

# INTER-AMERICAN DEVELOPMENT BANK SUSTAINABILITY REVIEW 2007





## About this Review

To give stakeholders access to more detailed and current information on our sustainability performance, we offer online reporting (including a downloadable PDF file of the full report) supplemented by a bilingual Summary Highlights available as a downloadable PDF file and in print format. The website information will be updated on an annual basis to ensure that our sustainability reporting is both relevant and timely.

The report structure, which highlights the way in which the Bank promotes sustainability through its strategies, policies and investments, provides information on how we manage and monitor performance and major achievements in key sustainability topics. The review includes a summary of sustainability commitments, in particular those commitments made by the Bank in responding to the Blue Ribbon Panel recommendations and previous Sustainability Reviews, detailing the Bank's progress to date in achieving them. We also provide information about our in-house sustainability efforts for stakeholders to learn more about how the Bank upholds sustainability standards in its day-to-day operations.

This report reviews the 2007 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.



# Table of Contents

<b>ABOUT THIS REVIEW</b>	3
<b>A MESSAGE FROM OUR PRESIDENT</b>	4
<b>ABOUT US</b>	5
Our Mission	6
How are we structured?	7
What do we do?	8
How are we financed?	9
Who are our stakeholders?	10
<b>Chapter One: PROMOTING SUSTAINABILITY</b>	11
Strategies	12
Policies	13
Regional Standards	15
Investments	16
Viewpoints	25
<b>Chapter Two: MANAGING AND MONITORING</b>	26
Reporting Strategy	27
Safeguards	29
Measuring Performance	34
Evaluation	38
Sustainability Commitments	41
<b>Chapter Three: SUSTAINABILITY HIGHLIGHTS</b>	42
Climate Change	43
Opportunities for the Majority	47
Disaster Risk Management	51
Biofuels	55
Water and Sanitation	60
Persons with Disabilities	64
The Big Picture: Poverty, Environment and the IDB	68
<b>Chapter Four: IN-HOUSE SUSTAINABILITY</b>	69
Green Build	70
Energy Efficiency	71
Carbon Footprint	72
Staffing	73
Diversity	74
Gender Task Force	75
Community	76
<b>ACKNOWLEDGEMENTS</b>	77



## Our Mission

The Inter-American Development Bank's mission is clear and unequivocal. As stated in our Charter, our purpose 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.



## Our Commitment to Sustainability

### A Message from Our President

Two thousand seven was an exciting turning point for the Inter-American Development Bank. It began the process of a strategic realignment of our organizational structure to make the Bank more relevant in Latin America and the Caribbean—today and in the future.

A key driver of this realignment is to improve the Bank's role in contributing to development that is environmentally and socially sound. We are already committed, and working hard, to embed sustainability in our institution, values and day-to-day operations. Throughout the year, our staff worked diligently to give our clients the level of support expected of the IDB as the region's main partner for sustainable development.

The new Bank structure will build on these efforts by ensuring that the highest sustainability standards are applied to all IDB operations and investments. An enhanced approach to environmental and social risk management will be led by a new environmental and social safeguards unit embedded in the Bank's Office of the Vice President for Sectors and Knowledge. The reorganization also deepens staff capacities in key sustainability topics, enabling the Bank to promote innovative investments and programs.

One major such initiative is the IDB's new \$20 million Sustainable Energy and Climate Change Initiative (SECCI). The fund will help countries address the daunting challenges that climate change poses by tapping their extraordinary potential as a source of green energy solutions. With our region facing more climate-related natural hazards, the Bank also approved a new proactive Disaster Risk Management Policy and increased investments in this critical area. Two other key sustainability innovations were launched in 2007. The Opportunity for the Majority Initiative will offer economic and social prospects for the many people left out of the traditional development process. The Water and Sanitation Initiative will help finance regional efforts to meet the Millennium Development Goal of halving the number of people deprived of safe water and adequate sanitation by 2015.

On the home front, the Bank's headquarters was carbon neutral in 2007 due to the purchase of carbon credits and we took other significant steps to promote sustainability in-house.

We are proud of these achievements, but also acutely aware that immense challenges lie ahead. The IDB stands ready to lead the region in this effort, as its key partner for prosperous, sustainable development.



Luis Alberto Moreno  
President  
Inter-American Development Bank







## About Us

The Inter-American Development Bank (IDB) is the main provider of multilateral development financing for Latin America and the Caribbean.

We foster sustainable economic and social development and poverty reduction through our lending operations, the benefits of which reach millions of underprivileged people every year. We also support leadership in regional initiatives, research, knowledge dissemination activities, institutes and programs.

Since the IDB was founded in 1959, the Bank has approved \$156 billion for projects that improve livelihoods, services and infrastructure, and help protect natural resources. Combined with supplemental funding from other sources, the total spent to date on IDB programs is over \$353 billion.

The Bank uses its influence in the region to implement a wide-ranging agenda. We assist our 26 borrowing member countries in formulating development policies. We provide financing and technical assistance to achieve environmentally and socially sustainable economic growth, enhance social equity and fight poverty. We also work to increase competitiveness, modernize the state and foster free trade and regional integration.

The Inter-American Development Bank is owned by 47 **member states**, of which 26 are borrowing members in Latin America and the Caribbean. The remainder are nonborrowing members, meaning that they provide capital and have voting representation in the Bank's Board of Governors according to their capital subscriptions.

The IDB is part of the **IDB Group** which also includes the **Inter-American Investment Corporation (IIC)** and the **Multilateral Investment Fund (MIF)**. The IIC focuses on support for small and medium-sized businesses, while the MIF promotes private sector growth through grants and investments.

The Inter-American Development Bank's mission is clear and unequivocal. As stated in our Charter, our purpose 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.



## How are we structured?

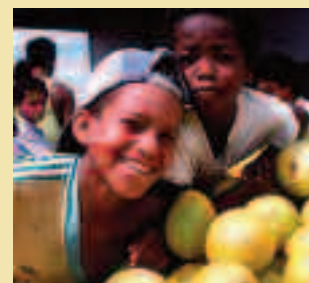
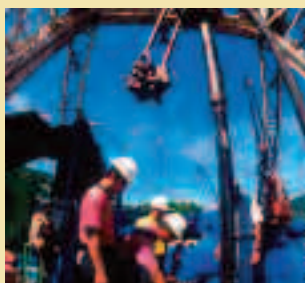
Two thousand seven was an exciting turning point for the Inter-American Development Bank. It witnessed a strategic realignment of our organizational structure to make the Bank more relevant in Latin America and the Caribbean—today and in the future.

On July 1, 2007, we began implementing this new model, which was approved by the Board of Executive Directors in December 2006. The objective is to enhance the Bank's strategic capacity so that we can better respond to the evolving demands of our borrowing countries and more effectively fulfill our mandate to contribute to the region's social and economic progress. To this end, the new organizational structure is built around a conceptual framework that defines three basic roles for the Bank: a corporate core, country services and institutional support services.

The corporate core function will establish the Bank's vision and corporate strategy, as well as the policies that will form the backdrop for its activities across the region. The country services function encompasses the management of Bank-country relationships in all their complexity, including dialogue, strategy setting, developing and implementing the Bank's program in each country, and overseeing improvement of the operational effectiveness and efficiency of Bank field activities. The final, institutional support services, function includes managing the delivery of services to other areas of the organization.

Apart from strengthening the Bank's strategic capacity, the main results we expect the reorganization to deliver are: deepening IDB leadership in Latin America and the Caribbean, increasing our flexibility and transparency in decision making, and improving the efficiency of our monitoring and control functions. Another key driver is to improve the Bank's role in contributing to development that is environmentally and socially sound.

Achieving these objectives will be a task for all Bank staff. The effort will be led by an executive team headed by the IDB President, Executive Vice President and four Vice Presidents for Countries, Sectors and Knowledge, Private Sector and Non-sovereign Guaranteed Operations, and Finance and Administration.





## What do we do?

The Inter-American Development Bank contributes to sustainable economic and social development in Latin America and the Caribbean in a wide variety of ways: through our lending operations, leadership in regional initiatives, research and knowledge dissemination activities, events, institutes and programs.

**Operations:** IDB operations include **investment loans, policy-based loans, private sector loans, social entrepreneurship financing (microenterprise), emergency loans, guarantees, technical cooperation grants and project preparation funding**. The Bank also provides trade financing through its Office of the Vice President for Private Sector and Non-Sovereign Guaranteed Operations and investment financing through the Multilateral Investment Fund and the Inter-American Investment Corporation.

**Regional Initiatives:** The IDB supports regional initiatives by producing information and knowledge as a basis for policy discussion among countries. The Bank also provides technical support to member governments on trade and integration issues and conducts public outreach activities to promote regional integration.

**Research and Knowledge:** To promote best practice, the IDB conducts research and disseminates knowledge on development-related topics for high-level policy discussion. For example, we produce research studies and papers, undertake research missions, publish books, reports, newsletters and bulletins, and conduct training programs, conferences and seminars, all supporting the Bank's overarching mission and objectives.

**Resource Mobilization:** As well as providing its own financing, the IDB acts as a catalyst to mobilize funds from other sources, thus leveraging additional benefits for the countries of Latin America and the Caribbean. These funds are used to cofinance specific projects in our developing member countries.

**Institutes:** The **Institute for the Integration of Latin America and the Caribbean (INTAL)** and the **Inter-American Institute for Social Development (INDES)** are part of the IDB. They provide research and training that support Bank initiatives to promote economic and social development and regional integration.

**Debt Relief:** In 2007, the IDB agreed to extend total debt relief to the five poorest countries in Latin America and the Caribbean—Bolivia, Haiti, Honduras, Guyana and Nicaragua. This relief was part of a worldwide, multilateral program to ease the financial burden on countries with the least ability to repay debt and free up resources for social programs.





## How are we financed?

The Inter-American Development Bank obtains its income from our 47 member countries, by borrowing on the financial markets and through trust funds and cofinancing ventures.

Specifically, the Bank's financial resources comprise the Ordinary Capital (OC), the Fund for Special Operations, the Intermediary Financing Facility, and 42 active trust funds established by individual countries or groups of countries.

Most of our lending is made from the Ordinary Capital (worth \$101 billion). Only a small fraction of this (4.3 percent) has actually been paid in by the Bank's member countries. The remaining 95.7 percent is "callable capital" subscribed by our non borrowing members. Along with the preferred creditor status bestowed on the IDB by borrowing member countries, this callable capital enables the Bank to borrow resources through bond issues in international capital markets.

The IDB's bond issuance program was \$6.1 billion in 2007 up from \$5.4 billion in 2006. It finances about 90 percent of Ordinary Capital disbursements. The Bank's debt rating is AAA, the highest available. The IDB's resources are conservatively administered and, to date, the Bank has never needed to use callable capital to pay off its debt.

In addition, the IDB has its own financial reserves, which come primarily from net interest income made from loans and investments. In 2005, this amounted to \$1.04 billion.





## Who are our stakeholders?

The IDB's stakeholders are many and varied, and range from the regional to national, local and community level. Broadly speaking our stakeholders at the macro level are those individuals, organizations or countries that have a direct interest in the Bank's broad regional activities in Latin American and the Caribbean from a development, economic, environmental and social sustainability perspective. At the local level, our stakeholders are those individuals and groups whose lives and futures are directly affected by specific Bank-funded projects in the field.

Specific stakeholder groups with whom we hold regular dialogue and feedback include borrowing and nonborrowing IDB member states, private sector companies, civil society organizations, academics, international agencies and investors.

In December 2007, the Bank held a meeting with five senior Bank officials and seven external stakeholders to get comprehensive, high-level feedback on the Bank's Sustainability commitments and Review. It was an extremely productive session and the Bank intends to organize more such discussions to engage with and learn from its many stakeholders.









# Chapter One: Promoting Sustainability

Development that is equitable and sustainable brings lasting social and economic benefits to people. Accordingly, the Bank's overarching objectives of catalyzing economic growth, reducing poverty and promoting social equity must be broached in a robust framework of environmental and social sustainability.

What does this mean in practice, for the tens of millions of people reached by our loans and projects? The Bank invests in sustainable development in a variety of ways. We provide loans and technical cooperation funding that addresses environmental issues such as water and sanitation, biodiversity, climate change mitigation and disaster risk management. Our social sustainability projects target improvements for indigenous peoples, women, people with disability and youth.

But we also have an impact beyond our portfolio through interaction with our stakeholders. The IDB encourages governments to mainstream environmental and social sustainability into all their development programs, including infrastructure, urban and rural development, and health care. We take a similar message to private sector clients, seeking to ensure that their investments maximize opportunities for environmental and social benefits (and minimize any negative impacts).

The IDB has implemented, and is continuing to develop, progressive policies and environmental safeguards to embed sustainability into its work, daily operations and loan portfolio at every stage. We employ a number of accountability and transparency measures to evaluate compliance with our own policies, inform our stakeholders and ensure that we live up to our commitments. These are highlighted in the links provided.

## Strategies

The IDB's commitment to promoting sustainable development is enshrined in two complementary strategies: the Strategy for Sustainable Economic Growth and Strategy for Poverty Reduction and Promotion of Social Equity.

**The Strategy for Sustainable Economic Growth** (2003) aims to raise levels of growth for investment, income and per capita GDP that would lead to improved living standards, poverty reduction and the preservation or enhancement of countries' natural resource base. The strategy has four priority areas:

- Modernization of the state
- Competitiveness
- Social development
- Regional integration



The Bank's **Strategy for Poverty Reduction and Promotion of Social Equity** (2003) promotes faster progress in reducing poverty by tackling its root causes. It explicitly recognizes that inclusion and greater social equity are essential elements of development and must go hand in hand with economic growth. To this end, the strategy identifies actions for the IDB to take to assist borrowing countries in reaching the Millennium Development Goals (MDGs)—the set of health, education, environment, empowerment and poverty reduction targets adopted by the international community in 2000.

These two key strategies complement the Bank's Environment Strategy, approved by the Board of Executive Directors in 2003. The strategy lays out a course of action for enhancing sustainable development, particularly by mainstreaming environment into broader development strategies.

### **IDB Sustainability Policies, Initiatives and Action Plans**

<b>Environment and Safeguard Compliance Policy and Guidelines</b>	Mainstreams environmental considerations into the IDB's social and economic development objectives. Commits the Bank to safeguard the environmental quality of all operations and to introduce socially and environmentally responsible practices in its own facilities.
<b>Disaster Risk Management Policy</b>	Provides an important tool for strengthening the effectiveness of Bank support to borrowers in risk management through a two-pronged approach: (i) prevention and mitigation of disasters resulting from natural hazards through programming and proactive project work at the regional, national and local levels; and (ii) post-disaster response to natural hazard events and physical damage from technological accidents or other disasters resulting from human activity.
<b>Operational Policy on Indigenous Peoples and Guidelines</b>	Requires that the IDB safeguard indigenous peoples' rights in all our operations and mainstream indigenous priorities for development in its portfolio. Specific goals are to foster development appropriate to the economy and governance of indigenous peoples, to safeguard territorial and cultural integrity, and to preserve a harmonious relationship between people and the natural environment.
<b>Involuntary Resettlement Policy</b>	Covers any project financed by the Bank that involves the involuntary physical displacement of people living in the area. The goal is to minimize physical and economic disruption. If people must be displaced, the policy requires that pre-project conditions be established and, where possible, that displaced people share in project benefits. The policy also defines the scope and criteria of resettlement plans.
<b>Sustainable Energy and Climate Change Initiative (SECCI)</b>	Supports the region in its search for economically and environmentally viable energy options. Core objectives are to expand the development and use of renewable energy, energy efficiency technologies and practices, and carbon finance, as well as to promote and finance climate change adaptation strategies. Replaces the 2005-2006 Action Plan for Promoting Sustainable Energy and Mitigating Greenhouse Gases.
<b>Opportunities for the Majority Initiative</b>	Takes a novel approach to the Bank's mission to engage low-income communities by partnering them with the private sector to create jobs and deliver quality products and services, enabling a majority of citizens to benefit from economic growth.
<b>Operating Policy on Women in Development and Gender Mainstreaming Action Plan</b>	Commits the Bank, through its lending and technical cooperation programs, to assist our member countries in integrating women into all stages of the development process and in improving their socioeconomic status. Establishes gender as a cross-cutting issue in all areas of Bank activity.
<b>Independent Investigation Mechanism (IIM)</b>	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. Currently under review.
<b>Disclosure of Information Policy</b>	Stipulates that information concerning the Bank and its activities will be disclosed to the public unless there is a compelling reason for confidentiality. Provides for timely disclosure of financial and institutional matters and operations. Documentation such as project completion reports, loan contracts, debt service projections and project procurement plans was released for the first time in 2004.



