CAF and FONPLATA regarding convergence of standards, in the context of IIRSA.
Develop new policy on disaster risk management.	⇒ New policy developed; approval process now underway. Policy guidelines now in preparation to mainstream disaster risk management in country programming, project preparation, and loan reformulation.	➤ Complete approval process and finish development and roll out of policy guidelines. ➤ Bank-wide training plan on disaster risk management will take place between 2007-2008
Prepare revised policy and strategic outlook for gender equality in development.	○ Not yet achieved. Planned for 2007-2009.	➤ Approve updated Operating Policy on Women in Development
Work towards sustainable approaches to corporate and project procurement, revising policies and developing guidelines where necessary.	⇒ Environmentally and socially responsible corporate procurement program underway.	➤ Develop and institutionalize an IDB list of appropriate standards to incorporate into corporate procurement contracts. ➤ Analyze current best practice in sustainable project procurement with a view to enhancing IDB processes and policies in this regard. ➤ Reconvene sustainable procurement working group among MFIs and other international development institutions.
Strengthen the Independent Investigation Mechanism (IIM).	○ Not yet achieved. The Bank has circulated a draft of revised IIM and received feedback from interested parties; Bank is now in the process of completing its IIM update (Consultation and Compliance Review Mechanism).	➤ Approve policy and operating guidelines for the Consultation and Compliance Review Mechanism.

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Standards and Harmonization *(continued)*

Commitments for 2005/2006	Status in 2006	Commitments for 2007
Produce an annual Sustainability Report.	☆ First Sustainability Review published in April 2006	➤ Refine and harmonize sustainability reporting framework and indicators.
Monitor internal environmental management and performance.	☆ On-going. Greening the Bank Task Force now established. Carbon-neutral annual meeting achieved.	➤ Develop Greening the Bank action plan.

Moving Sustainability Analysis Upstream

Commitments for 2005/2006	Status in 2006	Commitments for 2007
Ensure the mainstreaming of environmental, social, and cultural sustainability into the Bank's programmatic lending and country strategies.	⇌ Partially achieved. Upstreaming and mainstreaming environmental and social issues is the approach now adopted by the Bank through the new Environment Policy.	➤ Continued progress toward full mainstreaming.
Develop country environmental assessments (CEAs) to support country strategies.	☆ Achieved. Nine CEAs carried out. Country Strategy guidelines modified to include requirements for CEAs.	➤ Complete four additional CEAs.
Build environmental capacity in regional and country institutions.	☆ On-going. The Bank's Private Sector Department holds an Environmental and Social Seminar Series for clients to provide training on key environmental and social issues in large infrastructure projects.	➤ Develop an integrated training program to systematically assess the institutional capacity for environmental management and to understand gaps in capacity.
Upstreaming sustainability in strategic infrastructure planning activities.	⇌ Development of mapping tools and application of SEAs now under way.	➤ Complete development of mapping tools.
Develop new analytical tools to measure the contribution of programmatic or project lending to sustainability.	⇌ Not yet achieved. Technical proposal now under discussion to modify the Bank's information system (OPUS) to create a sustainability tracking system that will identify the nature and size of sustainability investments.	➤ Implement sustainability tracking system to quantify Bank's sustainability investments. Implement staff training.
Align incentives with sustainability objectives.	○ Not yet achieved. Planned for 2007-2009.	➤ Develop options based on a study of similar efforts at other institutions.
Develop strategic frameworks for enhanced activity in the areas of biodiversity, renewable energy, and water.	<p>⇌ Partially achieved.</p> <p>☆ <i>Strategic Framework for Ecosystem and Biodiversity Management</i> now under preparation, aimed at mitigating adverse impacts associated with Bank lending and helping countries to recognize the value of ecosystems and biodiversity to national development.</p> <p>☆ Renewable energy: Sustainable Energy and Climate Change Initiative (SECCI) launched.</p> <p>⇌ Draft action plan on a new Water and Sanitation Initiative is under preparation.</p>	<p>➤ Finalize and approve Strategic Framework for Ecosystem and Biodiversity Management.</p> <p>➤ Develop and operationalize SECCI funding mechanisms.</p> <p>➤ Finalize and launch Bank's Water and Sanitation Initiative Action Plan (2007-2011).</p>

SUSTAINABILITY COMMITMENTS

★ Achieved

○ Planned for 2007-2009

⇒ Progress made/partially achieved

Civil Society Participation

Commitments for 2005/2006	Status in 2006	Commitments for 2007
Creation of an Ombudsman, who can respond constructively to complaints and seek to resolve disputes.	○ Not yet achieved. Draft Consultation and Compliance Review Policy, as successor to the IIM, proposes a consultation component that attempts to address identified problems similar to an Ombudsman.	➤ Approve policy and operating guidelines for the Consultation and Compliance Review Mechanism.
Develop guidance and good practice on civil society participation in the project cycle.	⇒ Partially achieved. Study undertaken to develop alternative models for participation of stakeholders in the supervision of large infrastructure projects. ⇒ Independent supervision system (SMIC) for the Camisea Gas Pipeline Project developed to allow NGOs to monitor compliance.	➤ Develop guidelines for consultation and participation in various phases of the project cycle. ➤ Operationalize the SMIC.
Develop staff exchanges between the Bank and NGO groups.	★ On-going. Two NGO seminars held on environment-related matters to enable an exchange of experiences on key issues between the Bank and civil society.	➤ Explore staff exchanges or secondment options with NGOs. ➤ Expansion of CASCs to all country offices.