Essential to the success of all these strategies is the **IDB's set of performance and safeguard standards**. The standards set the boundaries for the Bank's investments and represent our commitment to the application of sustainability principles and recognized best practices. Their implementation safeguards the rights of vulnerable groups that may be adversely affected by Bank-financed operations. They include:

- **The Environment and Safeguards Compliance Policy**
- **The Operational Policy on Indigenous Peoples**
- The Involuntary Resettlement Policy
- The Disclosure of Information Policy

More recently the Bank has added other strategies to promote sustainable development, including the Sustainable Energy and Climate Change Initiative and the Opportunities for the Majority Initiative, both featured in this review under Sustainability Highlights.

Looking ahead, the challenge we face is to implement these strategies effectively through appropriate lending and development practices and, working with member countries and partners, to mainstream sustainability into development models and investment decisions.

## Policies

The IDB is committed to developing internal standard-setting policies that are equivalent to the best international practices. The Bank's Environment Policy, Indigenous Peoples Policy and new Disaster Risk Management Policy took us a step closer to this goal. Together with the IDB's Involuntary Resettlement Policy and Disclosure of Information Policy, these policies comprise a coherent set of safeguards and sustainability standards to guide our work. They are summarized below.

<b>Labor and working conditions</b>	One of the keys to sustainable economic growth and employment creation is a healthy and productive workforce. The Bank's Social Development Strategy requires that we pay more systematic attention to the commitments of member states to core labor standards promoted by the International Labour Organization (ILO). These include the prevention of forced labor, child labor and workplace discrimination, and the right to free association and collective bargaining. The Bank will work to develop best practice standards in this area by issuing a policy statement on labor with accompanying guidelines. It will also take into consideration issues of occupational health and safety, another key issue identified in the Social Development Strategy. For many years the IDB has encouraged consultation and participation of local communities and other
<b>Stakeholder consultation and community participation</b>	stakeholders in its operations and in the project planning process. However, this practice has not been enshrined in a single, coherent set of guidelines. By developing formal guidelines for stakeholder consultation and community participation, we will be able to take a broader approach to consulting local stakeholders and communities for all relevant Bank activities. The new standards will be particularly relevant to our Indigenous Peoples and Involuntary Resettlement's Policies.
<b>Forests and biodiversity</b>	The IDB plans to update its existing policies in this important area to take into account biodiversity values and objectives consistent with Millennium Development Goal 7, "Ensure Environmental Sustainability." New policies will include opportunities for supporting sustainable forestry, including forest certification. A new strategic framework for preserving biodiversity is also being developed that will feed into this work.

Over the next three years, the IDB will focus on developing new safeguard policies and standards in three other important areas, in line with international sustainability standards:



## Regional Standards

The lack of common sustainability standards among the many governments and financial institutions responsible for development decisions in Latin America and the Caribbean represents a huge challenge.

In the interests of sustainable economic growth, the IDB is using its influence to press for the convergence of environmental and social investment standards among subregional banks and financial and governmental institutions in the region. These standards would include, for example, the adoption of common safeguards on regional infrastructure projects such as pipelines and major highways, which are sometimes controversial.

In an encouraging start, under the auspices of the Puebla-Panama Plan, Ministers of the Environment in the Mesoamerican region have approved 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 and FONPLATA—a multilateral financial institution that serves Argentina, Bolivia, Brazil, Paraguay and Uruguay—to promote a common approach to mainstreaming sustainability into regional planning in South America.

### Public and Private Sector Approaches

The Bank's public sector operations comprise the lion's share of its portfolio and an important part of its sustainability work.

The Bank invests in sustainable development through its loans, guarantees and technical cooperation grants that address environmental issues such as water and sanitation, biodiversity and urban environmental management. It also invests in social sustainability through projects to improve the quality of life for indigenous peoples, women, Afro-descendants and youth. Poverty reduction, income generation and public policy are also crucial components of the Bank's public sector work.

Private sector businesses of all sizes are engines of economic growth; engaging them in achieving sustainability goals is also crucial to the development of the region. The Bank invests in private sector projects that maximize both economic growth and employment, and deliver environmental and social benefits. Such investments produce direct benefits, such as increased employment, economic development and a better environment, as well as indirect benefits, such as community investment programs undertaken by private sector clients.

The IDB works with the private sector through a number of mechanisms, including the Office of the Vice President for Non-sovereign Guaranteed Operations, the Multilateral Investment Fund and the Inter-American Investment Corporation. The Bank also engages the private sector through programs that encourage corporate social responsibility.

In 2007, the IDB worked closely with the Andean Development Corporation to develop an environmental and social evaluation methodology. This will help identify key issues to be taken into consideration regarding infrastructure projects under the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), as well as highlighting prospects for environmental and social additionality. The IDB is now preparing a training program on the methodology to be conducted between April and July 2008. A key feature is that it can be applied quickly, in only six months to a year, at a cost of approximately \$150,000 per session.

## Investments

In 2007, the IDB approved \$9 billion in loans and guarantees for its member countries. Of the total, \$5.7 billion (63 percent) was for projects to improve countries' competitiveness in sectors including energy, transportation, communications, trade financing, productive infrastructure, capital markets, agriculture, industry, tourism and science and technology. Another



\$2.9 billion (32 percent of Bank lending) was for social development and included social investment programs, environmental protection and urban development, followed by water and sanitation, education, health and microenterprise development; \$0.4 billion (5 percent of Bank lending) focused on operations to support modernization of the state, particularly on financial sector reform. The Bank also approved a total of \$167.8 million in grants for 427 projects in 2007.

During 2007, the IDB approved 17 non-sovereign-guaranteed transactions, consisting of 13 loans and 4 guarantees, totaling \$2.1 billion. The Bank mobilized a further \$2.1 billion from other financial institutions for nine of those loans. It also approved 12 operations for \$227 million under the Trade Finance Facilitation Program. In addition, the Multilateral Investment Fund (MIF) approved 109 grants for a total of \$100 million and 18 investment projects for a total of \$35 million.

 @ [www.iadb.org/exr/ar2007](http://www.iadb.org/exr/ar2007)

## 2007 Environmental Investments

In 2007, the IDB approved a total of 20 environmental loans, investing \$1.1 billion (and an additional \$335 million in counterpart investment) primarily in the areas of water and sanitation. Other loans included a \$40 million investment in clean production and environmental management in Argentina and a \$40 million investment in a major bioenergy project in the state of São Paulo, Brazil, the IDB's first private sector financing for a project of this kind.

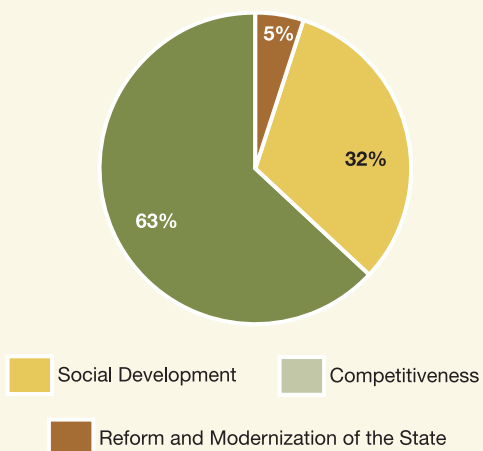
The Bank also contributes to the environmental sector by providing grants for technical cooperation programs. In 2007 the Bank approved a total of 81 grants for \$32.3 million for environmental projects in such areas as biodiversity, coastal management, watershed management, pollution abatement and climate change.

Equally as important as its investment in traditional environmental sectors, the IDB continued to finance environmental components in economic and social sector operations for mainstream activities, such as conventional energy or road infrastructure and industrial development.

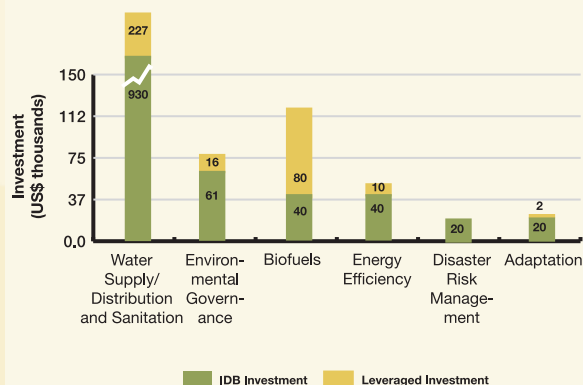


# IDB Sustainability Investment Data 2007

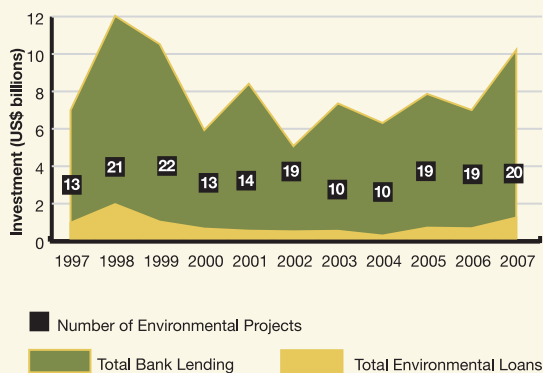
Lending by Sector, 2007



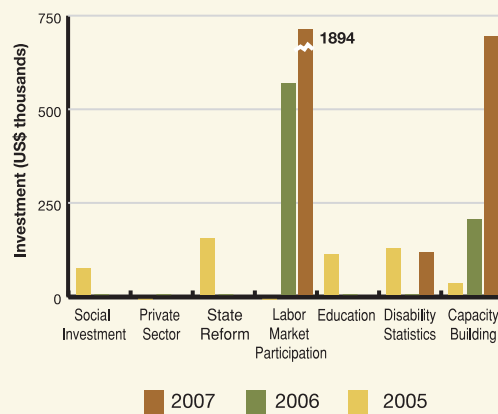
Core Environmental Lending by Category, 2007



Environmental Lending 1997-2007

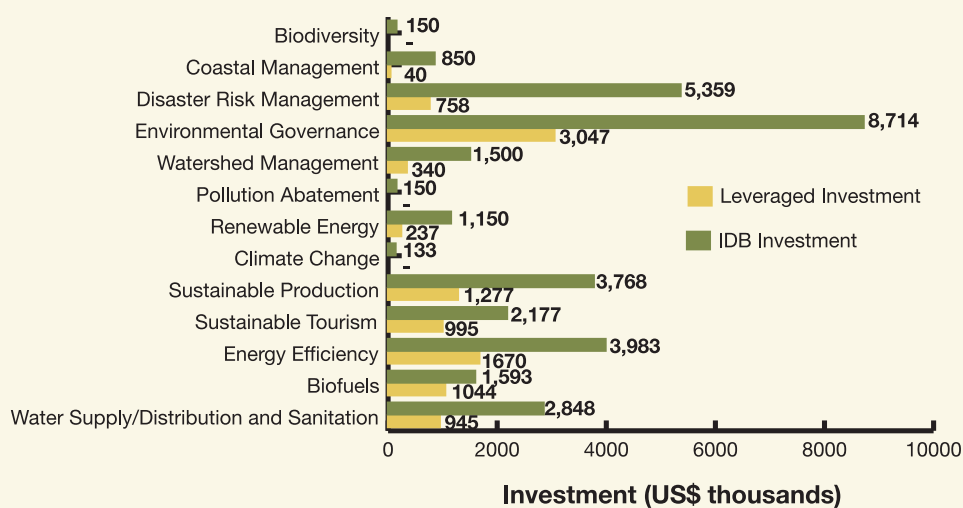


Technical Cooperation Grants focused on Persons with Disabilities, approved 2005-2007

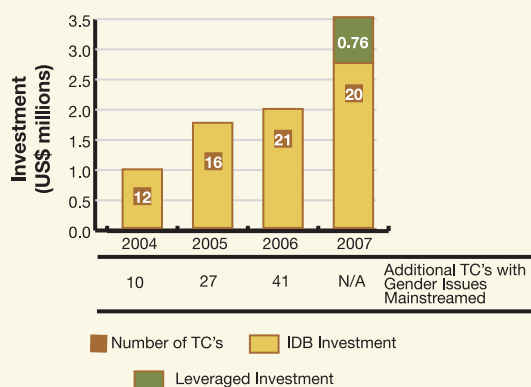




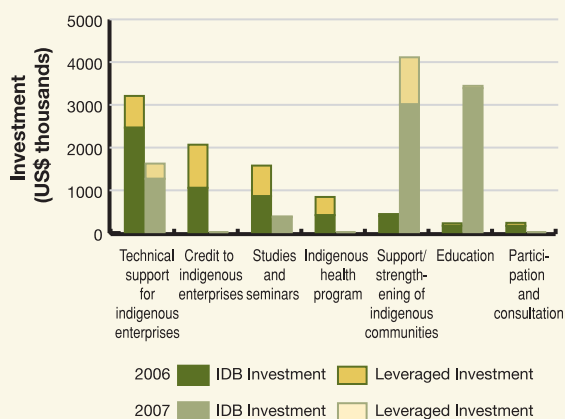
## Environmental Technical Cooperation Grants by Category, 2007



## Technical Cooperation Grants that promote gender equality, approved 2004-2007



## Technical Cooperation Grants relevant to Indigenous Peoples, approved 2006-2007





## Working with GEF

The Global Environment Facility (GEF) is a financial mechanism for projects providing global environmental benefits, including projects for implementation of the Convention on Biological Diversity and the United Nations Framework Convention on Climate Change. The GEF provides funding to developing countries and those with economies in transition to meet the costs of measures to achieve agreed global environmental improvements addressing the issues of biological diversity, climate change, international waters, land degradation, ozone layer depletion and persistent organic pollutants. Sound chemical management and sustainable forest management are also included as cross-cutting issues.

The IDB is a GEF executing agency, supporting member countries in preparing and managing GEF projects. Working with the GEF enables the Bank to increase the value of its loans by incorporating important environmental components. It also allows us to leverage other resources from local and international organizations. The main focus of the IDB-GEF work program is biodiversity and international waters. However, in 2007-2008 climate change and land degradation projects are also being included.

In 2007, the GEF approved \$25.7 million in cofinancing for four IDB projects:

- Integrated Ecosystem Management of the Gulf of Fonseca—embracing Honduras, El Salvador and Nicaragua—addressing biodiversity conservation in cross-border watersheds
- Sustainable management practices in the Mayan Biosphere Reserve in Guatemala
- Transforming the market for energy efficiency in Brazil
- Sustainable environmental management in the Sixaola River Basin (see below).

### Integrated Ecosystem Management in the Sixaola River Basin

In 2007 the GEF approved a \$3.5 million grant for an IDB project to improve environmental management in the Sixaola River basin between Costa Rica and Panama. The project will help strengthen the working relationship between the two countries and involve broad stakeholder participation. The National Environment Agency (ANAM) in Panama and the Ministry of Environment and Energy (MINAIE) in Costa Rica will jointly lead project activities which will promote practices for conservation and sustainable use of water, soil and biodiversity. Local communities will be involved in improving microwatershed management and generating alternative income-generation activities based on sustainable use of natural resources. A binational water quality and biodiversity monitoring program will be developed, together with shared management tools for the cross-border protected areas.

Another six projects are in preparation. Once approved, cumulative IDB-GEF projects will total \$61.1 million.





## 2007 Social Investments

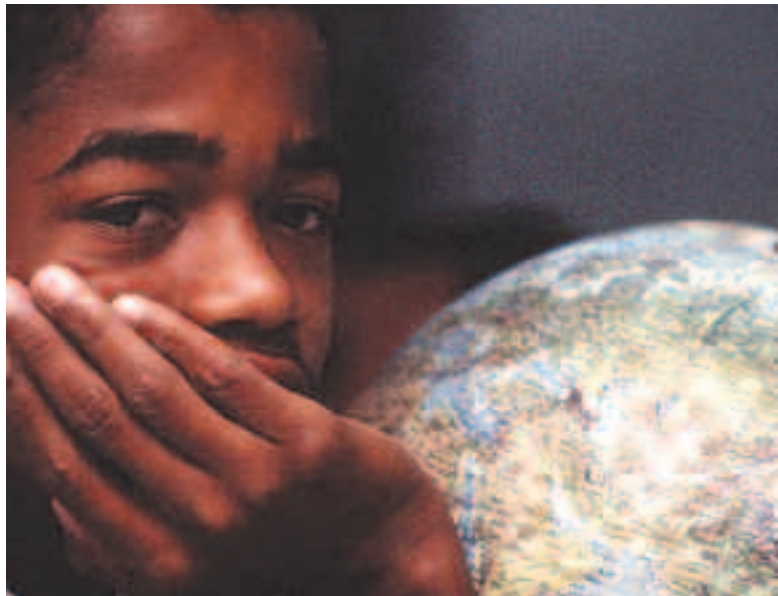
The concept of social sustainability drives much of the IDB's work. A central tenet of the IDB's mission is that its work must contribute to social as well as economic well-being. The elements of this well-being include material sufficiency, security, health, social acceptance, opportunity, and freedom 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.

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.





## ACCOUNTABILITY

The IDB has a number of accountability and transparency measures in place to evaluate compliance with our policies, inform stakeholders and make sure that we live up to our promises. These measures are part of the Bank's Integrity Initiative, launched in 2006 to ensure high ethical standards and accountability among our staff in the conduct of all Bank-financed activities. The Integrity Initiative strives towards three goals:

Goal	Mechanism for Achieving Goal	Detail
<b>Ensure that Bank staff act with the highest standards of integrity and that the institution's internal policies and procedures support this goal.</b>	<b>Ethics Officer and Ethics Committee</b>	The Ethics Officer is responsible for the interpretation of the Code of Ethics and Professional Conduct of the Bank. The code allows for the disclosure of potential conflicts of interests and includes procedures under which the Ethics Officer will consider claims of code violations. The Ethics Officer serves as Secretary of the Ethics Committee, provides guidance to employees and promotes staff consultation. An overarching objective of the committee's mandate is to reinforce the idea that Bank employees are international civil servants.
	<b>Ombudsperson</b>	The Ombudsperson is part of the Bank's informal grievance procedure whereby an impartial and independent official may informally inquire into and seek to resolve, through conciliation, mediation or any other appropriate means, any complaint by an employee alleging mistreatment and/or nonobservance of his or her terms and conditions of employment with the IDB. The purpose of this procedure is to promote good practices in personnel management, greater organizational and operational efficiency and, in general, foster a harmonious and productive work environment.
	<b>Conciliation Committee</b>	The purpose of the Conciliation Committee is to reach just and equitable conciliatory agreement on labor disputes between Bank staff and Management.
	<b>Administrative Tribunal</b>	The Administrative Tribunal of the Bank hears and rules on allegations by staff of nonobservance on the part of the Bank of the staff member's employment contract or terms and conditions of appointment.
<b>Ensure that activities financed by the Bank are free of fraud and corruption and are executed in an environment with appropriate controls and oversight.</b>	<b>Oversight Committee on Fraud and Corruption</b>	The Bank has a stringent internal administrative process to investigate violations of its regulations related to fraud and corruption. This process is the responsibility of the Oversight Committee on Fraud and Corruption and the Office of Institutional Integrity.
	<b>Sanctions Committee</b>	To promote transparency, in 2006, the Board of Executive Directors approved new measures to implement new sanctions for fraud and corruption cases, including a specialized Sanctions Committee which considers claims and determines sanctions where appropriate.
<b>Support programs that help member countries strengthen good governance, enforce the rule of law and combat corruption.</b>	<b>Modernization of the State Strategy</b>	The IDB has been a pioneer among multilateral financial institutions in actively incorporating governance and institutional issues into its approach to development. In 2003 the Bank adopted a key strategy on modernization of the state, which covers the broad field of democratic governance including democratic institutions, the rule of law, market institutions and public management. The strategy supports borrowing country efforts to enhance democratic governance at the national and local levels. It also identifies Bank interventions to help strengthen institutions responsible for promoting transparency and accountability and fighting corruption.



## Integrity

The Inter-American Development Bank regards institutional integrity as the bedrock of our ability to fulfill our mandate effectively.

The Office of Institutional Integrity (OII), which reports directly to the IDB president, is the principal mechanism for ensuring that Bank-financed activities across Latin America and the Caribbean are free of fraud and corruption. The OII coordinates this work closely with other entities in the IDB Group, particularly the Oversight Committee on Fraud and Corruption (OCFC) and the Sanctions Committee.

The OII also plays a supportive role in matters of internal Bank ethics and integrity and helps member countries develop and enhance their own integrity programs. With the arrival of the Bank's new Ethics Officer and Ombudsperson in 2007 the OII's role with respect to internal ethics matters took on a primarily supportive function.

As a result of improvements in the investigative process and more efficient use of an electronic case management system, the OII closed a record 162 cases in 2007. During the year, the unit received 212 inquiries, of which 84 percent concerned allegations of fraud or corruption in Bank-financed activities. The remaining 16 percent involved staff misconduct, alleging violations of the Code of Ethics or other staff rules.

At the end of an investigation, OII classifies a case as substantiated, unsubstantiated, or unfounded. A case is substantiated when the evidence sufficiently supports the allegation that a fraudulent or corrupt practice, as defined by the Bank, has occurred. Unsubstantiated cases are those in which the evidence is insufficient either to confirm or deny the original allegation. Lastly, cases are classified as unfounded when the allegations are determined to be untrue. Of 134 external investigations in 2007, 30 percent were substantiated. Among the 16 cases of alleged staff misconduct, eight allegations were substantiated, five were unsubstantiated and three were unfounded.



The Sanctions Committee or the Oversight Committee on Fraud and Corruption (OCFC) determines the outcome in cases where OII has recommended sanctions. Sanctions range from letters of reprimand to permanent debarment. During 2007 sanctions were imposed on 37 parties involved in 11 cases.

## Safeguards Group

Globalization is bringing new challenges to Latin America and the Caribbean. From a sustainability standpoint, the financial markets are placing new and increasingly stringent demands on financial institutions to adopt environmental and social policies that meet international standards. The IDB has responded to these challenges by positioning itself as a leading partner for Latin American and Caribbean countries in their pursuit of sustainable development.



To help us in this task, the Bank convened a high-level advisory panel in 2005 which made a series of recommendations. The Bank has since worked hard toward meeting the commitments it made in response to these recommendations.

In May 2007, President Moreno invited the Blue Ribbon Panel to reconvene with the Bank's senior management to discuss sustainability issues in the light of the Bank's realignment process. The meeting also included a session with representatives from the NGO community. The Panel concluded that although the IDB had made significant progress in mainstreaming environmental and social sustainability into its current structure, much remained to be done.

In July 2007, the Bank responded by implementing a new organizational model which establishes an influential new environmental and social safeguards group in the Office of the Vice President for Sectors and Knowledge. Its goals are to:

- Provide specialist support to project teams from project inception to completion, helping them to define their environmental and social strategy, mitigation plans and reports.
- Coordinate the Bank's efforts to promote effective implementation of safeguard policies in Bank-supported operations.
- Coordinate the Bank's sustainability agenda, including reporting on policy implementation and progress towards stated commitments and institutional sustainability efforts.

### Inspection Mechanism

In 1994, the IDB established the Independent Investigation Mechanism (IIM) to increase the transparency, accountability and effectiveness of its operations. Through the IIM, procedures were developed to investigate formal complaints that the IDB failed to follow its policies in the design, analysis, or implementation of Bank-financed operations. To date, five complaints have been fully investigated.

As of the end of 2007, a proposal to enhance the IIM, based on an analysis of approaches by peer institutions, consultations with civil society organizations and private sector representatives and public comments via the Bank's website, was pending before the Board of Executive Directors.

In early 2008 a full-time IIM Coordinator was appointed. The Coordinator's duties include: processing of formal written requests for an investigation; providing administrative support for investigations that are launched; and developing and distributing all reports and information related to the IIM policy. According to the policy, the Coordinator reports to the IDB Board of Executive Directors through the Secretary of the Bank.

### Information

The Public Information Center (PIC) at the IDB offers electronic and hard-copy versions of a number of documents under the terms of the **Policy on Information Disclosure**. The documentation available includes material on the Bank's **loan operations**, evaluations conducted by the IDB's Office of Evaluation and Oversight, and **Operational Policies**.



Hard copies of the documents, except environmental impact assessments (EIAs), may be ordered through the Public Information Center in Washington, D.C. (tel (202) 623-2096; fax (202) 623-1928; e-mail: [pic@iadb.org](mailto:pic@iadb.org)) or through the **Country Office Public Information** Contacts.

In addition the Bank's Sustainability Portal is updated regularly to include new information on the Bank's progress in fulfilling its sustainability commitments.

## Viewpoints

In December 2007, the IDB held a multistakeholder consultation on sustainability reporting, to get feedback on the Bank's progress. Participants included representatives from local and international nongovernmental organizations, governments and the private sector, and senior Bank staff. The group concluded that the Bank had made significant progress in reporting on its commitment to sustainability through policies, investments and new initiatives. The IDB's approach to sustainability was deemed strong, with many commitments, policies and safeguards put in place but there was still considerable work to do.

In particular the group provided valuable insights into the importance of the Bank developing key sustainability performance indicators and useful suggestions on responding to informational needs at the local level. Here are just a few of their comments.

Moving forward, the Bank will continue to consult with these and other stakeholders.

### How Are We Doing?

"The IDB's policies are better in word than in implementation."  
—Pedro Bara, World Wildlife Foundation.

"What is important is how is sustainability working with the realignment? Is the Bank going in the right direction?"  
—Dr. Thomas Lovejoy, The Heinz Center.

"The perception is that the Bank's commitment to sustainability is merely formal. The IDB's policies and commitments are sufficiently challenging, but it must 'walk the talk.'"  
—Sheila Abed, IDEA.

"Countries agree that climate change is a real threat for humans and economies. What indicators is the Bank using to measure the impact of its portfolio on carbon emissions? How does this compare to other development institutions? Where does the IDB want to go?"  
—Ana Maria Majano, Former Environment Minister, El Salvador

"The Bank's Sustainability Review presents comprehensive information. However the Bank needs to show the numbers, to show where it was in the past, where it is now and where it wants to go in the future. To that end the Bank must establish baselines, indicators and targets of its performance". Sandra Martinez, Environmental and Community Affairs Corporate Manager, Pluspetrol.







# Chapter Two: Managing and Monitoring

Self-evaluation is a critical part of the Inter-American Development Bank's commitment to accountability and sustainability. Stakeholders want to know whether and how the Bank's investment decisions are helpful or harmful for sustainable development. And we want to know how well we are doing and to learn lessons about how we can improve in the future.

Managing and monitoring the IDB's sustainability commitments is a multifaceted task. Such efforts must include: how the Bank reports publicly to its stakeholders; the measures we take to ensure effective monitoring and supervision of environmental and social safeguards; and internal analysis of the overall development effectiveness of the projects we finance.

This section guides readers through the complex range of tools the Bank uses to implement and oversee compliance with its safeguard policies, collect and collate key performance and evaluation data, and report effectively on progress towards its sustainability commitments.

## Reporting Strategy

The IDB published its first annual *Sustainability Review* in 2005. While a ground-breaking document, it fell short of the in-depth performance reporting that requires sustainability data and indicators for the previous year.

The IDB is committed to achieving best practice in sustainability reporting and has pledged to improve subsequent reports as we develop "*new mechanisms and indicators to capture sustainability impacts and outcomes and report on them effectively.*" Specifically, the Bank is committed to publishing a full annual Sustainability Report with performance data, by 2009.

Our third Sustainability Review is being published on our website in order to provide accessibility to the largest possible audience, and includes ready links to policies, programs and case studies mentioned in the text. A brief summary pamphlet of review highlights is also available, as well.

In 2008, the Bank will develop key sustainability performance indicators in preparation for our first full Sustainability Report in 2009.



## Indicators

Accurately assessing the Inter-American Development Bank's overall sustainability involves more than simply assessing our environmental and social impacts in the field at the project level. It requires indicators that reflect the Bank's aggregate economic, social and environmental performance—the three critical components of sustainability.

In this review, the IDB reports progress towards its sustainability commitments in both qualitative and quantitative terms.

### Multilateral Financial Institutions Reporting Initiative

As sustainability reporting has become increasingly commonplace, efforts have been made to devise practical indicators that reflect corporate environmental, social and economic performance—the so-called “triple bottom line.” The Global Reporting Initiative is one such effort that many companies have embraced, offering a standard methodology and list of sustainability indicators for reporting to stakeholders.

A development bank's work, however, is much broader than the private sector's, encompassing contributions to public goods such as economic development, social development and environmental security. Accordingly, the IDB needs a more specialized set of sustainability indicators. We have joined a working group of representatives of multilateral financial institutions to define a workable framework for sustainability reporting in our sector and to agree on a common set of reporting indicators. This work will continue over the next two years.

Indicators of progress in **qualitative** terms:

- Description of relevant safeguard policies, including any updates;
- Description of sustainability commitments and progress made;
- Case-by-case examples of sustainability investments;
- Case-by-case examples of sustainability performance;
- Case-by-case examples of ex post evaluation.

Indicators of progress in **quantitative** terms:

- Environmental investments - loans and technical cooperation grants;
- Safeguard classifications of all approved loans;
- Projects likely to achieve development objectives;
- Problem projects;
- Alert projects – projects that are flagged before they receive problem project status;
- Ex post evaluations conducted;
- Corporate utility and resource usage;
- Corporate greenhouse gas inventory;
- Corporate diversity;
- Corporate local community investments.

## Safeguards

The IDB's environmental, social and other **safeguard policies** represent our commitment to the application of sustainability principles and recognized best practices. The policies not only recognize the essential role of the environment in the region's development, they also, critically, protect the rights of often voiceless vulnerable groups that may be adversely affected by Bank-financed operations.

Well-designed procedures and decision tools are needed to implement these policies by integrating sustainability practices into project documents and loan contracts. Using such procedures and tools



provides the IDB with a tracking and accountability system that enables us to manage and monitor our own safeguard compliance throughout a project’s life, from the drawing board until completion.

The Bank follows three key steps for all projects, to ensure that environmental and social safeguards are managed and monitored appropriately:

- Classification according to potential environmental and social impacts and the preparation of an Environmental and Social Strategy
- Analysis/due diligence
- Supervision

### Classification

The IDB’s Environment and Safeguards Compliance Policy of July 2006 is clear and unequivocal. It requires that “*All Bank-financed operations will be screened and classified according to their potential environmental impacts.*” It also mandates that the screening process include the social and cultural safeguards of other relevant Bank policies such as the Indigenous Peoples Policy and the Involuntary Resettlement Policy.

This comprehensive screening must be carried out early in the project planning process by the IDB project team in consultation with the environmental specialist or specialists to determine the assessment, management, monitoring, and oversight each project will require. Projects are sorted into one of three categories based on their potential impact:

<b>Category A:</b>	Projects 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.” They require environmental impact assessments or strategic environmental assessments, and may also require an advisory panel of experts for guidance on mitigating negative impacts.
<b>Category B:</b>	Projects 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 specific risks posed and are subject to an individual environmental and social management plan devised by the Bank.
<b>Category C:</b>	Projects likely to cause minimal or no negative environmental or social impacts. These do not require any additional environmental or social analysis beyond the initial screening. In some cases, they may include safeguard or monitoring requirements.
<b>Other</b>	Projects that differ from traditional investment loans and for which classification based on anticipated impacts is not be feasible. These operations, as described in Directive B13 of our Environment Policy, include operations with financial intermediaries that may have future subprojects not yet designed, and may require different environmental assessment and management tools to determine any safeguard risks.







To help streamline project design and review and standardize the classification process, the IDB introduced a new computer-based screening and classification tool in 2007. The system helps staff to identify specific environmental and social risks and impacts, flag “alert issues” requiring further examination, assign an impact category to the operation and identify the type of safeguard evaluations needed. Specific tools are also being developed to evaluate project impacts and risks under the Disaster Risk Management and Indigenous People’s Policies, and will be implemented during 2008. For each IDB operation, an environmental and social strategy document is also prepared, which undergoes a peer review process and is available in the IDB Project Portal.

In 2007 loans and guarantees approved by the Bank totaled \$9 billion.

All loans and guarantees that had entered the pipeline since July 1, 2006, when the Environment and Safeguards Compliance Policy went into effect, underwent the Bank’s rigorous new safeguard screening and classification process. Approved loans and guarantees that entered the pipeline earlier have been retroactively classified.

In 2007 Category A projects represented 5 percent of total lending, Category B 30 percent and Category C 27 per cent. More than a third of the IDB’s approved loans and guarantees fell into a fourth category of “Other.” These consisted of all noninvestment lending and flexible lending instruments, including operations with financial intermediaries, operations under the Trade Finance Facilitation Program, policy-based loans, conditional credit lines and fund operations.

In 2007, two high-risk category “A” project were approved. The second operation did not reach financial closing.

## Analysis

The Inter-American Development Bank conducts a formal due diligence on all operations it finances, at the earliest stages of project planning.