Internal Management, Monitoring, and Resources

Commitments for 2005/2006	Status in 2006	Commitments for 2007
Report good practice and lessons learned.	★ Achieved. CEA workshop held in December 2006 to report on good CEA practice, including case studies and discussion among headquarters and country office staff.	➤ Case studies and lessons learned to be developed as critical component of the environment training program.
Establish consistent and robust risk management	⇒ Partially achieved. Safeguard risk management approach adopted, including environmental impact categorization, and robust environmental safeguards and procedures for all operations.	➤ Complete safeguard risk management system.
Strengthen expertise and accountability in risk management by strengthening CESI and implementing a safeguard management system and tools, including procedures for screening and classification, indicators, and verification measures.	★ On-going. Safeguard screening and classification toolkit developed, tested and implemented to help staff screen and classify proposed projects ⇒ Training workshops for operational staff on screening and classification commenced. ⇒ Comprehensive environment training program for the period 2007-2008 finalized.	➤ Harmonize Bank systems and databases currently used to track projects; update toolkit to enable a complete tracking of safeguards throughout the project cycle and to ensure compliance with safeguard policies ➤ Deliver year 1 of training program.

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Internal Management, Monitoring, and Resources *(continued)*

Commitments for 2005/2006	Status in 2006	Commitments for 2007
Strengthen monitoring of project sustainability outcomes.	↔ Not yet achieved. Discussion initiated with peer working group on common and frontier indicators in the context of sustainability reporting.	➤ Develop indicators to measure sustainability outcomes.
Conduct a comprehensive analysis of staff and financial resource requirements for mainstreaming sustainability.	↔ Partially achieved. Sustainability budget initiative presented and approved for 2007. This includes new financial resources; as well as two new safeguard specialists for operations.	➤ After Bank realignment, develop a new budget to reflect the ongoing requirements for mainstreaming sustainability at the IDB.

Environmental and Social Footprint

Commitments for 2005/2006	Status in 2006	Commitments for 2007
Begin to identify ways to reduce energy and gas usage; conduct research into improved energy performance, ozone protection, and renewable energy options.	↔ Ongoing.	➤ Develop a list of options to achieve energy and gas reductions.
Carry out baseline analysis of recycling of paper, glass, aluminum, and plastic.	★ Achieved.	➤ Develop a series of recycling goals and set targets for achieving these.
Work towards LEED EB Green Building Standard for Existing Buildings.	↔ Ongoing.	➤ Begin process of seeking LEED-EB certification in order to further promote the use of sustainable and energy efficient materials and practices (at headquarters).
Establish "green" cafeteria services.	↔ Ongoing. In 2006, advances included the introduction of recycled napkins, provision of organic coffee, and weekly donation of unused food to DC Central Kitchens.	➤ As part of the redesign of the cafeteria, ensure the use of sustainable alternatives (such as flooring, energy efficiency equipment, low-energy lighting, certified wood products) as well as donations of removed furniture and equipment. Improve recycling facilities and switch to recycled napkins in all pantries at headquarters.
Review and update the Bank's Code of Ethics	★ Achieved. Staff training commenced.	➤ Familiarize all staff with the details and application of the new policy.

Acronyms

BRP	Blue Ribbon Panel
CAF	Andean Development Corporation
CASCs	Civil Society Advisory Councils
CDM	Clean Development Mechanism
CEA	Country environmental assessment
CLS	core labor standards
CSR	Corporate social responsibility
DRM	Disaster Risk Management
EWAP	Employee and Workplace Assistance Program
GEF	Global Environment Facility
GHG	Greenhouse Gas
ICEX	Spanish Fund for Consultants
ICT	Information and Communication Technologies
IDB	Inter-American Development Bank
IDES	Institute for Sustainable Development of Southern Bahia
IIC	Inter-American Investment Corporation
IIM	Independent Investigation Mechanism
IIRSA	Regional Infrastructure Initiative for South America
ILO	International Labour Organization
IWRM	Integrated Water Resources management
MDG	Millennium Development Goals
MIF	Multilateral Investment Fund
MSM	Micro, Small and Medium Enterprise Division
NPPE	Netherlands Partnership Program on Environment
PCR	Project Completion Report
PRI	Private Sector Department
SEA	strategic environmental assessments
SECCI	Sustainable Energy and Climate Change Initiative
SEP	Social Enterprise Program
SMIC	Independent supervision system for the Camisea Gas Pipeline
SPA	Strategic Partnership Agreement
VERs	Verified Emission Reductions

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If you have specific questions and comments relating to this Sustainability Review, please contact us at 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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