In addition to a full analysis of financial and legal risks, the process also covers environmental, social and other safeguard impacts and risks. Such sustainability aspects are analyzed by the Bank’s project team to a greater or lesser extent, depending on the magnitude and nature of the environmental and social issues identified.

The objectives of this all-important preparation stage are: to evaluate the adequacy of the proposed project’s environmental, social and health and safety assessments, plans and procedures to mitigate adequately all project-related impacts and risks; and to incorporate these into the project design and project loan documents.



Project teams prepare a summary of their environmental and social evaluation that may be documented in an environmental and social management report (ESMR) available to the public through the **IDB Project Gateway**.

All IDB projects undergo the process described above. Environmental and Social Management Reports are completed for all Category “A” and most Category “B” projects, as well as all private sector projects. Public sector projects with minimal or no impact do not always require a formal ESMR. Instead, the findings of the environmental and social evaluation are reported in the loan or guarantee proposal.

## Supervision

A key driver of the strategic realignment on which the Inter American Bank embarked in 2007 was to improve our role in contributing to development that is environmentally and socially sound.

To help achieve this goal, a new Environmental and Social Safeguards Unit (ESG) was created, reporting to the Vice President for Sectors and Knowledge. The unit has been given the critical task of managing, monitoring and supervising environmental and social safeguards in all IDB projects, both public and private, as mandated by Directive B.7 of the **Environment and Safeguards Compliance Policy**.

The unit has already begun an extensive analysis to identify the most appropriate tracking and accountability systems and approaches to monitoring and supervising safeguard performance under the Bank’s new organizational structure. A particular focus is on incorporating the best aspects of the private sector model of supervision into a similarly robust process for public sector projects.

For example, in private sector IDB projects, specific environmental and social operational requirements are usually included in legal documents—covenants, warranties and conditions prior to disbursements—and in legally binding, project-specific guidelines. By contrast, in the public sector, such standards are detailed in a project document’s Operating Regulations and are not legally binding. In 2008, the Bank will seek to rectify this loophole through new supervision processes to ensure inclusion of key mitigation and management measures in core project documents.





## Measuring Performance

The IDB's lending activities are designed to benefit millions of people every year. But not all operations meet their goals.

Measuring every project's impacts and benefits is essential to determine how well they achieve their development objectives and the Bank meets its commitments to accountability and sustainability. Such evaluations also play a key role in how we put our limited resources to the best use in the future.

In recent years, the IDB has placed more careful emphasis on measuring and monitoring development outcomes from our activities in Latin America and the Caribbean, based on credible evidence. The Bank's new organizational structure, aligned to better meet the development needs of its member countries, has brought additional momentum to this agenda.

The Bank uses several types of evaluations to draw lessons from its experiences and judge the effectiveness of its projects. These include twice yearly project performance monitoring reports (PPMRs), a project alert identification system (PAIS) and project completion reports (PCRs), completed after final disbursement and available publicly through the IDB **Project Gateway**.

While the PPMR system and PAIS are internal tracking tools, a detailed review of the IDB's development effectiveness is published on an annual basis. Called the **Development Effectiveness Overview (DEO)**, the report examines opportunities for improvement and identifies critical Bank and borrower actions that can enhance development outcomes. It represents the views and objectives of IDB management in setting a results-based agenda for the Bank's corporate and operational activities.

## Performance Tools

### *The Project Performance Monitoring Report*

Project performance monitoring reports (PPMR) are the primary reporting tools used by the IDB to track the progress of our public sector projects.

Issued twice a year (or whenever a project changes its status), the electronic reports provide Bank management and stakeholders with a snapshot of progress towards implementation and development objectives. They also enable Bank staff and the country executing unit to monitor and report the effectiveness of a project's risk analysis plans.

In the PPMR system, projects underway are classified as either normal (the majority) or "problem" (a small group facing major challenges in meeting their development objectives). Each project's performance is ranked according to (i) implementation progress; (ii) the likelihood of its achieving its development objectives; and (iii) the likelihood that the initial assumptions will remain valid.

In 2004 the Bank developed a parallel PPMR system for private sector operations, beginning with projects approved in 2003.



### ***Project Alert Identification System***

The IDB's project alert identification system (PAIS) is an additional monitoring tool that delves deeper than the PPMR ratings. As its name indicates, PAIS alerts the Bank to projects that are not yet formally ranked as problematic, but exhibit characteristics indicating that they may become so. The system uses detailed indicators based on objective information from the Bank's corporate database to identify "alert status" projects, which are then monitored carefully for prompt remedial action before the project reaches the "problem" stage.

### ***Project Completion Report***

Project completion reports (PCRs) are a critical self-reporting tool that contribute to institutional knowledge-sharing within the IDB, and to our accountability.

Prepared jointly by IDB staff and the country executing agency immediately after a public sector project has been fully disbursed, PCRs are designed to: evaluate outcomes and outputs, assess how likely project benefits are to be sustained, evaluate the Bank and executing agency's performance, and draw lessons learned during project planning and execution so they can be applied to future operations.

The Bank also prepares project supervision reports (PSRs) for its private sector projects. These focus on credit and other risks, including environment, construction, operation and regulatory risks.





# Performance Data 2007

## Ongoing Projects:

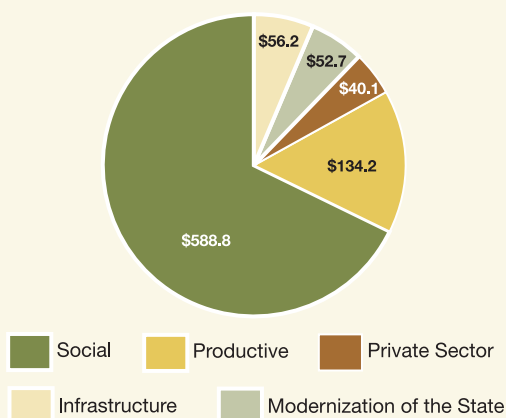
On December 31, 2007, the IDB's active portfolio consisted of 580 projects. Of these, public and private sector investment operations accounted for 97 percent of, with the remainder made up of policy-based loans.

Of 469 public sector projects in our portfolio, 91 percent, with investments totaling \$27.6 billion, were classified by Bank staff as likely to achieve their development objectives. Nine percent, or 40 projects, totaling \$872 million, were reported to be problem projects. These were ongoing investment loans, primarily in the social sectors (education, health, environment and natural disasters, social investment, urban development and housing, water and sanitation, and science and technology).

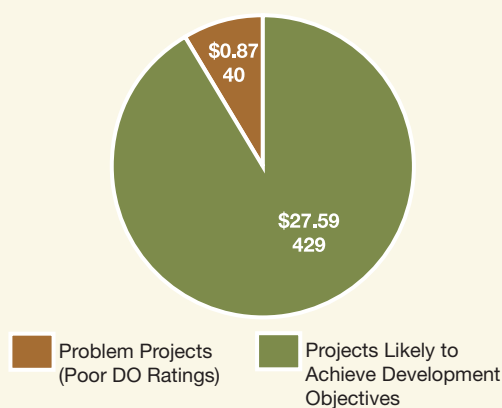
In addition, 157 projects totaling \$7.3billion were classified as on alert in the Bank's project alert identification system (PAIS). Alert projects as a percentage of portfolio volume increased slightly to 26 percent in 2007 compared with 24 percent in 2006.

By December 31, 2007, 25 non-sovereign-guaranteed (NSG) projects had been included in the NSG PPMR system, all of which are rated as likely to achieve their development objectives. In terms of progress in implementation, 22 of the 25 projects were rated satisfactory, with components on schedule and within budget. In addition, 54 projects with outstanding balances in 2007 were covered by the project supervision report (PSR) system: nearly 89 percent of them were classified as "Excellent" or "Satisfactory," while the remaining 11 percent were classified as "Watch List" or "Impaired."

Breakdown of Problem Projects,  
by Sector, as of December 31, 2007



Reported Portfolio Performance,  
as of December 31, 2007





## **What's Next?**

Project performance monitoring reports (PPMR) and project completion reports (PCRs) do their job well in terms of identifying and reporting the major achievements and failings of IDB projects.

However, the Bank is aware that these tools do not monitor the environmental and social aspects of projects effectively enough, especially where projects lack a dedicated environmental component.

To rectify this, the Bank is streamlining its review and reporting mechanisms, including PPMRs and PCRs, to ensure more systematic monitoring and reporting of environmental and social safeguards compliance. This will have two positive outcomes: adding value to the information produced and reported to stakeholders, and fostering a more focused dialogue on results between the Bank, country executing agencies and civil society.

## **Evaluation**

Every year, in addition to the routine monitoring undergone by every project, the IDB carries out a high level ex post analysis on a selection of its completed operations.

The evaluations are conducted by the Bank's Office of Evaluation and Oversight (OVE), an independent unit reporting directly to the Board of Executive Directors. They can be initiated by the Bank or at the request of a borrowing country and involve an in-depth evaluation of either an ongoing or a completed project's performance and benefits. There are two types of ex post evaluations: performance and sustainability assessments (EPSAs) and impact evaluation reports (IERs).

In doing its work, the OVE is free from external pressure and conflicts. Its findings, analyses and conclusions are also free from influence by IDB line management at every stage of the process, including OVE work program planning and budgeting, the formulation of terms of reference, staffing of evaluation teams, execution of evaluations and approval of reports.

The idea is to produce the most objective project evaluation possible, in order to provide credible, useful information that can then be fed, as lessons learned, into the decision-making process of both the borrowing country and the Bank. The IDB uses these evaluations as a key tool for institutional learning.

In line with the Organization for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) Evaluation Cooperation Group guidelines, the Bank's Office of Evaluation and Oversight developed guidelines in 2005 to enhance evaluation of private sector completion reports through the preparation of "expanded project supervision reports." These build on existing private sector reporting mechanisms (PSRs and PPMRs) and were introduced in 2006.

## **Evaluations Conducted in 2007**

In 2007 the Office of Evaluation and Oversight carried out ex post evaluations of 22 projects from the 2006/2007 cycle and began 25 ex post evaluations of 2007/2008 cycle projects.



Evaluations for the 2006/2007 cycle focused on the following areas: social investment funds, agricultural research, technological uptake and early childhood development. Evaluations for the 2007/2008 cycle are focusing on the following sectors: tax administration, animal and health plant systems, citizen security and the impact of environmental impact assessments of infrastructure projects.

The latter sector study is particularly relevant to the IDB's sustainability agenda. Assessments by the Office of Evaluation and Oversight will address the sensitive and sometimes controversial subject of how the Bank has dealt with the environmental and social impacts of infrastructure projects, starting with the power sector.

During 2007, this work began with an evaluation of environmental assessments for 22 projects completed between 2000 and 2005. For each project, the evaluation focused on five key areas: quality of overall information included; environmental baseline conditions and methods used to assess them; identification and quantification of environmental and social impacts, including occupational health and safety; consideration of alternatives and mitigation of impacts; and the monitoring and evaluation framework.

Preliminary results show that environmental assessments for private sector IDB projects score better than their public sector counterparts. The former contained good information regarding environmental objectives and components, and environmental and social baselines, although the description of alternative scenarios was sometimes deficient. By contrast, the overall quality of public sector assessments was low, and particularly deficient in quantifying impacts and describing alternatives. Nonetheless, the two largest public sector infrastructure projects analyzed (both hydroelectric power generation plants) performed above average and contained valuable ex ante environmental and social information, which was used for the more detailed evaluation that followed.

#### **Innovative Approaches to EIAs:**

The three projects that scored highest also underwent detailed ex post performance and sustainability assessments (EPSAs), using newly developed methodologies to assess environmental and social impacts. The first assessment was conducted on the **Porc II (Colombia)** hydroelectric power plant. The second compared the social and environmental management of two Mexican thermal power plants (**Monterrey III** and **Samalayuca II**), financed by private sector IDB loans. These detailed assessments included analysis of the relevance, efficiency and effectiveness of mitigation measures and of the value added by Bank involvement in terms of environmental and social results.

This series of assessments is the first in a staged approach to evaluating our environmental performance by the IDB. A second stage will evaluate projects specifically designed to enhance good practice in the use of natural resources. A third stage will evaluate environmental projects for institutional strengthening and capacity building. Our objective is to complete a full assessment of the Bank's involvement in environmental issues, focusing on lessons learned, by 2010.



## Pilot Evaluation Project in 2007

### *Innovative Impact Evaluation of Resettlement Program in Colombia*

Resettlement programs are one of the most sensitive areas relating to the social sustainability of Bank projects. Monitoring and evaluating the relocation of communities is critical not only to ensuring that projects fulfill their social objectives, but also to informing future Bank projects that involve resettlement.

With this in mind, in 2007 the IDB conducted an innovative pilot impact evaluation of the resettlement program associated with the Porce II hydroelectric power plant in Colombia, financed by the Bank with a \$328 million loan. This project was selected due to the amount of information generated by the borrower, which was considered a potential case of best practice to draw lessons for the IDB.

The power plant project, which was completed in 2001, included the resettlement of 119 families who had made a living mining in the Porce River. The impact evaluation analyzed the socioeconomic conditions of the families using a new methodology that compared the actual condition of the resettled community with a control group, a community with similar characteristics unaffected by the project.

Preliminary results demonstrated that a well managed resettlement program can improve living standards. Housing conditions, education levels and access to water, energy and health care were improved in the resettled community. The shift from mining to more diversified livelihoods had also been successfully completed. On the downside, income and employment rates were slightly lower than the control group, demonstrating possible concern about the resettled community's long-term sustainability.

### **Sustainability Commitments**

For more indepth information regarding the commitments please see page 55 or review the table online @ <http://www.iadb.org/Sustainability/Uploads/SustainabilityCommitments.pdf>









## Chapter Three: Sustainability Highlights

In 2007 the IDB made significant advances in addressing key sustainability issues that are both global in importance and especially relevant to the Latin American and Caribbean region, including climate change, water and sanitation, and disaster risk management.

During the year we also held a multistakeholder consultation on the Bank's approach to sustainability reporting. Participants voiced a strong interest in Bank activities to address the climate challenge, especially the potential for alternative energies such as biofuels. In Sustainability Highlights, we report on activities in all these areas, as well as new initiatives launched in 2007 to create opportunities for marginalized communities and persons with disabilities.

### Climate Change

Ensuring affordable, reliable sources of energy is at the core of the development agenda in Latin America and the Caribbean. Rising prices and unreliable supply are causing concern, as are the impacts of climate change on the region's economic and social wellbeing.

Climate change has become a major issue in the global political agenda, with warming air and ocean temperatures, melting snow and ice cover, and rising sea levels now overwhelmingly evident.

Latin America has been identified by the United Nations Intergovernmental Panel on Climate Change (IPCC) as one of the regions most vulnerable to rising temperatures. Severe predicted impacts include a 15 percent decrease in corn production in Central America and the Andean countries, the potential dieback (progressive death of the twigs, branches, shoots or roots of trees, starting at the tips) or collapse of the Amazon rainforest within 50 years, a 70 percent rise in populations struggling to access safe water and increased transmission of dengue fever.

In 2007 the Bank launched two important initiatives to help the region both respond to climate challenge and develop economically and environmentally sound energy options.

In March the Board of Executive Directors approved the **Sustainable Energy and Climate Change Initiative** (SECCI), which will put the Bank at the forefront of leadership on climate change innovation in the region. With a \$20 million initial investment, the program will expand the development and use of renewable energy sources and energy efficiency technologies and practices, as well as finance climate change adaptation strategies that reduce the countries' vulnerability.



The Bank also launched the Green Energy Program which will facilitate small and midsize investments in green energy projects and programs, catalyzing private sector investment under the SECCI. Additionally, **The Multilateral Investment Fund** will continue to promote improved environmental management among small businesses by promoting the connection between eco-efficiency, cost savings and staying competitive in today's global marketplace.

## 2007 Highlights

Two thousand seven was a particularly important year for the Bank in building mechanisms to support the Latin American and Caribbean region's urgent search for economically and environmentally sound energy options.

Highlights included:

- The approval of the **Sustainable Energy and Climate Change Initiative** in March 2007 by the Bank's Executive Board of Directors. This major program's objectives include expanding the development and use of renewable energy sources, energy efficiency technologies and practices, and carbon finance in the region, as well as financing climate change adaptation strategies.
- The creation of two special funds: the \$20 million SECCI-IDB Fund and the SECCI Multidonor Fund, including a \$2.8 million contribution from the United Kingdom and \$17.5 million in commitments from Spain and Germany. These funds will enable the Bank to implement quickly implement activities under the Initiative.

Specific investments from SECCI donors included:

- **IDB/Germany Strategic Partnership Agreement:** approval of 20 activities totaling \$360,000. Examples include a study into the energy efficiency of water pumping systems in El Salvador; regional and country level biofuel feasibility studies; and research to facilitate investments in energy efficiency and renewable energy in Colombia and Costa Rica.
- **Canada:** \$1 million to promote renewable energy, energy efficiency and carbon finance in two programs through international consulting services, an energy efficiency program in the Nicaraguan water sector and support for Chile's National Energy Efficiency Program, which will include installation of energy efficient light bulbs in 1.5 million homes. The Chilean project will also be funded by the **Global Environment Facility (GEF)**.
- **Spain:** \$600,000 to provide technical assistance in incorporating consideration of Certified Emission Reductions (CERs) into Bank-financed projects under the United Nations Clean Development Mechanism.
- Our new **Green Energy Program** will also act as a catalyst for private sector investments under SECCI. Its purpose is to provide small-scale loans, debt guarantees, equity and technical assistance in renewable energy, energy efficiency and biofuel projects and programs throughout the region, investing \$300 million over five years.



CLIMATE CHANGE PROJECT:

***Conserving Energy in Nicaragua's Water Sector***

In 2007, the IDB's launched an early major investment under the cross-cutting new Sustainable Energy and Climate Change Initiative. With resources from the SECCI Canadian fund, the Bank will provide technical cooperation in Nicaragua for an energy efficiency program for water pumping stations operated by Managua's water utility Empresa Nicaraguense de acueductos y alcantarillados (ENACAL). Activities will include developing energy audits, maintenance plans, training and an evaluation of the use of methane (a potent greenhouse gas) in water treatment.

The energy efficiency component was added to financing already approved for ENACAL, providing substantial added value at no additional cost to project developers. The project is expected to produce \$3 million a year in energy savings and provides a model of how SECCI activities can be successfully mainstreamed into the IDB's work in key development sectors such as water and sanitation.

CLIMATE CHANGE PROJECT:

***Boosting Clean Production in Argentina***

In May 2007, the IDB launched an ambitious program to foster economic growth on a sustainable basis in Argentina's production sector.

Its main purposes are to promote adoption of clean production practices by small and medium-sized enterprises and environmental protection measures in mining, one of the country's fastest growing sectors.

The program will support a new \$15 million Fund for Clean Production and Business Competitiveness to finance pilot projects involving provincial environmental authorities and at least 800 businesses. It will also provide training for national and provincial institutions to encourage adoption of instruments for environmental management and pollution prevention, and will help develop specific instruments to tackle adverse environmental and social externalities in the sector. Successful pilot projects are expected to be replicated by small and medium-sized enterprises throughout Argentina.

In the mining sector, technical assistance will be provided to small operators to improve the efficiency of their production processes. The program also aims to strengthen the Preventive Environmental System for Mining and mining communities, improving the working practices of the most vulnerable small-scale miners.



## What's Next?

Our borrowing countries are clearly demanding more assistance in addressing the huge challenges posed by climate change in Latin America and the Caribbean. In 2007 we responded by developing new programs bolstering the professional staff specializing in this pressing issue. The results are already visible in the IDB's lending pipeline.

Moving forward, the Bank will continue to recruit additional qualified professionals to manage the four pillars of our pivotal Sustainable Energy and Climate Change Initiative:

- Renewable Energy and Energy Efficiency
- Biofuels
- Carbon Finance
- Climate Change Adaptation

We will also seek to expand the SECCI Multidonor Fund to support our work on climate change, by prioritizing fundraising activities with donors.

This adds up to exciting progress, but major challenges remain. The IDB, through **SECCI**, the Green Energy Program and other channels, must help borrowing countries find solutions to fundamental barriers to progress in countering climate change in the region. These barriers include: weak or nonexistent institutional capacities and regulatory frameworks; ineffective or distorted energy policies, including distorted price incentives; lack of strategic and technical knowledge; weak financial instruments; lack of public awareness; and nonintegration of environmental and health-related externalities in energy production costs.

Within the Bank itself, we face the challenges of stepping up climate adaptation activities and mainstreaming the pillars of our young Sustainable Energy and Climate Change Initiative into mainstream IDB lending.



## Opportunities for the Majority

Some 360 million people—around 70 percent—of the Latin American and Caribbean population live on less than \$300 per month. The benefits of the region's economic and social development have largely passed them by. To plug this gap, the IDB launched **Opportunities for the Majority**, a major initiative to improve the prospects of these marginalized women, children and men.

The market-based effort consists of Bank support for projects in which private companies work with communities and governments to create new economic opportunities for the poor. The projects will be designed to promote private sector solutions to development challenges that have the potential for large-scale expansion. The idea is to generate a dual benefit of increasing jobs and income for poor people while boosting economic growth.

Success will require new investment approaches from both public and private sectors, for the benefit of all. Majority markets are largely untapped and have huge unmet demands for goods and services, presenting excellent opportunities for investment, growth and return on risk capital. In our region, this market represents a combined purchasing power of \$500 billion per year. Although they now suffer from neglect, low-income communities offer massive potential to companies as customers, suppliers, distributors and employees. The innovations required to serve majority markets can strengthen businesses, transform processes and lead to large-scale positive outcomes.

### 2007 Highlights

The **Opportunities for the Majority** initiative was approved by the IDB's Board of Executive Directors in 2007. It takes a novel approach to our mission of promoting economic and social development by engaging low-income communities and the private sector in creating jobs and delivering quality products and services.

In 2007 key activities included:

- A \$250 million Opportunities for the Majority Facility was established to enable efficient processing of individual non-sovereign-guaranteed loan and guarantee operations. Most operations will range from \$5 million to \$10 million; smaller markets may require smaller interventions.
- A project pipeline was developed, including new business models. Outreach through regional conferences confirmed that businesses, nongovernmental organizations and academics welcome the Bank's new role in this area. An innovative project evaluation system is being crafted. Already, valuable information and insights have been gained and are being widely shared within the Bank and outside.
- Private sector stakeholders prepared to engage with majority markets were identified, and strategic partnerships with peer organizations struck. Examples include:
  - Partnering with Dutch development organization **Stichting Nederlandse Vrijwilligers** (SNV), to map hundreds of private sector businesses with a focus on majority markets;
  - Identifying innovative business models, in association with the Network for Inclusive Markets (an alliance between the **World Resources Institute**, a leading U.S. think tank, **FUNDES**, a Latin American business solutions network, and **AVINA**, a foundation promoting environmentally and socially sustainable development by fostering constructive and inclusive communities); and



- With Innovest Strategic Value Advisors, creating the Opportunities for the Majority Index, based on an assessment of 75 publicly traded firms in 11 countries. The idea is to determine whether companies that engage effectively in majority markets win recognition by capital markets.
- A \$1 million grant from the Bank's **Multilateral Investment Fund** was approved to expand a groundbreaking microfinance model in Mexico operated by FinComun, a national microfinance institution. The project will offer microcredit through a nationwide distribution network of more than 450,000 small shopkeepers. Loans will be offered to modernize stores or improve recipients' homes, health, education and insurance coverage.

#### OPPORTUNITIES FOR THE MAJORITY PROJECT:

##### ***Innovative finance aids middle- and low-income families in Chile***

Innovative financial structures play a key role in majority markets. Nowhere is this truer than in the housing market, which lower-income families often find impossible to access.

In 2006, the IDB approved a major investment of up to \$80 million for a revolving credit facility for a Chilean company (Securitizadora Security) specializing in providing secure residential mortgages and housing lease contracts to poorer households. This warehouse facility will help to further develop the mortgage market in Chile by increasing the availability of housing finance, expanding the securitization market and helping to meet increasing demand for long-term fixed-income securities from local institutional investors. The Bank expects this experience to be replicated in other countries across the region in order to increase access to housing for lower-income people.

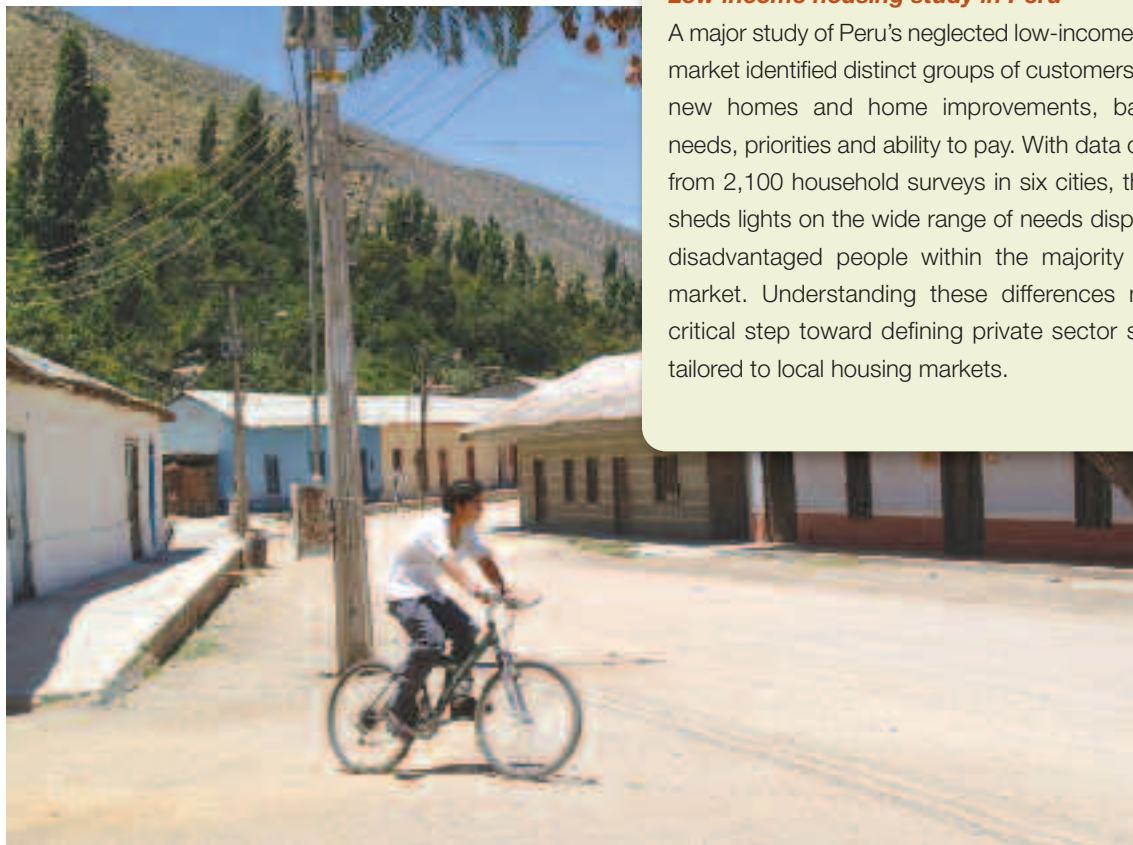
#### OPPORTUNITIES FOR THE MAJORITY PROJECT:

##### ***Home ownership offers a route out of poverty in Ecuador***

Development experts contend that facilitating home ownership is one of the surest and fastest ways to help people out of poverty. In the city of Guayaquil, the IDB is supporting Hogar de Cristo, a Jesuit organization that sells prefabricated wood and bamboo houses for \$530 dollars to families that live on \$100 a month. Poor households repay the loan over three years, with no down payment. Many make improvements, replacing the bamboo wall panels with masonry, so that within a few years their home is a solid structure—and a major investment—worth many times its original price.

Hogar de Cristo has sold 120,000 of these one-room houses over the last 20 years. Today, with our support, they sell an average of 250 units per week and still cannot keep up with demand.





#### OPPORTUNITIES FOR THE MAJORITY PROJECT:

##### ***Low income housing study in Peru***

A major study of Peru's neglected low-income housing market identified distinct groups of customers for both new homes and home improvements, based on needs, priorities and ability to pay. With data collected from 2,100 household surveys in six cities, the study sheds lights on the wide range of needs displayed by disadvantaged people within the majority housing market. Understanding these differences marks a critical step toward defining private sector solutions tailored to local housing markets.

### **What's Next?**

With an initial pipeline of 18 projects, the Bank's innovative Opportunities for the Majority Initiative is now an operational reality. During 2008, four lending operations are expected to be approved, with 24 more following by 2010.

Potential projects designed specifically to help the poorest people in Latin America and the Caribbean include microloans for producers, technical training for construction workers, housing and infrastructure finance, and a regional fund for business startups.

In the years ahead, our efforts will focus on scaling up the initiative's impacts by working through wide-ranging partnerships. **Opportunities for the Majority** will also be mainstreamed increasingly throughout IDB Group operations. To manage and track performance, a comprehensive evaluation framework has been developed, with metrics and annual targets established for the initiative's major functions.



## Disaster Risk Management

Natural disasters such as earthquakes, floods, droughts and hurricanes pose a significant risk to the development and economic security of Latin America and the Caribbean, especially in the poorest and most vulnerable countries.

### Disasters Snapshot

In a typical year, natural disasters in Latin America and the Caribbean affect about four million people and cause some 5,000 deaths. They also cost an average \$3.2 billion in infrastructure losses a year – equal to more than half the IDB's recent annual loan commitments to the region. The region's risk exposure to natural hazards has steadily increased, due in part to changing land use patterns, rising populations and growing environmental degradation. The predicted impacts of climate change, including sea level rise and more frequent and severe extreme weather events, are likely to further increase disaster-related loss of lives and infrastructure.

In recent years, the number and seriousness of such events has increased, and disaster-related annual costs have exceeded the region's GDP growth rate by more than four to one. This has put people and infrastructure at greater peril, taxed national budgets, and undermined the Bank's development assistance.

In 2007, the IDB adopted a new, proactive **Disaster Risk Management (DRM) Policy** to help borrowing member countries respond to this ongoing challenge. It also increased investments in disaster risk management, spending \$25.2 million with an emphasis on prevention and mitigation programs.

Disasters occur when vulnerable societies or communities are unable to absorb or effectively recover from the impacts of hazardous events. Two elements are crucial in mitigating these impacts. The first is to identify the natural hazards risks a country, community, or economic sector faces, and provide decision makers with data to help them make sustainable investments that will reduce those risks. The second is to address the human development challenges that increase the dangers of hazards and human vulnerability.

The new DRM policy reflects IDB's efforts to establish an integrated and more effective approach to disaster risk management which incorporates both these elements. The goal is to expand lending efforts beyond post disaster financing and recovery to also incorporate disaster risk analysis, prevention and mitigation programs, and emergency preparedness and response programs. The policy will also enable the Bank to consolidate its internal Disaster Risk Management operations.

This integrated approach was first mapped out in the Bank's **2005-2008 Action Plan for Improving Disaster Risk Management**, adopted in March 2005.

### 2007 Highlights

In 2007 the Inter-American Development Bank's disaster risk management agenda was significantly strengthened. Among the highlights:

- A new, comprehensive and proactive Disaster Risk Management (DRM) Policy and Policy Guidelines were approved. The policy provides for two areas for action: (i) the prevention and mitigation of natural disasters through program and project work at the regional, national and local levels; and (ii) post-disaster responses both to the impacts of natural hazard events and disasters related to human



activity, such as technological accidents. The new policy is an important tool for strengthening the effectiveness of Bank support for borrowers in risk management.

- Indicators of disaster risk and disaster risk management were developed for Bolivia and Nicaragua. The Bank has now completed risk indicators for 14 of its 26 borrowing countries (Indicators of Disaster Risk and Risk Management Summary report, 2007). Progress was made in developing detailed disaster risk evaluations for Jamaica, Guatemala, Bolivia and Peru to help target the Bank's programs and investment portfolios in these countries. (Indicators of Disaster Risk and Risk Management Summary report, 2007).
- Case studies were completed on available disaster risk management information (Information for Disaster Risk Management, 2007) for Chile, Colombia, Jamaica, Mexico and Nicaragua.
- New disaster risk management sector notes for Guatemala and Nicaragua were approved, to inform the Bank's respective country strategies; completed sector notes for Belize, Bolivia and Ecuador are awaiting approval. Disaster risk considerations were also incorporated into the Bank's Country Strategy for Costa Rica.
- Disaster management investments totaling \$25.2 million were approved:
  - A \$20 million loan to the Dominican Republic to support government efforts to restore electricity, provide water and sewerage services and rebuild homes in areas battered by Tropical Storm Noel.
  - Seventeen technical cooperation grants totaling \$5.2 million, including projects to strengthen national capacity in Bolivia, Chile and Jamaica, as well as humanitarian assistance, funded by the Disaster Prevention Fund and the Multidonor Disaster Prevention Trust Fund.
- A disaster risk management training plan was developed for country programming teams and IDB specialists, among others, to strengthen the Bank's institutional capacity in this area.

#### DISASTER RISK MANAGEMENT PROJECT:

##### ***Protecting Jamaica's Coastal Populations***

Jamaica is prone to various hazards, including tropical storms, hurricanes, floods and seismic events. In 2007, the IDB approved a technical cooperation grant for \$800,000 to strengthen disaster risk management in the island's coastal towns and cities. This objective will be achieved by improving coordination between the national emergency management agency and local governments and communities. A comprehensive, long-term strategy for the island is urgently required, incorporating risk identification, prevention and mitigation, financial protection and preparedness to respond to and recover from disasters. The project consists of: risk analysis for proper planning, building resilient communities and institutional strengthening of Jamaica's national emergency management agency.

#### DISASTER RISK MANAGEMENT PROJECT:

##### ***Providing Early Warning Systems in Chile***

In 2007, the IDB approved a \$1 million technical cooperation grant to support the Government of Chile's National Emergency Office in implementing a local level natural disaster early warning system. The pilot project in the Santiago metropolitan area focuses on risk diagnosis, disaster response and prevention plans, development of the pilot regional early warning center and its test operation, and developing local institutional capacity. The pilot study will be expanded to other regions of the country in order to strengthen the National Alert System.



## What's Next?

The IDB is now in the final year of implementing its Action Plan for Improving Disaster Risk Management 2005-2008. One key expected outcome, not yet achieved, is that disaster risk management will be fully mainstreamed into the Bank's central operations. Other activities planned for 2008 include:

- staff training programs
- completion of risk indicators for an additional six countries in our region
- detailed risk evaluations for six high-risk countries
- further integration of disaster risk management in country programming and Bank projects
- approval of a proposal to define the IDB's organizational approach for future provision of services in this critical area.



The Bank's development of a disaster risk finance approach in 2007 provides important opportunities to increase Bank support for the development and enhancement of national integrated disaster risk management systems.

Beginning in 2008, the Bank will promote better long-term fiscal planning by countries in the face of natural disasters, through the following activities:

- (a) Prepare or make available disaster risk evaluations for high-risk countries, including estimates of probable maximum losses and assessments of the impact on national economic outlook and discuss the results with government authorities.
- (b) Implement a more aggressive dissemination strategy for the Disaster Prevention Fund and the MultiDonor Disaster Prevention Trust Fund to increase their use by countries to support disaster risk management activities.
- (c) Develop programs to assist countries in implementing a combination of financial instruments that minimize risks and losses associated with natural disasters.



## Biofuels

Biofuels have received increasing global attention due to rising oil prices, awareness of global warming and desire for energy security. Worldwide demand for investments in biofuels has sky-rocketed. Latin America is uniquely positioned to be a top supplier thanks to its climatic, political, social and agricultural conditions. Already in 2007 the Americas accounted for 80 percent of global biofuel production.

In early 2007 our President Luis Alberto Moreno described biofuels development as a “transformative opportunity” for the region. Through our Sustainable Energy and Climate Change (SECCI) initiative, the Bank will place itself at the forefront of this booming market by supporting biofuels projects that meet key sustainability standards.

Specifically, we will invest in the following activities:

- assessments of the economic viability of biofuels
- country-level policy assistance for biofuel development
- development of biofuel production facilities and distribution infrastructure
- development and adaptation of emerging technologies.

In 2008, the majority of Latin American and Caribbean nations will pass legislation mandating the blending of gasoline with biofuel, to take effect in five-10 years. Colombia already has a 10 percent ethanol blending mandate in its cities.

### 2007 Highlights

In a busy year at the IDB for biofuels initiatives and investment, the following stand out:

- Six technical cooperation grants, totaling over \$1.5 million, were approved for various biofuel projects to transfer technology and facilitate knowledge sharing. These included a \$400,000 grant to Guatemala to support implementation of a national biofuel plan and a \$750,000 grant for feasibility studies on biofuel production in Central America.
- A \$120 million investment was approved for the Moema bioenergy project in Brazil, the first private sector financing of its kind in the country.
- A Memorandum of Understanding to Advance Biofuels Cooperation across the Region (MOU) between the United States and Brazil was signed. Along with the IDB, other implementing parties include the United Nations Foundation, Organization of American States, Fundação Getulio Vargas (FGV) of Brazil, and Winrock Foundation in the United States. The MOU resulted in the Bank approving funds to complete biofuel feasibility studies for the Dominican Republic, El Salvador and Haiti.
- The Bank's Green Energy Program was launched. Program investments will focus on small and

### What are Biofuels?

Biofuels are solid, liquid or gas fuel consisting of, or derived from biomass (living or recently dead biological material). The two most common forms are ethanol, a substitute or additive for gasoline, and biodiesel, a substitute or additive for diesel. Blending traditional fuels with biofuels reduces the use of fossil fuels and associated greenhouse gases.

Ethanol feedstocks include corn, sugar, sweet sorghum, sugar beets, yucca and other starchy and sugar-based plants. Biodiesel feedstocks include palm, soy, rapeseed, jatropha, waste grease and other oil-based plants. Biodiesel production can be done on a small scale in rural communities and offers significant development benefits. It contains no sulfur and reduces smoke, unburned hydrocarbons and carbon monoxide when used instead of or blended with diesel fuel.

Not all biofuels are created equal. Factors that impact the costs, environmental and social benefits and greenhouse gas reduction potential of a biofuel include:

- the energy source that powers the plant and whether it also produce electricity
- the feedstock yield
- the previous land use before biofuel production
- whether the biofuel will be used locally or exported



medium-scale private sector projects for renewable energy (including wind, solar, biomass, geothermal and small-scale hydro) and energy efficiency, as well as biofuels.

- The Bank participated actively in the Mesoamerican Biofuels Working Group, formed in 2006 as the first forum of its kind. Financed by IDB and ECLAC-Mexico, its members include Belize, Colombia, Costa Rica, the Dominican Republic, El Salvador, Honduras, Guatemala, Mexico, Nicaragua and Panama, and several regional development and research institutions. Coordinated by the General Secretariat of the Central American Integration System (SG/SICA), the working group is preparing action plans for regional initiatives on ethanol and biodiesel.

## What's Next?

Biofuels have the potential to reduce greenhouse gas emissions and provide an alternative to oil. But they are not a panacea and it can be challenging to distinguish between their beneficial and negative effects.

### BIOFUELS PROJECT:

#### ***Pioneering bioenergy project, Brazil***

Moema is the first large IDB private sector financing for a bioenergy project in Brazil, totaling \$120 million.

The project will help Moema, a major sugar, ethanol and bioenergy producer based in the state of São Paulo, to redirect funds from short-term debt servicing into capital investment, including projects to boost sugar and ethanol production and energy cogeneration from biomass.

Moema has also paved the way for three additional IDB-financed private sector projects for ethanol production, expected to be approved in early 2008. In total, the Bank is working on the financing of more than \$1 billion worth of projects to help meet Brazil's goal of tripling annual ethanol production by 2020.

The IDB supports the Brazilian government's goal of becoming a global center of excellence for biofuel research and development. Discussions are ongoing on how the Bank can facilitate transfer of Brazilian technological and technical know-how to other countries in the region.

Calculating the full life cycle impacts of various biofuels is a very complex process which must address each stage in production "from the field to the tank." It must also account for both the direct and indirect effects of production. For instance, as global demand for biofuels has risen, production of other food crops can shift into areas previously unused for agriculture, such as rainforest in Indonesia and the Cerrado in Brazil. Such land use change has been shown to increase greenhouse gas emissions associated with biofuels dramatically, even to levels higher than those emitted by fossil fuels.

Nevertheless, the Bank faces a tremendous opportunity to play a leading role in defining how biofuels can help reduce greenhouse gas emissions.

Increasingly, importing countries and blocks, such as the European Union, will require biofuels to meet strict sustainability standards. These will incorporate specific social and environmental criteria, including greenhouse gas reduction levels and protection of indigenous rights and biodiversity. Indicators to measure these criteria and certify compliance are being developed. The IDB can assist Latin America and the Caribbean in becoming a leader in "climate-friendly" biofuel production by financing research and expertise in second-generation biofuels and through technical assistance to devise policies supporting climate-friendly biofuels.



Bioenergy production has the potential for significant job creation in feedstock management. As second-generation biofuel technologies develop, employment opportunities will also increase in the science, engineering, business development and technical arenas. Second-generation biofuels also provide the opportunity to bypass potential threats to food security and biodiversity by using agricultural or other wastes as feedstocks.

The potential social, environmental and economic benefits of biofuels are, for the most part, not yet realized or guaranteed. Looking ahead, the future of biofuels as a sustainable alternative to fossil fuels will largely depend on market development and the successful management of risks associated with this fast growing new energy sector.





## Water and Sanitation

The relationship between poverty, health and access to water and sanitation services is widely documented. People who consume polluted water become trapped in a vicious circle of disease, low productivity and greater poverty. Ensuring access to water and adequate sanitation services is one of the most efficient ways to break this cycle. That is why the United Nations Millennium Development Goals, adopted by 189 countries in 2000, included the target of halving the number of people worldwide without access to safe water and adequate sanitation services by 2015.

Latin America and the Caribbean is on track to achieve these targets. But this means that within eight years the region must expand adequate water services to an additional 85 million people and sanitation to an additional 110 million. This will take an estimated investment of \$30 billion by 2015. There is also an urgent need to improve the reliability and quality of water supply, especially to the poor. And the region must strengthen institutions and legal frameworks in the water and sanitation sector to encourage efficiency and transparency among service providers.

The IDB's long history of providing financial and technical support to improve public services will help us to leverage the resources—public and private, local and international—to enable the region to successfully meet these challenges.



However, in recent years, water and sanitation services in many countries have undergone far-reaching structural changes, due in part to intensive decentralization policies. These changes are generating new demands by the IDB's clients, which make it essential for us to adjust our practices to respond better—and more flexibly—to these new challenges.

To this end, the Bank launched a new Water and Sanitation Initiative in 2007 that sets ambitious targets, including financing improved infrastructure and supply in 100 cities and 3,000 rural communities.

### 2007 Highlights

The Water and Sanitation Initiative, approved by the Board of Executive Directors in May 2007, proposes ambitious targets for Bank activity, working with countries to achieve universal access to adequate services across the region. It involves applying a much more dynamic and proactive approach to the sector through new operational processes.



The initiative will be implemented through four special programs to be supported by an array of instruments, actions, tools and mechanisms, under a medium-term action plan for 2007-2011. The plan includes the following programs:

- **100 Cities:** a program to finance technical assistance and investments aimed at extending access to water and sanitation services in cities with over 50,000 inhabitants where the deficit is greatest and in neighborhoods that lack reliable services;
- **3,000 Rural Communities:** a program to provide technical assistance and investment to improve village services through community-based organizations empowered to make their own technical and financial decisions;
- **Water Defenders:** a program to supply 20 priority microwatersheds with clean water fit for human consumption by providing technical assistance and funds for protecting and decontaminating water sources, and wastewater treatment.
- **Efficient and transparent firms:** a program to improve water and sanitation company services by making their performance and management more transparent and building trust among users, donors and lenders.

Early efforts to fulfill the initiative's objectives in 2007 included:

- Development of customized water and sanitation sector business plans for 10 borrowing member countries (12 more will be completed in 2008);
- Preparation of two new financial instruments, a dedicated fund for technical cooperation and project preparation grants and a quick-disbursing line of credit for loans to water and sanitation service providers that meet efficiency and transparency benchmarks; and
- Approval of close to \$1 billion in loans that will contribute toward meeting the goals of the Water and Sanitation Initiative.

### What's Next?

In order to fulfill the goals of our Water and Sanitation Initiative, the Bank intends to maintain the high level of loan approvals achieved in 2007.

To make this happen, a major recruiting process was launched in late 2007 to staff the IDB's water and sanitation division with new professionals both in the field and at our headquarters during 2008.

We are also planning to create several new financial and nonfinancial instruments in 2008 to expedite project funding for this critical sector, including:

#### WATER AND SANITATION PROJECT:

##### *Addressing flooding and watercourse pollution in Joinville, Brazil*

Pollution and flooding in Joinville, the third most populous municipality in Southern Brazil, should become a thing of the past thanks to a \$33 million IDB loan. The Bank-funded project will improve the city's environmental quality by implementing flood controls and water quality improvements. Improvements in sanitary conditions will reduce the incidence of waterborne diseases while the construction phase will generate temporary jobs for local unskilled workers. To improve social sustainability, sewer projects will include financing mechanisms to help low-income water users receive household connections.

Specific measures will include: improving the drainage system in the Cachoeira River basin; recovering the environmental quality of the Cachoeira, Cubatão and Piraí Rivers through watershed cleanup activities; improving municipal management capability; and improving the strategic and planning capabilities of Joinville Water Company. Communities living in environmentally sensitive areas will receive additional assistance.



#### WATER AND SANITATION PROJECT:

##### ***Water supply for 500 rural Bolivian communities***

As part of our “3,000 rural communities” effort, a \$21 million loan approved in 2007 will expand coverage of drinking water supply and wastewater disposal to 200,000 new customers in 500 rural communities in Bolivia. The IDB and the Government of Bolivia are also working closely with the German Development Bank KfW, whose parallel project will benefit an additional 200,000 new customers. More than one million rural residents in Bolivia still lack improved drinking water and basic sanitation. The two new programs will reduce this figure by about 40 percent. Community input will also be essential in developing, building and operating the new infrastructure.

- A water and sanitation multidonor fund aimed at supporting projects to increase access to water and sanitation services, mainstream good practices in water resource management, strengthen institutions and regulatory frameworks, enhance governance and increase awareness of water and sanitation issues in the region. Financing areas will include pilot projects, technical assistance to support upstream work, project preparation and demonstration activities.
- A Water Express credit line to be accessed quickly by water and sanitation operators based on certain financial, fiduciary and transparency criteria. The aim is to streamline and speed up processing of Bank operations in the sector.
- A Water Operator Partnership developed in collaboration with UN-Habitat to foster cooperation between water operators in the region in order to boost capacity building. The aim is to better equip key players in the sector to meet the challenge of attaining the Millennium Development Goals on drinking water supply and sanitation. Three cases of collaboration have been identified for 2008.





## Persons with Disabilities

One in five people living in poverty around the world has a disability. In Latin America and the Caribbean the situation is even worse: 80 percent of the region's 60 million people living with disability are also poor.

On December 13, 2006, the United Nations formally adopted the United Nations Convention on Rights of Persons with Disabilities (CRPD), the first human rights treaty of the 21st century to protect and enhance the rights and opportunities of the world's estimated 650 million disabled people. Countries that sign up must adopt national laws that give persons with disabilities, among other things, equal rights to education, employment, information, voting and ownership and inheritance of property.

The IDB recognizes the importance of including disability components in project activities in order to achieve socially sustainable development. In 2007 the Bank approved a record \$3 million for eight new projects promoting social inclusion and economic empowerment of persons with disability. Traditionally, the IDB has been particularly committed to adopting universal design principles in transportation and urban rehabilitation activities. New activities focus on developing inclusive labor markets and strengthening job placement programs run by nongovernmental organizations.

### 2007 Highlights

The 2006 United Nations Convention on Rights of Persons with Disabilities has generated new demand for development assistance from Latin America and the Caribbean. The IDB has responded promptly to this growing interest for assistance in improving the livelihoods of persons with disabilities by approving record investments of \$3 million in 2007 for eight new operations

for persons with disabilities. These focus on three areas: economic empowerment through inclusive labor markets, capacity building of local disabled people's organizations and disability statistics. Examples include:

- An innovative \$1.6 million grant to the Association for the Valorization and Promotion of Exceptional People (AVAPE) in Brazil. This will support the nonprofit sector in expanding vocational training services to persons with disabilities in order to improve their job opportunities in the formal sector.
- A project addressing the stigma and exclusion of children with developmental disabilities in Trinidad and Tobago. A series of in-depth awareness-raising workshops will be held to educate key stakeholders, including medical practitioners, school educators, business leaders and political executives.
- Boosting research on disability data in order to advance our understanding of the relationship between disability and gender. In particular, data from Ecuador is being used to develop community disability maps for use in local political decision-making.

### Disability and Development

Disability is not a diagnosable condition, but a state of exclusion from equal access to education, economic opportunities and public services. This daily exclusion is imposed by inadequate infrastructure, stigma and discrimination, and can be exacerbated by factors such as poverty, gender, race, ethnicity and age.

Disability is not rare, but a natural part of every individual's life cycle. All people will experience physical, sensory, or mental limitations—periodically or permanently. But two people with the same functional level can experience very different levels of disability, since some environments are more accessible and some communities more inclusive than others.

Universal access to basic services is not only a human right and a fundamental principle of equity. It is also a development strategy to reduce poverty, promote growth and reach the Millennium Development Goals. Exclusion can lead to poverty, and in a vicious circle, poverty leads to further disability by increasing people's vulnerability to malnutrition, disease and unsafe living and working environments.





## What's Next?

The newly adopted United Nations Convention on Rights of Persons with Disabilities offers a great opportunity for the IDB to strengthen its efforts to promote accessible and inclusive development for all. Already, 22 of the IDB's 26 borrowing member countries in Latin America and the Caribbean are signatories to the convention, and as of February 2008, while six countries had also ratified it: El Salvador, Jamaica, Mexico, Nicaragua, Panama and Peru.

The challenge in making the promise of the convention a reality is to move beyond stand-alone activities specifically targeted to disabled people. While stand-alone projects offer great opportunities for innovating new and best practices, mainstreaming inclusive practices as a crosscutting issue will help to expand the benefits of general development programs to persons with disabilities.

To this end, the IDB will target key sectors to develop guidelines for creating accessible environments. We will also initiate a broad effort to increase awareness among specialists working in key areas such as education, health and labor markets. This will greatly improve the Bank's capacity to respond to the increased demand from various sectors in countries across the region.

### PERSONS WITH DISABILITIES:

#### ***Expanding work opportunities in Brazil***

An innovative IDB Group project is funding alternative business models to expand work opportunities for people with disabilities in Brazil. The pioneering model uses an innovative nongovernmental organization licensing system to expand rehabilitation, training and job placement services in mainstream workplaces. Other benefits include promoting diversity in the Brazilian workforce and helping companies comply with regulations for employing persons with disabilities.

The project provides a \$1.6 million technical cooperation grant and \$600,000 in reimbursable financing to the Association for the Valorization and Promotion of Exceptional People (AVAPE), a Brazilian nonprofit organization. Through a contractual licensing system, an associate of AVAPE, AVAPE Mooca, is already using AVAPE's brand and methodology to provide the same vocational rehabilitation services. Through this licensing model, common among corporate businesses but new to nongovernmental organizations in this field, AVAPE has greatly expanded the impact of its services.

The Bank-funded project will facilitate licensing agreements with an additional 12 organizations in the municipalities of Pará, Rio de Janeiro, Minas Gerais, Paraná and Mato Grosso, where there is both high disability prevalence and strong demand from both civil society and businesses. In all, over 10,000 persons with disabilities will receive vocational rehabilitation training.

### PERSONS WITH DISABILITIES:

#### ***Promoting equal opportunity in Chile***

In 2005, the IDB approved two projects (totaling \$170,000), commissioning a series of expert studies on the state of disability in Chile. These analyzed the political, economic, legal and social aspects of disability in Chile within a comparative international framework on social inclusion of persons with disabilities. The studies presented options and recommendations to Chile's government to develop policies that promote opportunities for all citizens and limit the risks of illness, disability, old age and poverty.

The studies represent a crucial contribution to the efforts of President Michelle Bachelet's administration to develop and implement a system of social protection policies at the forefront of international standards.



## The Big Picture: Poverty, Environment and the IDB

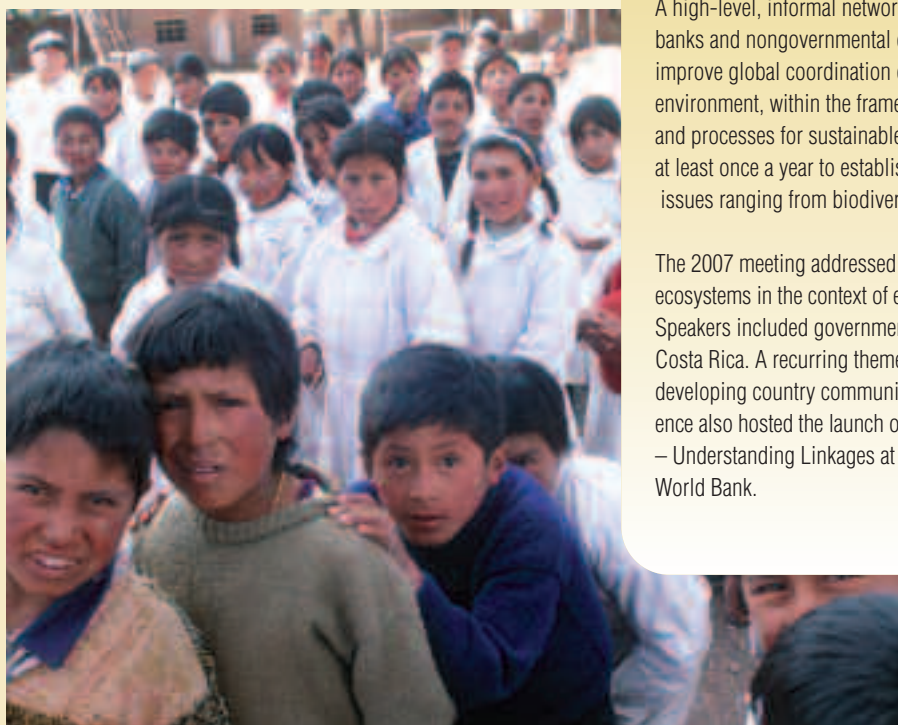
The Inter-American Development Bank's work is increasingly premised on the close links between environmental and social sustainability and poverty reduction.

The poor—particularly those in rural areas—depend heavily on natural resources for their livelihoods. Often at least half of household income comes from small-scale farming and the sale of wild products and firewood. In urban settings, environmental factors such as air and water quality greatly affect the poor, as do social sustainability issues such as lack of health care, education and economic opportunity.

One of the pillars of the IDB's Environment Strategy (2003) is the mainstreaming of environmental management into social and economic development. To fulfill this commitment, the Bank has increasingly invested in holistic projects that provide, for example, ecosystem management by indigenous peoples; early warning systems to alert poor families of natural disasters; and support for small-scale farm production systems. In 2007, important project loans approved in this area included:

- Sustainable land use and upper-watershed management in Haiti and Nicaragua.
- Biodiversity conservation, and rural and indigenous livelihood improvements, in the Sixaola Watershed in Costa Rica and Panama and the Maya Biosphere Reserve in Guatemala.

We have also participated in an ongoing dialogue on this critical topic with public and private sector leaders, policymakers, development organizations, the scientific community, nongovernmental organizations and others.



### Leading the Conversation

In November 2007, the IDB hosted The Poverty and Environment Partnership (PEP) meeting at our headquarters in Washington, D.C. A high-level, informal network of donor agencies, development banks and nongovernmental organizations, the partnership aims to improve global coordination of work on poverty reduction and the environment, within the framework of international principles and processes for sustainable development. The network meets at least once a year to establish common ground and alliances on issues ranging from biodiversity to payment for ecosystem services.

The 2007 meeting addressed the linkages between infrastructure and ecosystems in the context of economic growth and poverty reduction. Speakers included government officials from Brazil, Colombia and Costa Rica. A recurring theme was the need to promote payment to developing country communities for ecosystem services. The conference also hosted the launch of the book *Poverty and the Environment – Understanding Linkages at the Household Level* published by the World Bank.







# Chapter Four: In-House Sustainability

Environmental and social sustainability begins at home.

The Inter-American Development Bank makes every effort to minimize the environmental impact of our physical facilities and daily operations in our Washington, D.C. headquarters, 26 country offices and two nonregional offices. In so doing, the Bank gains a greater understanding of the challenges that governments and public entities alike face in tackling complex issues such as energy efficiency and climate change mitigation. Tackling these global issues in our own backyard also ensures that the IDB remains a credible partner for sustainable development in its work across Latin America and the Caribbean.

In addition to its institutional commitment, the IDB recognizes that there are strong links between an organization's sustainability and how it manages its human resources.

The Bank's 2,000 employees are our greatest asset. Using them effectively requires a vibrant Bank culture that builds the organization's social capital and strengthens its core competencies through continual learning opportunities. To this end, we launched a new Human Resources Strategy in 2001 that streamlines relevant policies and services and balances talent management with nationality representation from across the region to which we belong.

## 2007 FAST FACTS

- Energy Star Rating of 84 for Washington, D.C. headquarters (top 16 percent of comparable buildings)
- 100 percent of headquarters energy supply from renewable energy sources
- Headquarters became carbon neutral in 2007
- IDB and United States Environmental Protection Agency launched technical partnerships (Energy Star, Green Power and Climate Leaders), voluntary commitments to improve building efficiency and reduce carbon emissions
- Greening the Bank Action Plan approved by Management
- IDB headquarters cafeteria remodeled using sustainable materials, practices and products
- Realignment staff mapping conducted and recruitment effort underway
- Notable increase in the Diversity Internship Program for Afro-descendants and Indigenous Peoples over 2006
- IDB Task Force on Women reported to the Board of Executive Directors and Senior Management
- IDB-D.C. Solidarity Program provided \$284,000 in grants and the services of more than 400 volunteers.



## Green Build

In 2007, the IDB embarked on a major remodeling of its headquarters cafeteria, using sustainable materials, practices and products. These included energy efficient lighting, flooring made from composites, linoleum and chlorine-free carpet tiles with a high recycled content and paints that emit low levels of volatile organic compounds.

Environmentally sustainable materials were used in fabric wall coverings, cabinets and counters, and on ceilings. Wood veneers were sourced from sustainable forests. Products and rubble removed during construction were separated and recycled off site. The Bank's recycling facilities were also improved as part of the cafeteria redesign.

The Bank is pursuing LEED-EB, the green building rating for existing buildings developed by the United States Green Buildings Council. The rating promotes the use of sustainable and energy-efficient materials and practices during remodeling.

The sustainability commitment of our new look cafeteria does not end with its design and construction. IDB food provider Guckenheimer has developed new organic menu offerings, replaced plastic carry out containers and cutlery with more sustainable bamboo and cornstarch alternatives and offers incentives for staff to use their own mugs, in an ongoing effort to reduce the volume of disposable cups and other plastics entering the waste stream.

## Energy Efficiency

As the IDB strengthens its support for energy efficiency innovations to public and private organizations in Latin America and the Caribbean, it is leading by example.

In 2007, we stepped up efforts to improve energy savings on the home front at our headquarters building in Washington, D.C. Measures included the use of more efficient lighting and the installation of faucets with automatic shutoff sensors. We also launched a successful pilot project to install motion sensors which automatically switch off lights in unoccupied conference rooms. After a study indicated that these motion sensors saved an average of 40 percent of electricity use, the Bank is now installing them in conference rooms building-wide.

The IDB has also joined forces with the United States Environmental Protection Agency (EPA) as an ENERGY STAR partner. This commitment requires us to measure, benchmark and improve energy performance at our headquarters in Washington, D.C. Energy Star buildings rank among the 25 percent most efficient in the United States, using an average of 35 percent less energy and generating a third less carbon dioxide than similar buildings.

In 2007, the IDB received an ENERGY STAR rating of 84 out of a possible 100 for its headquarters building, giving it a leadership role among comparable organizations in downtown Washington, D.C. These efforts will continue in 2008 with new efficiency opportunities to be identified through a comprehensive energy audit.



## Carbon Footprint

Every year, the IDB calculates the greenhouse gas emissions resulting from its day-to-day corporate activities—our “carbon footprint.” This includes emissions resulting from the IDB headquarters buildings and IDB-owned vehicles and business travel, as well as from its 26 country offices in Latin America and the Caribbean and its two nonregional offices in France and Japan. In 2007 the IDB’s carbon footprint was 21,005 tons of carbon dioxide equivalents (tCO<sub>2</sub>eq).

During the year, the Bank offset those emissions it could not otherwise reduce through efficiency and other measures such as through the purchase of renewable energy certificates for 100 percent of the electricity consumed at our headquarters. We also invested in carbon credits from renewable energy and fuel switch projects in Latin America and the Caribbean.

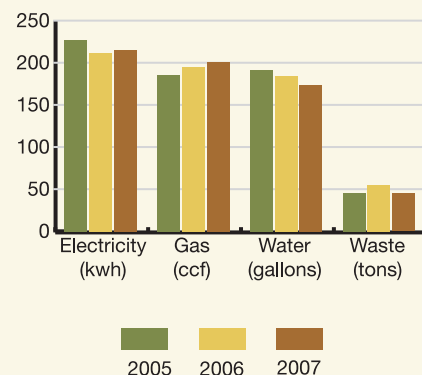
For the past two years, the IDB has also calculated and offset the emissions associated with our annual meeting. In 2007, the annual meeting was held in Guatemala City and produced an estimated 6,000 tons of carbon dioxide equivalents.

In 2007 the IDB also announced a new partnership with the United States Environment Protection Agency (EPA) Climate Leaders program. By participating in Climate Leaders, the IDB has made a very public commitment to finding ways to reduce and manage its greenhouse gas emissions. As an EPA Climate Leader, the IDB uses the approach and methodology set out in the “Climate Leaders Greenhouse Gas Inventory Protocol, Design Principals,” which is consistent with the international Greenhouse Gas Protocol standard. The IDB has also joined forces with the EPA as a Green Power Partner, committing to purchase energy from a renewable source.

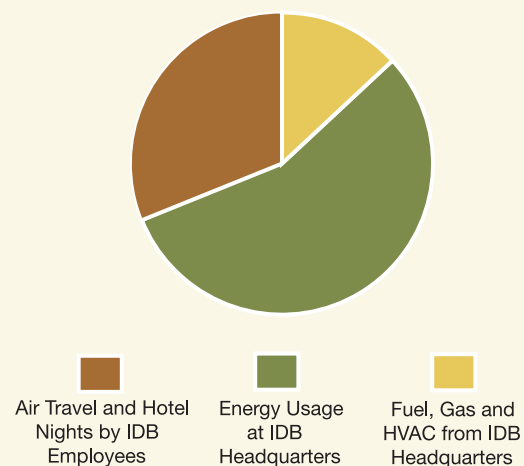


@ [www.iadb.org/sustainability/carbon\\_neutral](http://www.iadb.org/sustainability/carbon_neutral)

Energy Water and Waste Consumption at IDB Headquarters, 2002-2007



IDB Greenhouse Gas Inventory, Headquarters, 2007



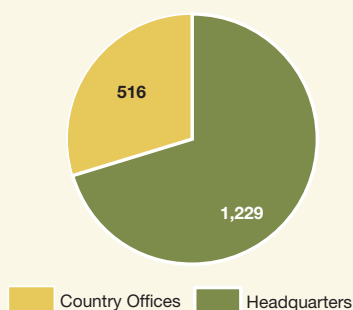


## Staffing

The IDB realignment in 2007 presented the Bank with both challenges and opportunities for human resources management. The realignment included a Bank-wide staff transition exercise, whereby employees were mapped into the new organizational structure. At the same time, vacancy announcements for 36 positions, including division and unit chiefs, regional economic advisors and country representatives, were posted.

Following these appointments, the Bank undertook a full assessment of recruitment needs, identifying over 350 vacancies, of which 216 were posted by late February 2008. This recruitment effort represents a major investment in the Bank's future. It will require a thorough process to ensure that the best candidates are attracted and selected to fulfill the Bank's new business needs and the demands of its country-focused business model. The Bank will focus on giving the highest priority to vacancies in the Country Offices, in particular to national hires. We will also ensure both gender and geographical diversity in the pool of candidates.

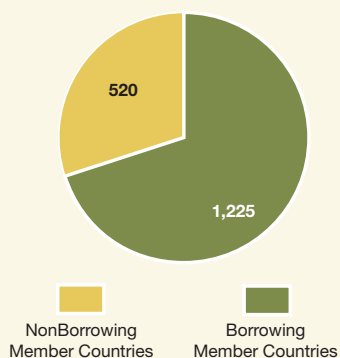
**IDB Staffing, by Location, 2007**



Also during the year, 229 staff separation agreements were processed during a special employment termination program. Of the total, 215 were for international employees and 14 for national employees. Separation agreements were signed for 44 executives, division chiefs/grade 1 staff and country representatives, 134 for other professional staff and 51 for administrative staff. As a result of these changes, overall IDB staffing levels fell by 13 percent to 1,745 employees.

During the year, the Human Resources Department also began developing new frameworks for both performance management and career management.

**IDB Staffing, by Country of Origin, 2007**



In addition to its permanent staffing, the IDB benefits from a wealth of expertise from contractual employees. In 2007 the Bank issued 3,050 contracts, which together were the equivalent of 726 full-time employees.

## Diversity

Diversity is taken very seriously by the Inter-American Development Bank. It is mandated by our Institutional Strategy, Human Resources Strategy and Action Plan to Promote Diversity at the Bank. The latter highlights race and ethnicity (particularly African, Asian and indigenous heritage) as "dimensions of diversity." These dimensions, together with nationality and gender, help to drive the actions of our human resources team in terms of staffing, enriching our internal culture and accountability.

As part of our commitment to diversity, the Bank's 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 diversity participants. In 2007 recruits to the Diversity Internship Program for Afro-descendants and Indigenous Peoples more than doubled over the previous year.

### Gender Task Force

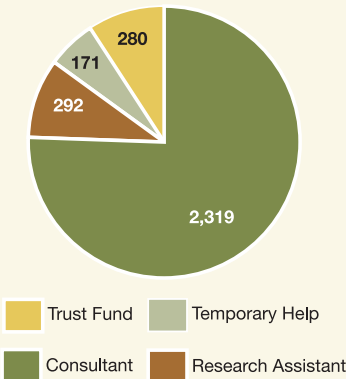
The IDB’s Task Force on Women, created in 2006, presented its recommendations for creating a more productive working environment to the Bank’s Board in November 2007.

Entitled “Taking Full Advantage of Women’s Contributions,” the report highlighted overall improvements in the Bank’s working environment, particularly at headquarters. But it warned that the issue of balancing work and family life remained a significant challenge for many staff. Despite the Bank’s new day care program, the report concluded that the Bank lagged behind the best practices of comparable institutions, particularly with regard to flexible work schedules and obtaining work permits for spouses and domestic partners.

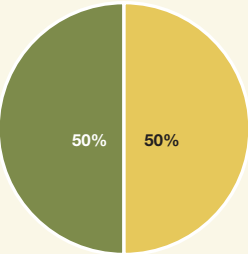
To improve the situation, the Task Force made eight recommendations including:

- Establish a gender equity program.
- Attain a minimum 40 percent threshold for each gender in executive and senior professional grades by 2009.
- Implement a new work schedule policy.
- Negotiate work permits for spouses and domestic partners of Bank staff serving in other countries.
- Conduct a review of human resources policies and develop mechanisms and programs to ensure balanced performance management and effective leadership development.
- Assign senior management accountability for implementing the task force’s recommendations.

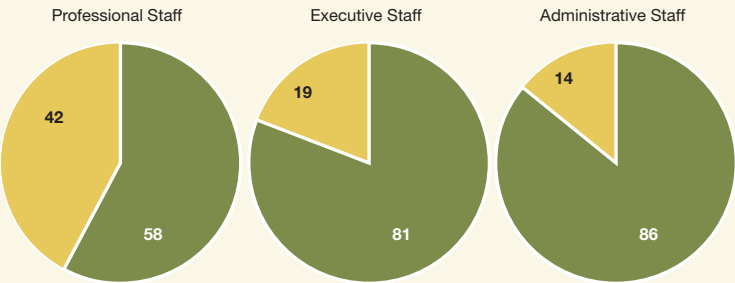
Contracts Issues to Contractual Employees, 2007



IDB staffing, Gender Ratio, 2007



IDB staffing, Professional, Executive, Administrative, 2007





After receiving the Task Force's interim findings, IDB President Moreno immediately made changes in several key areas in late 2007 and early 2008. These included:

- New Staff Rule 322, "Hours of Work, Alternative Work Schedules and Official Holidays," was approved, ensuring a balanced work and family life for all staff, regardless of gender.
- An updated Code of Ethics and Professional Conduct, applicable to all Bank employees, including consultants, was adopted, incorporating new language on respect in the workplace, employee misconduct (including sexual harassment and workplace violence) and protection for whistleblowers and witnesses, and clarifying the roles of the IDB's Ethics Officer and Committee of Ethics and Professional Conduct.

The Bank is now in the design stage of a program to implement fully the Task Force's recommendations.

**Integrity Initiatives:** The Bank also took various other initiatives during 2006 and 2007 to reinforce internal integrity. These included the appointment of an Ethics Officer and Ombudsperson, the completion of a mandatory training program in ethics and conduct for all staff and the implementation of a conflicts and financial disclosure system. The Human Resources Department has also begun building a Domestic Abuse Awareness and Prevention Program.

## Community

The Inter-American Development Bank has a long history of giving back to the community which its headquarters calls home, Washington, D.C.

Over the past 40 years, the Bank has witnessed the steady growth of Hispanic and Caribbean migration into the Washington metropolitan area. Most of these communities originate from our member countries and face considerable social and economic challenges in their adopted country.

To assist them, the Bank created the IDB-DC Solidarity Program, which builds strategic partnerships with local organizations to promote development initiatives in the District of Columbia's Latino and Caribbean communities.

In 2007, in partnership with Hispanics in Philanthropy Foundation, the IDB cofounded the Funders' Collaborative for Strong Latinos in Washington D.C., an initiative to build capacity among local nonprofit organizations. During its first year, the collaborative awarded \$425,000 in grants. The Solidarity Program also engaged in fundraising drives and activities with organizations, including the World Bank, International Monetary Fund, Youth Venture (Ashoka) and American Airlines, which collected more than 4,089 items of clothing, bikes, books, toys and food.



Other key Solidarity Program achievements in 2007 included:

**Grantmaking:** Awarding \$284,000 to local community-based organizations working in childcare provision, youth and business development, health, education, immigration, employment, rehabilitation, human trafficking and violence prevention.

**Volunteerism:** Promoting community service activities by staging 12 volunteer events involving more than 220 Bank employees; sponsoring its Fifth Community Volunteer Fair, generating more than 350 volunteer pledges to serve in the program's partner organizations.

**Donations and Information Sharing:** Donating 5,132 items of IDB surplus property, including computers, office furniture and equipment, to local partner organizations.

"My Business Cares": For the second time, the Inter-American Development Bank was a proud recipient of the "My Business Cares" seal of recognition in 2007. This honor is awarded by three organizations—Greater DC Cares, the Greater Washington Board of Trade and the Washington Business Journal—to outstanding organizations that promote employee volunteerism and donate funds and/or in-kind goods or services to area organizations.











# IDB Sustainability Review 2007

## Sustainability Commitments and Progress



## Standards and Harmonization

Commitments for 2005/2006	Status in 2006	Commitments for 2007	Status in 2007	Commitments for 2008
Approve a new Environment Policy and guidelines to ensure IDB equivalence with international standards.	✓ Achieved.	◆ Implement the Environment Policy and accompanying guidelines.	✓ Achieved.	◆ Roll out staff and client training.
Approve Operational Policy on Indigenous Peoples and operational guidelines.	✓ Achieved.	◆ Implement the Indigenous Policy and accompanying guidelines.	✓ Indigenous toolkit developed. ✓ Technical notes for 8 countries completed. ✓ Increase in technical cooperation and loans that are prepared or implemented with direct participation of beneficiary communities.	◆ Incorporate indigenous issues into broader safeguards toolkit (with environment and natural disasters). ◆ Development of internal strategic alliances to enhance the integration of environmental safeguards and indigenous peoples issues. ◆ Development of indigenous training module ◆ Development of portfolio of indigenous entrepreneurship projects and indigenous legislation enforcement monitoring model.
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).	◆ Develop policy statement on labor, including occupational health and safety. ◆ Develop guidelines for stakeholder consultation and participation. ◆ Update relevant Bank policies to take into account biodiversity values, sustainable forestry, and certification.	● Not yet achieved. Planned for 2008-2009. ● Not yet achieved. Planned for 2008-2009. ● Not yet achieved. Progress made on developing strategic framework on biodiversity.	◆ Develop policy statement on labor, including occupational health and safety. ◆ Develop guidelines for stakeholder consultation and participation.
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.	◆ Hold discussions with other institutions such as CAF and FONPLATA regarding convergence of standards, in the context of IIRSA.	✓ Achieved. IDB, in collaboration with CAF developed the Environmental and Social Evaluation methodology for IIRSA, approved by IIRSA member countries in July 2007.	◆ Undertake training program on IIRSA methodology: training seminars in 5 countries with representatives of all 12 countries.



## Standards and Harmonization, continued

Commitments for 2005/2006	Status in 2006	Commitments for 2007	Status in 2007	Commitments for 2008
Develop new policy on disaster risk management.	<ul style="list-style-type: none"> <li>● 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.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Complete approval process and finish development and roll out of policy guidelines.</li> <li>◆ Bank-wide training plan on disaster risk management will take place between 2007-2008</li> </ul>	<ul style="list-style-type: none"> <li>✓ Achieved. Disaster Risk Management Policy and Guidelines approved.</li> <li>✓ Ongoing. Design for disaster risk management training module completed.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Develop and conduct Bank-wide training on disaster risk management.</li> <li>◆ Implement training program.</li> </ul>
Prepare revised policy and strategic outlook for gender equality in development.	<ul style="list-style-type: none"> <li>✗ Not yet achieved. Planned for 2007-2009.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Approve updated Operating Policy on Women in Development</li> </ul>	<ul style="list-style-type: none"> <li>✗ Not yet achieved. Planned for 2008.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Approve updated Operating Policy on Women in Development</li> </ul>
Work towards sustainable approaches to corporate and project procurement, revising policies and developing guidelines where necessary.	<ul style="list-style-type: none"> <li>● Environmentally and socially responsible corporate procurement program underway.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Develop and institutionalize an IDB list of appropriate standards to incorporate into corporate procurement contracts.</li> <li>◆ Analyze current best practice in sustainable project procurement with a view to enhancing IDB processes and policies in this regard.</li> <li>◆ Reconvene sustainable procurement working group among MFIs and other international development institutions.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Position - Issues paper on Procurement for Sustainable Development, in draft –final form completed. .</li> <li>✓ Achieved. Sustainable procurement working group met in May 2007.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Finalize Position Paper incorporating a harmonized MDBs position</li> <li>◆ Reconvene MDBs/FIDIC (International Federation of Consulting Engineers) Workshop on Procurement for Sustainable Development</li> </ul>
Strengthen the Independent Investigation Mechanism (IIM).	<ul style="list-style-type: none"> <li>● 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).</li> </ul>	<ul style="list-style-type: none"> <li>◆ Approve policy and operating guidelines for the Consultation and Compliance Review Mechanism.</li> </ul>	<ul style="list-style-type: none"> <li>✗ Not yet achieved. Planned for 2008-2009. Discussions of IIM structure to reflect realignment outcome.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Full time IIM Coordinator appointed in early 2008 with mandate to lead revision of IIM policy consistent with new Bank structure.</li> </ul>



## Standards and Harmonization, continued

Commitments for 2005/2006	Status in 2006	Commitments for 2007	Status in 2007	Commitments for 2008
Produce an annual Sustainability Report.	✓ First Sustainability Review published in April 2006	◆ Refine and harmonize sustainability reporting framework and indicators.	● On-going. Third Sustainability Review contains qualitative and quantitative indicators of progress towards sustainability commitments.	◆ Define key performance indicators for Sustainability Reporting at the IDB.
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.	✓ Achieved. Greening roadmap developed and approved.  ✓ Additional achievements include benchmarking energy use through the EPA Energy Star program; formalizing process to calculate and track GHG emissions as part of EPA Climate Leaders program; purchasing of renewable energy and carbon credits for IDB HQ.	◆ Develop GHG Inventory Management Plan and set GHG emission reduction targets.  ◆ Monitor and calculate GHG emissions in country offices, expanding purchase of carbon credits to make all IDB offices carbon neutral.



## Moving Sustainability Analysis Upstream

Commitments for 2005/2006	Status in 2006	Commitments for 2007	Status in 2007	Commitments for 2008
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.	✓ CEA completed for Nicaragua  ✓ CEA studies for Paraguay, Jamaica and Brazil, carried out and consultation conducted on draft documents in Paraguay and Jamaica.	◆ Consultation and completion of Brazil CEA.  ◆ Carry out CEAs for Bolivia and Argentina.
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.	✗ Not yet achieved. Planned for 2008-2009.  ✓ Approval of environmental institutional capacity building loans in Panama and Argentina and analysis of in-country environmental assessment systems conducted as part of two operations in Chile.	◆ Develop client training on environmental and social risk management.  ◆ Approve loans to strengthen environmental capacity in Paraguay and Costa Rica.
Upstreaming sustainability in strategic infrastructure planning activities.	● Development of mapping tools and application of SEAs now under way.	◆ Complete development of mapping tools.	● Technical cooperation designed to develop decision support system for environmental assessments of infrastructure projects.	◆ Completion of decision support system and pilot prototype in an IIRSA group of projects for the identification of critical natural habitats.
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.	● Not yet achieved. System under technical development. First working demo expected in second quarter of 2008.	◆ Implement sustainability tracking system to quantify Bank's sustainability investments.



## Moving Sustainability Analysis Upstream, continued

Commitments for 2005/2006	Status in 2006	Commitments for 2007	Status in 2007	Commitments for 2008
Align incentives with sustainability objectives.	✗ Not yet achieved. Planned for 2007-2009.	◆ Develop options based on a study of similar efforts at other institutions.	✗ Not yet achieved.	◆ 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>✓ Strategic Framework for Ecosystem and Biodiversity Management 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>	<p>✗ Not yet achieved. Planned for 2008-2009.</p> <p>✓ Achieved.</p> <p>✓ Achieved.</p>	◆ Presentation of a technical report on a strategic framework for ecosystem and biodiversity.
Creation of a consultation component similar to an ombudsman, which 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.	✗ Not yet achieved. Planned for 2008-2009. Discussions of IIM structure to reflect realignment outcome.	◆ Full time IIM Coordinator appointed in early 2008 with mandate to lead revision of IIM policy consistent with new Bank structure.
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.	<p>◆ Develop guidelines for consultation and participation in various phases of the project cycle.</p> <p>◆ Expansion of CASCs to all country offices.</p>	<p>✗ Not yet achieved. Planned for 2008-2009.</p> <p>✓ Achieved.</p>	◆ Develop guidelines for consultation and participation in various phases of the project cycle.
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.	✗ Not yet achieved. Procedural barriers identified requiring further examination.	



## Internal Management, Monitoring, and Resources

Commitments for 2005/2006	Status in 2006	Commitments for 2007	Status in 2007	Commitments for 2008
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.	× Delayed until 2008–2009, to reflect new processes and procedures of the realignment.	◆ Case studies and lessons learned on Environmental Assessment and Natural Habitats to be developed as critical component of safeguards training (10 workshops planned).  ◆ Launch of Financial Intermediaries training (workshop to be held in the Region).
Strengthen expertise and accountability in risk management by strengthening CESI and implementing a robust safeguard risk management system and tools, including procedures for screening and classification, indicators, and verification measures.	✓ Safeguard screening and classification toolkit developed, tested and implemented to help staff screen and classify proposed projects  ✓ Safeguard risk management approach adopted, including environmental impact categorization, and robust environmental safeguards and procedures for all operations.  ✓ Training workshops for operational staff on screening and classification commenced.  ✓ Comprehensive environment training plan 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.	✓ Safeguard screening and classification toolkit completed and operational.  ✓ CESI eliminated and replaced by peer review system and strategic planning divisions evaluations.  × Not yet achieved. Due to IDB realignment training delayed by 1 year.	◆ Develop systematic approach to tracking safeguard performance, integrating with the safeguard toolkit and IDB data warehousing systems.  ◆ Establish environmental and social safeguard performance evaluation system.  ◆ Refine peer review process  ◆ Deliver year 1 of training program.
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.	× Not yet achieved. Discussions resumed among newly created Bank divisions.	◆ Develop methodology to evaluate environmental and social safeguard performance (2008) and effectiveness (2009).
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.	✓ Achieved. A central safeguards unit tasked with mainstreaming sustainability at the IDB set up with new budget and headcount.	◆ Recruitment of staff with specific skills and experience as part of IDB realignment.



## Environmental and Social Footprint

Commitments for 2005/2006	Status in 2006	Commitments for 2007	Status in 2007	Commitments for 2008
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.	● Ongoing.	◆ Conduct energy audit at headquarters and identify potential energy efficiency projects.
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.	● Ongoing.	
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).	● Ongoing. In 2007 LEED EB Standard underwent revision. IDB decision to delay until update complete to ensure application of revised version.	◆ Pending publication of updated LEED EB documentation, the IDB will hire LEED certified consultants to begin certification phase.
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 as well as donations of removed furniture and equipment. Improve recycling facilities and switch to recycled napkins in all pantries at headquarters.	✓ Achieved. Cafeteria redesign includes energy efficient lighting; sustainable materials and processes.  ✓ Cafeteria offers organic menus, uses bamboo/cornstarch containers/cutlery and offers incentives to staff using their own mug.	
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.	✓ Achieved. New Code of Ethics (and accompanying training) was rolled out Jan 2007.	









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